

Market Changes in Critical Illness

Steve Payne
Monday 6th October 2003

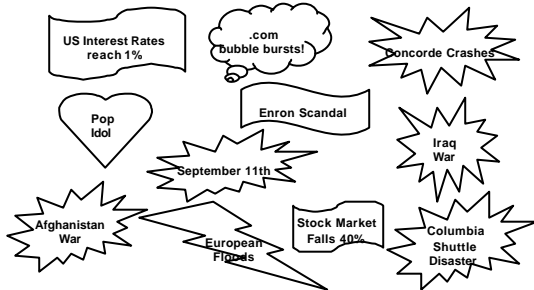
Contents

- In the last 24 months
- Reassurance drivers
- General reassurer reaction
- Reassurer strategies
- What does the direct market look like now
- Looking forward

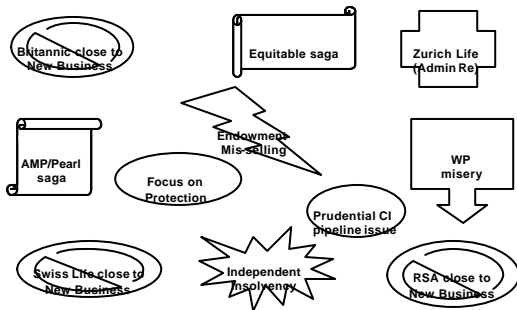
Not in the Contents

- CI experience
- CI trend speculation

The last 24 months in the world



The last 24 months closer to home



In the last 24 months of CI

2001

- Reassurance widely available
- Concerns on development of illnesses
- Competition on CI
- Rigid (ABI) framework for CI

In the last 24 months of CI

2002

- Swiss Re announce withdrawal from guaranteed CI
- Other reassurers respond
- Guaranteed CI expected to disappear

Alternative views about CI are available

- **Windfall benefits?**
 - "Do not matter as long as you price for them"
 - "Any product with a windfall is fundamentally flawed as this does not meet a need"
- **Guarantees?**
 - "Genetics, new detection techniques, diagnostic developments etc. mean that it is impossible to guarantee CI with current definitions"
 - "Current high rates enable some guarantees to be offered"
- **Reviewability?**
 - "Too complex, can never work. 3 player games always have a victim. It is not being done properly"
 - "This is the best we can do to give a 'fair' deal at a 'fair' price"
- **The Benefits**
 - "Tiered benefits fit to need - we should be selling IP style products"
 - "Lump sums sell - it is what the market wants"

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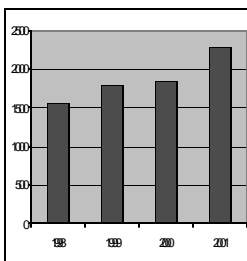
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Reassurance Drivers

- Availability of reinsurance
- Capital scarcity
- Influence of the Rating Agencies
- Risk management
- Parental constraints

Availability of Term Reinsurance

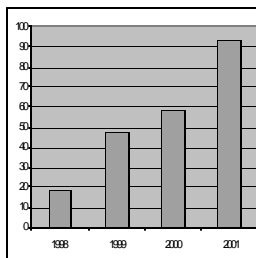
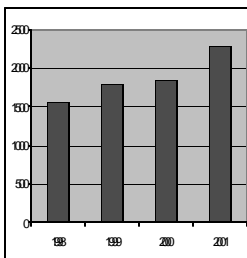
NB Pôls (000's)



Availability of Term Reinsurance

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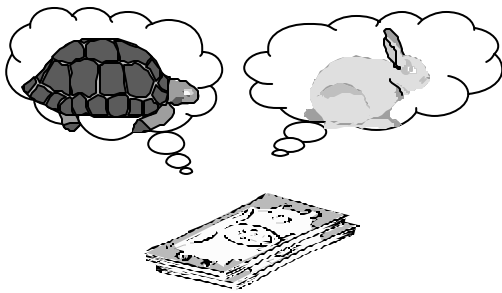
NB Sums Reinsured (bns)



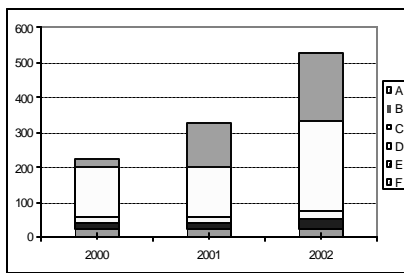
Capital Scarcity - Stock Market Falls



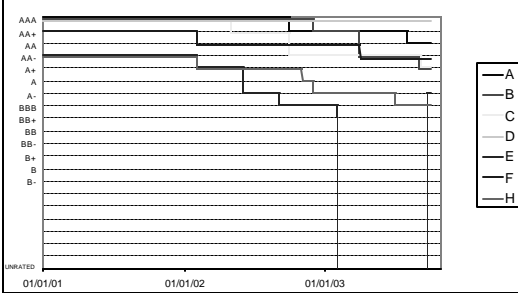
Capital Scarcity - Life or General



Capital Scarcity- Paid up share capital



Reinsurer Drivers: Influence of the Rating Agencies



Reinsurer Drivers: Risk management

- Systemic risk of CI
- Reassurance risks



Reinsurer Drivers: Parental constraints

- Capital
- Liquidity
- Rating objectives
- Product
- Peer pressure



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General reinsurer reaction

- Market choice
- Reduced capital availability
- Active business management

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Reinsurer strategies

- Deal based
- Relationship based
- Other strategies

Reinsurer Strategies: **Deal Based Strategy**

- Focus on today's deal
- Business preferences
 - Limit front-end risks
 - Risky products dropped
 - Less innovation
 - Reduced services



Reinsurer Strategies: **Relationship Based Strategy**

- Focus on clients
- Partnerships can work
- Services included



Reinsurer Strategies: Other Strategies

- Product led



- Secondary suppliers

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What does the market look like now

- Reduced CI capacity
- Reviewable CI availability
- Price increases
- Product withdrawals
- Greater reinsurer influence over CI

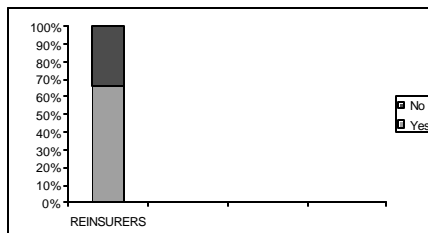
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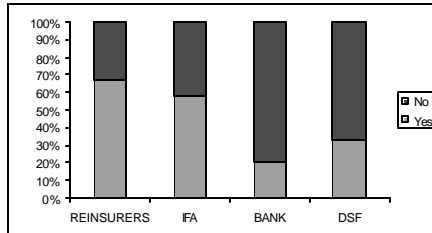
Looking forward

- Next generation product
- Will guaranteed CI survive?
- Reviewable CI?
- Is this a new market

Will guaranteed CI survive: Proportion of market players offering product



**Will guaranteed CI survive:
Proportion of market players offering product**



Looking forward

- Next generation product
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The Actuarial Profession
making financial sense of the future

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Questions?

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