

The Actuarial Profession
making financial sense of the future

Life conference and exhibition 2010
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Effective Management of Persistency Experience

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Question:

In practice, is effective management of persistency risk
an Actuarial or a business process?

- Actuarial process to ensure long term assumptions are matched to actual experience?
- A business requirement to ensure actual experience matches long-term assumptions?
- Something else?

Agenda

- Look back, then fast forward again
- An overview of what the market has been doing since 2008
- A brief look at “how” they have been doing it
- Case study Zurich
 - What have we done, and what results have we been able to achieve
- Opportunities beyond persistency

The “Doctor Who” slide – Back to the 2008 Life Conference

- The industry has been declining rather than growing
 - The first 35-40% of new regular premium business each year is required to cover lapses and surrenders alone
 - Over the last four years, claims (including maturities, surrenders and transfers) have exceeded earned premiums by c£8bn
- Justifying profitability of regular premium pensions business is a leap of faith
 - Policies need to be retained for 7-12 years to break even (ignoring lapses)
 - FSA statistics evidence a 50% lapse and surrender rate within four years
- Significant persistency write downs by several firms
 - At least £2bn over past 3 years
 - “Retaining customers is a key issue for future earnings performance” Standard & Poors

The “Marty McFly” slide – Back to this year’s conference

- Firms have been tackling the issue of significant persistency write downs by a combination of;
 - Taking some unpleasant balance sheet medicine
 - Moving to more realistic assumptions
 - Building capability to improve their actual experience
- We are starting to see a move away from pure persistency management to a greater recognition of the actual and potential value locked within an existing customer base
- The Retail Distribution Review is starting to change the game for retention and value management
 - Distribution landscape
 - Approach to Intermediaries
 - One ‘final churn’

Capita’s role in Customer Value Management – Background

- Largest UK (global) outsourcer of life and pensions administration;
 - 26million life policies;
 - Paying pensions worth a combined total of £10 billion to over 1.3 million pensioners
- CVM integral to many BPO contracts
- Plus specialist CVM services to the market
 - industry benchmarking
 - Embedded value modelling to prioritise CVM activities
 - Design and implementation of test and learn initiatives
 - Outsourced and In-sourced delivery of CVM



The **correct** approach for customer retention is.....?

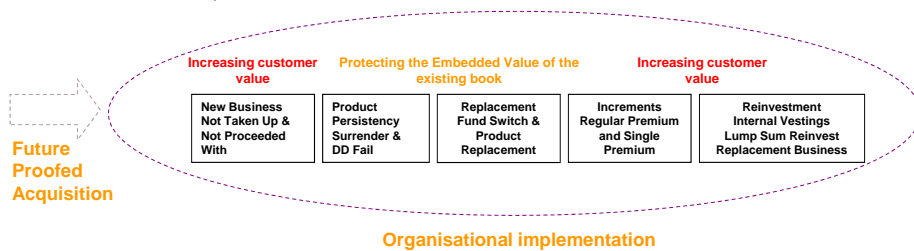
- We have seen a wide range of views and strategies for retaining customers
- What do you think the most effective approach is?
 - Via close product management
 - Features and benefits (Actuarial/Product Marketing)
 - Via investing in better customer engagement at point of surrender
 - Customer retention units and conversations (Customer Services)
 - Via a broader loyalty programme
 - Welcome packs, communications, discounts (Marketing)
 - Something else

What has the industry been considering?



How well has the industry turned thought into action?

- Protecting the Embedded Value (EV) of the existing book
- Future proofing
- Organisational implementation
- Increasing customer value (e.g. through increments and reinvestment)

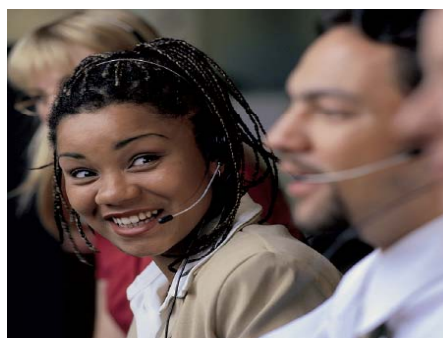


Intervention has been successfully tested and implemented across a range of products/triggers

Product	Trigger	Capita Hartshead	Capita L&P Client	Capita L&P Client	Capita L&P Client	Capita L&P Client	Capita L&P Client	Capita L&P Client	Capita L&P Client
Savings	Surrender/cancellation request	✓✓	✓		✓	✓		✓	✓
	Valuation request	✓✓	✓			✓		✓	✓
	Premium reduction/freeze	✓	✓						✓
	Policy expiry/maturity					✓			
	Annual statement					✓			
	Missed/rejected premiums		✓	✓					
	Top up/increments campaign								
Investments	Bad news plan reviews				✓				
	Surrender/cancellation request	✓✓✓	✓			✓		✓	✓
	Valuation request	✓✓✓	✓			✓			✓
	Premium reduction/freeze	✓				✓			
	Policy expiry/maturity								
	Annual statement				✓				
	Approach to certain durations	✓✓✓						✓	✓
Protection	Top up/increments campaign								
	Fund switching (guidance)	✓	✓						
	Online valuation	✓							
	Surrender/cancellation request				✓		✓		✓
	Valuation request					✓			✓
	Annual statement						✓		
	Approach to specific durations						✓		
Individual Pensions	Top up/increments campaign						✓		
	Not Taken Up/Proceeded with						✓		
	Missed/rejected premiums	✓		✓			✓		✓
	Valuation request	✓✓	✓					✓	
	Top up/increments campaign	✓							✓
	Missed/rejected premiums	✓							
	Paid up policy	✓							
	Transfer request	✓✓	✓		✓			✓	✓
	Policy approaching retirement	✓							
	Premium reduction/freeze	✓						✓	
	Online valuation	✓							
	Annual statement	✓							
	Plans without annual increase								

The building blocks for successful customer intervention include;

- Dedicated specialist teams
 - Telephony supported by mailings
 - Strong customer engagement skills - "super" customer service rather than sales
 - Individual quality **not** save targets
 - Team save targets
- Invest in selection and training
 - Best staff
 - Product
 - Technical
 - Customer engagement
 - Model Office
- Strong measurement and MI approach
 - Robust control groups
 - Erosion measurement
- Flexible call frameworks
 - Flexible enough to allow the agent to stay on the customer's agenda
 -But compliant



Examples of what has been achieved (1)

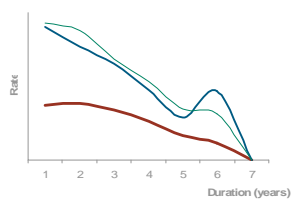
- Top-ten L&P provider:
 - Specialist team achieving 6%-21% higher save rates than customer services based team across a range of products resulting in run-rate EV save of c£1.2m p.a.
- Top-ten UK life company:
 - Bond programme delivered sustained 20 – 30% reduction in lapse rates
 - Embedded value gain minimum of £2.0m (c£100m portfolio); depending on assumption change, up to a further £16.5m gain achieved
- Top-ten L&P provider
 - Specialist team achieved 88% retention rate on endowment surrenders representing a run-rate EV save of c£1.4m pa in excess of equivalent in-house saves for endowments

Examples of what has been achieved (2)

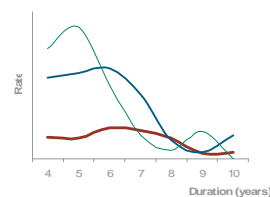
- 124% of sales target achieved for wide range of up-sell and reinvestment initiatives
- Additional 16% restart rate on pension direct debits
- Protection save rates of 20% net of erosion
- Maturity reinvestment programme resulting in year 1 reinvestment of £28m for one client
- Value generated from existing customer base over £50m in 2007 for another client
- Rollout of retention initiatives resulting in an increase of £40m EV across a book of business

Impact on surrenders & cancellations

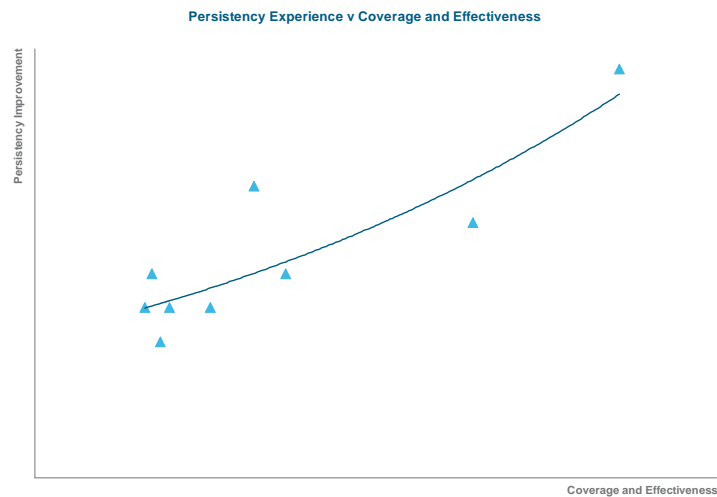
Decreasing Term Assurance Surrenders by Duration



Unit-linked Bonds Surrenders by Duration

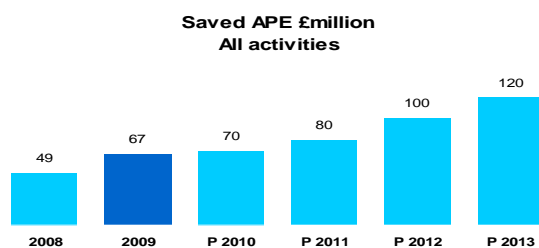


An emerging correlation between persistency improvements and operational performance



Zurich Case Study – Background

- Global financial services company;
- 1.8m customers;
- assets under management of £39bn;
- life cover of £81bn;
- pro-actively managing the in-force book since 2005.



Zurich Case Study – Strategy for Success

Develop and deliver commercially viable retention activities across the entire product lifecycle to create shareholder value. We achieve this by:

- fostering senior level engagement;
- constantly monitoring and refining through high quality MI (actuarial and non actuarial);
- a delivery group sourced from cross functional disciplines including Propositions, Finance and Operations;
- piloting all activities, implementing if successful;
- working with key distributors for mutual benefit;



Zurich Case Study – Customer Options Team

- a 30-strong ring-fenced team of specially trained telephone consultants;
- reminding customers of the features options and benefits of their plan at key decision points;
- covering all propositions where it is commercially viable (approximately 85% of the book);
- monthly performance monitoring through a dashboard of metrics at a granular level;
- operating within our TCF framework;
- cross functional steering group.



Zurich Case Study - Looking forward

- Build on the current successful model;
- continue to develop initiatives;
- adopt a more holistic approach (customer rather than policy);
- future-proof for RDR and other change;
- further develop actuarial reporting;
- forge closer direct links with the distributors;
- forge closer direct links with the customers.



Moving beyond persistency management

- We have seen a number of firms organise into legacy and growth divisions
 - Cost and retention appear to be a key driver
 - Value growth opportunities should be considered by the existing business;
 - Reinvestment
 - Increment/Top-Up
 - Cross Sell (Holy Grail)
- Broader loyalty challenges are on the horizon with the changing distribution landscape (RDR) providing both threats and opportunities

