Institute and Faculty of Actuaries

Legal & General

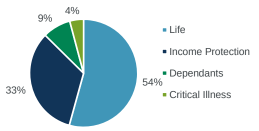
Group Protection – Lessons Learned

Paul Bryant & Natalie Bentley

17 May 2016

Introduction to Group Risk

- A total market GWP of £2,029m covering 11.5m lives and sum assured in excess of £1 billion – *market figures from Swiss Re Group Watch Survey 2015*
- Purchased by companies to protect their workforce
- Typical sold through EBC & IFA
- Four main products

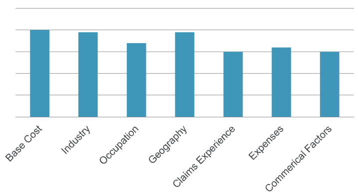


- 12 or so competitors but top 5 make up 89%
  - Canada Life, Zurich, Aviva, L&G & UNUM

17 May 2016 2

Basic principles of Pricing Group Risk

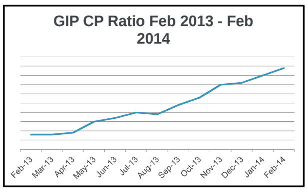
- Apply a set of age / gender specific rate tables to the scheme data to give basic cost
- Divide this basic cost by benefit to give raw unit rate
- Raw unit rate is then altered depending on various factors
- Example scheme:



17 May 2016 3

GIP Claims Experience – What happened?

- Claims over Premiums ratio was creeping up during H2 2013.
- Financial results then deteriorated in Q4 2013.
- As a result, significant time was spent looking into the cause of this.



GIP Claims Experience – Cause?

Initial investigations found:

- Deterioration was present across the board, however particularly notable in the largest schemes.
- Number of claims was increased, but so was the average size of these claims.
- We also had an influx in notifications from some new large schemes that we had taken on earlier in 2013.
- The deterioration in the larger schemes we looked at had not been present in the claims experience at the last renewal.

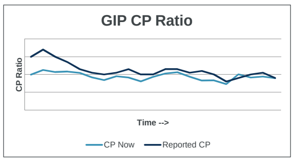
Conclusion reached was that the deterioration may have been linked to the economic cycle, although not possible to prove conclusively.

GIP Claims Experience – Actions taken

- A moderate price increase implemented.
- Avoided over-reaction.
- Large schemes under increased scrutiny at rate renewals.
- Many large schemes were subject to significant rate increases at renewal
- Increased governance
- Internal audits were planned and undertaken.
- Increased MI requirements.
- Increased focus on using our pipeline of notifications to forecast claims inceptions in future months.

GIP Claims Experience – Subsequent

- Significant retrospective improvement to the CP ratio.

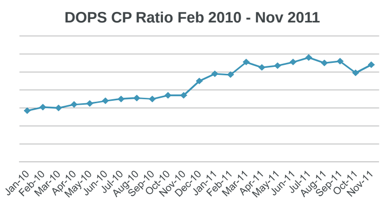


- Gradual improvement to the current CP ratios.
- Education required for internal stakeholders over the likely length of time it can take to get ‘back on an even keel’.
- At what point do we reflect expected improved experience in pricing…?

17 May 2016 7

DOPS Claims Experience – What happened?

- DOPS CP ratio fluctuates due to the volatility of various factors.
- CP ratio went up during Q4 2010 and continued upwards until H2 2011.
- In depth analysis performed



17 May 2016 8

DOPS Claims Experience – Cause?

Point to note:

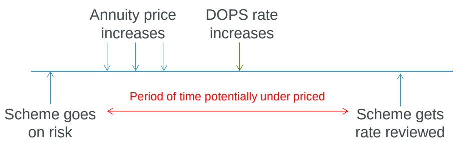
Unlike GIP we capitalise the claim at outset by buying an annuity

Therefore there is no longevity experience variance

Investigations found:

Increase in CP cause by the capitalised cost of the annuities going up

This was due to fairly swift changes in interest



17 May 2016 9

DOPS Claims Experience

Actions taken

- Monthly checking of annuity pricing & more regular MI
- Considered offering only 1 year rate guarantee
- 3 year rate guarantee factor increased
- Had conversations with clients to forewarn them of imminent price increase
- Looked at reinsurance structure so as reduce claims volatility

Current position

- Experience has improved
- Constant monitoring
- We believe DOPS is a excellent benefit that is under valued. For example:
  - *For a 35 year old with two children DOPS capitalisation factor may be as much as 90, whereas some companies are replacing DOPS with 6 times life assurance.*

17 May 2016 10

Accumulation of Risk – What is it?

- Because of the nature of the business, there could be multiple claims from a single event, for example if there was a terrorist attack on an office building.
- Not just numerous employees from a single insured employer, but the potential for multiple insured employers being impacted by the same event.

- Prior to 9/11 insurers weren't particularly concerned with this, but following that attack we began collecting postcode information and it became clear just how concentrated our exposure was geographically.

17 May 2016 11

Accumulation of Risk – What did we do?

- Imposed Event Limits
  - Company X: 1000 staff with salary of £50k each, and a Death in Service lump sum benefit of 4* salary. If every employee died then the cost of those claims would be 1000*50*4 = £200m.
  - An Event Limit of £100m would then limit the insurance pay-out from any single 'event' to £100m to that employer.
  - The company would then have to decide whether to insure any excess elsewhere, self-insure, or put something in the benefit terms to reflect this restriction.
- Catastrophe Reinsurance
  - Layers of 'catastrophe cover' can be purchased in the market.
  - However the availability of this is limited in the market.
- Event Modelling
  - To monitor and manage our exposure we use technical specialists who provide the model and assumptions. These are constantly updated to reflect the latest view of threats and targets.

17 May 2016 12

Accumulation of Risk – Issues/Opportunities

- New entrants have an advantage.
- Another item to compete on when tendering for business.
- Can restrict growth of established players.
- Schemes previously split across multiple insurers may wish to recombine.
- Implications from agile working…?

New Products & ideas

- Progressive GIP
  - Movement in the market towards cheaper options
  - Engaged with brokers
  - Had concern it may cannibalise our existing book
  - Product was released but very low sales
- OQB
  - Digital front end for doing quotes
  - Relative success
- Product X
  - Technical product in a niche market that addresses a particular need
  - Exclusive broker agreement
  - Successful launch

New Products & Ideas

- Onederwriting / “Once and Done”
  - Historically most benefit increases over FCL required medical underwriting
  - Brokers and clients found this cumbersome
  - In depth analysis of risk
  - In space of year whole market had switched to doing O&D
- Cancer only
  - Not significant cheaper than CIC
  - Opens the door for further engagement

Questions Comments

The views expressed in this presentation are those of invited contributors and not necessarily those of the IFoA. The IFoA do not endorse any of the views stated, nor any claims or representations made in this presentation and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this presentation.

The information and expressions of opinion contained in this presentation are not intended to be a comprehensive study, nor to provide actuarial advice or advice of any nature and should not be treated as a substitute for specific advice concerning individual situations. On no account may any part of this presentation be reproduced without the written permission of the authors.