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Whole of life disability

Customer friendly design or an actuary's
worst pricing nightmare?

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Agenda

- The South African individual risk market
- Income Protection in South Africa
- New generation product design
- The pricing dilemma



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The South African market

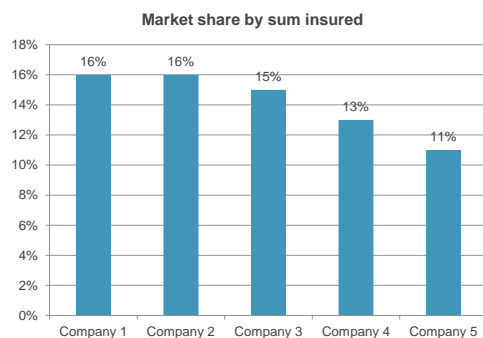
- General background
- Liberty as a player



The South African individual risk market

- New business volumes (Swiss Re Volume Survey 2012)

No of policies	Annual Premium	Sum Insured
9.4 million	GBP 790 million	GBP 75 bn

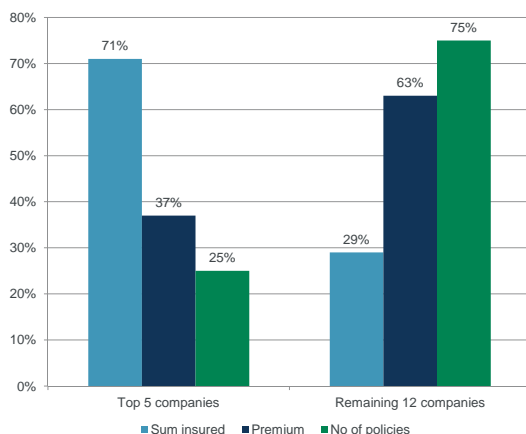


- Highly competitive
- Dominated by 5 players with 71% of market



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The South African individual risk market



- But also very polarised
- High volume low premium vs. low volume high premium



Source: Swiss Re Volume Survey

The South African complex individual risk market

- Most common rating factors used include age, sex, smoker status, occupation category and Socio-Economic Class (SEC)
- Vast majority of business sold on Whole Life basis
- Commission at 85% of first year's premium paid upfront, 28.3% in month 13
- HIV prevalence rate estimated at 20%
- Distribution follows multi-channel approach
- Considered one of the most innovative markets
- Despite being highly regulated



Liberty as a player in the SA market

- Largest market share for new risk business written for 9 consecutive years
- Flagship product: Lifestyle Protector has won multiple awards since launch in 2003
- Significant innovation in last 24 months
 - Financial Adviser Value Proposition (8 components including quality code)
 - Rapid testing for HIV, Cotinine and Cholesterol
 - iPad and Android app (Risk Explorer)
 - Whole of Life Lump Sum Disability and Income Protection



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Income Protection in South Africa

- General overview
- Unique features



Income Protection in South Africa

- Multiple waiting periods (elimination period) available
 - 7 day (backdated), 1, 3, 6, 12 and 24 months
 - More than 70% of business sold on 1 month waiting period
- Both temporary and permanent products available
 - Temporary products not aggregated with lump sum cover at u/w stage
- Replacement ratios:
 - Up to 100% of income for first 24 months
 - Up to 75% of income thereafter, more recently up to 100%
- Tax advantage – premiums are tax deductible
 - But benefits are taxable as income



Income Protection in South Africa

- Generally no proof of loss of income for first 12/24 months
- Claims definitions vary based on generation of product
 - Traditional – (Own) occupational disability only
 - New generation - Occupational Disability, Permanent Impairment (Tiered), Guaranteed Payment Periods, Critical illness
 - And more recently Child Illness
 - Other options include Retrenchment / Unemployment, Maternity, Death shortly after disability
- Many other innovations
- Yet Income Protector sales remained low at 6% of the market
 - Compared to mortality (76%) and Disability (12%)





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New generation product design

- Observed customer needs
- Designing solutions to needs
- A new generation product
- Measurement against TCF outcomes

Customer insights and product design

- Observation #1: Disability needs do not end at retirement
 - Old age impairments can lead to a need for full time nurse, caregiver or driver for example
 - Limited retirement savings will be eroded quickly in this case
- Problem: No occupational disability can occur if client is retired
- Solution: Offer disability with Whole of Life term, but impairment cover only post retirement
 - i.e. change in definition at retirement age



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Customer insights and product design

- Observation #2: Post retirement disability needs are different to pre-disability needs
 - No income to replace, but protection against erosion of savings required
 - Expected costs will increase annually
 - Amount needed will depend on severity of impairment
- Solution:
 - Tiered benefit payments based on severity
 - Maximum of 50% pre-retirement cover
 - Automatic benefit escalation and premium waiver



Customer insights and product design

- Observation #2: Post retirement disability needs are different to pre-disability needs
- Long Term Care a possible solution?
 - Customers have no immediate benefit
 - Low perceived value for money
 - Difficult sell with two benefits
 - Limited commission
 - Very poor take-up



Customer insights and product design

- Observation #3: Once disabled, the need for cover might not end at retirement age
 - Savings can be maintained pre retirement for retirement
 - But post retirement there will be significant non-medical expenses due to impairment or disability which will impact savings
- Solution:
 - Reassess claimant at retirement stage using impairment definitions
 - And continue paying until death if they qualify
- Above means ultimate security of protection forever

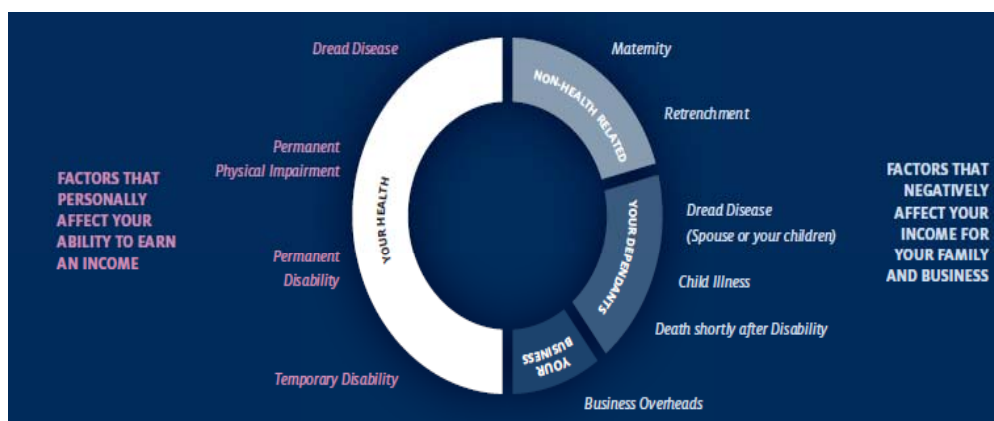


Customer insights and product design

- Observation #4: Premiums should be more affordable and in line with lump sum disability
 - Current pricing doesn't represent value for money
- Observation #5: Customers want an all in one, comprehensive solution
 - But with flexibility to remove components not required
- Adviser reality #1: If it isn't easy to explain it can't be sold to customers
 - If not, sell something else



Income Protection in South Africa: The Liberty solution



Launched Oct 2011



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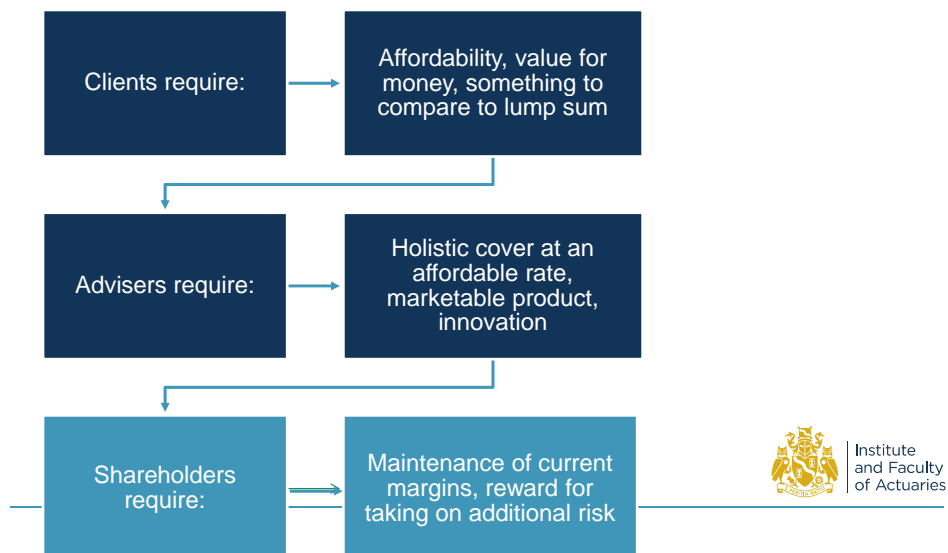
The pricing dilemma

- Conflicting needs
- Other complications



The pricing dilemma

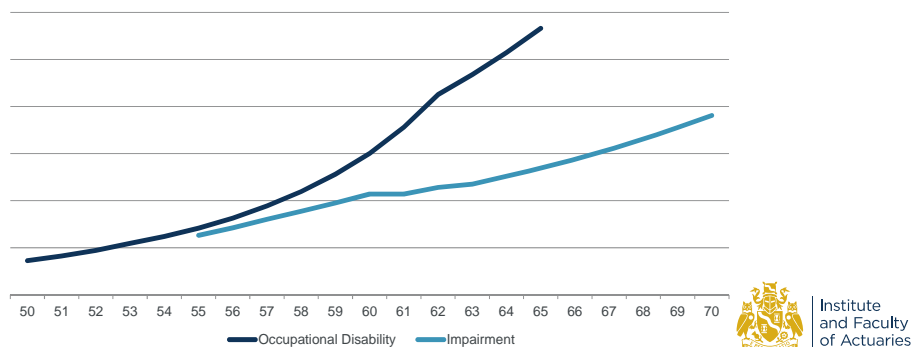
Conflicting needs



The pricing dilemma

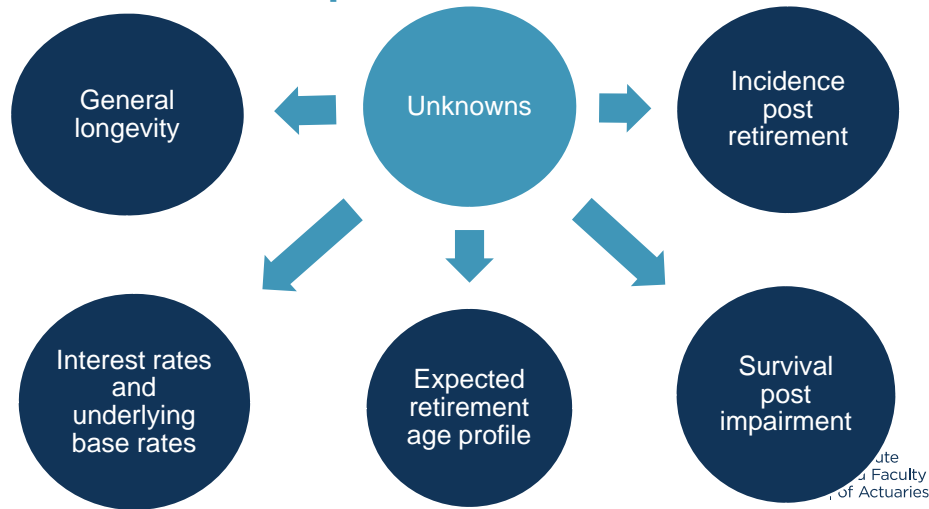
Definition change complications

- Definitions and payout levels change at retirement
 - Occupational Disability to Impairment
 - And premiums must remain constant



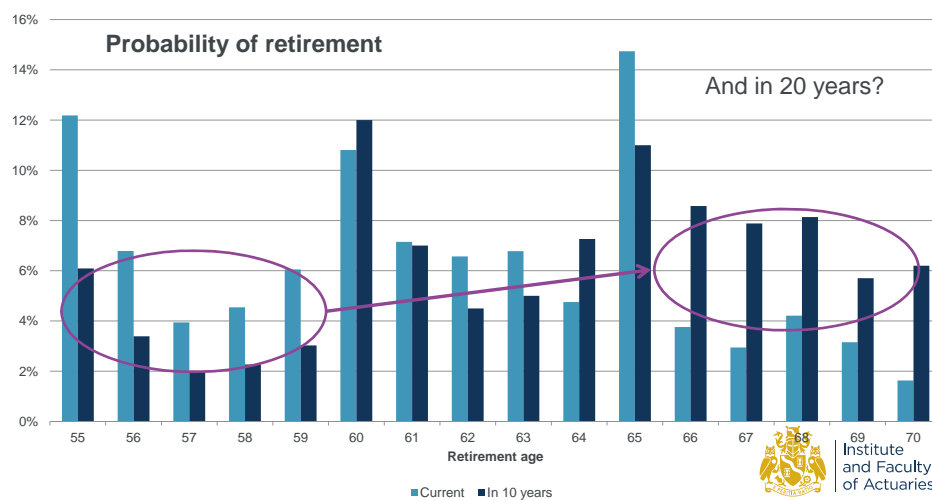
The pricing dilemma

Some other complications



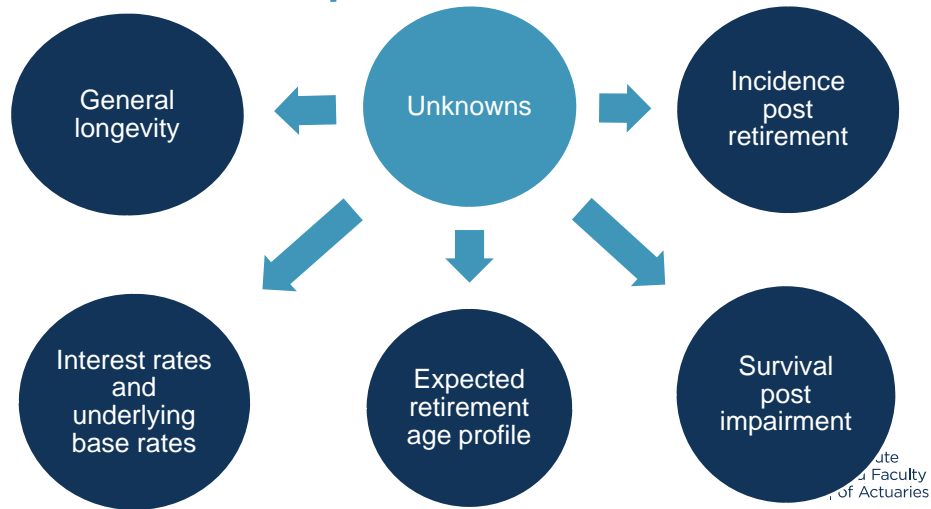
The pricing dilemma

Changing retirement distributions



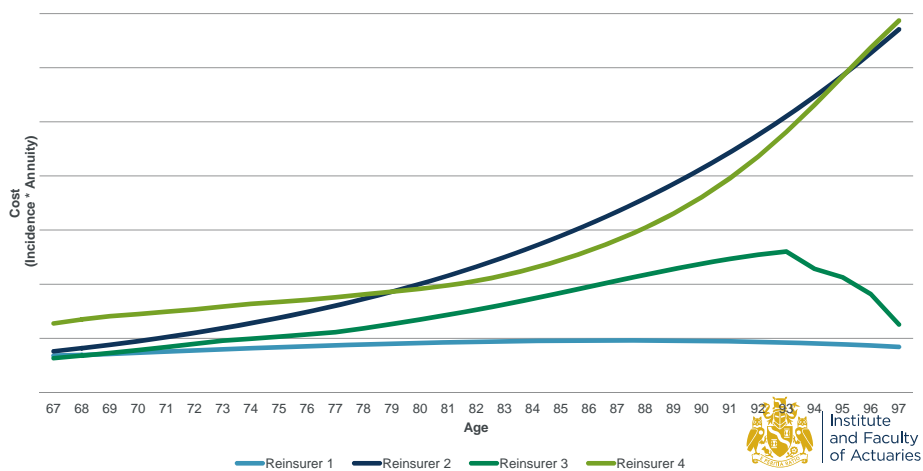
The pricing dilemma

Some other complications



The pricing dilemma

Reinsurer opinions post retirement



The pricing dilemma

Finding a solution

- At the end of the day, multiple moving parts, each with its own uncertainties
- But greater volumes will allow for more accurate data and a greater pool to spread risks across
- And reinsurers willing to share risks
- Customer-friendly design is not possible without taking on new risks...



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