

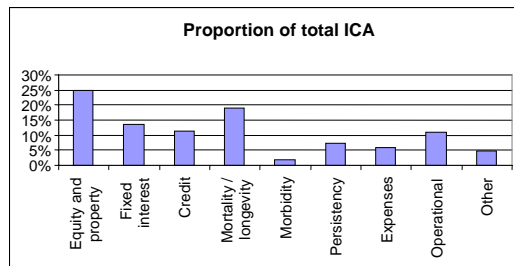
ICA Considerations for IP and CI

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Overview

- Morbidity ICA in context
- Stress tests
- Other risks
- Correlations
- Management actions
- Scenarios

Morbidity ICA in context



Firms with significant morbidity ICA

Morbidity ICA as proportion of total	>20%	10-20%	5-10%	2-5%
Direct insurers	2	7	5	11
Friendly societies	5	2	1	0
Reinsurers	2	2	2	1

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Morbidity risk stress tests

- Mis-estimation of best estimate experience
- Variability of claims
- Trend risk
- Shock risk

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CI experience analysis

- CI book still immature
- IBNR claims

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IP experience analysis

- Subdivisions of data
- Inceptions – deferred period, occupation
- Terminations – durations, lump sum settlements

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Allowance for trends

- CI earlier claims notification
- IP economic cycle

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Shock risk

- CI mortality shock
- CI morbidity shock?
- IP morbidity shock?

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Expense risk stress tests

- Renewal – base level
- Renewal – inflation
- Claims – how are these expressed?
- Claims – how stable are processes?

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Reinsurance credit risk

- Realistic exposure
- Exposure in stressed conditions
- Knowledge of reinsurer
- Diversification of reinsurer

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Operational risk

- Group business pricing and repricing
- Legal – claims definitions
- Legal – non-disclosure

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Other risks

- Market risk
- Lapse risk
- Tax
- Operational risk

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Correlations

- Morbidity / mortality
- Morbidity / market
- Morbidity / credit
- Morbidity / persistency

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Management actions

- Reviewable premiums
- Reviewable benefit charges
- Holloway profit sharing

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Scenario tests

- Combination of stress tests at 99.5%
- Economic downturn
- Pandemic

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Concluding comments

- Pillar 2 more onerous than Pillar 1 for many CI – IP firms
- Important to understand ICA and link to running of the business

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