

Health and Care Conference 2012  
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Are we providing the most appropriate  
premium structure for our customers?

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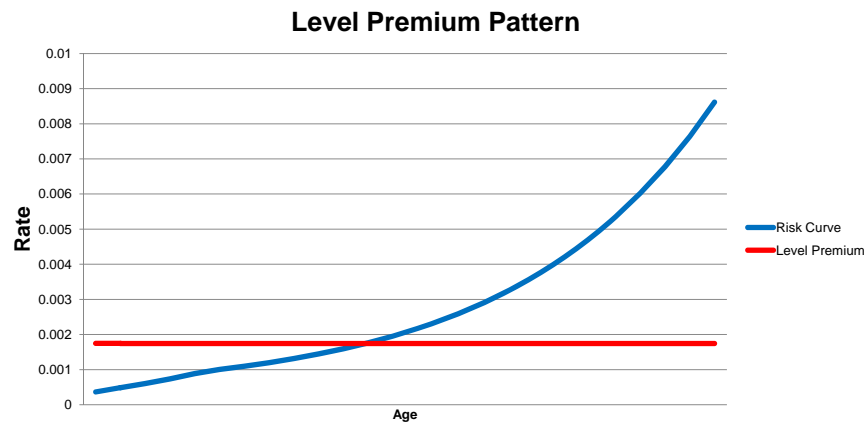
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## Contents

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- Experience from overseas markets
- UK Experience
- Pricing issues
- Consumer needs
- Distribution issues

## Introduction



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**Are we providing the most appropriate premium structure for our customers?**

Experience from  
Australian market



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## Background

- Universal WOL product
- 1990 Split into protection and savings elements
- Natural structure when Universal Life split

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## YRT structure

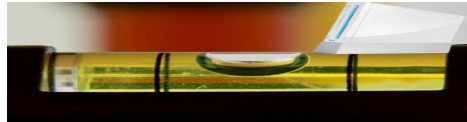
- YRT quote gives
  - Premium payable for the year
  - Projected premium for the next 10 years
  - Renewal notice before each policy year
- Premiums are fully reviewable



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## Level premium structure

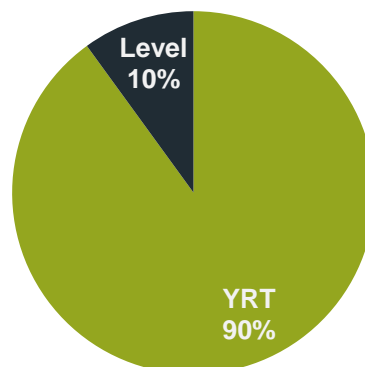
- Level premium (usually level to age 65)
  - Fixed terms not sold
- Convert to YRT after age 65
  - Requirements for SVs beyond 65



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## YRT vs Level

Australian Market Business Split



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## Why YRT - Consumers

- Used to YRT structure
- YRT seen as more flexible than level premium
- Apathy
- Improvements not priced in
  - Renewal premiums usually lower than projected



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## Why YRT – Distributors

- Agents selling flexibility of YRT structure
  - Buy cover whilst you need it
- Lower initial premium under YRT
- Re-underwritten each year



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## Why YRT – Distributors



*"NZ Life prefers this option as it reduces immediate cost and as costs increase with age, cover can be reviewed and reduced. In recent years Life Cover rates have been reducing, and those on Yearly Renewable benefit immediately."*

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## Why YRT – Distributors

- Commission



- Typically 100%-125% of year 1 premium
- Earned over 12 months
- 10% renewal commission

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## Why YRT – Companies

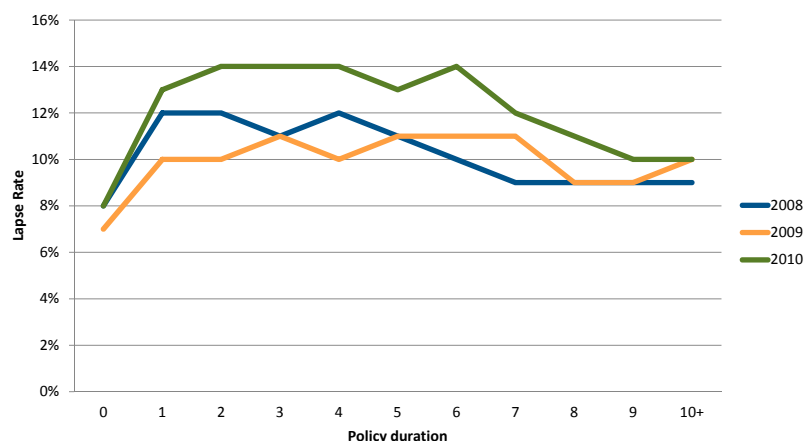
- Anti selective lapses less of an issue
  - Premiums are reviewable
- Distributor led market?



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## Australian Market – lapse experience

Australian lapse experience by policy duration

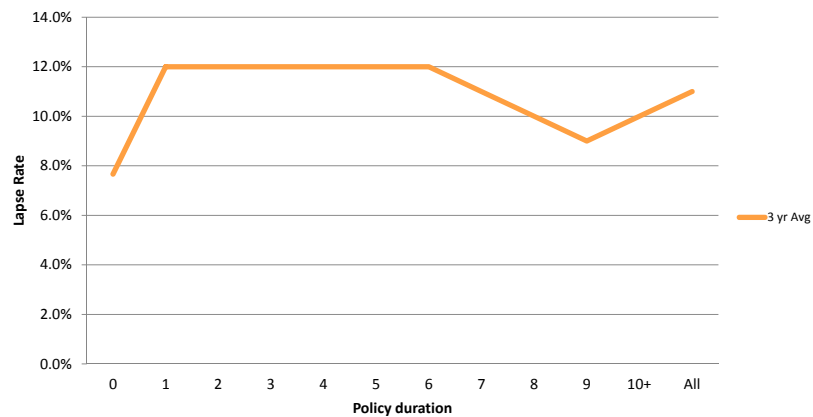


Source: Gen Re (Australia)

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## Australian Market – lapse experience

Australian lapse experience by policy duration - average  
2008-2010

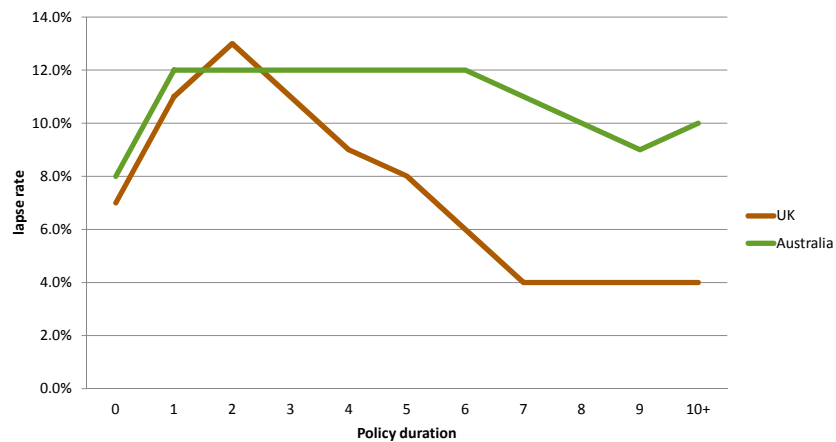


Source: Gen Re (Australia)

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## Australian Market – lapse experience

Australia(YRT) vs UK(Level)



Source: Gen Re (Australia)

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## Are we providing the most appropriate premium structure for our customers?

Experience from  
USA



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## Background – YRT products

- YRT popular in 80s
- Fell out of favour in 1990s
  - Anti selection underestimated
  - Large losses for companies
- Currently very low percentage of sales
  - Strategic convert to WOL
  - Keyman insurance



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## Background – Level premium products

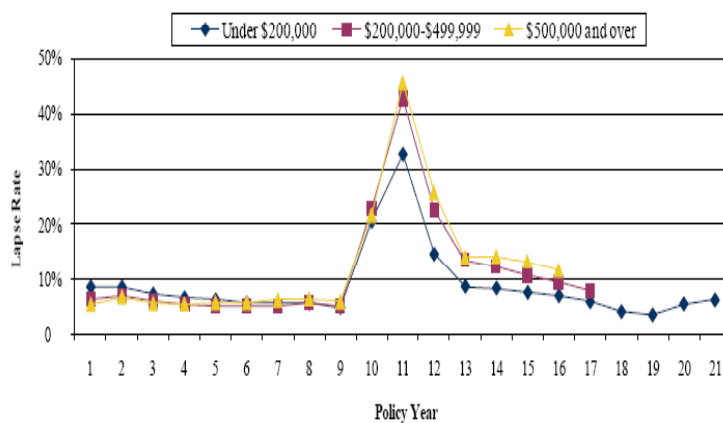
- Level premium replaces YRT
- Most level plans switch to YRT at end of term
- Anti selective lapses



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## USA Market – lapse experience

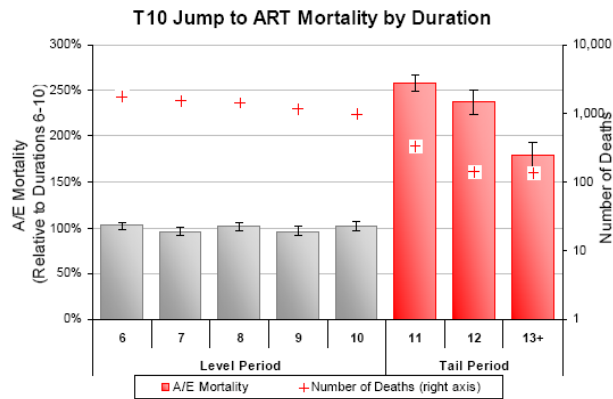
10-Year Level Premium Term Lapse Rates by Policy Size



Source: SOA & LIMRA - research-2004-2005-ind-life-per-report.

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## USA Market – 10 year term mortality experience



Source: Society of Actuaries, - Report on the Lapse and Mortality Experience of Post-Level Premium Period Term Plans

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## Are we providing the most appropriate premium structure for our customers?

UK Experience



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## Synergy Protect

- Product

- Premiums smoothed low-start
- Loyalty bonus
- Fully reviewable
- Typically sold alongside a mortgage.



Synergy  
Protect

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## Synergy Protect

- Distribution

- Experience

- Mortality
- Lapses

- Closed to NB Jan 2010



Synergy  
Protect

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## Are we providing the most appropriate premium structure for our customers?

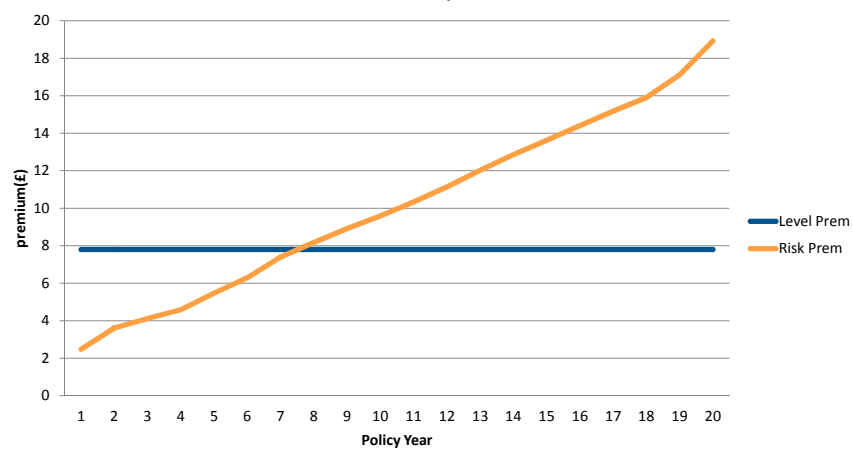
Pricing issues



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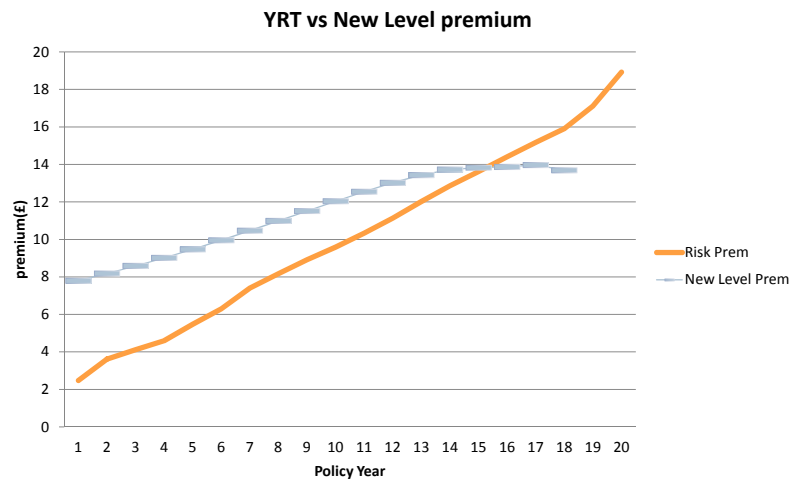
## Pricing Issues

YRT vs Level premium



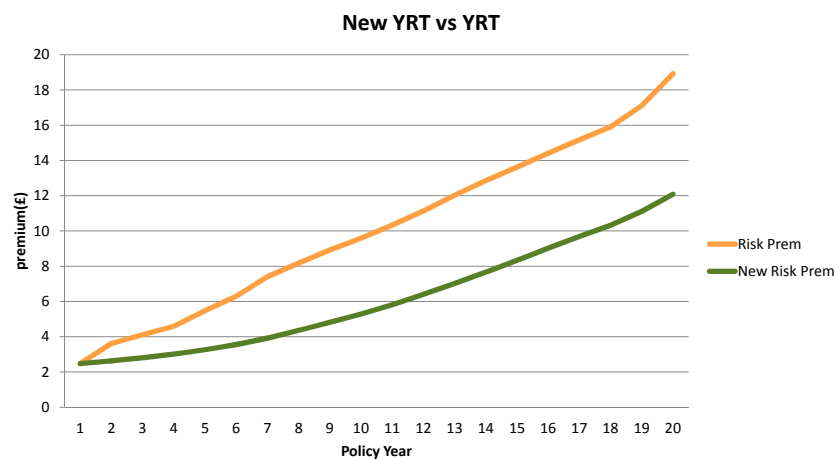
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## Pricing Issues



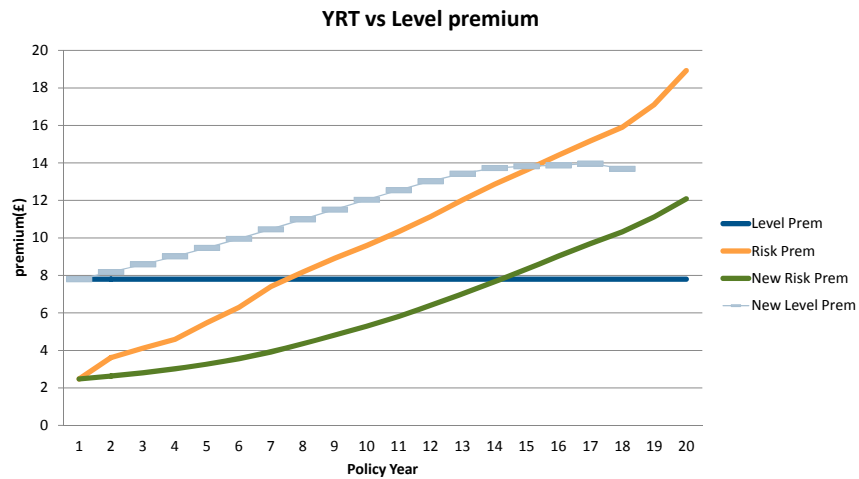
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## Pricing Issues



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## Pricing Issues



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## Are we providing the most appropriate premium structure for our customers?

Customer



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## Are we providing the most appropriate premium structure for our customers?

Customer

- It should appeal – shouldn't it?
- Familiarity with annual contracts
- Happy with short term contracts
- Mortgage and life assurance only REALLY long term contracts?

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## Are we providing the most appropriate premium structure for our customers?

Customer

- True annual
- Or Low Start?



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### Are we providing the most appropriate premium structure for our customers?

Customer

- The others do not make continued subscription a condition of continued ownership



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### Are we providing the most appropriate premium structure for our customers?

Customer

- Price



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## Are we providing the most appropriate premium structure for our customers?

### Distribution

- Would advisers recommend it?



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## Are we providing the most appropriate premium structure for our customers?

### Summary

- Price alone is not enough
- True annual vs Low Start and lapse penalties

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## Questions or comments?

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Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

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

