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# Next Generation IP – An International Perspective on Income Protection

Jules Constantinou and Ulrich Pasdika, Gen Re



07 May 2015



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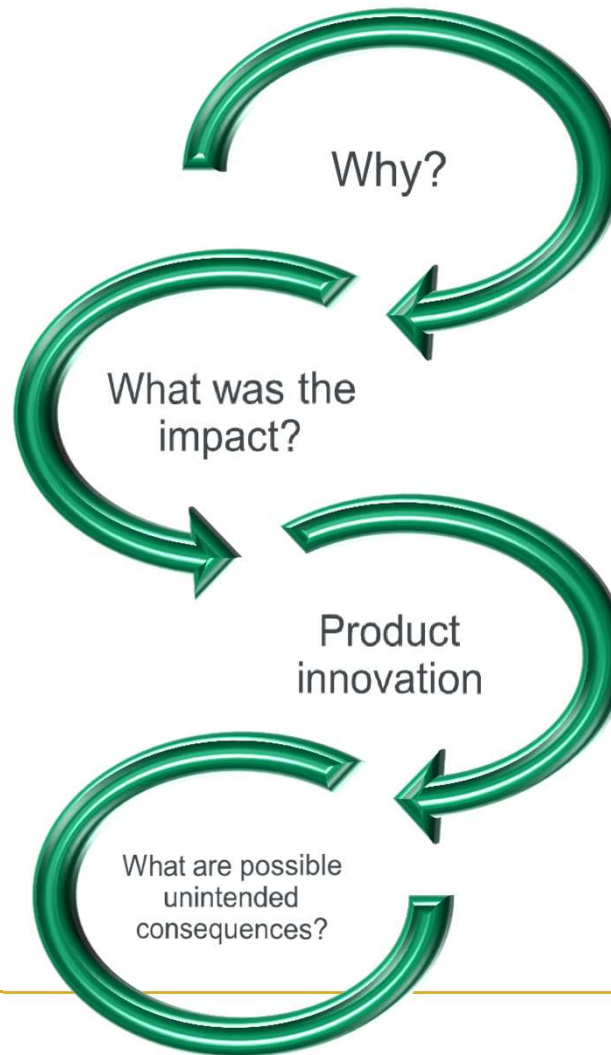
# Individual IP and “own occupation”

Jules Constantinou, Gen Re



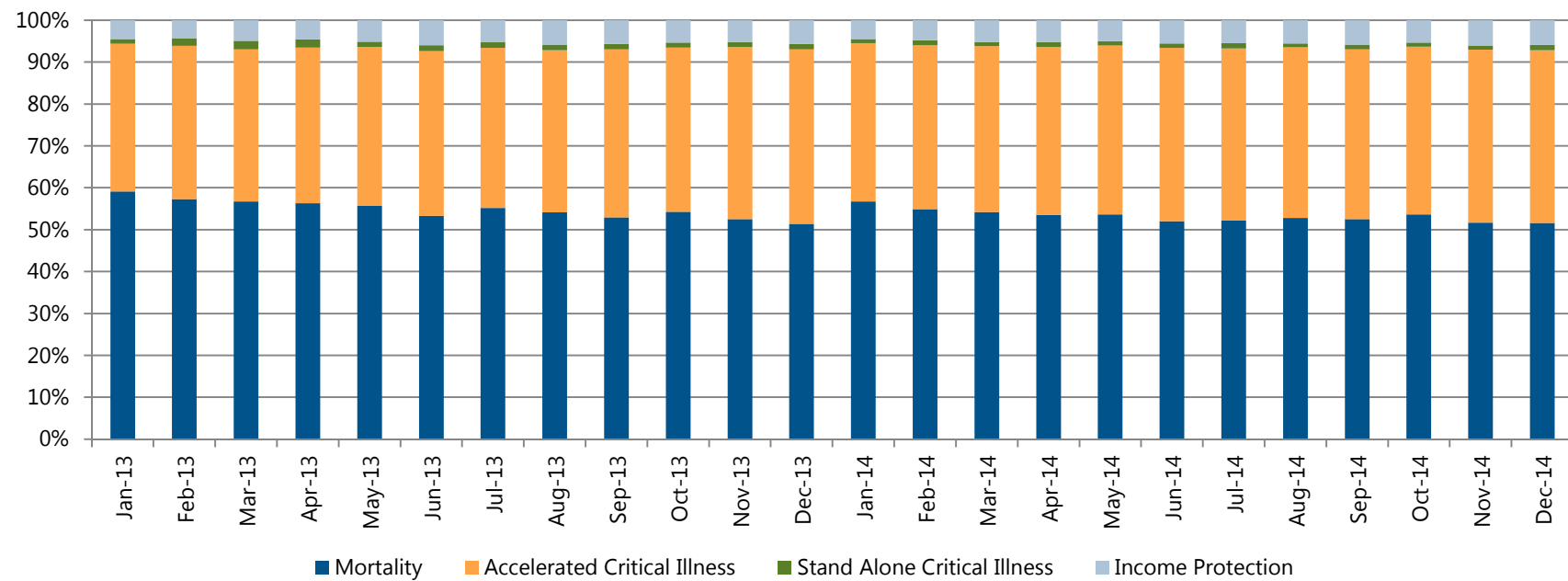
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# UK IP Market

Protection Pulse - New Business Analysis by Product



# Why?

- Poor claim stats for:
  - Lump sum TPD: 50% [2009] – 38%[2013] Source: ABI
  - PPI
- @scotprovsaysno [Sept 2009]



## What was the impact?

### Premium differences

Increase in premiums:

**X2**

Take an example: age 35, plumber wanting  
£1,000 per month of cover to age 60:

Approximate premium: (own occ): £65 per month



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# What was the impact?

## The “naughty” list

- Fortune teller
- Security man
- Cat man
- Fire eater
- Medium
- Rag and bone man



# What was the impact?

## Product innovation

- Budget covers: [2 yr (50%) and 5 yr (65%)]
  - Own occ for a year + work tasks (Royal London)
  - Fracture cover (Friends Life)
  - CI / IP covers (Vitality Life)
- Financial guarantees: ease of access:
    - Up to £18,000 per annum no financial underwriting





## Manual occ market

- Exeter Family Friendly
- Cirencester
- British Friendly
- Around 15%-20% of the market (in 2013)
- Average premium size? £402pa

source: Cirencester Friendly Financial Statements 2013



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## Product Design

Annually age-  
costed  
premiums

Premiums  
reviewable

With profit  
design

Gender  
neutral

D0 and D4  
deferred  
periods mainly

Class 3 / 4  
single price

# Unintended consequences?

- Own occ examples in the US
- Problems in Australia around definition of disability?
  - Unable to perform one or more important duty of own occupation; or
  - Can't work in usual occupation for more than 10 hours a week; or
  - Pre-disability income has reduced by 20% or more, AND under the regular care of a medical practitioner.



## Unintended consequences? (continued)

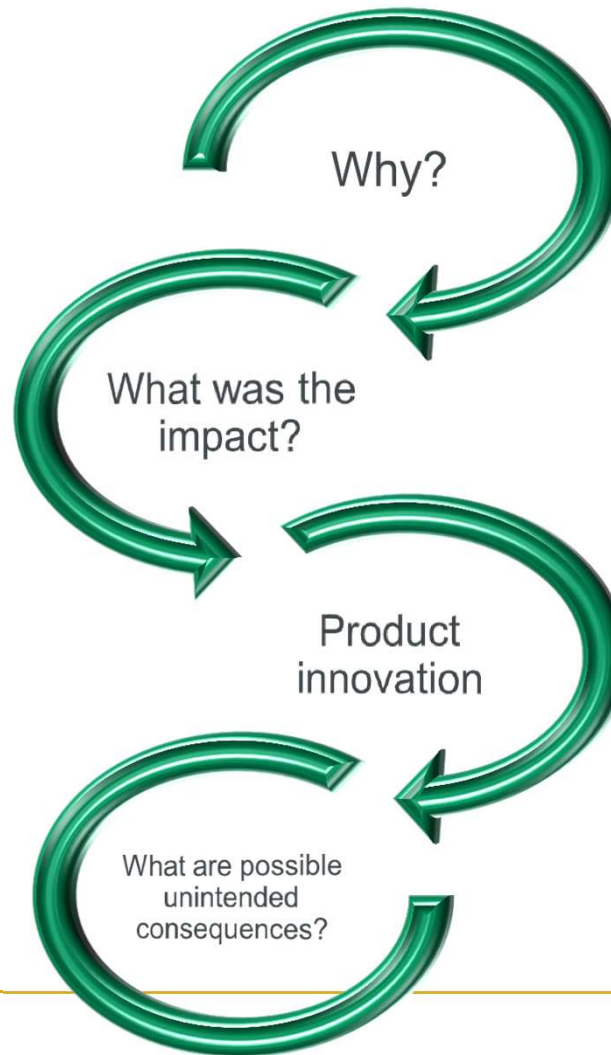
- Environment:
  - Self certification of minor medical
- Financial guarantees w/o financial uw:
  - Cash economy / working hours proxies
- Implications for claims terminations
  - “word of mouth” industries
  - No savings / no other earnings: more reliant



# Risk Management in IP

- Product design:
  - Replacement ratio
  - Definition of occupation
  - Deferred Periods
- Underwriting:
  - Medical, financial and occupational
- Claims management:
  - Early claim interventions / notification
  - Rehabilitation / return to work







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advertise  
sponsorship  
Thought leadership  
Progress  
Community  
Sessional Meetings  
Education  
Working parties  
Volunteering  
Research  
Shaping the future  
Networking  
Professional support  
Enterprise and risk  
Learned society  
Opportunity  
International profile  
Journals  
Support



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# An International Perspective

Ulrich Pasdika, Gen Re



07 May 2015





# German IP market: 2 letters, 2 monster words and some numbers

BU

Berufsunfähigkeitsversicherung

Berufsunfähigkeitszusatzversicherung

- Population: **80.8 m**
- IP policies in force: **17 m**, thereof **13 m** riders
- Annual premium income: **8.4 bn EUR**
- New business: **900 k** policies
- **3%** annual new business growth in recent years (total market **-5%**)



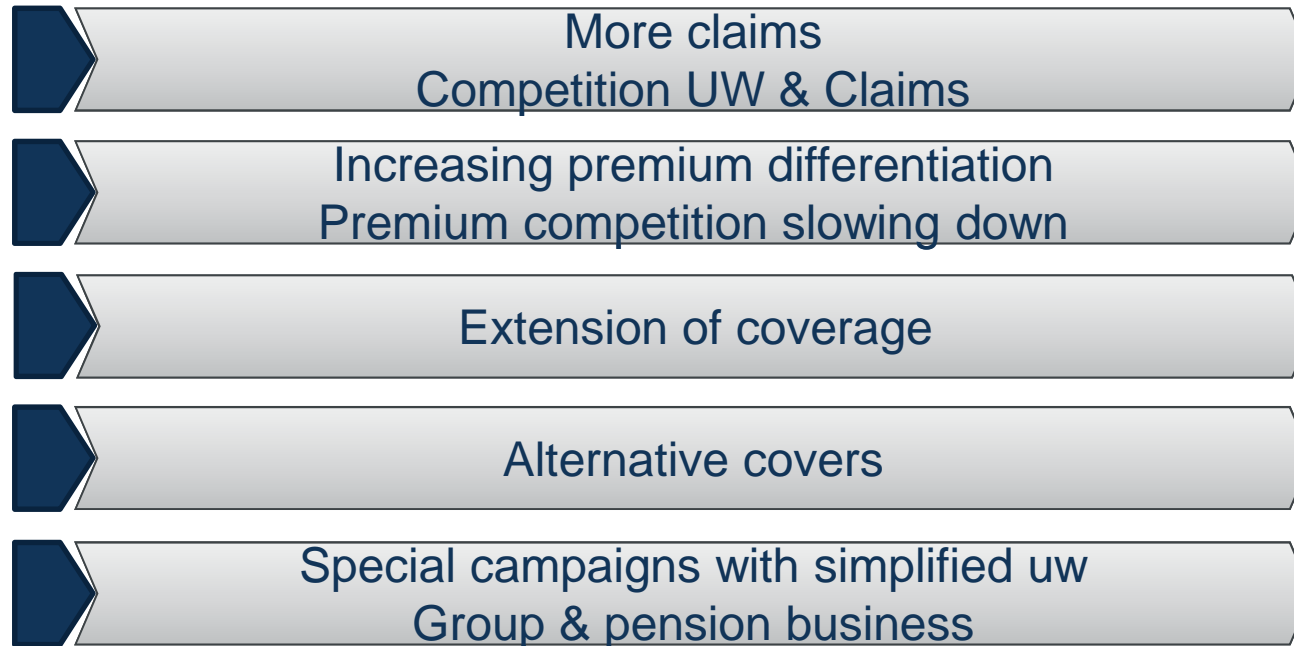
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## Some characteristics of BU

- Own occupation
- Inability to perform more than 50% of own occupation for an anticipated period of at least 6 months
- Mostly level premium
- Profit participation
- Fixed monthly benefit, regardless of other income
- Financial UW at inception

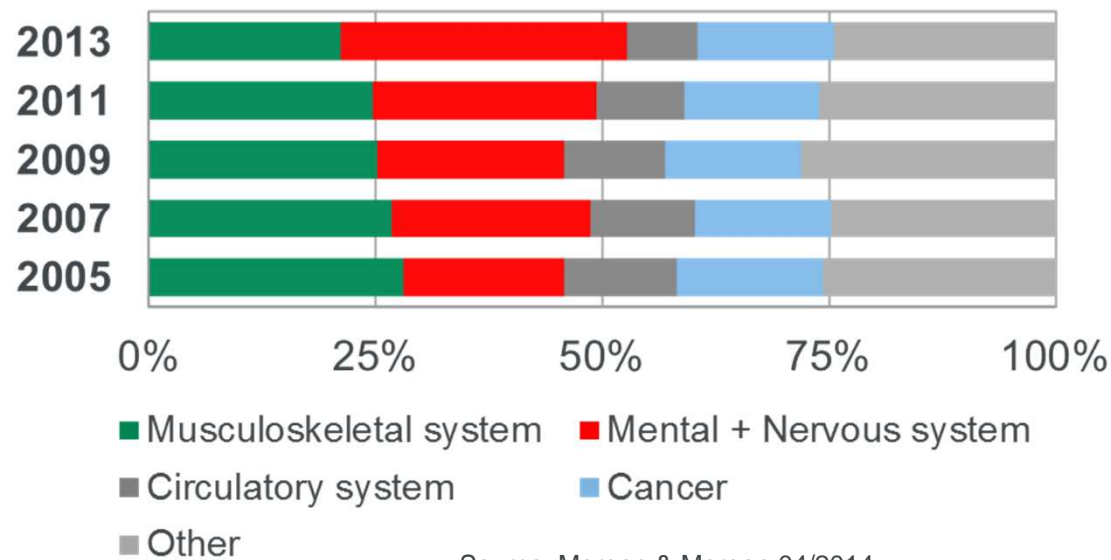


## Market trends



# The exhausted German people

## Causes for disability in the German BU



Source: Morgen & Morgen 04/2014



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## Wide premium differentiation



Premium min. ■ max. ■

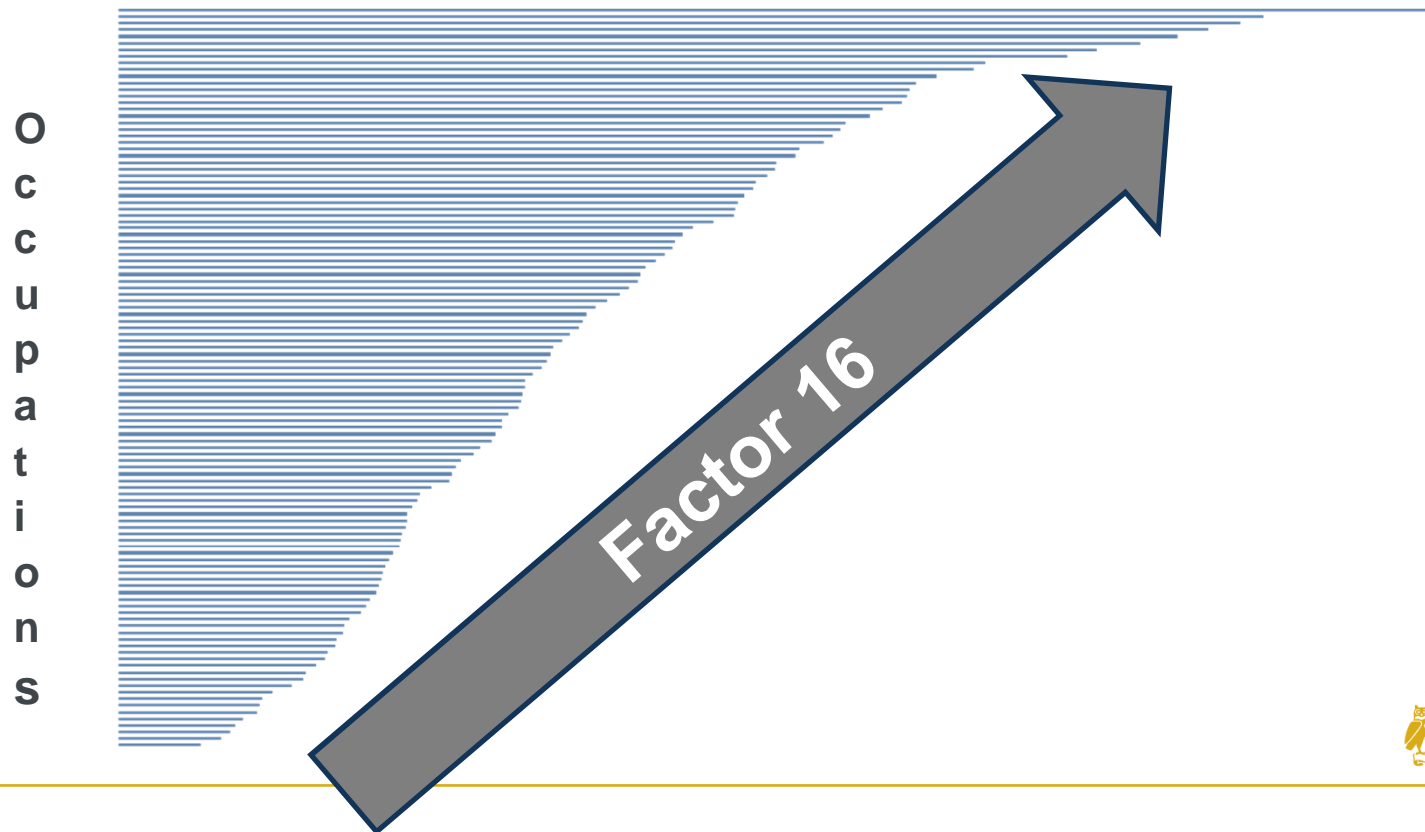
Monthly premium, age of entry 35, term 32 years, monthly benefit  
1,500 EUR, 40 insurers



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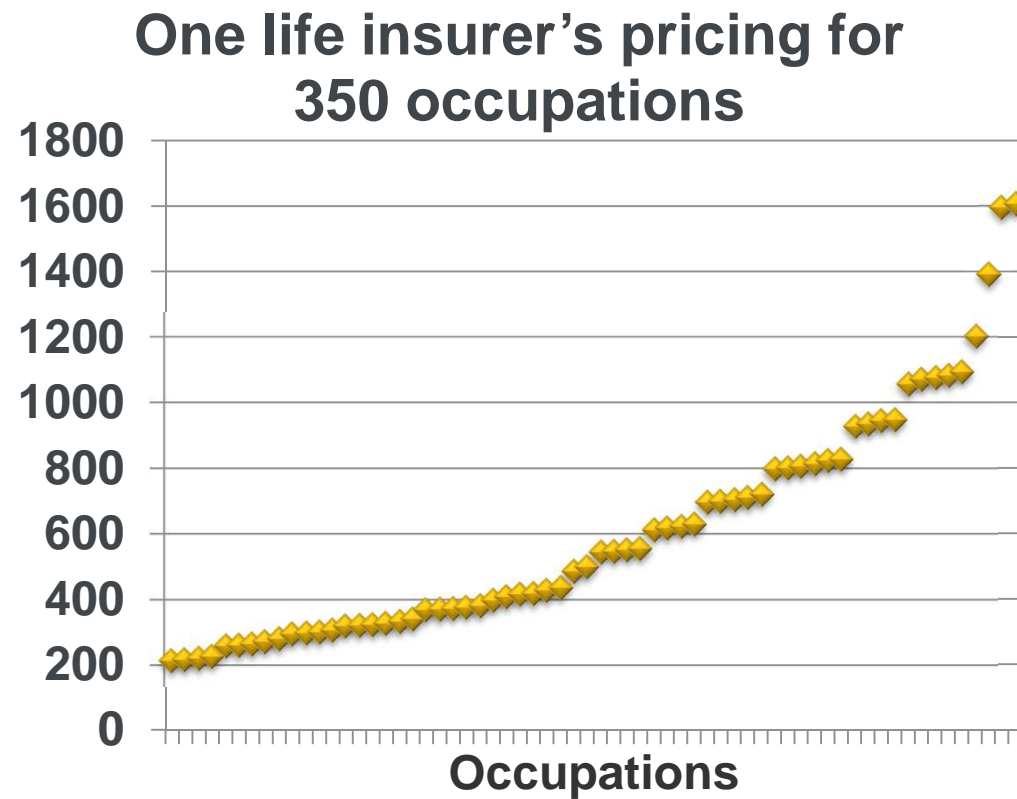
# Claims experience depends **STRONGLY** on occupation

A/E for various single occupations (source. Gen Re disability pool)

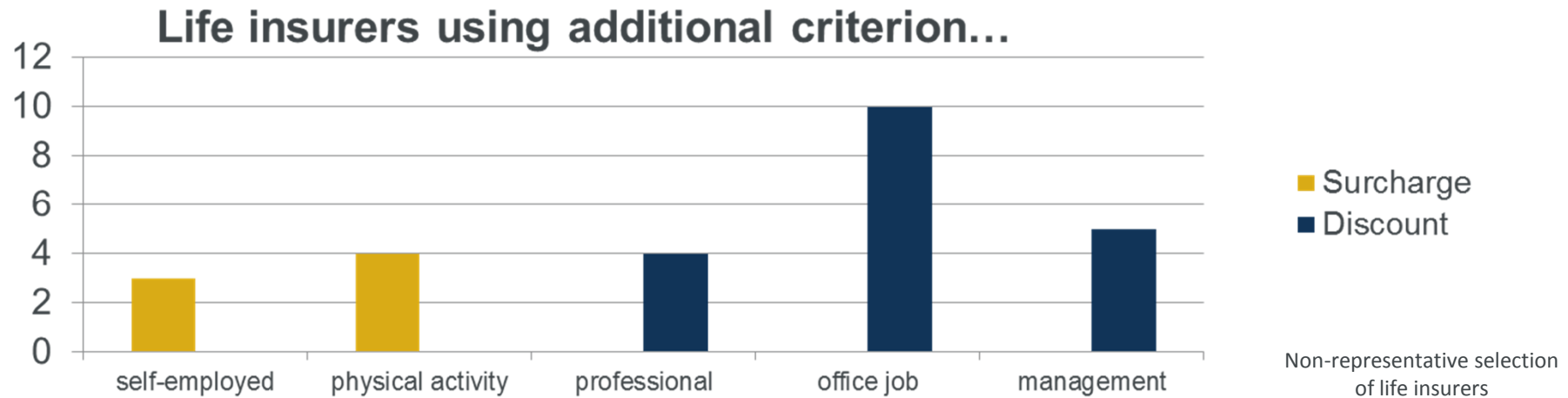


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# Premium differentiation



# Increasing use of additional criteria



- Half the market uses additional criteria
- Usage for up to 80% of occupations
- Normally better or worse OC
- Next step scoring?



# New development: Focus on benefits rather than on premiums

- Top product class „BU Komfort plus“
- Qualifying product features
  - LTC
  - Short-term disability
  - CI
  - Whole of life benefits
- Target group: persons who can afford BU
- Stand-alone cover more difficult to sell



## Good news

- Which risk class between 1 (lowest risk) and 10 (highest risk) would you assign to the baker?

**“Own” for any occupation does work!**

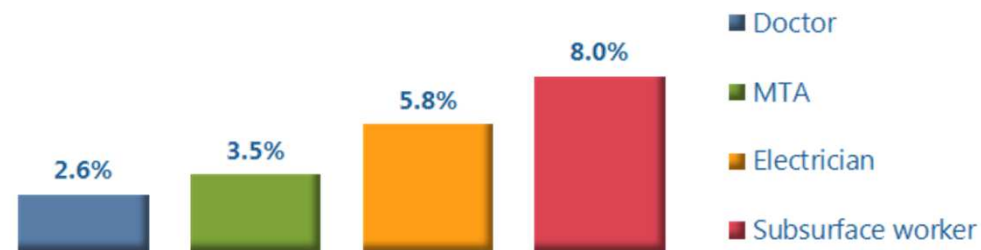
Picture: © uriy solovyov - fotolia.com



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## Bad news

- BU is very expensive for higher occupational classes
  - Premium in % of the gross income for a level of coverage of 50 % of the gross income with end age 67



Source: Own calculations considered to be representative for Germany

- New biz: Strong focus on professional classes & white collars
- Prohibitively expensive for many blue collars, alternative cover is needed – and there is a huge market!

**“Own” for any occupation doesn’t work!**



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## Alternatives to BU

### Any

- Similar to BU
- Top-up to social security
- Less moral hazard
- Same OCs as in BU

### „Body Protection Policy“

- New concept in life
- Extended EA cover
- 2 OCs
- Implicit mental exclusion

### Functional Impairment

- Offered by PA insurers
- Extended CI cover
- 2 OCs
- Implicit mental exclusion



# Typical product design “Body Protection Policy”

Body	Head	Care	CI / DD
<ul style="list-style-type: none"><li>• Walking</li><li>• Using arms</li><li>• Using hands</li><li>• Kneeling / bending</li></ul>	<ul style="list-style-type: none"><li>• Sight</li><li>• Hearing</li><li>• Speaking</li><li>• Balance</li><li>• Memory / Mental Ability</li></ul>	<ul style="list-style-type: none"><li>• LTC (3 out of 6 ADLs)</li></ul>	<ul style="list-style-type: none"><li>• Cancer</li><li>• Heart attack</li><li>• Stroke</li><li>• MS</li><li>• Coma</li><li>• Tetraplegia</li></ul>

Annuity: up to age 67

Lump sum  
(12 monthly annuity payments)



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# The alternative covers are much cheaper than BU!

...allowing blue collars to take out more meaningful sums insured.

- Funct. Imp. -70%
- BPP -45%
- Any -45%

## Critical success factors

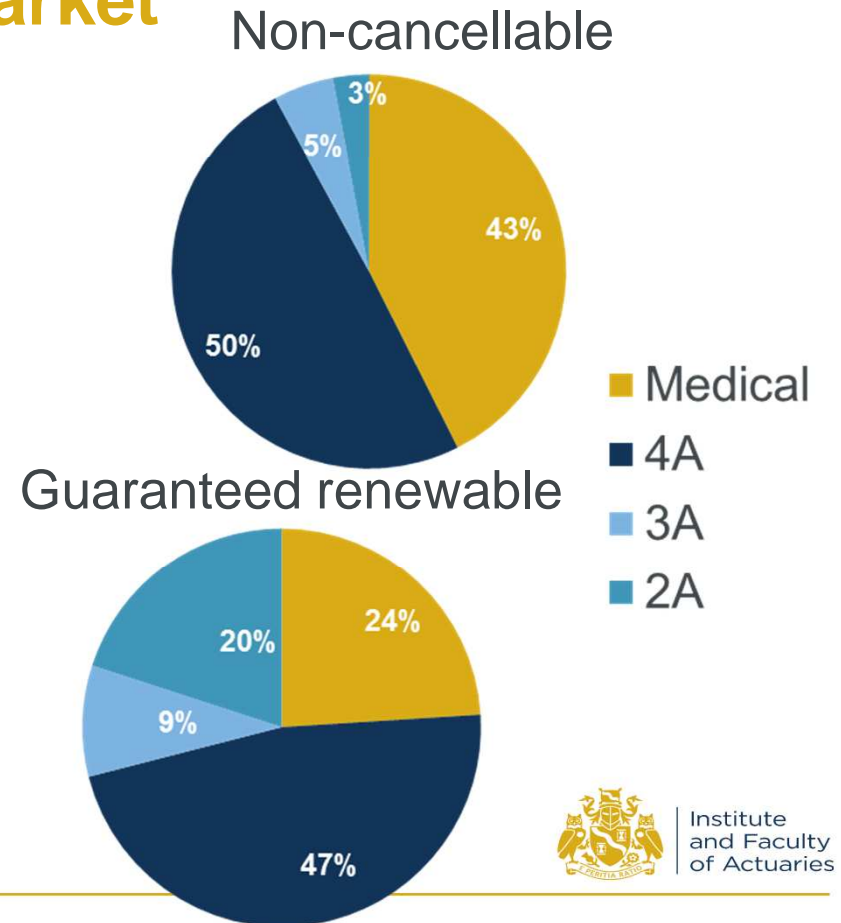
- Salesforce aware of IP gap
- Smooth UW
- Transparency
- Pricing expertise



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## Some trends from the US market

- More aggressive income replacement percentages
- Premium competition for most eligible occupations
- The number of insurers remains small
- No dynamic growth
- Crisis of 80's and 90's overcome, countermeasures for the most part abandoned
- Medical professions still own OC
- Multi-life sales adding to premium growth
- Sales to the middle income market more hope than fact



# The Netherlands – consumer protection stifling product development

- Strong dominance of comparison programmes
- Focus on premiums and benefits
- Strong position of consumer protection organisations, fighting for „customer-friendly“ coverage
- But: As yet hardly any cover for 2 m small freelancers
- Conflict of interest solvency regulation and consumer regulation
- No reasonable balance between premium and benefits for manual workers and small freelancers leading to non-insurance
- Ban on commission increases problem





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