

Nick Smart

Catherine Johnston

Australian group
insurance losses –
is New Zealand
immune?

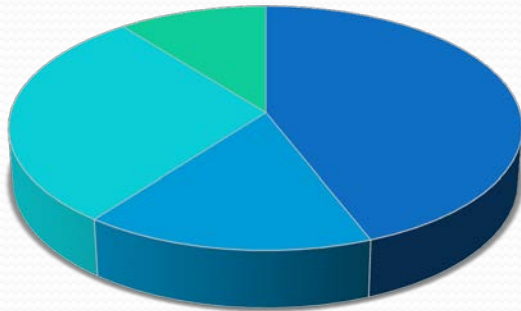
Introduction

- Nature of Australian Group Risk
- What has happened in Oz?
- What were the causes?
- What has been the market reaction?
- Are we immune in NZ?
- What can we learn?

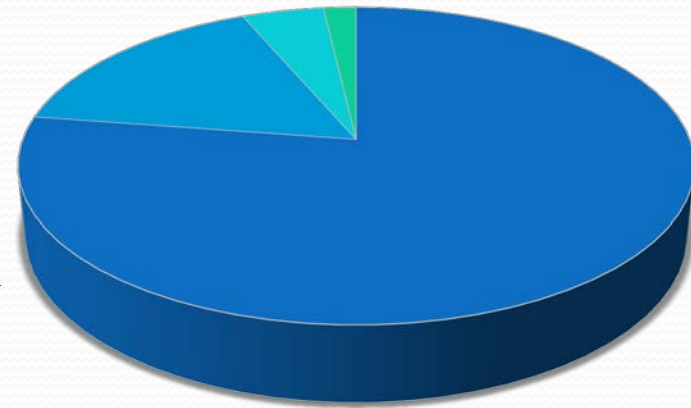


Market Composition

Australia



New Zealand



- Individual Lump Sum
- Individual Disability
- Group Lump Sum
- Group Disability

Group Risk in Super Schemes

- Compulsory Super contributions
- Default cover provided via Super plan
 - Plan designs varies but typically Life and TPD
 - Premiums deducted direct from Super balances
 - No medical if under AAL (Auto Acceptance Limit)
- Ability to undertake voluntary upgrade of cover
- Triennial review

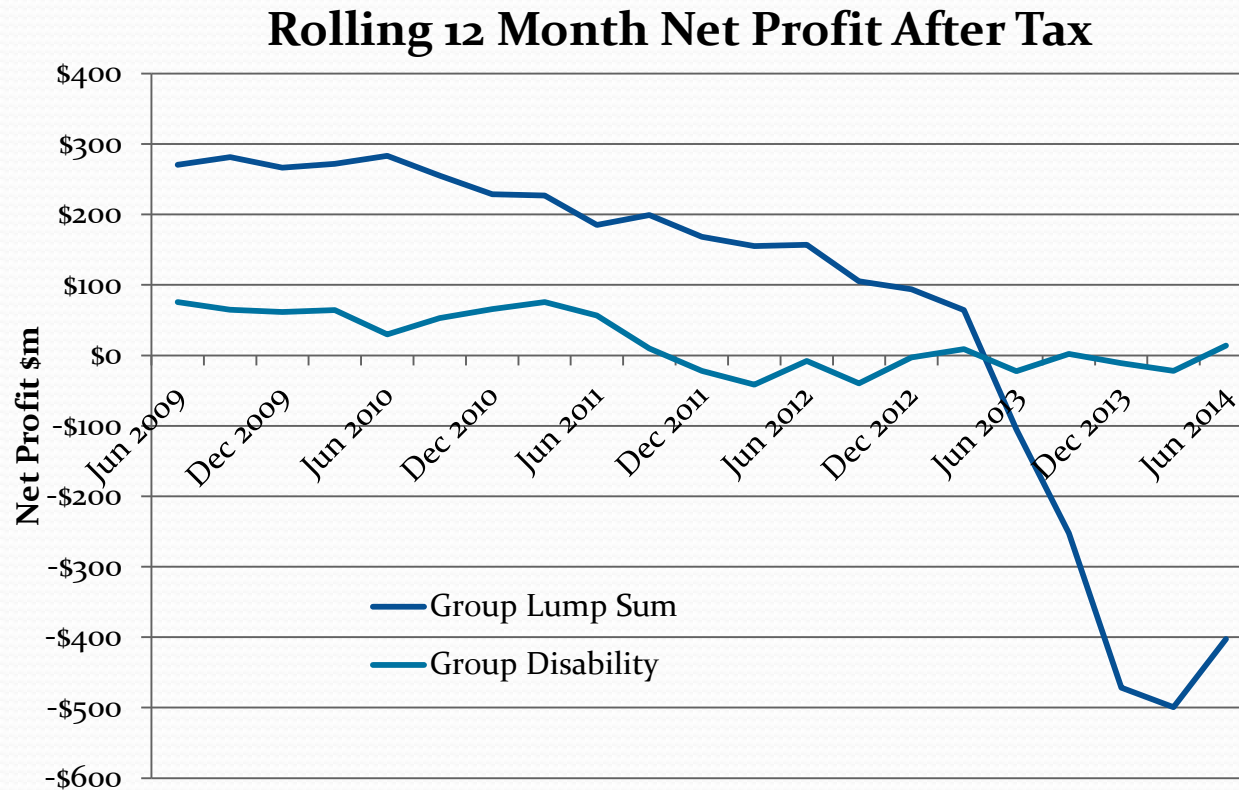
Example Scheme design – REI SUPER

- Superfund for Real estate agents
- Default cover – Death and TPD
- 4 units
- Additional cover no underwriting
- 2 units
- Life events – 1 unit
- Cost \$1 per week per unit

Age	1 Unit	4 Units	6 Units	20 Units
25	74,000	296,000	444,000	1,480,000
30	104,000	416,000	624,000	2,080,000
35	104,000	416,000	624,000	2,080,000
40	91,750	367,000	550,500	1,835,000
45	55,000	220,000	330,000	1,100,000
50	27,000	108,000	162,000	540,000
55	14,025	56,100	84,150	280,500
60	4,900	19,600	29,400	98,000

<http://www.reisuper.com.au/members/insurance/death-and-total-disablement>

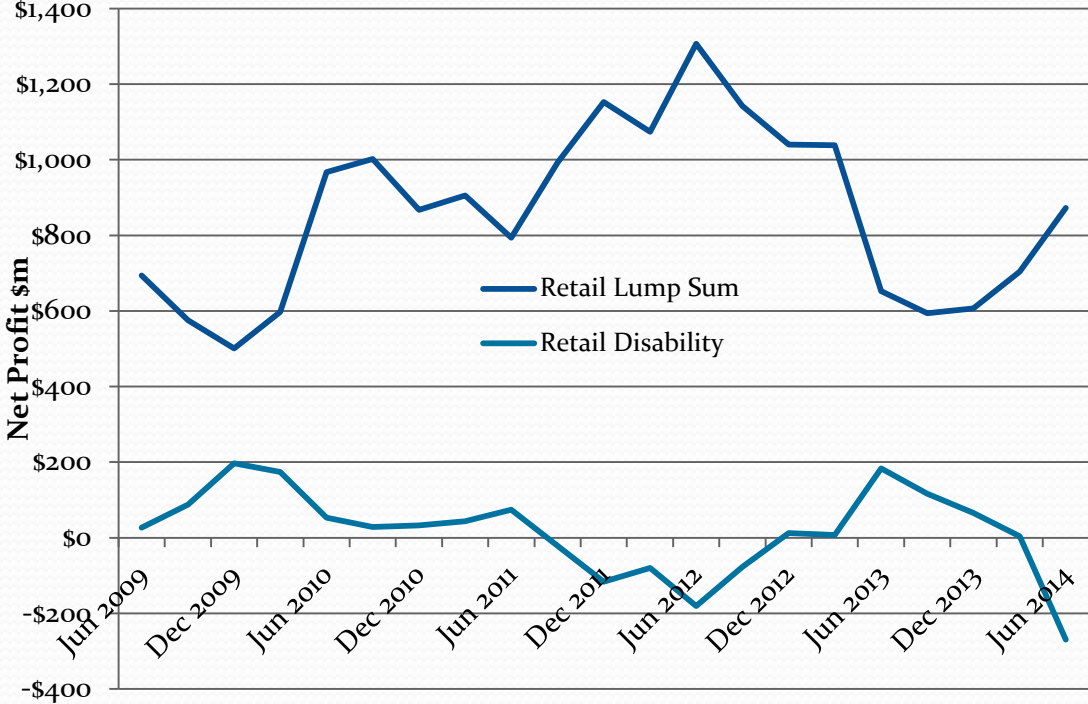
Australian Group Market Performance



Source: APRA Quarterly Life Insurance Performance Statistics, June 2014

Australian Retail Market Performance

Rolling 12 Month Net Profit After tax



Source: APRA Quarterly Life Insurance Performance Statistics, June 2014

Losses have been wide spread

Time limit urged on TPD claim

29 July 2014 Mike Taylor 2 comments

View

8-1

Like 6

Big insurer TAL is calling for the Government to impose a time-limit on when claims can be made for so-called "living benefit" policies, in circumstances where insurers are currently being forced to assess claims long after the actual incidents occurred.

Any move by the Government would require changes to the Insurance Contracts Act.

TAL chief executive, Jim Mirto has pointed to the existence of major problems for the industry as a result of what he describes as "open-ended" disability claims arrangements which can see insurers assessing claims go back many years.

Group life's suffering is self-inflicted: APRA

30 July 2014

Group life insurers have only themselves to blame for "quite significant increases" in disability claim costs, according to Australian Prudential Regulation Authority (APRA) Deputy Chairman Ian Laughlin.

He says a "bucket-load of self-inflicted problems" include "aggressive pricing, terms and conditions that were also aggressive or very liberal, and underwriting standards that also were very liberal".

"Those self-inflicted issues have been apparent for some time," he told the House of Representatives Economics Committee. "So to us they were not a surprise; they were something that we had been talking to the industry about for a number of years."

Australia drags on Munich Re life operations

5 February 2014

Munich Re says its life operations performed well in 2013 but profits were "adversely affected" in the third quarter by Australian disability business.

Life reinsurance profit fell €100 million (\$153.88 million) to €400 million (\$615.54 million) for the year.



Swiss Re Report Highlights Australian Losses

November 11, 2013

The current sust were highlighted global results.

RGA stops group business after huge Australian loss

24 July 2013

Reinsurer RGA's Australian operations have reported a \$US299.7 million (\$323.6 million) pre-tax loss for the first three months to June 30.

Australian market affects Hannover Re result

13 November 2013

Hannover Re has posted a fall in third-quarter profits, but remains "on track" to hit its full-year target.

Net income for the period was €205.5 million (\$291.58 million), down 22.6% on the corresponding period last year.

What were the causes?

Self Inflicted?

- Aggressive pricing
- Policy wording creep
- Underwriting standards
- Rate guarantees

Example: Benefit and Price Creep CBUS

Data	Key Improvement
Jan 1999	Death cover extended from age 65 to age 70
July 2000	20% increase in cover for same cost
Nov 2002	40% increase in cover for same cost
July 2005	Further increase in benefits for same costs
Nov 2006	Increase in default and AAL levels
Mar 2007	40% increase in cover for same cost
July 2010	Increase in Future insurability options
October 2010	Increase terminal illness benefit
December 2011	Increase in AAL levels

Source: www.cbussuper.com.au

What were the causes?

Changing Environment

- Legal profession
 - Interpretation of wording
- Awareness
- Risk shopping
- Economic cycle
- Changing view of mental health

Set up to fail?

- No limit on the time to claim
- Multiple coverage



Market Reaction

Reserve Strengthening

- Increase in IBNR

Significant Rate Increase

- Increases of 50-100% common
- Reduced rate guarantee period

Example: CBUS

Type of Cover	Manual	
	Pre 01/07/2014	Post 01/07/2014
Death	\$1.19	\$1.33
TPD	\$0.79	\$2.25
Total	\$1.95	\$3.58

Market Reaction

Push for Tighter Definitions

- From 01/07/2014 Regulation to align with “any occupation” definition
- Funds have reduced default benefits and AAL’s

Example: NGS Super

	Default Cover TPD
Pre July 2014	\$240,000
Post July 2014	\$140,000

Reduced Market Capacity

- Insurers and Reinsurers declining to quote
- Companies exiting the market

Pressure on Insurers and Reinsurers

- Regulator
 - Published guidelines (LPG 270)
- Greater oversight
 - Stricter sign-off
 - Overseas review
 - Internal focuses on processes
- Super funds
- Lobbying for regulation change



"Maybe she's gluten intolerant."

What about NZ? How are we affected?

- Strain on reinsurers
- Greater focus by Boards & shareholders
- Greater focus by regulators?



Employer based vs industry schemes

- Predominantly employer based vs industry schemes
- Awareness of cover potentially much greater
- Less likely to get late claims
- Multiple coverage less of an issue

Definitions similar but not the same

Australia – “unlikely”

New Zealand

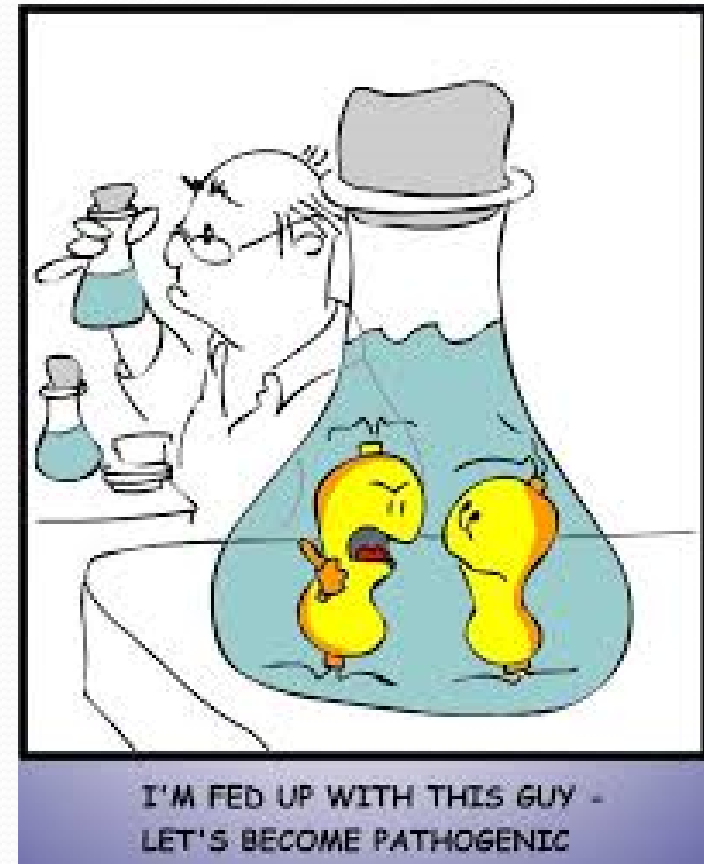
- “so disabled as a result of that Sickness or Injury ... is unable ever again to work ...”
- Own vs any occupation?
 - “by reason solely of Sickness or Injury ... unable to ever perform the principal duties of his or her own occupation”

Aggressive Pricing & Underwriting

- Pressure from brokers is leading to
 - Discounting standard rates not uncommon
 - Pressure to increase AALs
- Voluntary cover – generally not included in AAL calc
- Focus on size rather than profitability

My assessment

We are in not too bad a position but shouldn't be complacent



What can we learn?

- Need to understand risks taken on and price for them
- Need to ensure appropriate processes and controls in place
- Continual monitoring



LPG 270 – Group Insurance Arrangements

- Guidance on good practice
- Identification of risks
- Responding to tenders
- Data management



Failure to identify adverse trends

- May not be noticed until too late
 - there will be a time lag
 - continuous monitoring
- Too much emphasis on one-off bad luck
- What time period to consider
 - Particularly if experience getting worse

Potential adverse trends

- Increasing AALs
- Change in membership
- Increased awareness
- Changing social attitudes to disability
- Greater involvement of lawyers
- Increased reporting delays
- Differences in claims philosophies between current & previous insurers

Other areas of risk

- Externally-sourced inaccurate or incomplete claims data
- Inadequate internal processes for responding to tenders
- Anti-selection
- Catastrophic risk
- High aggregate exposures to individuals
- Outsourcing (assessment of eligibility for cover; claims management; data management and claims decisions)

So are we immune?

- Insurers do need to be vigilant and if nothing else, learn from the problems across the ditch
- Need to understand risks being taken on and pricing for those
- Need to ensure appropriate processes and controls in place





What do you think?