A new Dutch term assurance product
Innovation or back to basics?

Elaine Turner
“Good morning, have you heard, we are stopping selling fixed premium term assurance. Our new product will have a risk based premium which increases with age. What do you think?”
Agenda

Dutch market specifics for Term Assurance
Explanation of the Achmea Term Assurance product
Distribution
Benefits & Challenges of the Achmea product
Discussion, Questions and Comments
Dutch market specifics

• Term Assurance – Dutch v UK
• Drivers of term assurance sales in Dutch market
• Game changers
• Market volumes
Term assurance

If the insured dies …

……within a specified amount of time……

…the beneficiary receives a benefit.
Similarities between Dutch and UK market

For the basic product: Dutch term assurance = UK term assurance

Dutch market historically:

• Endowment assurances were used to finance house purchases
• Products combining savings and protection products developed e.g. Unit linked funds with shortfall covered by insurance
• Separate term assurances were available

But there are some differences……
Drivers of term assurance sales in Dutch market

• First purchase of a house
• Re-mortgaging of house / moving house
• Protection of spouse and children:
  – To cover financial responsibilities – rent, divorce alimony, other debts
  – Help with immediate costs – childcare, time away from work
  – To cover children’s further education costs
  – Focus on rental market
• Business loans (bancassurance)
• Key man

But mainly related to house purchase. To understand the term assurance market need to understand the house purchase environment.
Game changers – Distribution & Sales

- Financial crisis
- Housing market dries up
- No new mortgages

- Commission
- Advice costs
- Execution only

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Game changers – Product

- Low interest rate
- Endowments stop
- Bank advantage on savings products

- Bad publicity
- Customer protection
- Transparent products
Annual housing sales volumes - Netherlands

- In 2017 242,000 existing houses were sold
- Excludes new houses
- Sharp decrease following the 2008 financial crisis with a slow recovery
- In Netherlands about 4.4 million owner-occupied homes
- Turn over rate of 5.5%

Source: Rabobank
Sales volumes

- In 2017 over 200,000 term assurances sold in the Netherlands
- Approximately 1.2% of the population purchased in 2017
- Long term monthly sales between 15,000 and 20,000 per month
- Has not seen as steep increase as housing sales after 2013

Based on figures from CVS (Centrum voor Verzekeringsstatistieks)
Explain the Achmea term assurance product

- Key product features
- Guaranteed increasing premium rate - explanation to clients
- Underwriting and use of technology
- Dutch smoking approach
Achmea Overlijdensrisicoverzekering (ORV)

key features

Standard features

- Fixed benefit or decreasing (by annuity or straight line) benefit
- Age at inception 15 to 68, Maximum end age 75
- Minimum term 1 year, Maximum term 54 years
- Sum assured from €10,000 to €2,000,000
- Simple – no waiver of premium, critical illness, terminal illness or children’s benefit options

Differentiating features

- No joint policies
- Premiums increase monthly
- Premiums guaranteed for lifetime of product
- Can cancel at any time
- No reserve (pot) built up
- On lapse no payment of reserve or paid up policy

Term assurance
Does the policyholder understand?

Various approaches

• Discussions with customer groups as part of product design
• Make it clear from the start – premium increases each month, no surprises
• Use technology to explain in appealing ways
• Visuals and graphs – not just text
• Interactive tools for providing quote

Example

• Infographic (Rabobank website)

But the chance that you die in the beginning is smaller because you are younger
Interactive quotation tools & graphics

Rabobank website:

- Level SA or type of decrease
  - Gelijkblijvend
  - Lineair dalend
  - Annuitair dalend

Term = 25 years

Age at end date = 70 years 3 months

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Guaranteed increasing monthly premium

Persoonlijk premieoverzicht
Overlijdensrisicoverzekering

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<th>Jan</th>
<th>Feb</th>
<th>Mrt</th>
<th>Apr</th>
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• Interactive quote tool on Centraal Beheer website: https://www.centraalbeheer.nl/verzekeringen/overlijdensrisicoverzekering/Paginas/premie-berekenen.aspx#/premie

• Download a pdf of monthly premiums and sum assured

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Guaranteed increasing monthly premium

Simple concept
• People age, older people are more likely to die, thus as you get older premiums increase

But….
• Bespoke tools require that the customer interacts directly
• Works best with dedicated sales channels:
  – Bancassurance
  – Existing client base
  – Internet searches
Underwriting and technology

- Inclusive approach – in particular for dangerous occupations or sports
- One system for all sales channels
- In house technology
- Y/N questions with additional questions/free text boxes depending on responses
- Machine learning
- Medical examination only allowed when sum assured > €268,125 (Industry protocol)
- Model questions (gezondheidverklaring) from the Verbond van Verzekering (Dutch Insurance Association)
The Dutch approach – smoking

Smoking means smoking substances with tobacco (cigarettes, cigars, pipe) or weed. With smoking we also mean the use of other substances with nicotine. For example chewing gum, patches, tablets, inhalers and electronic cigarettes.

- Non-smoker if not smoked during the previous 2 years
- If a smoker stop smoking can send a declaration after 2 years of not smoking and premium rates reduce to non-smoker level
- Non-smoker declaration must received before 45th birthday
- If begin smoking obliged to inform insurer about new status
- If a smoker who has been paying non-smoker premium dies they receive 50% of the sum insured
- When calculating the age based premiums the adjustments for smoking status are based on relative risk for that specific age
Distribution

• One product many channels
• Achmea market share
• Comparison websites
One product, many brands and channels

• One team for product development and administration
• One administration system and IT environment
• One product, same product conditions, same base pricing
• Execution only or advised sale
• 4 brands with distinct marketing images:
  – Interpolis (Bancassurance via Rabobank)
  – Centraal Beheer (direct, worksite, internet)
  – FBTO (direct – internet only)
  – Woonfonds (financial advisors)
• Price to policyholder varies by brand due to administration costs (initial and ongoing)
• Advice costs are paid separately by policyholder, commission is not allowed
Achmea sales volumes and market share

- Achmea’s leading channel is bancassurance = Interpolis

2017 market share: % of new TA policies administered

<table>
<thead>
<tr>
<th>Company</th>
<th>Market share</th>
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<tbody>
<tr>
<td>Interpolis</td>
<td>21.7%</td>
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<tr>
<td>Centraal Beheer</td>
<td>2.1%</td>
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<tr>
<td>FBTO</td>
<td>0.7%</td>
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<tr>
<td>Woonfonds</td>
<td>0.7%</td>
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<tr>
<td>Total</td>
<td>25.2%</td>
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Based on figures from CVS (Centrum voor Verzekeringsstatistieks)

Monthly sales volumes

- Achmea's leading channel is bancassurance = Interpolis
Comparison websites

- Tend to focus on price
- Commodity product, no room to explain the specifics
- First mover challenge – liaise with the comparison websites
- No longer the only product with age linked premiums
- Comparison website now allows to select on variable or fixed premiums
- Products ordered based on total premiums paid – with a warning in the extra information that the value of money changes over time

Extract from [www.indepeneder.nl](http://www.indepeneder.nl) for € 250,000 level TA, 45 years old, 25 years term
Comparison websites - Example

- Variable premiums give extra comparison challenges

Extracts from [www.independer.nl](http://www.independer.nl) for € 250,000 level TA, 45 years old, 25 years term
Benefits & Challenges

• Insurer perspective
• Policyholder perspective
## Benefits and Challenges

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Insurer perspective</th>
<th>Policyholder perspective</th>
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<tbody>
<tr>
<td>• No reserves</td>
<td>• Removes lapse risk</td>
<td>• Pay for what you get</td>
</tr>
<tr>
<td>• Removes lapse risk</td>
<td>• Removes price sensitivity to discount rate</td>
<td>• Transparent</td>
</tr>
<tr>
<td>• Removes price sensitivity to discount rate</td>
<td>• No need to reprice on interest rate changes</td>
<td>• Portable - no loss if stop</td>
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<td>• No need to reprice on interest rate changes</td>
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<table>
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<th>Challenges</th>
<th>Insurer perspective</th>
<th>Policyholder perspective</th>
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<tr>
<td>• Explain the product</td>
<td>• Fair comparison with fixed premium TA</td>
<td>• Long term affordability</td>
</tr>
<tr>
<td>• Fair comparison with fixed premium TA</td>
<td>• Complex administration of premium charging</td>
<td>• No benefit in premium from expected lapses</td>
</tr>
<tr>
<td>• Complex administration of premium charging</td>
<td>• Updated premium rates - should these also apply to old business?</td>
<td>• No paid up policy or reserve return</td>
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<tr>
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<td>• Higher lapses?</td>
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Innovation?

Back to basics?

Did the product disrupt the market?
Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.