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Horrors from Down Under

Paul Morden, Munich Re

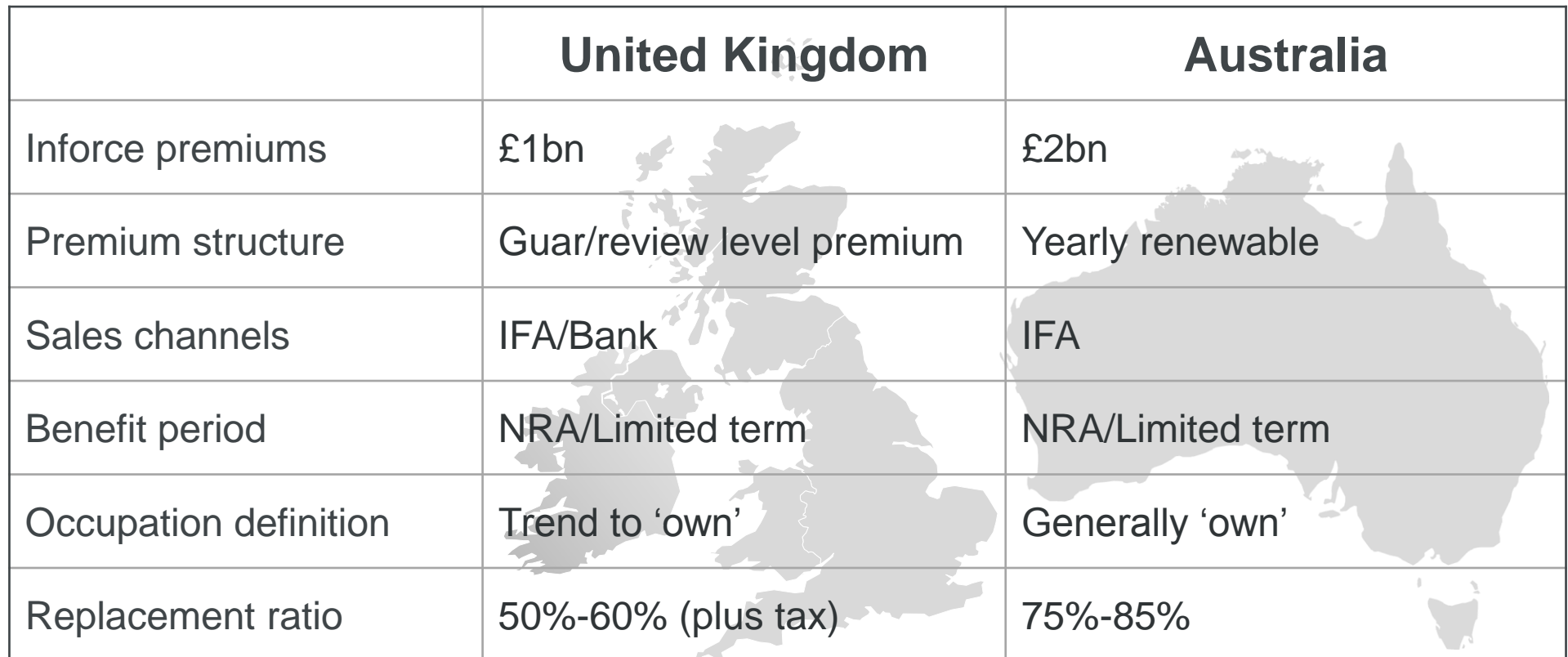
Aaron Tindale, Munich Re

Contents

- Background
- Recent experience
- Drivers of experience
- Conclusion



Background

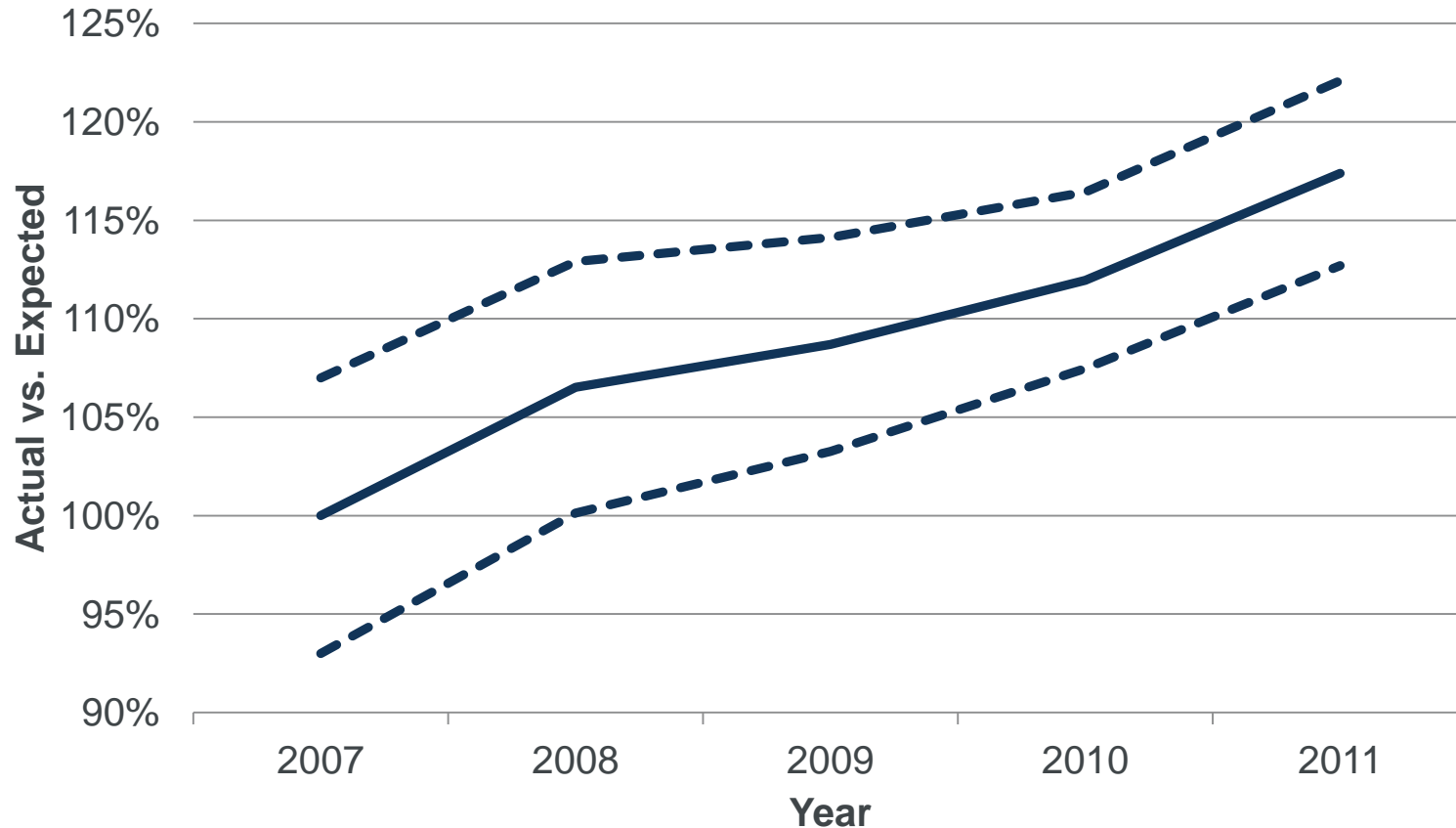


	United Kingdom	Australia
Inforce premiums	£1bn	£2bn
Premium structure	Guar/review level premium	Yearly renewable
Sales channels	IFA/Bank	IFA
Benefit period	NRA/Limited term	NRA/Limited term
Occupation definition	Trend to 'own'	Generally 'own'
Replacement ratio	50%-60% (plus tax)	75%-85%



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Inception rates have increased.....

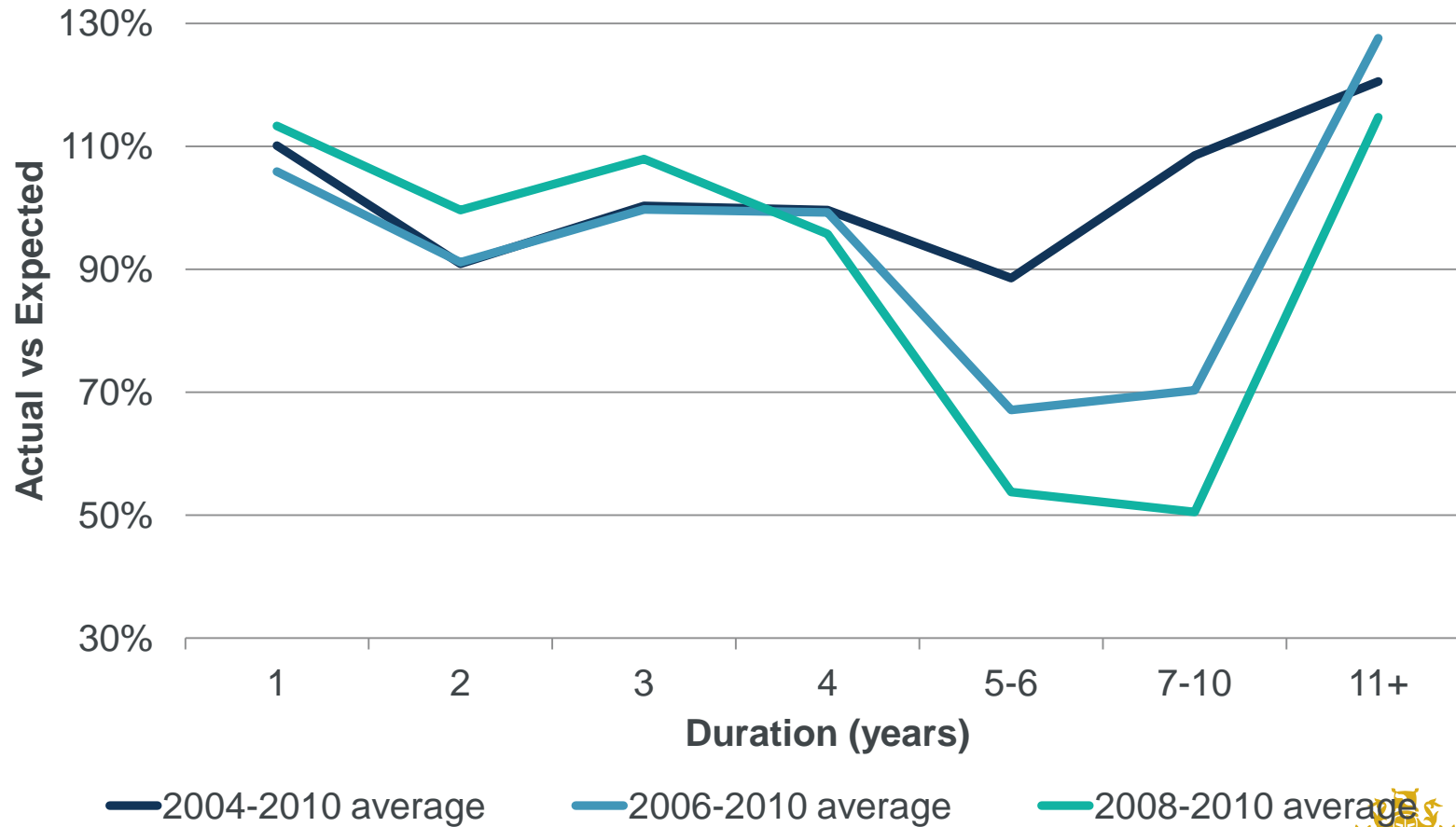


Source: Munich Re Australia experience



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....and termination rates have decreased

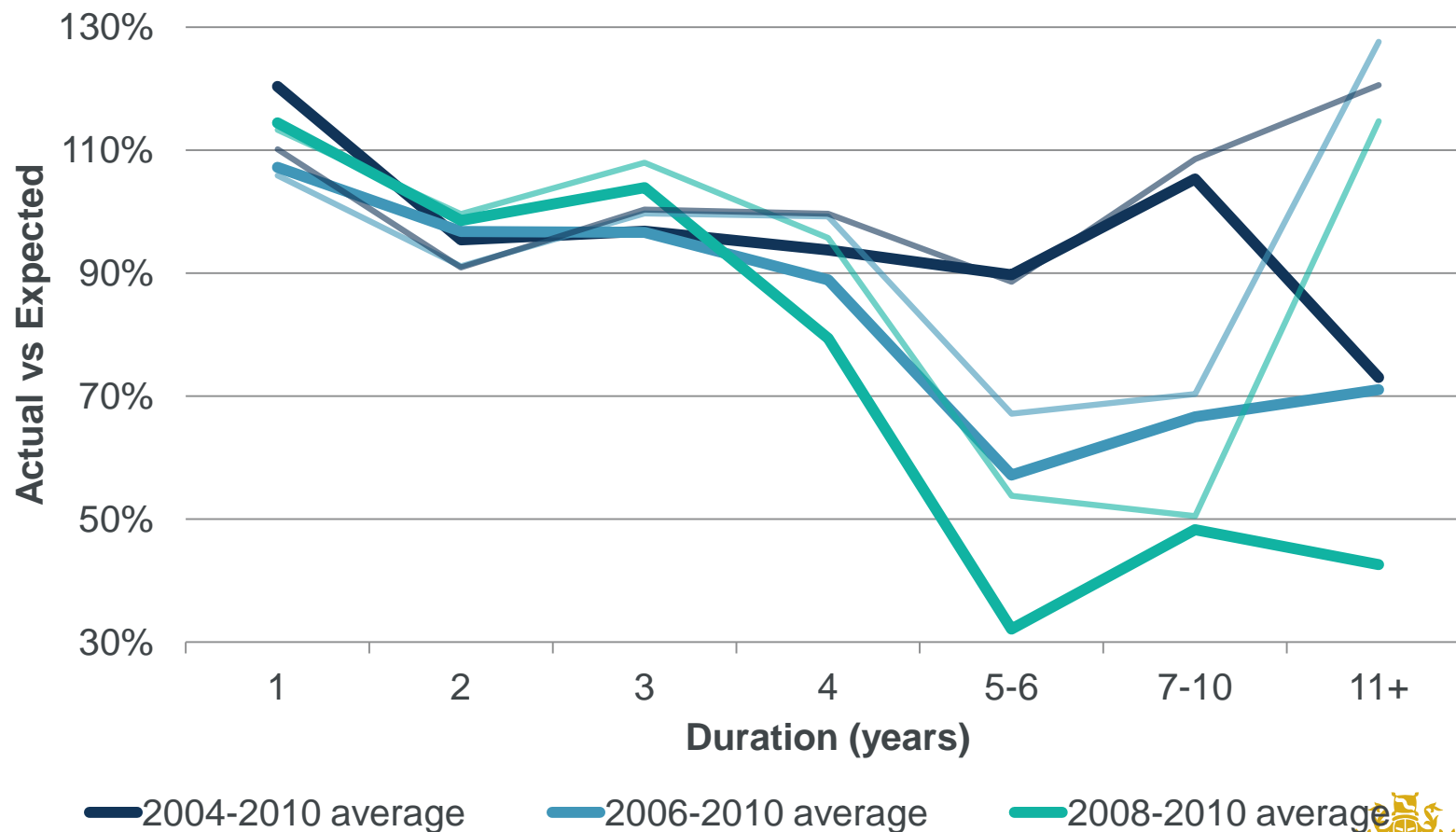


Source: Munich Re Australia experience



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.....particularly for clients with light terminations



Source: Munich Re Australia experience



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Implying a significant increase in expected claims

Scenario		Active Life	Disabled Life		
			Dur 0	Dur 5	Dur 10
1	15% increase in inceptions	+15%	-	-	-
2	50% reduction in terminations after 4 years	+8%	+8%	+14%	+9%
3	'Mortality only' terminations after 4 years	+13%	+13%	+20%	+13%
4	Combination of scenarios 1 and 2	+22%	+8%	+14%	+9%



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Market-wide deterioration.....

Life Insurance performance declined due to higher claims in income protection

Our Australian portfolio was, however, adversely impacted on account of additional reserves that had to be constituted for disability business

reserve increases related to updated termination assumptions for Australia disability income business

changes in actuarial assumptions have fully absorbed future profit margins on disability income products

cases of disability are becoming more expensive market-wide due to a significant lengthening of benefit payment periods

Drivers of experience

- Economic downturn
- Product design
- Claims controls



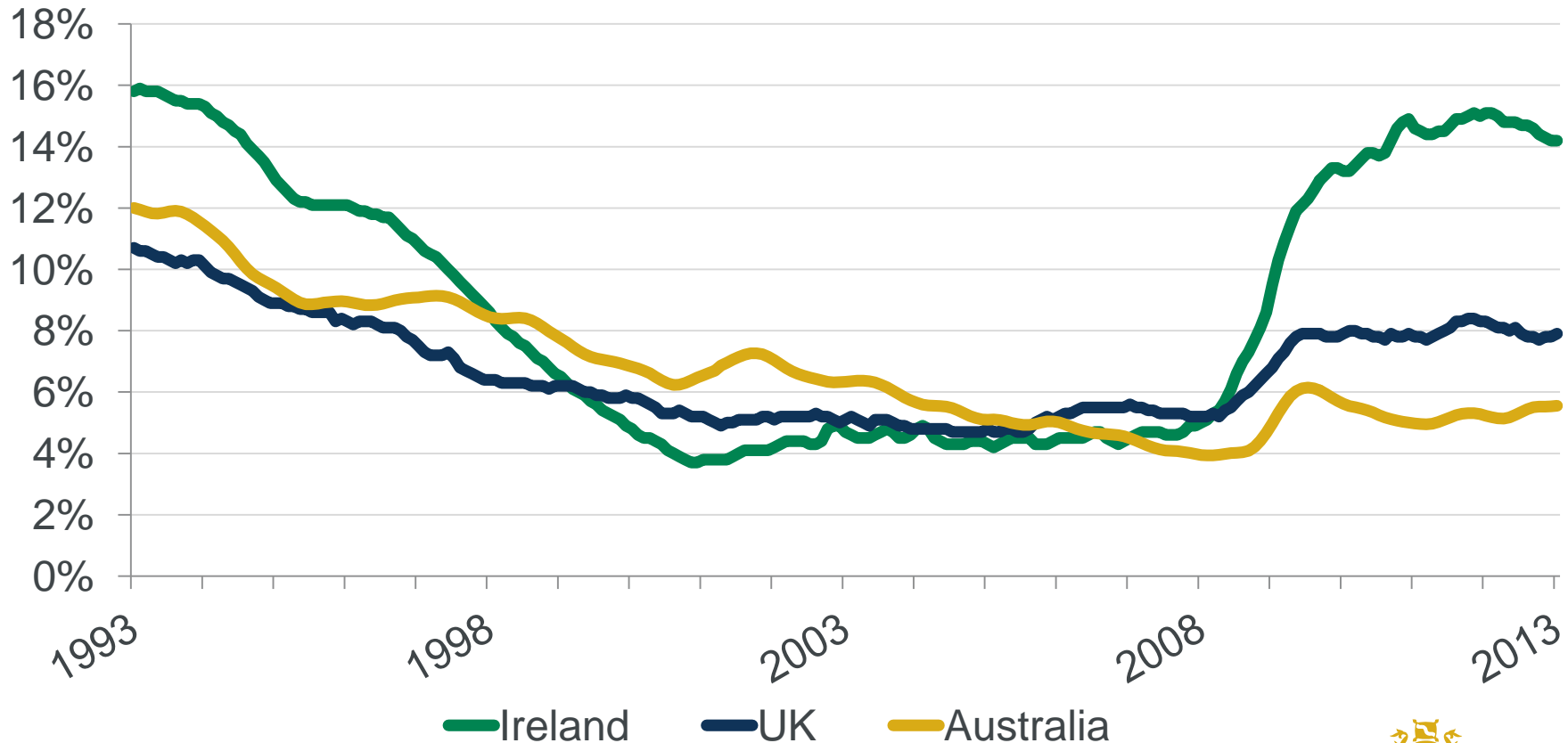
Economic downturn: Background

- IP experience is expected to be worse during periods of high unemployment
- Risk controls on IP products get tested



Economic downturn in Australia

Unemployment rate

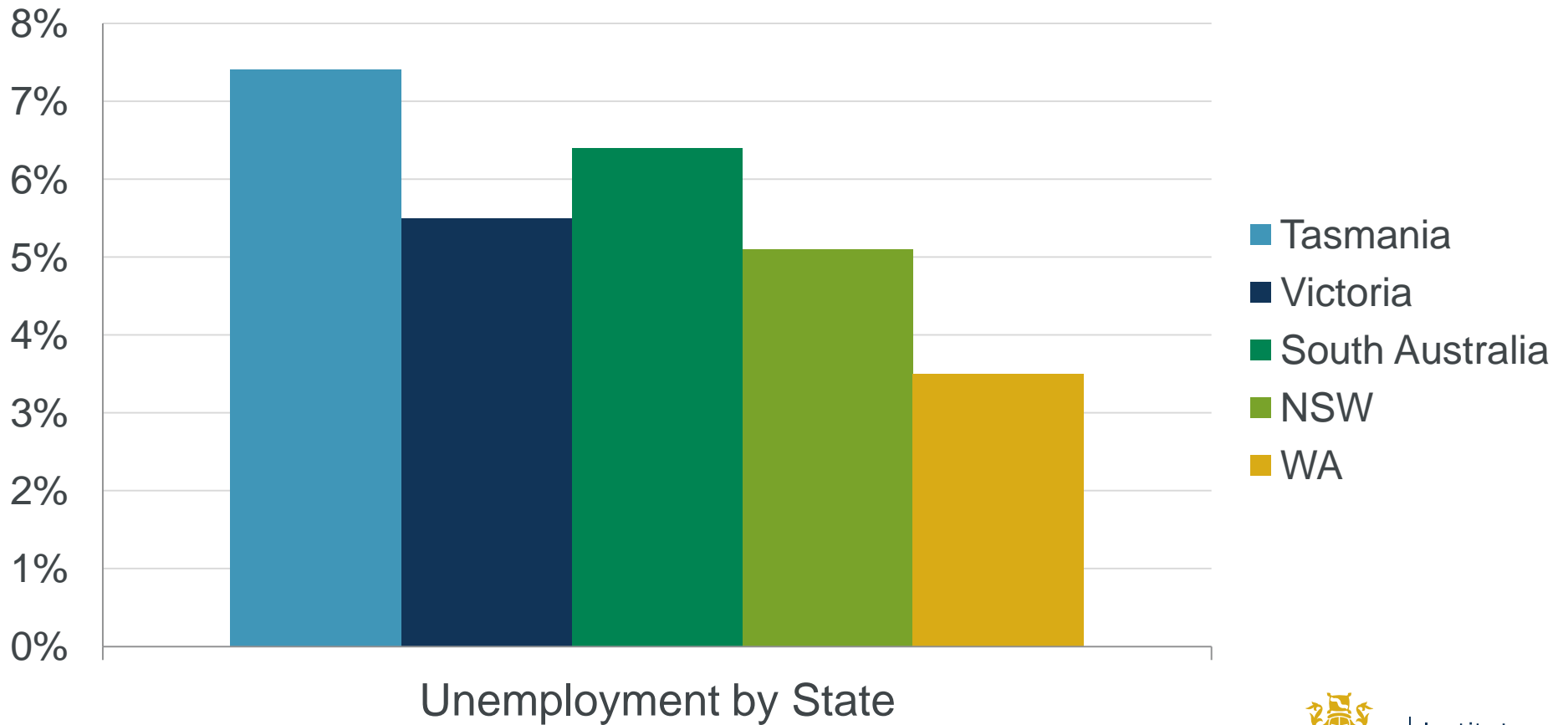


Source: National Statistical Offices



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Two speed economy

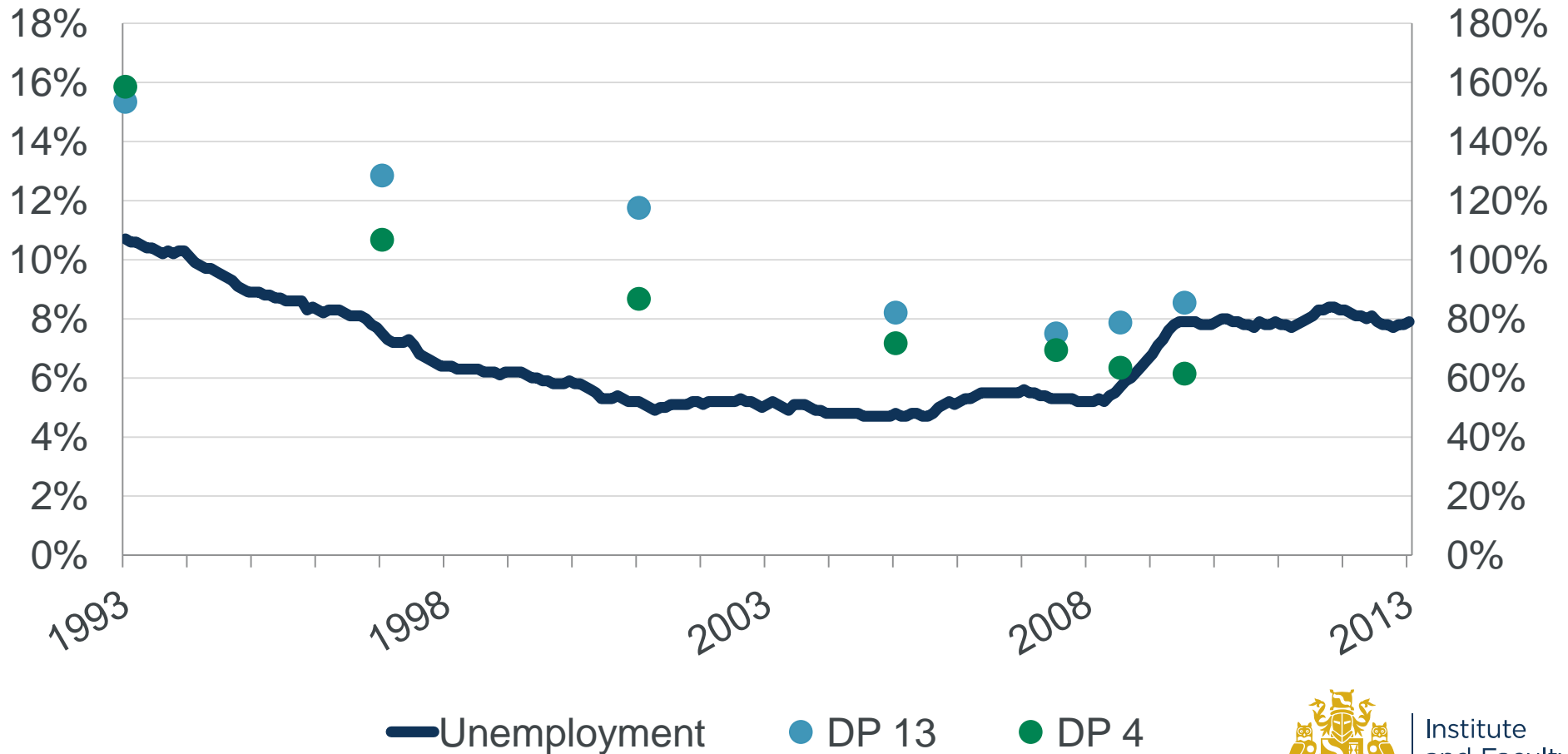


Source: Australian Bureau of Statistics



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Impact on IP in the UK



Source: CMI



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Drivers of experience

- Economic downturn
- **Product design**
- Claims controls



Product design: Background

- Market conditions have led to design creep
- Combination of product features available may create a moral hazard for the policyholder
- We will discuss:
 1. Benefit limit and offset
 2. Agreed value
 3. Income definition
 4. Benefit indexation
 5. Booster benefits
 6. Lifetime benefits



1. Benefit Limit and Offset

Benefit limit is 75% of gross salary

- Pension contributions are added
- Benefit is taxable in Australia

Less other income, however:

- May earn up to 20% of income without benefit offsets
- Some other sources not offset, eg investment income



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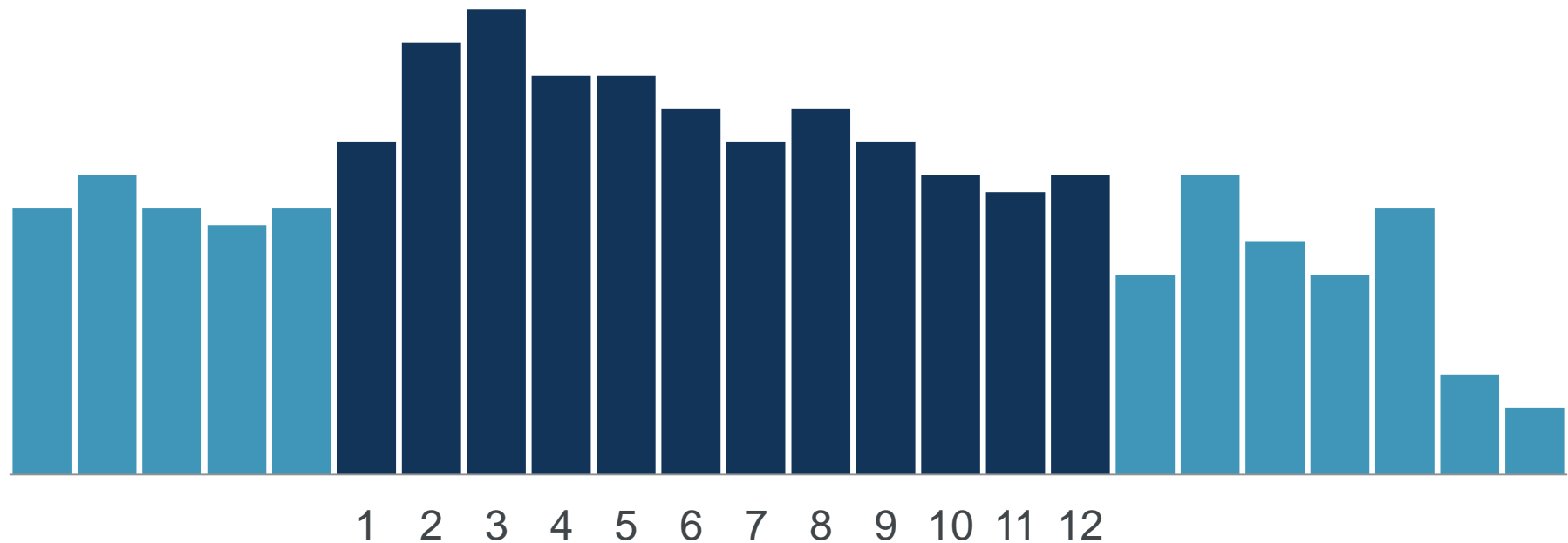
2. Agreed Value

- Indemnity (traditional)
 - Proof of income required at claim
 - Benefit is the lesser of the insured amount and 75% of gross salary
- Endorsed agreed value
 - Proof of income required at time of application
 - Benefit cannot be reduced based on income at time of claim
- Agreed value
 - Proof of income at time of application not required until claim
 - Income at time of claim might be considered (if higher)



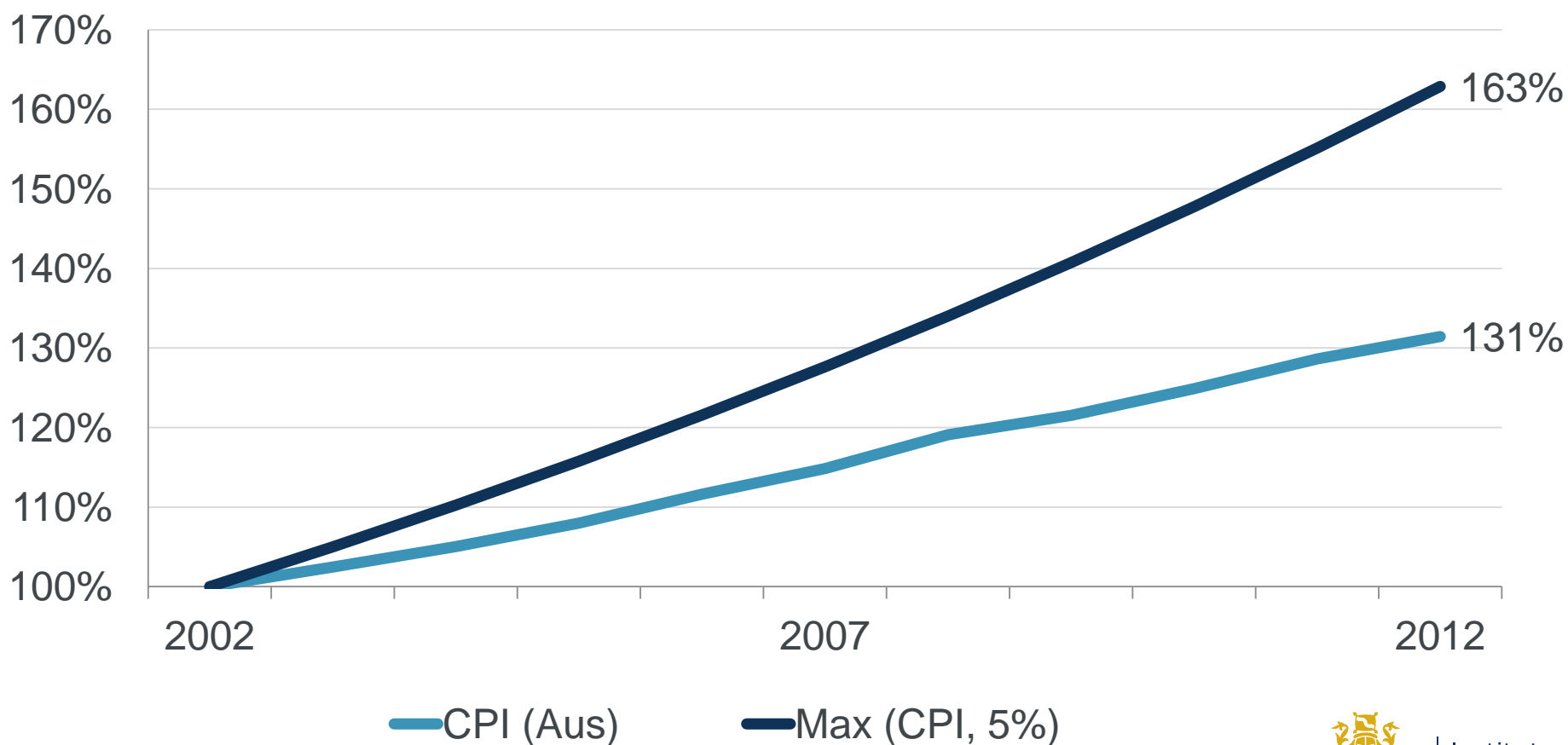
3. Definition of income

- Best 12 months of income over 2 or 3 years



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4. CPI floor on benefit Indexation

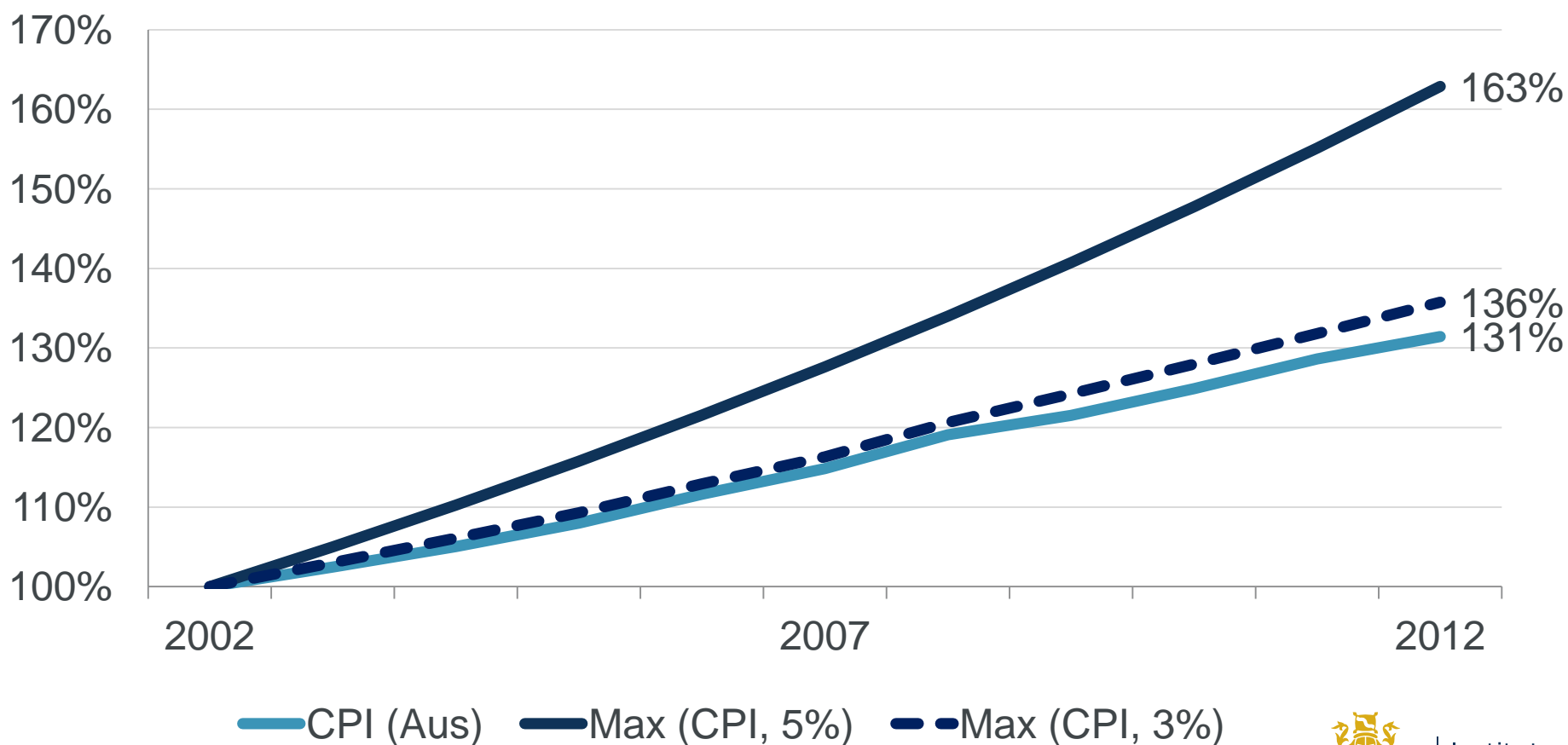


Source: Australian Bureau of Statistics



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4. CPI floor on benefit Indexation



Source: Australian Bureau of Statistics



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5. Booster benefits

Product Specs difficult to understand and compare

- Many booster benefits available
- Wide variation by company and over time

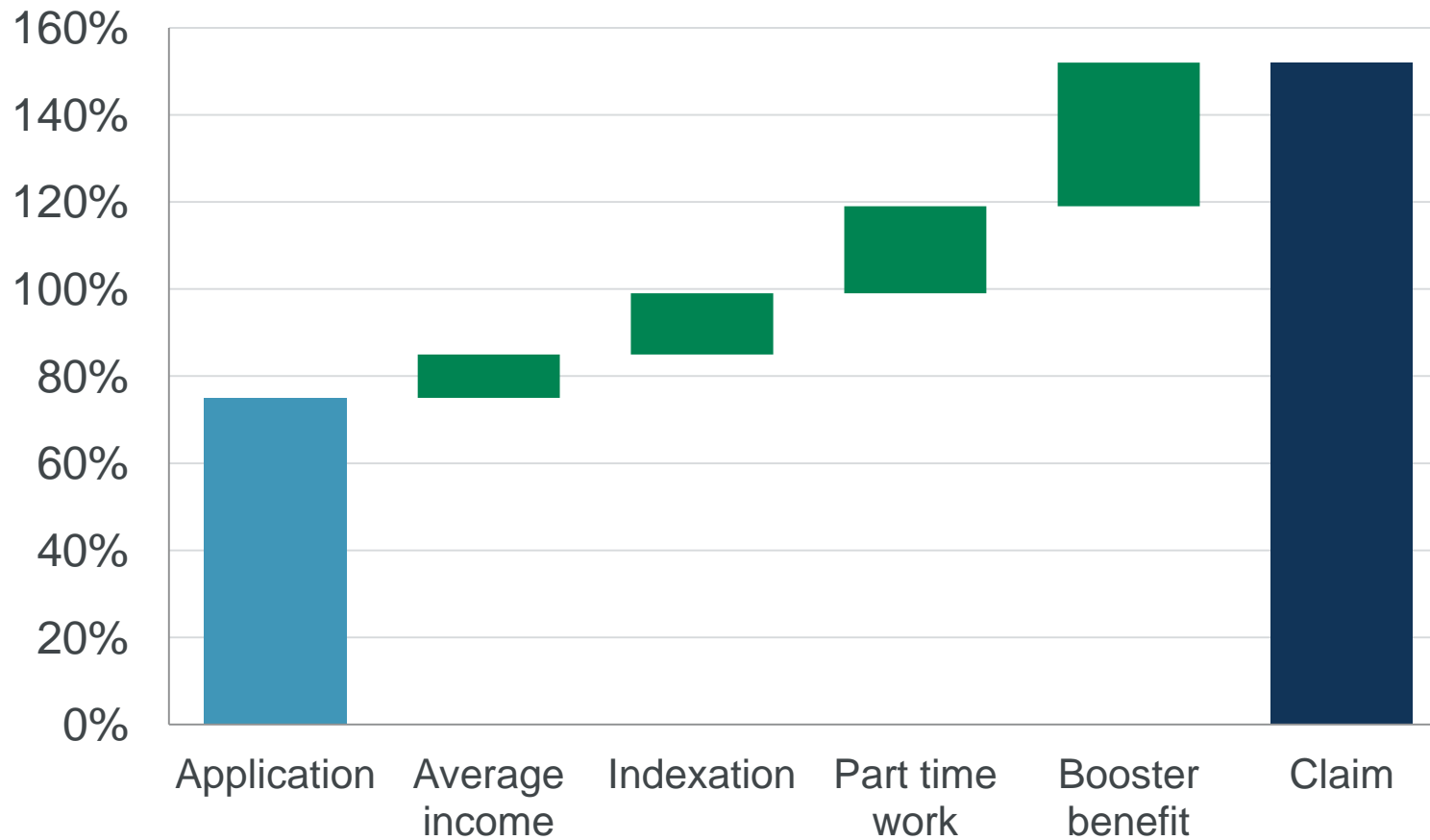
Most worrying example:

Disability due to a CI adds 1/3 to benefit for up to 24 months
(Historical: Currently only available to 3 or 6 months)



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Product design: Replacement ratio



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6. Lifetime Benefits

- Benefit payable until death or recovery
- Experience has been very poor
- No longer offered



Drivers of experience

- Economic downturn
- Product design
- **Claims controls**



Claims controls - CAVEATS

- We are only Actuaries
- Case studies
- Wide variation by company



Claims controls – Skills shortage

- Increasing demand for claims personnel caused by
 - Growing books of individual business
 - Group IP cover to age 65 increasingly available on large (industry wide) pension funds

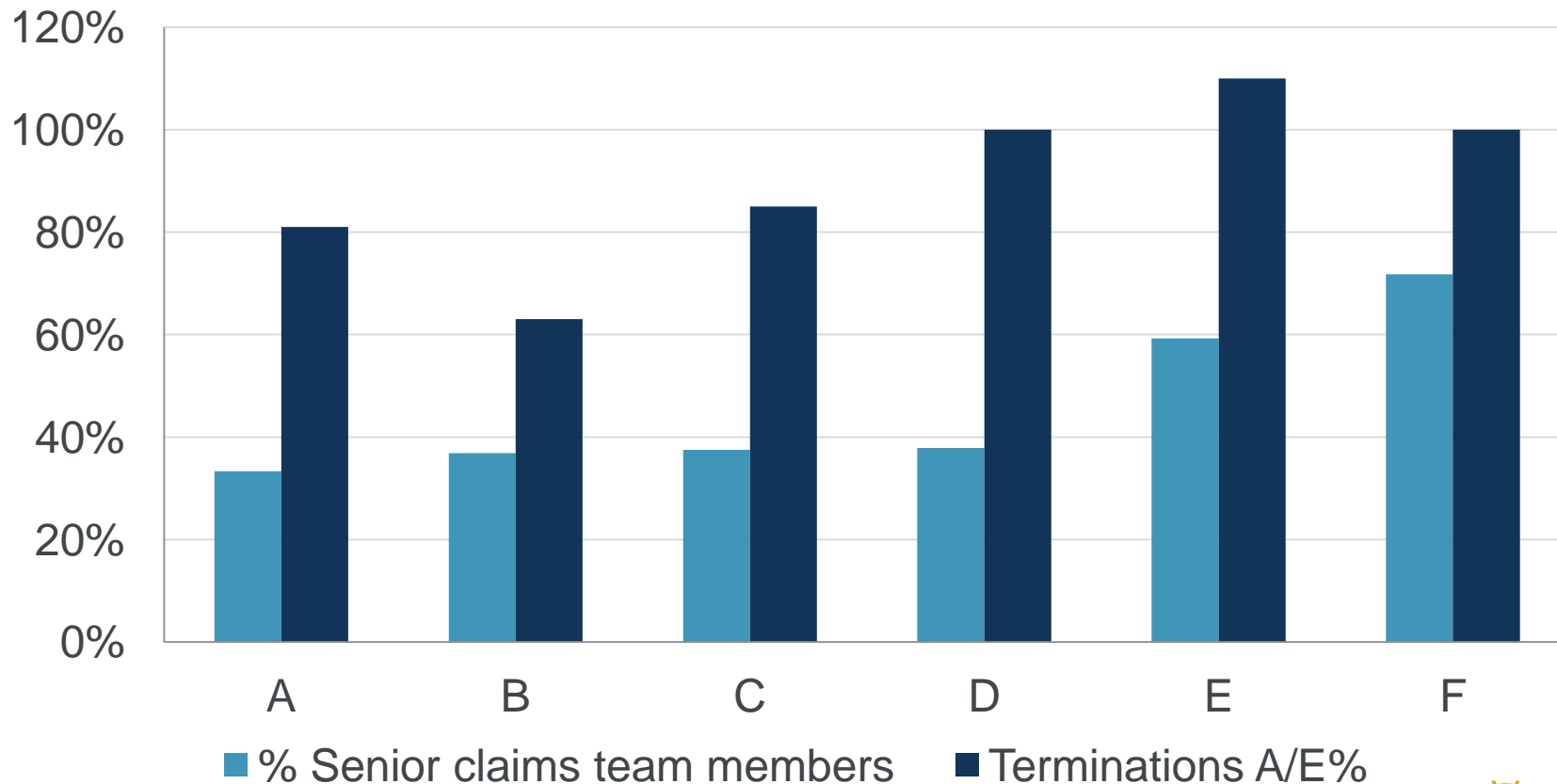
Dangers for risk management:

- Not enough experienced claims assessors
- Increased case loads



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Claims controls – Skills shortage



Source: Munich Re Australia experience and claims survey



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Claims controls - Approach

- Many companies have a strong focus on investigation and medical assessment
 - Claimant's own medical practitioner has a strong influence on deciding whether definition of disability is met
 - Some companies have less focus on pro-active claims management to assist claimants back into work
- Likely contributing factor to the poor experience



Conclusion

- Significant deterioration in experience
- Combination of individual drivers
 - Economic downturn
 - Product design
 - Claims controls
- Relaxation of risk management controls
- Pricing/valuing a moving target



Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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