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Lessons Learnt From Industry Losses of \$1bn In Australia

Andrew Buchanan and Natalie Kelly



A view from one of our shareholders

"There are a lot of ways to lose money in insurance, and the industry never ceases searching for new ones." Warren Buffett

Annual letter to
shareholders of
Berkshire Hathaway

February 2013



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In 2013 the insurance industry announced losses in Australia...

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Australian Press Statements

Suncorp Life was impacted by adverse experience particularly disability claims and lapses - 2013

AMP said it had losses of \$32 million in the five months to May 2013 – about \$13 million was income protection losses.

Munich Re had to make additional provision for more frequent and more costly claims in individual disability insurance as well - 2013

Swiss Re further strengthening of reserves in Australia for group disability business of \$412 million in 2013

RGA strengthened its Australian disability business by about \$249m in the third quarter of 2011.

Total Losses Among Top 3 Reinsurers in Australia Disability market in 2013



Source: 2013 Annual Reports



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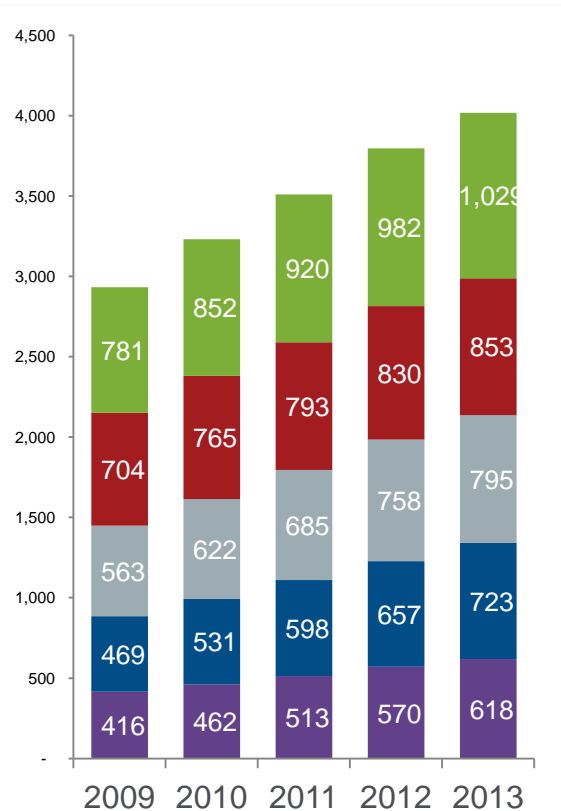
So how did this come about?

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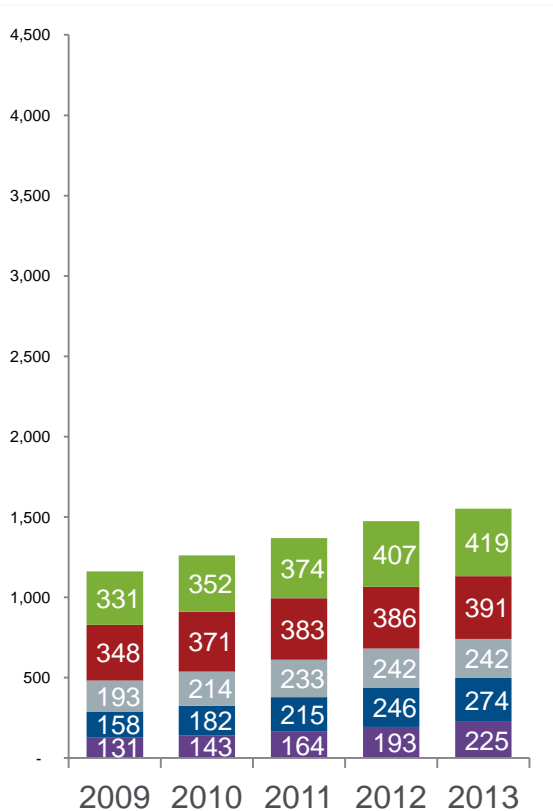
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Australian Life Market – Primary

Inforce premiums Lump Sum (AUD m)



Inforce premiums Income (AUD m)



Comments

- Overall market grown annually by 8% since 2009
- Total inforce premium for top 5 insurers:

Lump Sum

Australia: \$4.0bn (£2.0bn)

UK: £3.4bn

Disability Income

Australia: \$1.6bn (£0.8bn)

UK: £0.2bn

TAL OnePath CommInsure MLC AMP

Issue #1: Group TPD

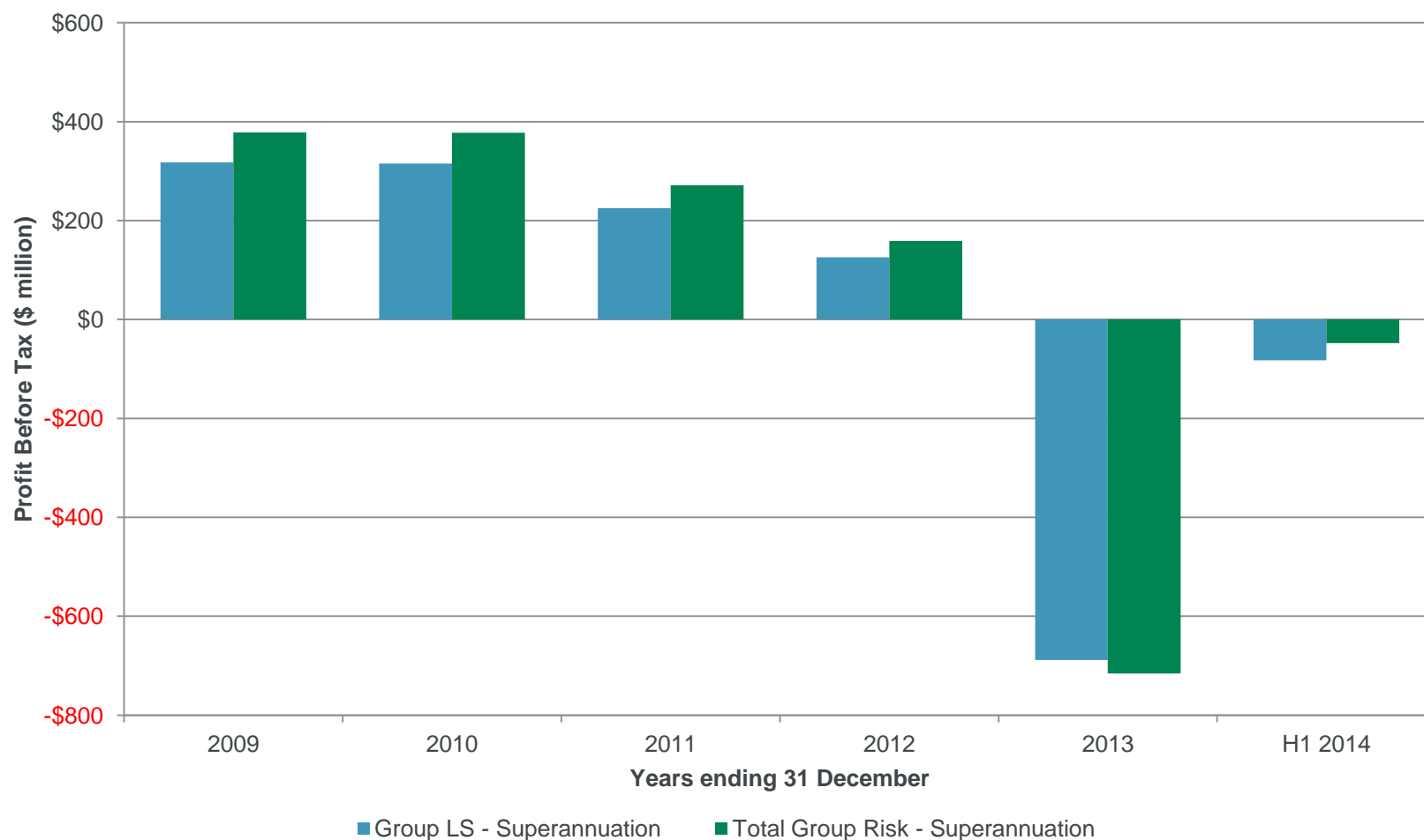


**Are you on a disability
support pension?
You might have a super claim**

[Click here for more help](#)

Group industry performance into the red

Industry Performance - Profit Before Tax



Source: APRA Quarterly Performance Statistics

Awareness has risen (1 of 2)

Total and permanent disability (TPD) insurance

To be eligible for TPD benefits, you must show that you can't ever return to your usual job or any other work that fits your education, training or expertise.

You don't have to be unfit for any work at all (for example, if you have only ever done manual work and you can no longer do that, it won't matter if you could possibly do office work).

- Check if you can get insurance through your superannuation fund. Often, if you start a new job and join the employer's default fund, you can get income protection or total and permanent disability cover **without completing any health forms**. You have to join the superannuation fund within three months of starting the job.



**Superannuation
and cancer**



Source: Cancer Council Fact Sheets

Awareness has risen (2 of 2)



Employment and MS

Your questions answered

- **Maurice Blackburn Lawyers'** disability help line provides free legal advice for people with MS, their family and friends. Call 1800 196 050.

Am I covered for a disability lump sum?

Most employment super funds include lump sums for total and permanent disability (TPD). Some workers are also covered for Insurance lump sums paid for by their employer.

To be eligible for the TPD lump sum you will usually have to be permanently unfit to do your normal job or any other suitable work (given your education, training or experience) because of your MS symptoms and any other health problems.

You don't have to be unfit for any work or part-time work, only suitable work that you have the skills to do.

If you have reached the point of having to stop work because of your MS symptoms, you may be a candidate. Get legal advice.

MS Australia – ACT/NSW/VIC would like to acknowledge the contribution of John Berrill, Maurice Blackburn Pty Ltd, for his assistance in reviewing and developing the content of this information sheet.

Weak definitions – easy to claim

Typical core TPD definition

In the opinion of the Insurer, after considering medical and other evidence, you are unlikely ever to be able to engage in any occupation for which you are reasonably suited by education, training and experience.

- What does “unlikely” mean – 51% chance?
- Do medical practitioners feel qualified to provide an opinion on permanency?
- What does “reasonably suited” mean?

Group TPD Issues

1. Product features
2. Rates softening
3. Member awareness
4. Lawyers' involvement in claims
5. Economic downturn
6. Too much capacity



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... but there was another source of losses

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Issue #2: Individual Disability Income

- Issues developed over many years
- “No single event”
- Major financial impacts from 2011
- “Lead” product in Australia
- Issues across the entire value chain

Australian Company Statements – 1999/2000

**Income protection business in Australia
recorded product losses of \$13 million
The major impact was continuing poor
claims experience – 2000**

**Capitalised losses are due to
strengthening reserves for the
income protection insurance
business in Australia - 2000**

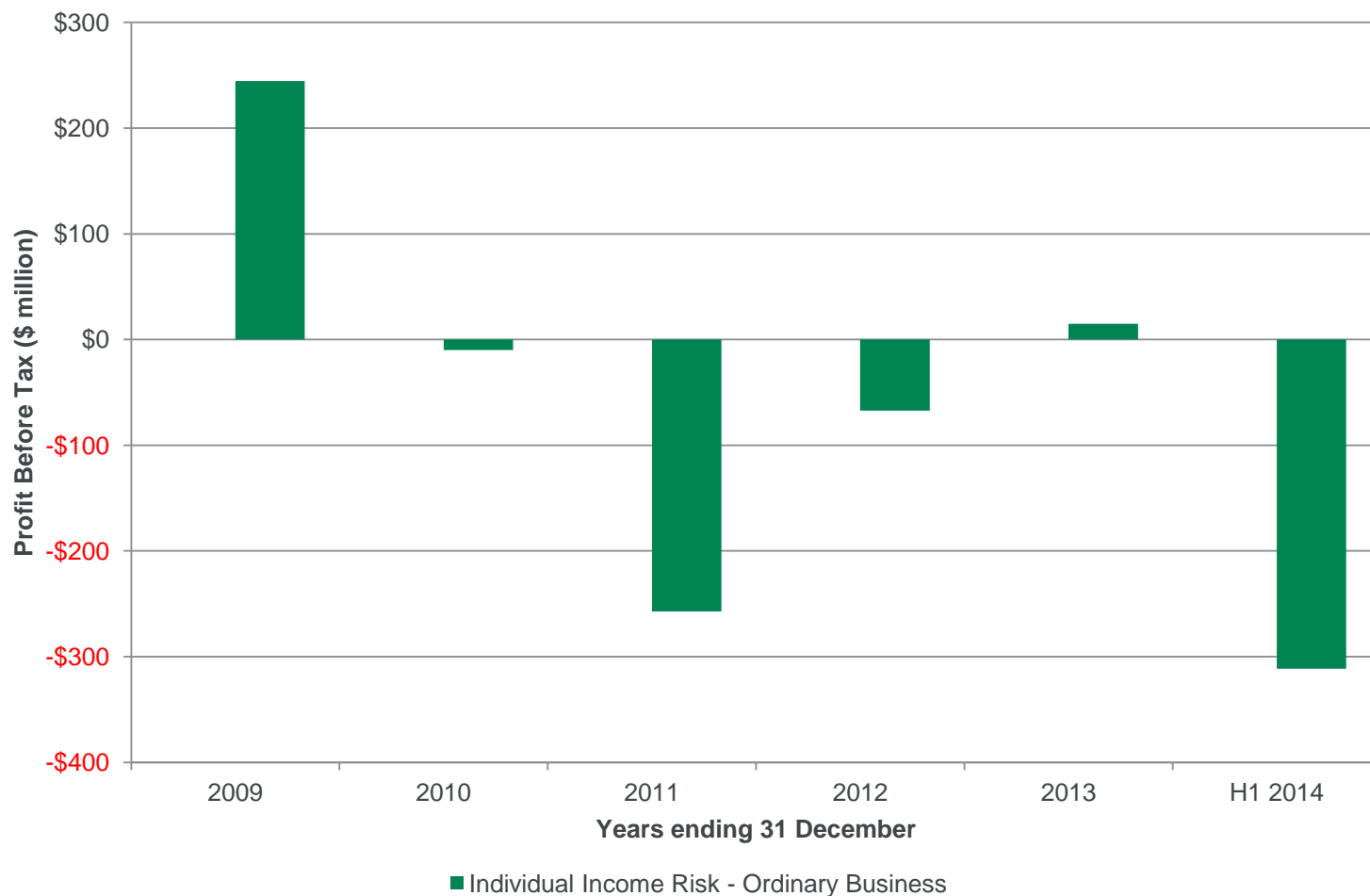
**Of particular concern through the year was the
losses incurred by our income protection product
line – 1999**

**Both the individual and group income
protection portfolios suffered from
worse than anticipated claims costs
continued to be areas of considerable
management focus - 2000**

**We firmly intend to manage this portfolio
back to profitability - 2000**

DI showing no signs of recovery...

Industry Performance - Profit Before Tax



Source: APRA Quarterly Performance Statistics

Individual DI Issues

1. Product
2. Distribution
3. Data and experience analysis
4. Pricing
5. Underwriting
6. Claims management



Issues across the entire value chain

Things to consider in the UK...

- Longevity?
- Guaranteed Acceptance Whole of Life?
- Critical Illness?
- Terminal Illness?
- Any others?

Lessons we can learn from Australia

- Risk awareness
- Expertise
- Data
- Modelling
- Sophistication
- Monitoring/control cycle



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Thank you.

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