The Value of Death

Colin Dutkiewicz
Swiss Re
The grim reaper is a racist ...
... and sexist and ageist ...

Source: Actuarial Society, SA85-90
... geographiest ...

Insurance application
HIV+ prevalence

Source: Swiss Re Insurance Prevalence Survey
... and (almost) the entire insurance industry bets against him/her/it ...

“DON'T THINK OF IT AS DYING, said Death. JUST THINK OF IT AS LEAVING EARLY TO AVOID THE RUSH.”
— Terry Pratchett, Good Omens
Setting the Scene

- My passions
  - Value of Financial Advice
  - Retirement and Social Security Reform
  - Risk Products – the whole point of the industry is to pay claims
  - Actuarial Society acting in public interest

- Turn attention to value of risk products to insurers (since this will drive the allocation of resources)
  - Shareholders
  - Regulator
  - Public Image
  - Distribution
"Insurers are asset gatherers who also sell some insurance"

Source: Paul Hanratty, Life Office Practice Course Lecture, c1992
Insurers sell:

- **Life Insurance**: life, disability, critical illness and other
- **Investments**: Retirement funding, savings, institutional
- **Services**: pension fund administration, investment platform
But:

• Margins on Services poor at best
• Margins on Investments being rapidly eroded
• Commission reduction on investments
Therefore:

- Risk products regaining prominence
In the context of risk product premium size ...

- **Individual Life New Business 2010**
  - R8.7bn new premium

- **Group Life Business 2010**
  - R11bn premium

Source: Swiss Re Individual New Business and Group Volume Survey 2010
... and the Insurance Gap

The total South African gap
Quantum of the 2010 gap

<table>
<thead>
<tr>
<th>Death</th>
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<tbody>
<tr>
<td>R'trillion</td>
<td>2007</td>
</tr>
<tr>
<td>Insurance Need</td>
<td>7.9</td>
</tr>
<tr>
<td>Actual Cover</td>
<td>-3.5</td>
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<tr>
<td>Insurance Gap</td>
<td>4.3</td>
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<tr>
<td>gap as % of need</td>
<td>55%</td>
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</tbody>
</table>

- Gap = R7.3 trillion
- Only 38% of need covered
- R35bn p.a. to close the gap (2.4% of total earnings)

<table>
<thead>
<tr>
<th>Disability</th>
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<tr>
<td>R'trillion</td>
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<td>Insurance Need</td>
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<td>Actual Cover</td>
<td>-6.3</td>
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<tr>
<td>Insurance Gap</td>
<td>6.0</td>
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<tr>
<td>gap as % of need</td>
<td>49%</td>
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- Gap = R11.1 trillion
- Only 40% of need covered
- R21bn p.a. to close the gap (1.5% of total earnings)

Source: True South, The SA Insurance Gap, 2010
... and European Protections Gaps

European Protection GAPS

- Gap (bns)
- Assets
- Group (+empl)
- Individual
- State Benefits

Source: Swiss Re, Customers for Life, European Insurance Report 2010
Shareholder perspective

- 5 Listed Companies
  - ¾ of new premium and sum insured, but only 1/3 of Policies
  - No growth 2009-2010
  - 98% of group market
- Market Capitalisation
- Other players
- Net Asset Value + PV FP
- Capital requirements
- Solvency II/SAM impact
Life Insurance Pricing 101

PV Premiums = PV Benefits + PV Expenses

1. Premium payment pattern and likelihood
2. Claims payment structure
3. Capital, reserves, investment returns
4. Discount rate
5. Expenses
6. Commission

I AM DEATH, NOT TAXES. *I* TURN UP ONLY ONCE.
-- (Terry Pratchett, Feet of Clay)
## Business Acquisition

<table>
<thead>
<tr>
<th></th>
<th>Churn</th>
<th>Buy Brokers</th>
<th>Agent M’gnt</th>
<th>Direct Selling</th>
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<tbody>
<tr>
<td>Premiums</td>
<td>↓↑</td>
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<tr>
<td>Claims</td>
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<tr>
<td>Profit</td>
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<tr>
<td>Turnaround times</td>
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<td>↓</td>
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<tr>
<td>Customer Satisfaction</td>
<td>Yes and No</td>
<td></td>
<td></td>
<td>?</td>
</tr>
<tr>
<td>Question</td>
<td>How much?</td>
<td>Who pays?</td>
<td></td>
<td>New insurance or churn?</td>
</tr>
</tbody>
</table>

**Churn**

- Decrease
- Increase

**Buy Brokers**

- Increase

**Agent M’gnt**

- Decrease

**Direct Selling**

- Increase
### Underwriting

<table>
<thead>
<tr>
<th></th>
<th>Tele-interview</th>
<th>Tele-u/w</th>
<th>Simplified Issue</th>
<th>Cost cutting</th>
<th>Special Offers</th>
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<td>Price vs. convenience</td>
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*Explanation:*
- ↑: Increase
- ↓: Decrease
- ?: Unknown

*Notes:*

- **Premiums:** Increase with Tele-interview and Tele-u/w, decrease with Simplified Issue.
- **Claims:** Decrease with Tele-u/w and Simplified Issue.
- **Expenses:** Increase with Tele-interview, decrease with Simplified Issue.
- **Profit:** Unknown with Tele-interview, increase with Tele-u/w.
- **Turnaround times:** Decrease with Tele-interview, Tele-u/w, and Simplified Issue.
- **Customer Satisfaction:** Increase with Tele-interview and Tele-u/w.
- **Special Offers:** Increase with Tele-interview.
## Portfolio/Profit Management

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<tr>
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<th>Selective lapses</th>
<th>Loyalty Program</th>
<th>Smoker defn</th>
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# Claims Management

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Key Issues

• Risk factors: anti-discrimination regulations
  • age, sex, socio-economic, education, health
• Universal Life block vs. Newer Term Assurance Book
• Mortality Risk vs. Health Risk vs. Longevity Risk
Conclusion 1

Life Insurance products matter ...

- to the share market ...
- not just to the deceased's family!
Conclusion 2

Technical issues matter to absolute financial results ...
... as well as timing
... and risk
Conclusion 3

The profit and risk profile of new risk products ... ... are very different to the portfolio of inforce business
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