



CHALLENGES AND OPPORTUNITIES IN THE LIFE INSURANCE INDUSTRY – A REINSURER’S PERSPECTIVE

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HEAD OF PRICING

GCC REGION – LIFE REINSURANCE

MUNICH RE



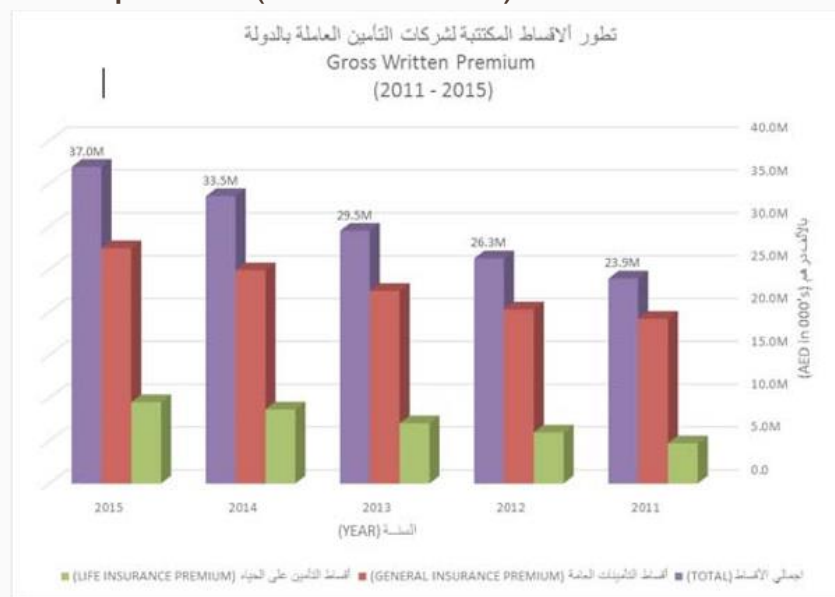
1. UAE Life Insurance Industry Snapshot
2. Group Life
3. Group Credit
4. Individual Life

1. UAE Life Insurance Industry Snapshot

- Life Insurance Penetration in UAE stands at 0.6%
- Average of emerging economies – 3%
- Average of OECD* countries – 7%
- Insurance industry dominated by non-life insurance (74%)
- Life insurance industry dominated by foreign companies (79% in 2015)

AED in 000's

PERCENTAGE % نسبة		إجمالي الأقساط TOTAL PREMIUM	شركات التأمين الأجنبية FOREIGN COMPANIES	شركات التأمين الوطنية NATIONAL COMPANIES	السنة YEAR
FOREIGN	NATIONAL				
70.2%	29.8%	4,692,791	3,292,894	1,399,897	2011
69.7%	30.3%	5,958,859	4,152,541	1,806,318	2012
78.2%	21.8%	7,030,665	5,497,551	1,533,114	2013
81.9%	18.1%	8,645,603	7,082,094	1,563,509	2014
79.4%	20.6%	9,488,889	7,535,837	1,953,052	2015



Sources: 'Annual Report on the UAE Insurance Sector 2015' by Insurance Authority UAE for GWP, 'The Annual Economic Report 2015' by Ministry of Economy UAE, World Bank and others

*Organization for Economic Co-operation and Development

2. Group Life

-
- Cover: Compulsory
 - Covered: Employees
 - Duration: 1 year (yearly renewable)
 - Sum Assured: Fixed/Formula based on salary or grade
 - Premium: Unit Rate based on employee data adjusted for claim experience
 - Underwriting: Active at Work Condition
 - + Free Cover Limit up to an amount after which medical underwriting cover applies
 - Benefits:
 - Death
 - Permanent Total Disability (TPD)
 - Permanent Partial Disability (PPD)
 - Accidental Death (AD)
 - Temporary Total Disability (TTD; Accident & Sickness)
 - Medical Expenses (Accident Only)
 - Repatriation/Funeral Expenses
 - Terminal Illness (TI)
 - Workmen Compensation in Kuwait (AD, TPD, PPD, TTD)
 - Passive War Cover (PWR)

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2. Group Life

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Premium: Unit Rate based on employee data adjusted for claim experience

- Complete data (specially occupation class) not provided/available sometimes
- No mortality/morbidity study available
 - Large and credible experience rarely available to develop table (except for multinationals maybe)
 - Widely different base mortality/morbidity (foreign) tables used by insurers/reinsurers leading to large difference in quoted prices
- Market expectation to apply 100% credibility to medium sized groups for schemes with favorable claim experience leading to unreasonable price expectations
- Large schemes rarely provide enough exposure/claim data to carry out IBNR/IBNER calculation leading to doubt over burning cost
- Insurers usually retain low % and match such expectations on backing from reinsurers
- Price War!

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Underwriting: 'Active at Work' condition

+ Free Cover Limit up to an amount after which medical underwriting cover applies

- Request to cover who do not satisfy 'Active at Work' condition e.g. employees on medical leaves, part time employees
- High Free Cover Limits
- Non-medical limit after Free Cover limits and then medical underwriting leading to higher anti-selection risks
- Waiver of pre-existing conditions
- Low retention by insurers means no skin in the game; leads to fierce competition between reinsurers who agree to weak underwriting measures

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Benefits:

Death

Permanent Total Disability (TPD)

Permanent Partial Disability (PPD)

- In most GCC countries, disability is decided by government's medical council which may not necessarily be in line with policy term and conditions and the insurer/reinsurer has no option but to pay
- Pricing such behavioral risks difficult specially in the absence of credit disability data

Temporary Total Disability (TTD; Accident & **Sickness**)

- Decided by government's medical council
- Requests for zero waiting period on TTD sickness!
- Insurers/Reinsurers seem to accommodate zero waiting period requirement

Workmen Compensation in Kuwait (AD, TPD, PPD, **TTD**)

- Decided by government's medical council and the payment is for an unlimited period until the insured recovers
- High Risk!

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- Recent Financial Regulations issued by Insurance Authority require segment wise reporting and additional reserves for non-profitable business → should lead to sensible pricing and underwriting over the coming years
- Industry Group Life mortality/morbidity study
- Appointed actuaries and pricing actuaries to ensure sensible risk management measures
- Better Data Management

3. Group Credit

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- Cover: Compulsory/Voluntary
 - Covered: Borrowers of Bank (Mortgage, Personal, Auto, Credit Card)
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Cover: Compulsory/Voluntary

- Life insurance requirement for loan not compulsory in some GCC countries
- Where insurance is not compulsory, some banks have made insurance mandatory whereas some have not
- Voluntary take up leads to high risk when combined with:
 - Unit Rate
 - Weak underwriting
- Coverage amount can be higher than O/S amount to provide for coverage for dependents

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Premium: **Unit Rate for yearly renewable/Level or Single Premium for full term of loan**

- Unit Rate only reliable for very large scheme with compulsory take up (e.g. personal/auto loan portfolios)
- Unit rate result in high business mix risk for large to small schemes
- Group Credit has been and continue to be very profitable for whom?
- Low retention by insurers means no skin in the game; leads to fierce competition between reinsurers

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Underwriting: **Free Cover Limit/Non-medical limit up to an amount after which medical underwriting cover applies**

- Free Cover Limits under Group Credit → High Risk
- Short Application form or Declaration under Non-medical limit
- Waiver of pre-existing conditions
- Low retention by insurers

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Involuntary Loss of Employment (ILOE)

- GCC citizens: Redundant measures very rare and therefore very low premium expectation
- Expats: Redundancy rates high but impractical to monitor unemployment at home countries (UAE require expats to leave within one month of their work permit cancellation)

Active War Cover (AWR)

- Requests by large banks to cover active war risk
- Can the make or break point in negotiation

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- Recent Financial Regulations issued by Insurance Authority require segment wise reporting and additional reserves for non-profitable business → should lead to sensible pricing and underwriting over the coming years
- Central Bank/Regulator should limit the fees banks can take for administering insurance for borrowers e.g. Oman
- Appointed actuaries and pricing actuaries to ensure sensible risk management measures
- Better Data Management

4. Individual Life

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- Product Design and Marketing
 - Underwriting
 - Pricing
 - Reserving
 - Claims

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Product Design and Marketing

- Endowment products being phased out due to low investment returns.
- Growth Rate used in illustration for unit linked product around 6 to 7% (net of fund management charges by fund managers)!
- First Year commission on Individual Life products are very high compared to other markets
 - Term products: up to 250%
 - Whole of Life Unit Linked: up to 150%
 - Savings Unit Linked: up to 90%
 - Commission is annualized for banks and high tier brokers with claw back

4. Individual Life

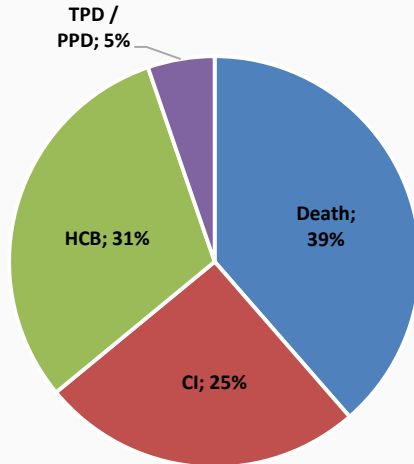
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Underwriting

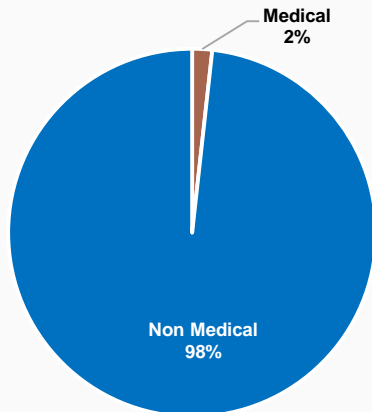
- Non Medical Limits (MNL) in UAE are very high; up to USD 500k (AED 1.8 mil)
 - High NML must be supported by prudent risk management framework
 - Significant variation seen across the market
- Analysis of a random testing of a sample NML portfolio
 - Diabetes non-disclosure – 31%
 - Smoker non-disclosure – 43%

Underwriting

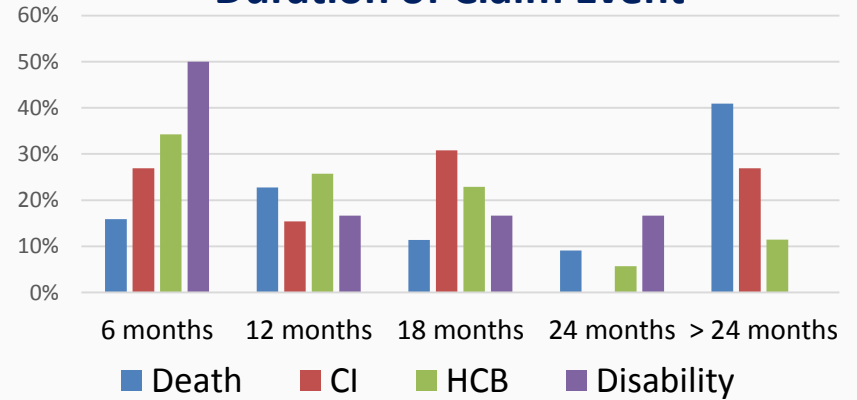
- Claim Analysis for Individual Life Claims seen between 2014 and 2016 Q1



Medical Vs Non Medical



Duration of Claim Event



80 – 85% of the claims are within 24 months of issuance

4. Individual Life

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Pricing

- Pricing of Mortality/Morbidity Benefits
 - No industry wide mortality/morbidity table available
 - Experience data not credible enough
 - Mortality/morbidity benefits premiums have been largely benchmarked to big players
- Lapse Assumption
 - Uncertainty around lapse assumptions for pricing as no study available
 - Crucial assumption since majority of policyholders are expats and exact behavior of leaving GCC on the policy is yet to be studied.
- New Business Strain
 - Back-end loaded unit linked products with high first year commission lead to significant new business strain;
 - Companies may face capital constraints and ultimately restricts the business they can write

4. Individual Life

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Reserving

- Recent Financial regulations issued by UAE Insurance Authority have set the rules for calculation of mathematical reserves
- Lapses not allowed if they result in reduction in liability → Will lead to additional strain for lapse supportive products
- Cash surrender value floor → Will lead to additional strain for products where economic reserve is less than surrender value
- Flooring of negative reserves → Will limit the insurer's ability to offset new business strain on books
- Interest Rate for discounting liabilities restricted to AAA rated sovereign risk securities with similar term → will lead to additional capital for endowment products and unit linked products with guarantees

4. Individual Life

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- Product Design and Marketing
 - Underwriting
 - Pricing
 - Reserving
 - **Claims**

Claims

- Complete medical reports seldom available
- Death certificate often does not state the cause of death
- Post-mortem – not performed due to religious reasons
- No Medical Information Bureau (MIB) in the region
- Scarcity of qualified claims assessors
- Dearth of legal expertise in life insurance claims
- Absence of industrywide claims forum / association
- Role of a distributor – does not provide assistance at claims stage
- Accessing medical records from hospitals / medical centers despite an authorization in the “application form”

- Product Design and Marketing

- Underwriting

- Pricing

- Reserving

- Claims

- Product Design & Marketing
 - Draft bancassurance instructions issued by Insurance Authority which makes its compulsory for the banks to disclose commission they receive for selling the policy to the customer
 - Regulator to set guidelines over the growth rates used in illustration for unit linked products
- Underwriting
 - Improve underwriting, claims and risk management measures
 - Introduce random targeted testing for cases within non-medical limits
- Pricing
 - Industry Individual Life mortality/morbidity/lapse study
 - Capital Management solutions to manage new business strain e.g. new business reinsurance financing solutions
- Reserving
 - Capital management solutions to manage capital strain due to stringent reserving guidelines e.g. capital relief solutions by reinsurers
- Claims
 - Regulator to implement measures allowing insurers to assess medical records
 - Quality Claim Assessors
 - Life Insurance specific legal advisors



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