

The Actuarial Profession
making financial sense of the future

Health and care conference 2010
John Ritchie and Graham Lee, Ellipse



Data Driven Group Business: How insurers can support change in the employee benefits market

Thursday 13 May 2010

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Things are bad, real bad

- Group Risk market overall contracted by 7.7% in 2009 ¹.

“General economic conditions – with rising unemployment, a shrinking number of employers and low inflation”

1. Swiss Re Groupwatch

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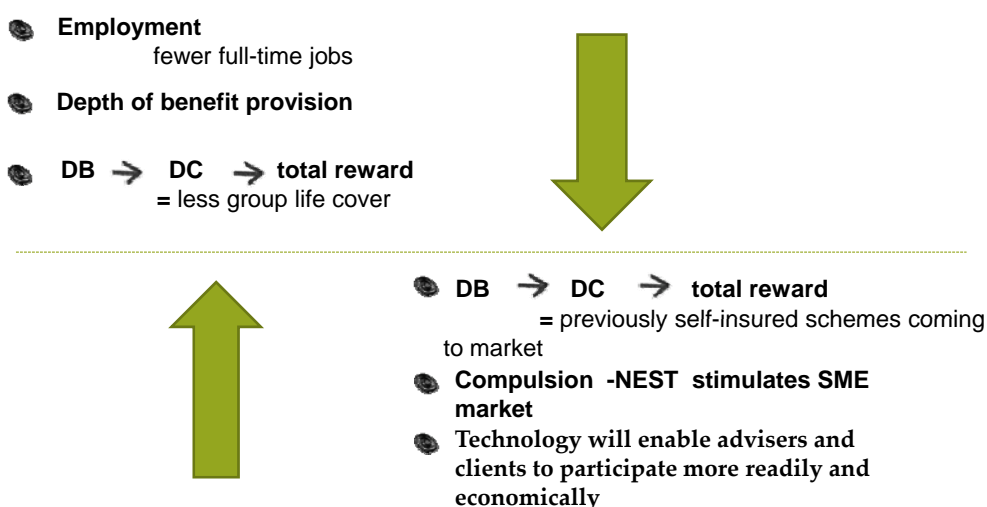
Why do I feel so bad, doc?

- It's the softest market in living memory
- What I hold on to it's on someone else's price
- The way I trade and hold data means I can't really analyse my emerging experience
- The Group CEO keeps asking me about growth in my market (some idiot gave him a copy of Swiss Re's Groupwatch)
- I know I should be investing in my future model but I just can't get the business case to work
- Even if I could get the business case to work, the IT project has buried better men and women than me

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It is critical to distinguish growth segments from overall group risk market trends



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EBCs are increasingly no longer routinely disclosing the best rate to allow the incumbent insurer to match

- They have a faster review process,
- More control in their own processes,
- Lower costs (50% !)
- Are able to meet their deadlines with clients and
- Are able to prepare their reports more reliably and professionally

Interestingly they feel they are getting better terms from insurers overall too.

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Business model will create sustainable value and reliable returns

- Lower risk and productivity gains for advisers
- Good value over time for clients
- Lower expenses of processing and administration shared with the customer
- Drive operational risk out of the process – do the job with right counterparty at the right time
- Economic precision – pay only for the cover you have when you have it

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What's the market like today?

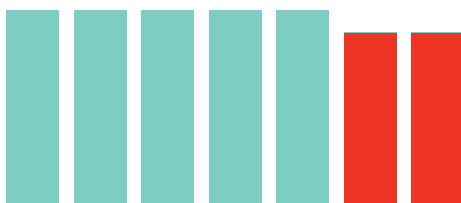
- Surviving...
- ... with or without actuaries
- Data requirements driven by what the advisor will give
- Pricing basis driven by what needs to be charged to maintain volume
- Nobody wants to pull too hard at any one bit, in case the whole thing comes crashing down



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Following the basis

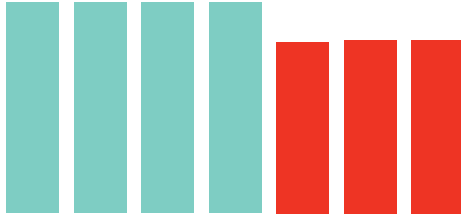


- If we send out 10 quotes on our basis...
- ...we might write 5 on our basis, and 2 on someone else's

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Following the basis

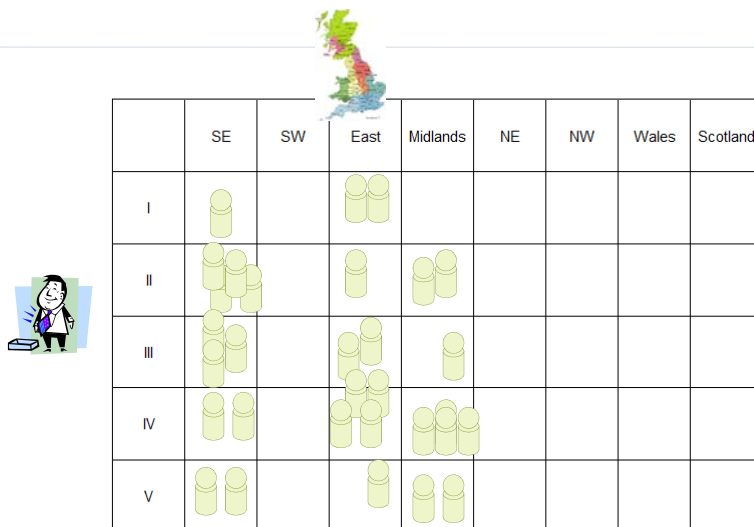


- Overall, we aren't making our target profit contribution
- So have to allow for "some" commercial decisions by the scheme underwriters in our rates
- So, up go the rates...
- ... and in come more commercial decisions

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Socio-Economic Classification

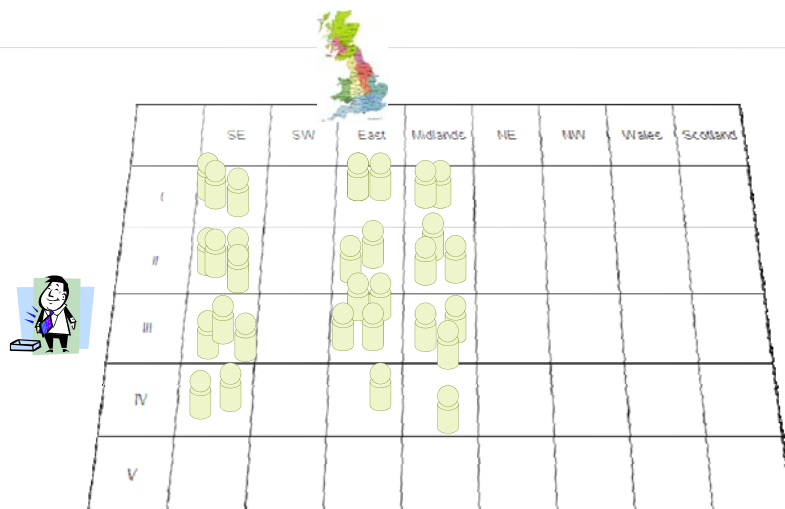


- If we needed to be a few percent cheaper...

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Socio-Economic Classification

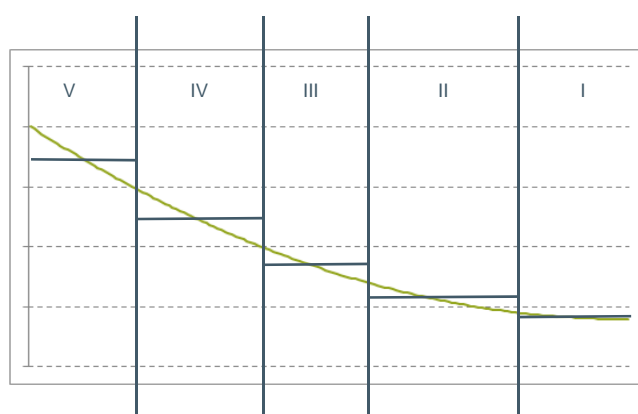


- ...we could revisit our allocations

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Socio-Economic Classification

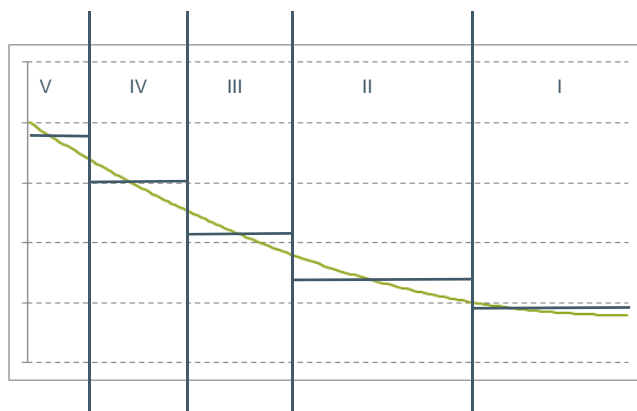


- So, we might price for this...

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Socio-Economic Classification



- ... but we get this
- So our rates are too low

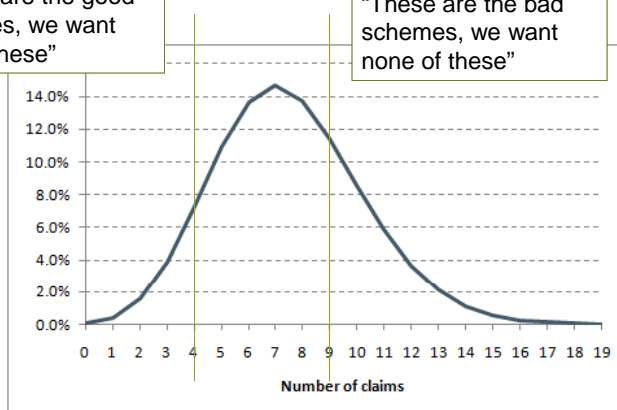
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What's a good scheme?

"These are the good schemes, we want lots of these"

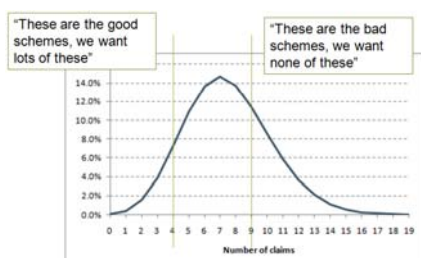
"These are the bad schemes, we want none of these"



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What's a good scheme?

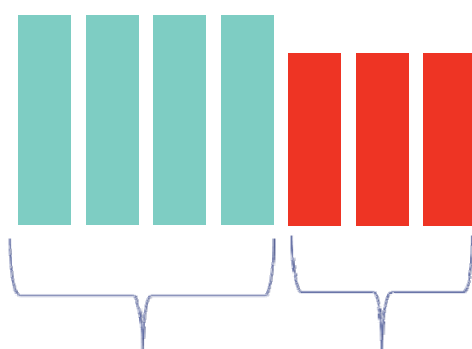


- Of course there are random fluctuations in experience. That's why people need insurance.
- Can we ever understand our basis if we put so much faith in randomness?
- Is there any point in understanding our basis?
- Is this behaviour just skewing our experience further?

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Where does all this end?



By how much are these overpriced?

And these underpriced?

We know we're cross subsidising the business written on someone else's basis with the business written on our own.

But to what extent?

Do we even know which schemes we have written on our own basis?

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Where does all this end?

- Generally accepted market behaviours are overriding the basis
 - Do we just hope it all holds together?
 - Do we fill our boots in a “hard” market, and hope to ride it out when it softens?
 - Do we build such a margin rich business that we can absorb this behaviour?
 - Do we rely on every insurer acting the same way; so that when we’re told what rate we need to charge, we know that it’ll cover **our** costs?
- Or do we make a break from the market behaviours and a return to actuarial science?
- Do we even have a choice when members are paying for their own flexed cover?

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What needs to change?

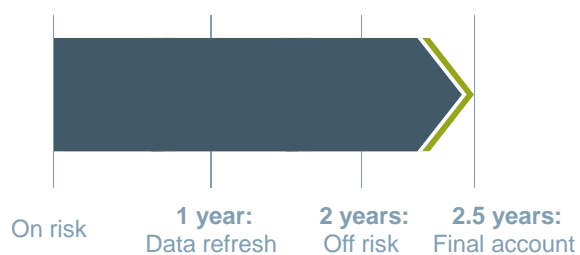
- We need data we can properly analyse:
 - Objective data items...
 - ...that have been applied consistently...
 - ...and will be in the future
- We need to get the data promptly
- And feed it back in to our analyses

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Data frequency

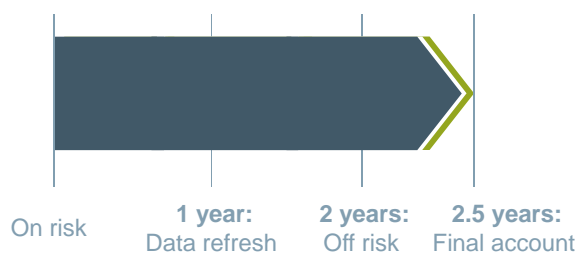
- Old world group data:



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Data frequency



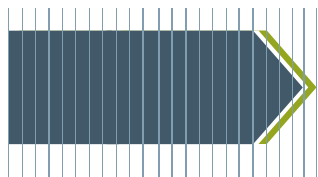
- This doesn't work for flexible benefits
- And is well short of ideal for other group business

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Data frequency

- Monthly data updates:



On risk

2 years:
Off risk

- We know what is on risk, and we can charge the client for the risk we're covering
- Allows us to analyse and report on the business as experience emerges

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Objective data

- If we derive our rating factors from things we **know** about the member and the scheme:
 - We get the same rate decision every time
 - We can understand where the profit and loss is coming from
 - We can apply the same pricing/reporting rigour to group business as we do for individual
 - We can understand why group and individual business is different
- If we use data the employer will already hold, we can set the data standards, rather than following

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Link to individual experience

- What is the value of a pre-existing condition exclusion?
- How do people's behaviours for flexible benefits impact the experience?
- How does group income protection experience compare to individual?

With comparable data quality, we can start investigating this

Reporting

- Understanding, and following, our basis allows us to identify where the profits are coming from
- Fast, efficient data refreshes allow us to accurately report our true position
- We're not running our business based on a loss ratio

What is Ellipse for exactly.....

1. Leading an outbreak of application of actuarial science in Group Risk
2. Transforming Group Risk insurance supply by applying existing technology and techniques to the sector (group risk is the laggard)
3. Catching up with the best advisers, platforms and buyers. They are way ahead of us
4. **Cheaper, simpler, better is possible**

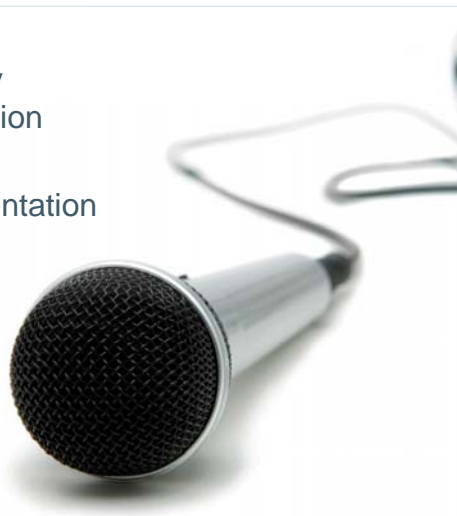
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