

The Actuarial Profession
making financial sense of the future

Health and care conference 2010
Philip Bundy and Nathan Hill, Swiss Re



Enough about critical illness trends (what about a cycle?)

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The insurance/underwriting cycle

They said

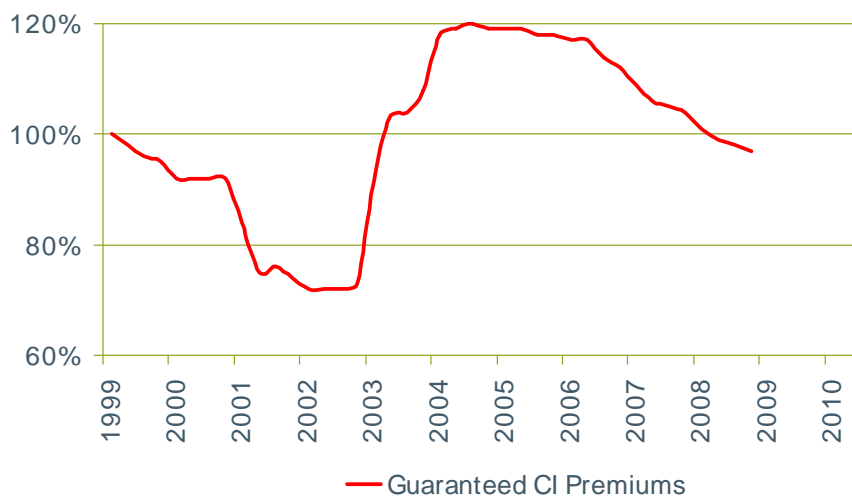
- ***“Managing the insurance cycle remains the **most important challenge facing the global insurance industry**”***

Lloyds underwriter research report 2006

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What are we talking about?

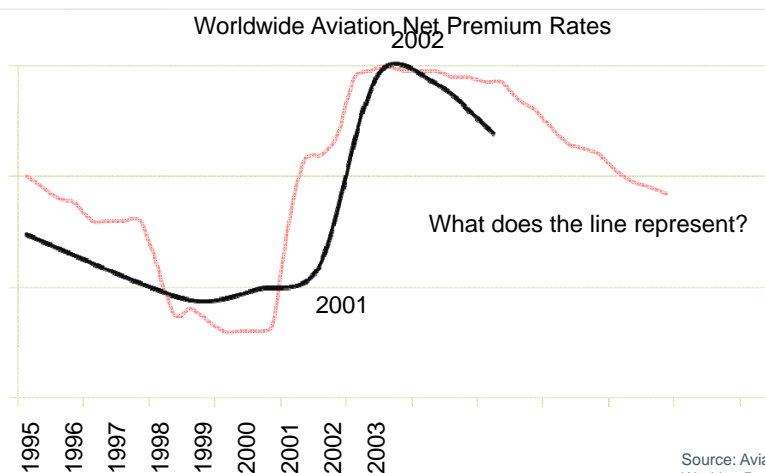


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Source: Lifesearch

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Trend or cycle?



Source: Aviation Working Party, Aviation Insurance Presentation, GIRO 2005

Source: Lifesearch

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What we'll be discussing

- **The underwriting cycle and its significance**
- **Cycle drivers**
- **The current CI market**
- **Lessons from general insurance**
- **One final thought**

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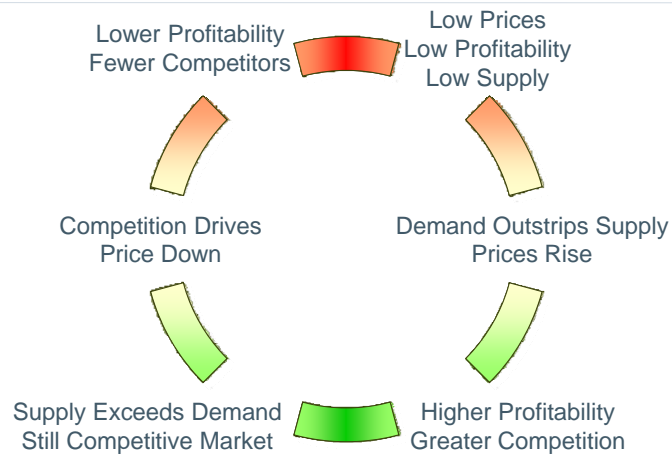
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The Underwriting Cycle

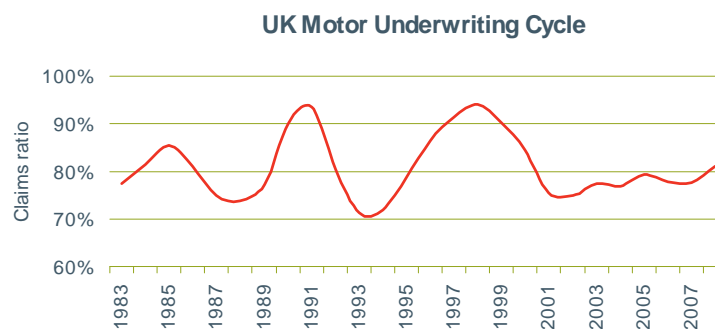


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The Underwriting Cycle

- Aviation premiums follow a typical P&C underwriting cycle
- Other examples include:



Claims ratio = Claims/Premiums, excluding expenses

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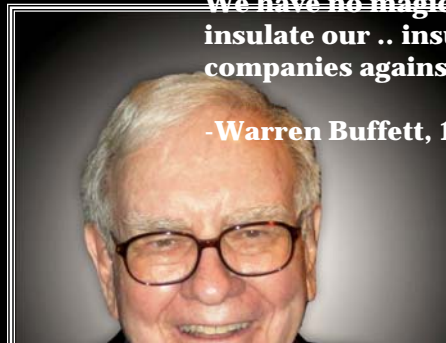
Source: ABI

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"Commentators continue to talk of the underwriting cycle.

~~We have no magic~~ formula to insulate our .. insurance companies against this...."

-Warren Buffett, 1981

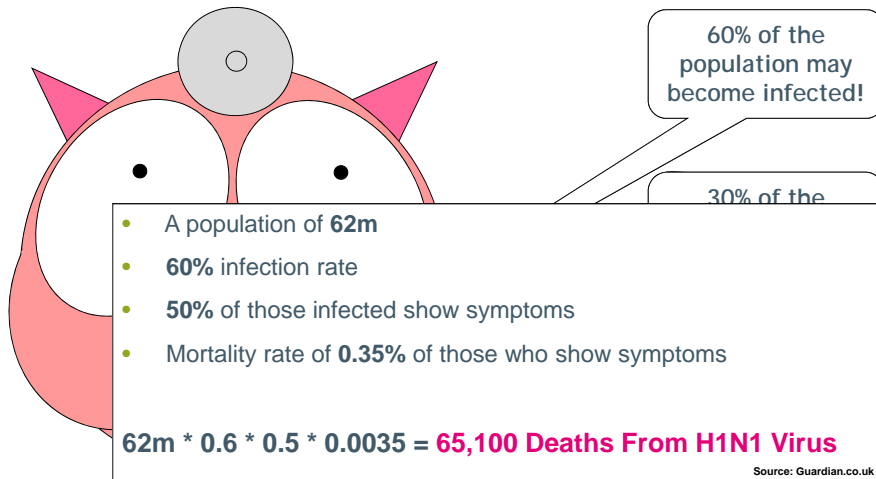


- As far back as 1981, even Warren Buffett had concerns about the underwriting cycle for his business
- Could such a cycle exist in our market? How aware are we?
- What might the implications be?

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A protection market shock....



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What if....

Some hypothetical assumptions:

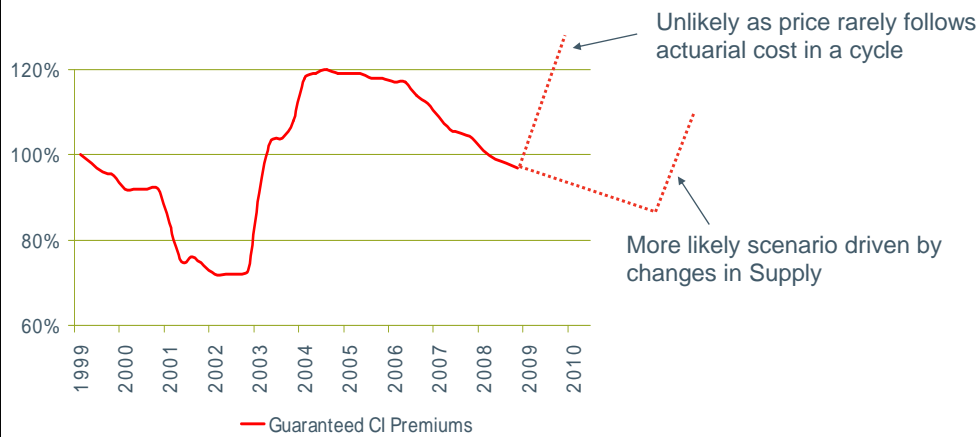
- 'Typical' Morbidity rate **0.9 per mille**
- 'Typical' Mortality rate **0.3 per mille**
- 'Swine-Flu' Mortality rate **1.05 per mille** ($0.6 * 0.5 * 0.0035 * 1000$)
- £1m Sum Assured
- **No Short Term Cure!**



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So what market effect....



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Source: Lifesearch

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Key Driver	P&C Example
Supply & Demand	
Shocks	September 11 th ; Hurricane Andrew
Claims losses/profits	In 2003, US P&C insurers forced to "top-up" reserves by \$20bn.
Pricing Uncertainty	Uncertain ultimate claims cost e.g. liability for asbestosis
Availability of capital	New entrants, capital allocation and reward strategies

Supply & Demand

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Key drivers of an underwriting cycle

Key Driver	P&C Example
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- Could similar factors also drive a critical illness cycle?

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The insurance/underwriting cycle

They said

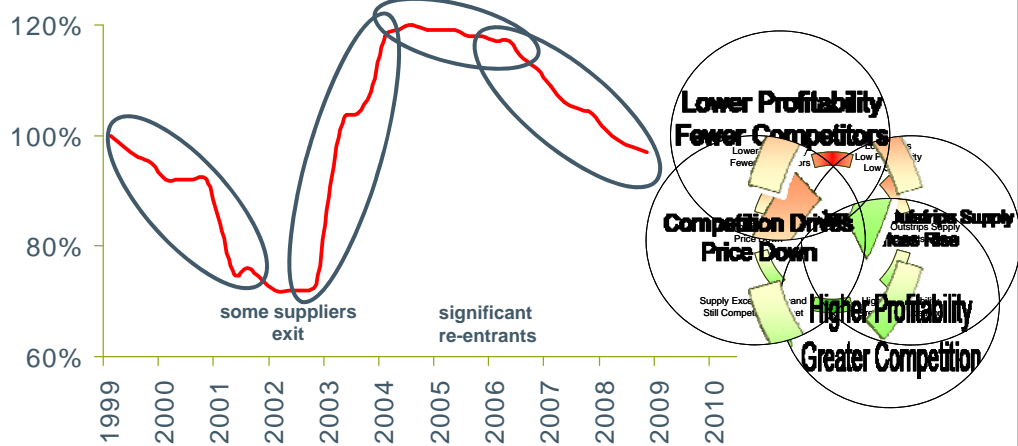
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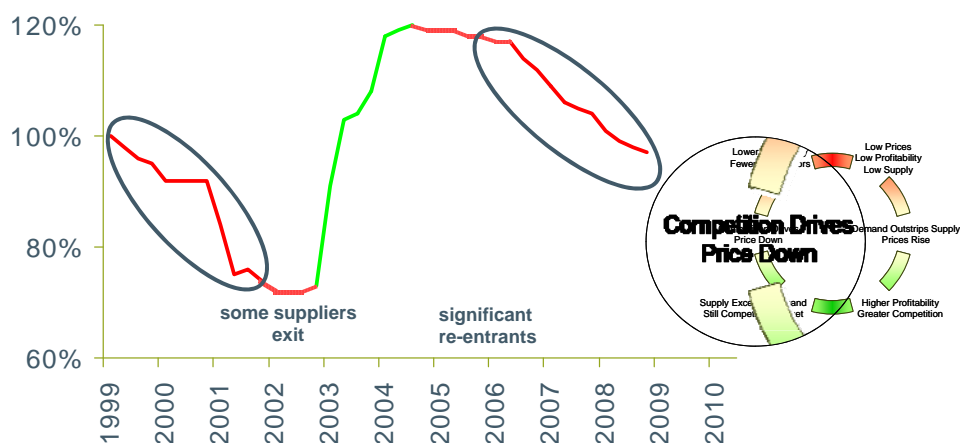
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The past 10 years



Source: Lifesearch

Could there really be a CI cycle?!



- Where will we be in 2015?

Source: Lifesearch

Recent prices have shown another downward trend

Why?

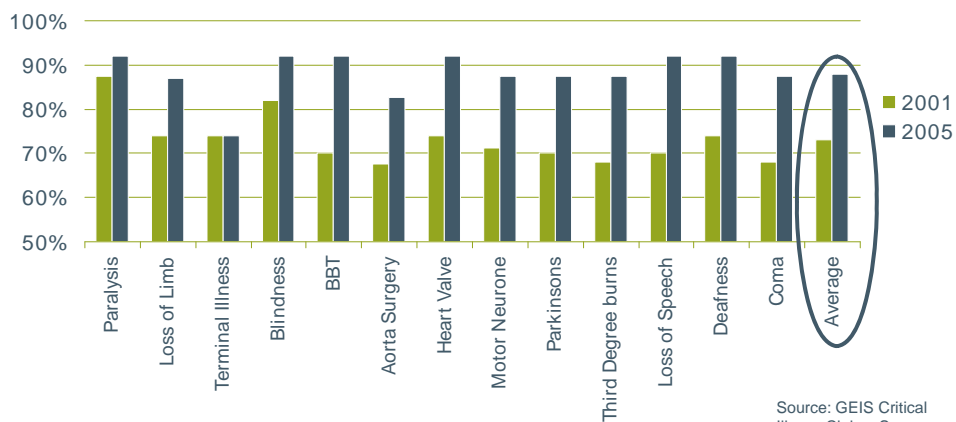
- Price versus cost in an underwriting cycle
- Margin underlying price
- Some initial research:
 - the scope of cover
 - claims paid
 - available capital
 - risk controls

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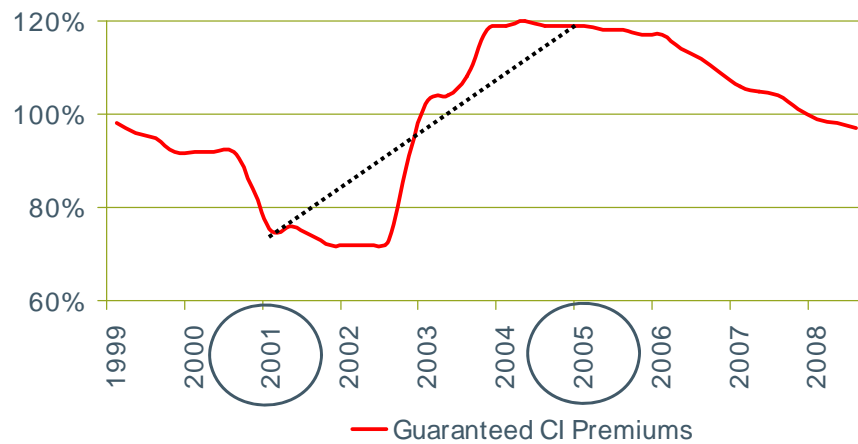
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Certainty of future claims cost (Expanding scope of cover)

Percentage of companies covering each of the previously ABI-designated 'additional' conditions.



Expanding scope of cover

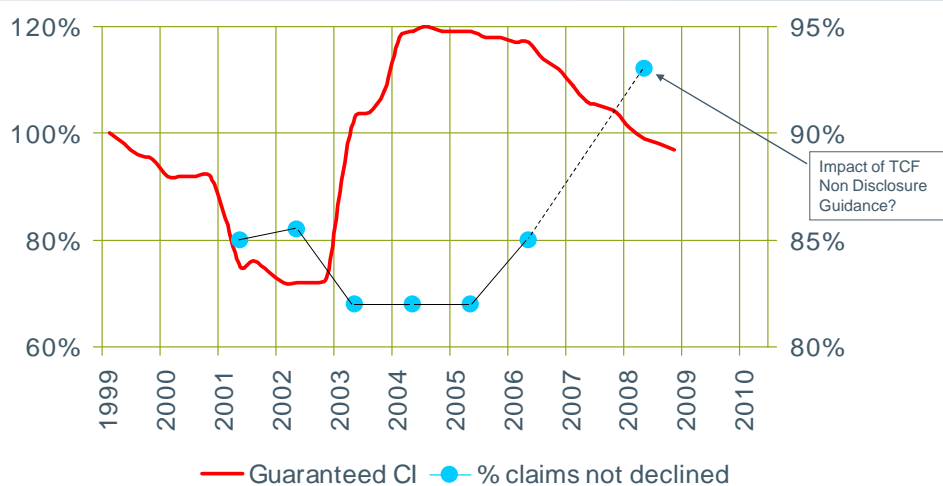


- Increasing cover and price – what about now?

Source: Lifesearch

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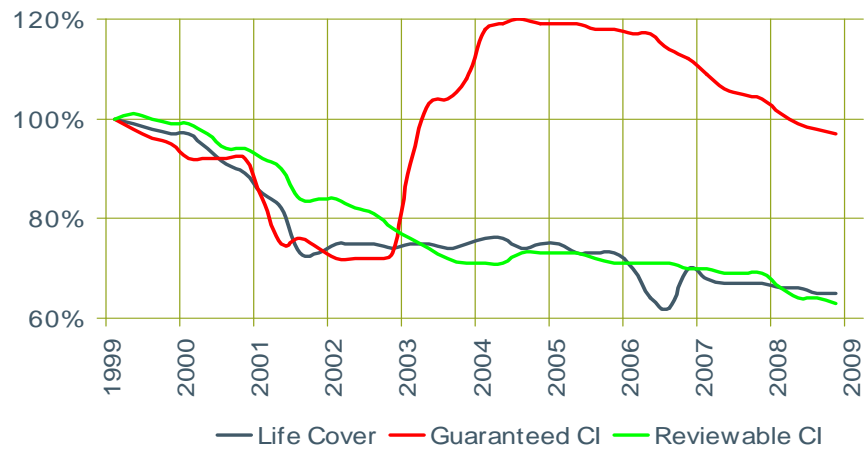
Certainty of future claims cost (Fewer claims declined)



- Fewer claims declined, but price goes down

Sources: Lifesearch;
Swiss Re Claims Watch

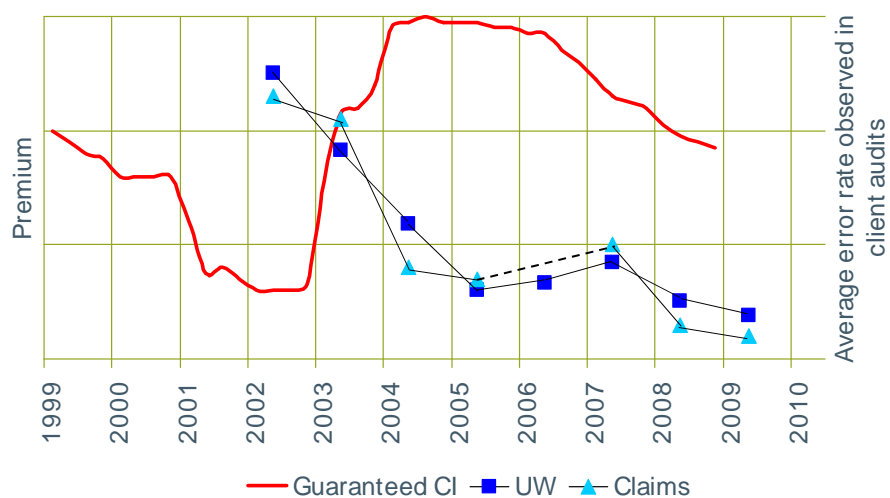
Availability of capital



- Capital available to write other long term insurance

Source: Lifesearch

Improving risk management



Source: Lifesearch & SR data

What does this tell us about a CI cycle?

Is price determined by cost or supply?

Driver	Cost	Price	Evidence of cycle?
Price and market entry/exit	↔	↑ & ↓	✓
Increasing scope of cover	↑	↑ & ↓	✓ x
Fewer declined claims	↑	↓	✓
Availability of capital in early 2000's	↓	↑	x
Improving controls	↓	↓	x

- More work required!

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Lessons from general insurance

There's plenty of advice out there!

- Don't follow the herd
- Invest in good risk management tools
- Don't let surplus capital dictate strategy
- Redeploy capital if margins are thin
- Smarter employee incentives
- and many more...

Managing the Cycle – How the Market can take control – Lloyd's

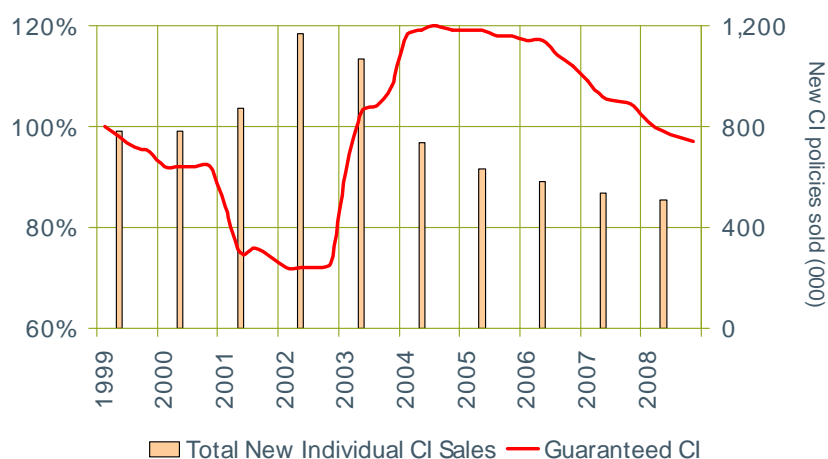
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One final thought

If you take one thing away from today's session...

Demand for critical illness insurance



- Downward sales trend since 2002

Sources: Lifesearch;
Swiss Re Term and
Health Watch 2004-2009

A different kind of future proofing

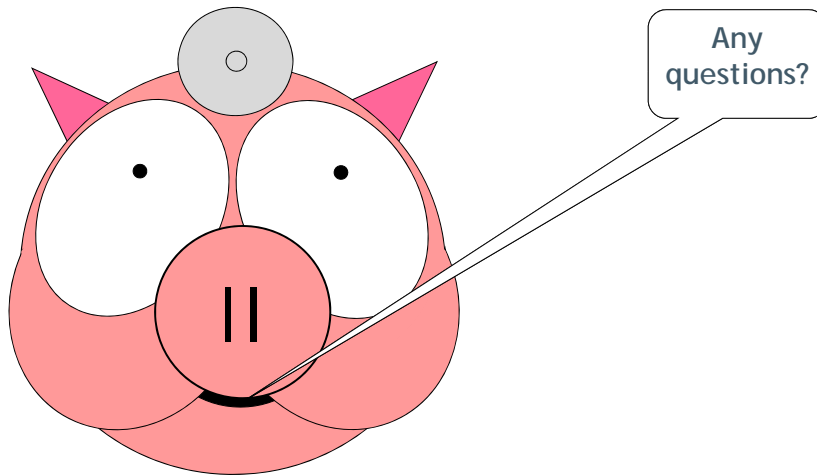
Since the previous price increase, sales have not recovered
Price cuts do not appear to have stimulated volume

Do we agree?

- CI addresses a need and has a place in the market
- The industry has a responsibility to develop a sustainable product
 - if there is a cycle, would the product survive the next one?
- Recent customer focus (TCF) is only half the battle
 - appropriate risk and product management also key

Is the product today a more robust, sensible model than in the past?

Thank you



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