

Critical Illness Reviews - 'A Marketing Opportunity'

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Agenda (Jason Hurley's Idea!)

- What does the legal document say and is this practical?
- Managing the message – building relationships or destroying it (sic)
- Building communication and giving your client options and
- Can you benefit from your competitors' mistakes?

Actual Agenda

- What does the legal document say?
- Key Steps in Carrying Out the Review
- (Managing the message – building relationships or destroying them)
- Building communication and giving your client options
- Can you get competitive advantage?
- What has been the Market Responses?

An Insurer's View

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What does the legal document say?

Provisions have evolved over time. Our 2002 Provision states:

"The fifth anniversary of the commencement date and every fifth anniversary after that are '**review dates**'. Prior to each review date, we will review the amount of the premiums that will be payable on or after that date. As a result of the review we may increase or reduce the amount of those premiums.

However, if we increase the amount of those premiums, we will do so **only to the extent that our Appointed Actuary reasonably considers appropriate in order to take account of our own or other insurance companies' actual or expected claims experience.**"

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What does the legal document say?

We have now added in our current provisions:

"Our **actuary** will only look at the assumptions relating to our expectation of the future number and timing of critical illness, terminal illness and death claims for the following valid reasons:
new information arising from the analysis of our own past claims experience for similar types of policies,
new information arising from our reinsurers' and other insurance companies' past claims experience for similar types of policies,
new information arising from UK population statistics for morbidity and mortality,
the impact of medical advances and medical practices on future claims including genetic profiling, screening, detection, diagnostic techniques and treatment methods for any of the claim events covered under the policy, and
any event outside our control which was unforeseen at the start date of the policy or since the last review date if sooner. "

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What does the legal document say?

The review must:

- Be undertaken in accordance with the terms of the contract
- Be for a valid reason
- Adequate notice must be given to the customer

Additional Considerations

- We have assumed the tighter definition from our current provisions applied retrospectively.
- We need to allow for TCF
- We need to allow for new Gender Discrimination laws

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Key Steps in Carrying out the Review

- When do you need to carry out the Review
 - Annually?
 - Anniversary of Re-Prices?
 - Anniversary of Basis Changes?
 - Anniversary of Reinsurance Changes?

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Key Steps in Carrying out the Review

- Decide Level of Granularity
 - Channel & Product
 - Sex & Smoker Status
 - Age & Term
- Factors to Consider
 - Different Customer Bases
 - Different persistency assumptions
 - Different Underwriting
 - Different Diseases
 - Granularity of Data available

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Key Steps in Carrying out the Review

- Step 1 – Identify Original Pricing Assumptions
 - Best Estimate Incidence Rates used in Pricing
 - Any Margins added for prudence or guarantee
 - Allowance made for Future Trends
 - Actual & Industry Experience available at the time

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Key Steps in Carrying out the Review

- Step 2 – Decide Changes in Underlying Experience
 - Consider Changes in Own & Industry Experience
 - Consider difference between Actual Experience and the Best Estimate Pricing Basis
 - Consider how much weight to give to different data

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Key Steps in Carrying out the Review

- Step 3 – Decide whether to allow for changes in medical practice or claims practice
 - New Diagnostic techniques
 - New screening programs
 - New ABI Non Disclosure Guidelines

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Key Steps in Carrying out the Review

- Step 4 – Decide on change in allowance for future trends
- Step 5 – Decide on Change in Pricing Basis
 - What were any prudent margins allowing for?
 - What level of change is significant and should be passed on?
 - Should changes be capped?

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Communication and Options

- If you do not communicate do you lose the right to review?
- How often should you communicate?
- Does Regular Communication increase or decrease risk of lapses?

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Communication and Options

- Communication of outcome of Review
 - Needs to happen before the review date
 - Must advise the revised premium
- We give customers two options:
 - Accept the revised premium and leave SA unchanged
 - Continue with existing premium and revise SA
- Customers also have the option of lapsing!

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Our Experience

- We started writing to customers in 2006.
- We have issued letters advising:
 - No Change
 - Premium Increases
 - Premium Decreases
- We have not seen any significant change in policyholder behaviour
- We have not received any significant response from policyholders

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Can you get Competitive Advantage

- Most customers have one policy, the best outcome is that it remains in force.
- We have not used the review as a marketing opportunity to try to increase business.
- Do not believe there is much opportunity to get competitive advantage but lots of scope to get competitive disadvantage!

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A Reinsurer's View

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What does the legal document (the review clause of a reinsurance treaty) say?

1. Who can initiate the review and when
2. On what the review can be based
3. A timetable
4. Dispute resolution procedures
5. A backstop if agreement cannot be reached

1,3 and 4 are procedural – little more to say

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On what can the review be based?

The Reinsurer in making any change to Reinsurance Premiums must demonstrate to the satisfaction of the Ceding Company that:

- i. Any change in the Reinsurance Premiums is limited to the amount justified by the change in any or all of the following:
 - a) the Reinsurer's expected future claims experience on the block of business reinsured,
 - b) the Reinsurer's expected future persistency on the block of business reinsured,
 - c) the cost of holding any extra reserves and solvency margin deemed necessary as a result of the review of assumptions,
 - d) changes in taxation.
- ii. This change in the Reinsurer's expected future claims experience can be seen to be reasonable given any or all of the following:
 - a) the experience on the block of business reinsured under this Agreement,
 - b) experience of other relevant business of the ceding company,
 - c) industry experience in general,
 - d) the expected impact of current or future medical advances, or
 - e) any other factor directly affecting future claims experience.

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On what can the review be based? - Practical Difficulties

- a) the experience on the block of business reinsured under this Agreement.
Business will be less than 5 years old.
In general it will have limited credibility.
It will say nothing about ultimate experience.
- b) experience of other relevant business of the ceding company
Some of the problems in a) above
How relevant is that business?
- c) industry experience in general,
1991-97 (not CMI methodology), published 2000
CMI 98-99 Published April 2003, CMI 1999-2002 published May 2005, 2003 published April 2006, 2004 published April 2007, 2005 outstanding
What were we thinking at the time?
- d) the expected impact of current or future medical advances, or
Can only see this at population level
Future advances – need crystal balls
- e) any other factor directly affecting future claims experience.
Actuaries love these catch all clauses

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Backstop if agreement cannot be reached

Either

- a) treaty might let one party make the final decision

If you signed this, you deserve everything you get

Or

- b) have an external arbiter who will bind both parties according to a set of rules,

You might be trapped into a deal that you really don't like.

Arbiters have tendency to choose middle ground.

Or

- c) Go separate ways – insurer recaptures

Very much second best for both parties

Encourages negotiation to avoid this eventuality

Potential open market in post-review blocks

Does anyone have a better/an alternative method?

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Managing the Message

1. Attempting to stay in touch
2. Adhering to the timetable
3. Giving preliminary messages early
4. Being painfully aware interests of insurer and reinsurer are not necessarily aligned

I was considering entering this slide for the "most boring slide of the conference competition"

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Interests of Insurer and Reinsurer

1. Restoration of Profit Motive
80/20 ish in favour of reinsurer
2. Treating Customers Fairly / ABI Guidance
Almost exclusively concern of insurer
3. Administrative Headaches
More insurer than reinsurer
4. Customer retention
Both, but more keenly felt by insurer

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Building Communications and Giving Your Client Options

- 1. Is there a marketing or pricing actuary in the UK who feels that the reinsurance market does not pay him or her enough attention?
If so, please leave your business card at the back of the room at we will arrange several visits
But are we meeting the right people for this exercise?
- 2. Adhere to the timetable
- 3. Give preliminary messages early
- 4. Tried to write the options into the treaty
However that was then and this is now
As long as discussing early enough can implement other solutions



Can you get competitive advantage?

- 1. I anticipated these blocks would be traded at review time
- 2. Does not seem to be happening
- 3. Little opportunity to make positive impact
- 4. Review exercise can lose you friends and influence people - badly



What has been the Market Response?



Control Question – how many insurers, reinsurers and others are in the room?

Has your company undertaken a review?

	Count of Life Offices
Yes	
No	

Which products have you reviewed?

	Number of mentions
Long Term Care	1
UL WoL	1
Level CIC	7
Decreasing CIC	7
WoL	2
Level Term	2
Decreasing Term	1
IP	3
SACI	3

Who initiated the review?

	Count of Life Offices	
Reinsurer		
Life Office		
Both		

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Thinking about the reinsurer throughout the process..... Was the reinsurer...?

	Count of Life Offices	
Adding value through the process		
A neutral impact		
Slowing down the process		

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Following the review which way did the price go?

	Count of Life Offices	
Up a lot > 10%		
Up a bit		
Stay the same		
Down a bit		
Down a lot <10%		
A mixture		

- Personal minority view from having read the responses in detail
 - This slide underestimates the upward movement particularly in CI

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What was the key motivator for the review?

Reason	Number of mentions	
Profit		
TCF		
Policy Terms / Legal		
PRE		
Reinsurer		

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How much did the review cost you – in time and/or money?

	Count of Life Offices	
Significant cost and effort for the business		
Reasonable cost and effort for the business		
Minimal cost and effort for the business		
Don't want to answer		

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Was the cost of reviews factored into the original expense model?

	Count of Life Offices	
Yes		
No		

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Knowing what you know now, how do you view reviewable policies?

	Count of Life Offices	
More attractive to our business		
About the same		
Less attractive to our business		

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How did the review go down with customers?

	Count of Life Offices	
Received a lot of negative feedback		
Received some negative feedback		
Little response from the public		
Some positive feedback		
A lot of positive feedback.		
Too early		

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What impact did your review have on lapses?

	Count of Life Offices	
Lapses went up		
Lapses stayed the same		
Lapses went down		
Don't know (too early to tell)		

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Do you think that customers will continue to want reviewable contracts?

	Count of Life Offices	
The market will grow a lot		
The market will grow a little		
The market will stay the same		
The market will shrink a bit		
The market will shrink a lot		

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Do you still offer reviewable products? – If so which lines and through which channels?

Count of Mentions	IFA (advised)	Tied (advised inc. bancassurance)	Direct
UL WoL			
ACIC			
SACI			
IP			
TPD			
WoL			
Term			

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With the benefit of hindsight what would be the key lesson learned that you have learned?

- Clarity of policy conditions and literature.
- Retaining old actuarial bases for every pricing change for at least 10 years.
- Retaining sales training and initial financial assessment forms.
- Keep the customers informed about what we've done and how this fits with the plan that they bought.
- Annual reviews are too onerous and make it difficult to implement premium changes as these are likely to be small
- Start early.
- Clearly documented baseline assumptions for the underlying reinsurance rates should have been included in the treaty.
- Ensure you allow sufficient time to carry out the review and to obtain approval for the changes.
- The need to have documented the pricing basis more clearly at the time of each pricing.
- To build the review system at the time the reviewable product is launched and not leave to a day 2 activity.

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