



---

## Speakers

---

**Katya MacLean**

**Head Of Protection Proposition, Lloyds Banking Group**

**Alan Dott**

**Research & Development Underwriter, Life and Health,  
Swiss Re**

## Agenda

### Introduction

- What non-disclosure?
- Why now?

### Study results

- 1999 to now
- Comparison with claims declined
- Why do we see these results?

### Solutions

- Are we optimising?

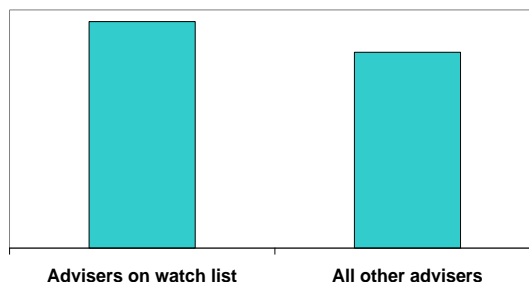
© 2012 The Actuarial Profession • www.actuaries.org.uk

2

## Introduction – what and why?

- We'll focus on customer-driven non-disclosure

Non-disclosure rates at PoS



- Why now
  - Consumer insurance
  - Regulator expectations
  - Margin squeeze

“The act essentially introduces a new statutory ‘permission’, for consumers to make honest but reasonable misrepresentations when they take out a policy...”

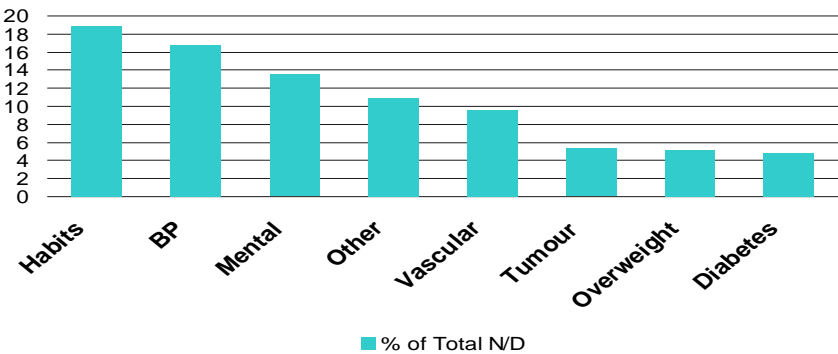
Stephen Netherway, CMS Cameron McKenna LLP

---

## Study results – 1999 Swiss Re

---

- 10 offices (UK and Ireland)
- 9500 lives, routine medical evidence
- Significant non-disclosure was **6.21%**



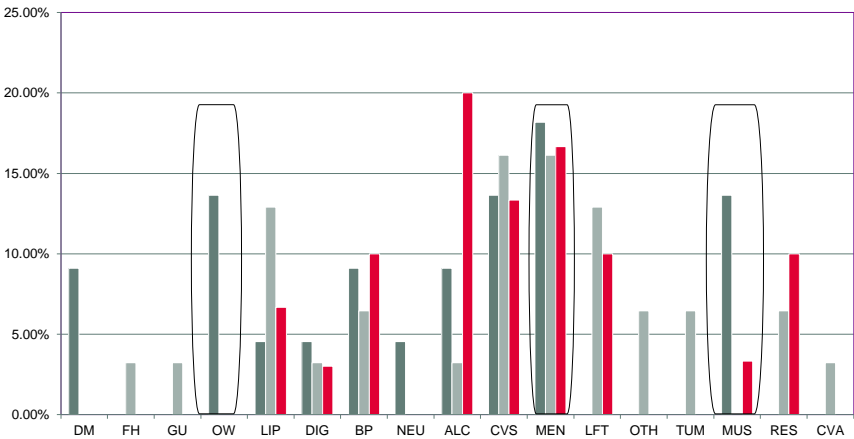
---

## Study Results - 2012

---

- 3 mainstream Bancassurers
- Life cover only
- Each Company asked to assess 100 cases where:
  - A GPR was a routine requirement; or
  - A GPR was requested due to disclosure alone
- Significant non-disclosure **7% to 15.5%**
- Possible understatement of overall non-disclosure

## Study results - 2012



© 2012 The Actuarial Profession • www.actuaries.org.uk

6

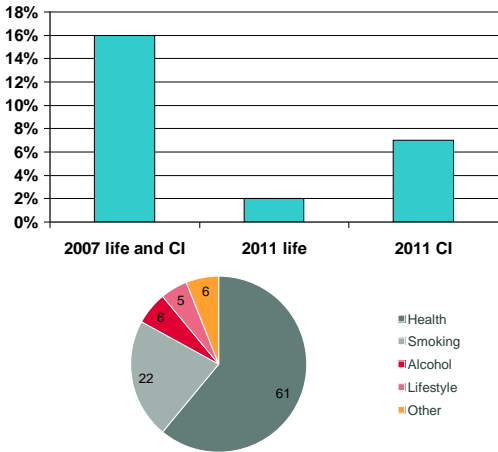
## Study results - claims experience

- Claims declinature is dropping rapidly

- 2% decline overall:
  - 1.2% health
  - 0.4% smoking
  - 0.1% alcohol

Source: Swiss Re Claims Watch

Claims declined



---

## Why these results - What impacts honesty?

---

- Traditional economic cost/benefit theory:
  - How likely is it that I will get caught?
  - What will happen to me if I get caught?
  - What will I gain by lying?
- Behavioural economics theory
  - What will my friends and family think?
  - Who am I hurting by lying?
  - How do I feel about lying?
  - Have I made a promise to tell the truth?

© 2012 The Actuarial Profession • www.actuaries.org.uk

8

---

## Why these results - Can we encourage honesty?

---

- Traditional economic cost/benefit theory
  - Spell out the consequences of lying
  - Explain how we can check the answers
  - Detail the costs of lying on overall premiums
- Behavioural economic theory
  - Look in a mirror (literally!)
  - Promise to tell the truth (swear on the bible)
  - Emphasise the harm caused to others by your lies
  - Signature before a key statement (10% more honest)

© 2012 The Actuarial Profession • www.actuaries.org.uk

9

---

## Why these results – genuine confusion?

---

- 5 years is a long time
- If treatment is controlling symptoms then you don't think you're ill
- Most confusion where there's a spectrum that everyone is on
- Or where the answer isn't static

---

## Why these results – alcohol analysis

---

- Do you regularly drink in excess of 35 units of alcohol per week?
  - Disclosure rate 0.4%
- In the last 5 years have you received medical advice to reduce your alcohol consumption?
  - Disclosure rate 0.3%
- Changing question to reduce confusion
  - In the last 5 years, have you ever been referred for any counselling in relation to your alcohol consumption or any attended/been admitted to hospital for any alcohol related reason?

---

## Solutions – focus on problem areas

---

- 90% of material non-disclosure is in 6 areas\*:
  - Arthritis or back/neck/joint pain
  - Drug treatment for more than one month
  - Smoking
  - Weight/BMI
  - Mental Illness
  - Awaiting return to GP/further investigation

\*source LBG internal analysis, 2011 data

---

## Solutions – analysis

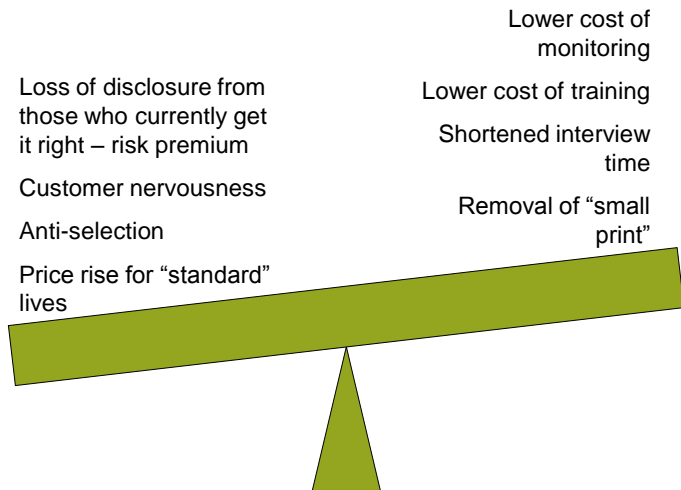
---

	% affected customers non-disclosing	Percentage of claims declined	Worth asking ?
Arthritis / back / joint pain	27%	} <1%	?
Drug treatment	25%		?
Mental Illness	13%		?
Return to GP / further investigation	28%		?
Weight/BMI	10%		?
Smoking	11%	0.4%	Y

---

## Solutions - Balancing act

---



---

## Questions or comments?

---

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.

