



16-17 May 2016 • Grand Hyatt Melbourne

Life & Wealth Industry Update

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Australian Life And Wealth trends

- Challenging life insurance profit environment, though improving
 - Retail - Lump sum profitable (though trauma worsening), IP experience remains poor
 - Group – experience stabilised following changes in terms and conditions + price increases
- Industry conduct
 - Media scrutiny - product definitions and claims decisions
 - Industry Code of Conduct being developed
- Pressure on distribution models
 - FoFA, FSI, Trowbridge Report and various scandals are driving changes in advice market
 - Alternative distribution e.g. Robo-advice, Alliances, FinTechs, Mobile



Australian Life & Wealth trends

- Capital optimisation
 - Focus moving from ICAAP implementation to optimisation via reinsurance, Tier 2 etc
- Reinsurance market
 - Hardening market
 - New entrant
- Mergers and acquisitions
 - Sale of MLC and Macquarie
- Impact of regulatory oversight
 - APRA's risk management oversight
 - ASIC reviews(e.g. funeral insurance, consumer credit), stress testing, Risk Culture

Australian Life & Wealth trends

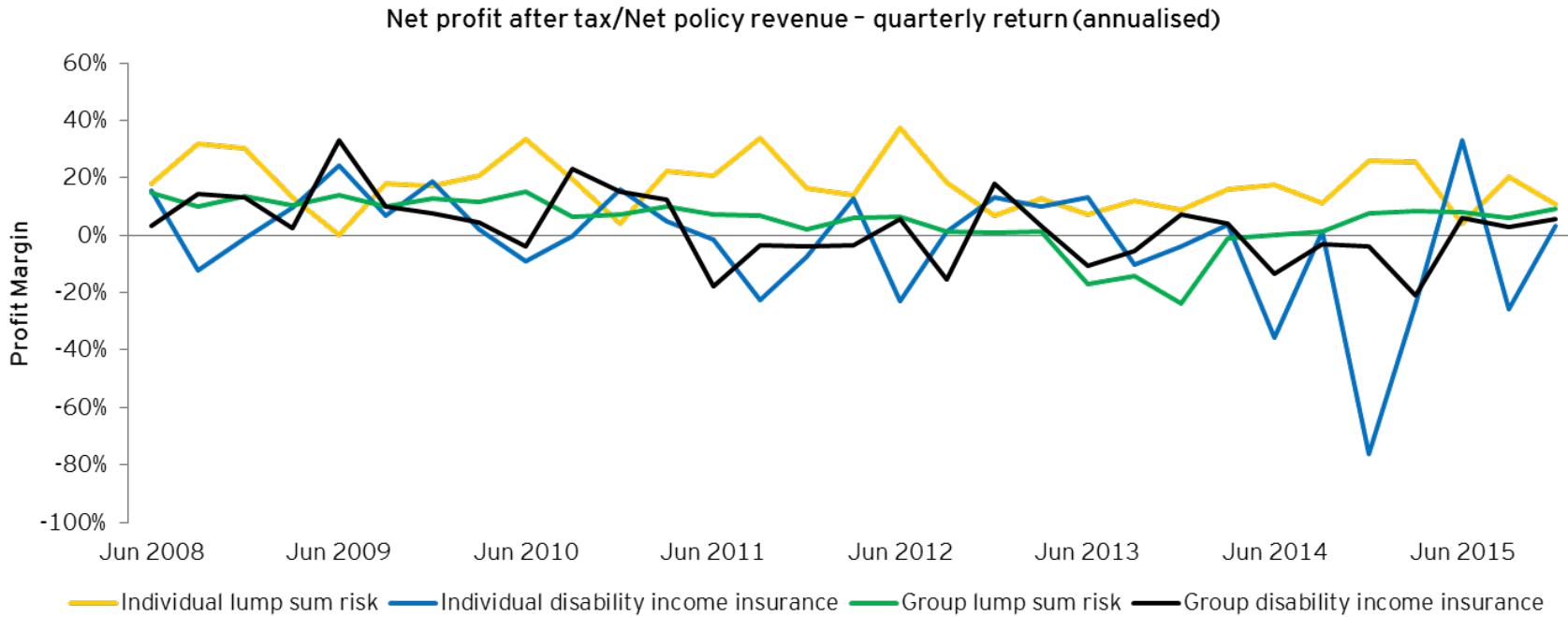
- IFRS 4
 - Timing: 3 years from date of finalisation of standard (due late 2016... maybe 2017)
 - Approach is to value liabilities based on BEL + Risk Adjustment + Contractual Service Margin
- Role of AA being looked at
 - APRA Discussion Paper due out in mid 2016
- Impact of Technology
 - Big Data/Advanced Analytics
 - Impact of wearables, telematics etc
 - Mobile and digital delivery



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LIFE INSURANCE

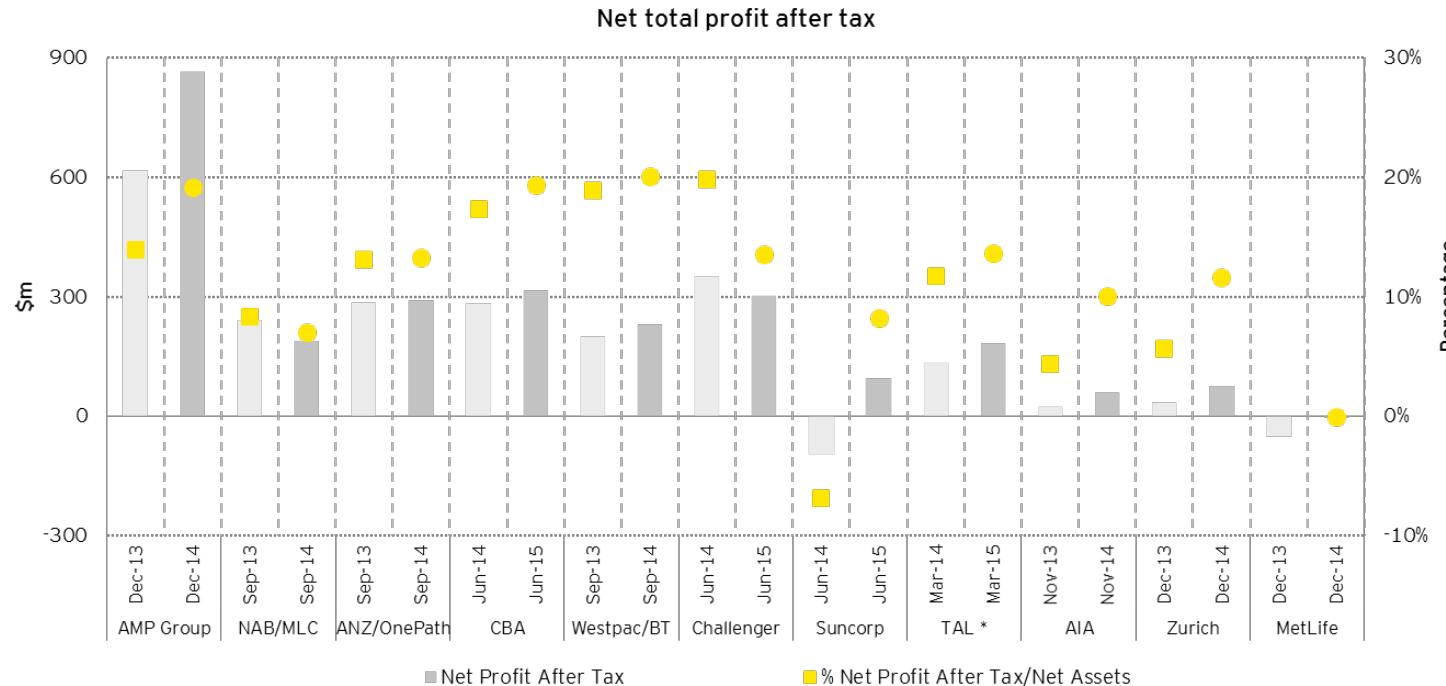
Life insurance profitability



Quarterly net profit volatile; Group insurance improving; Individual disability income struggling



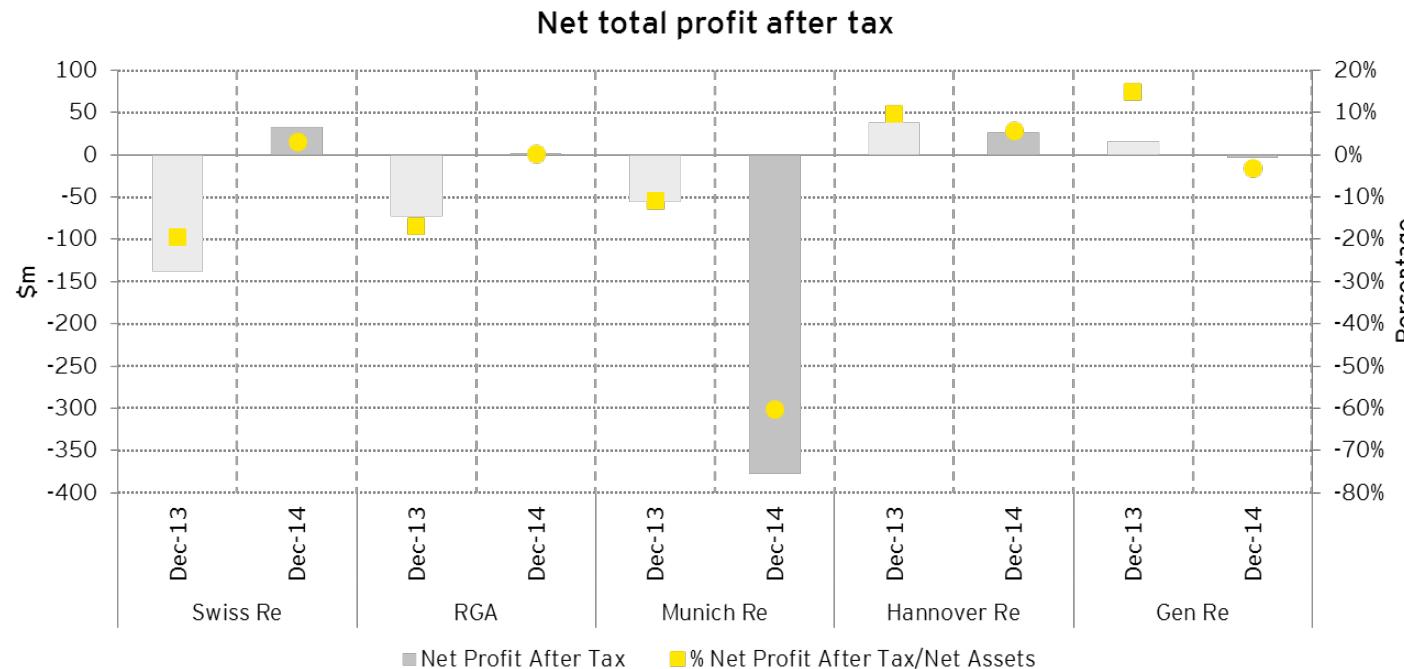
Profitability of direct insurers



Generally increasing profits for all of the larger direct insurers. Return on Equity also increasing.

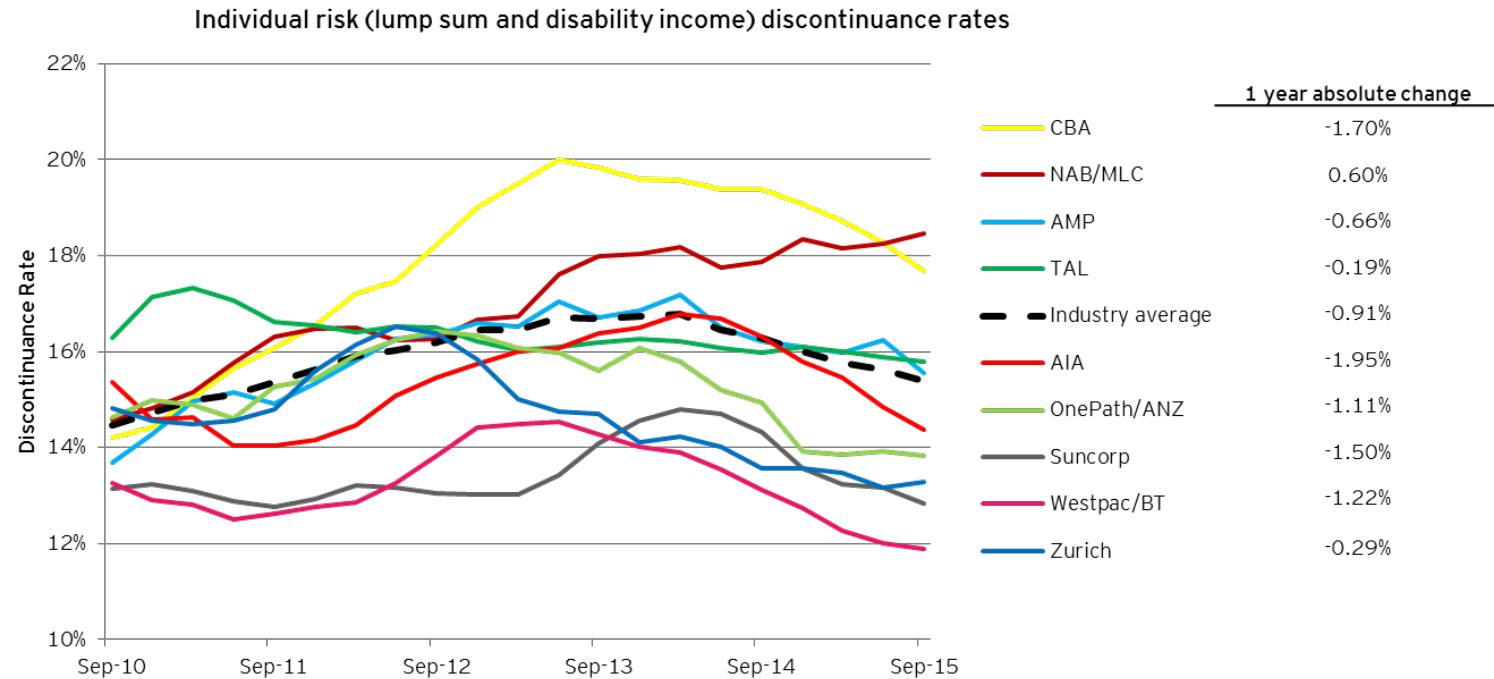


Profitability of reinsurers



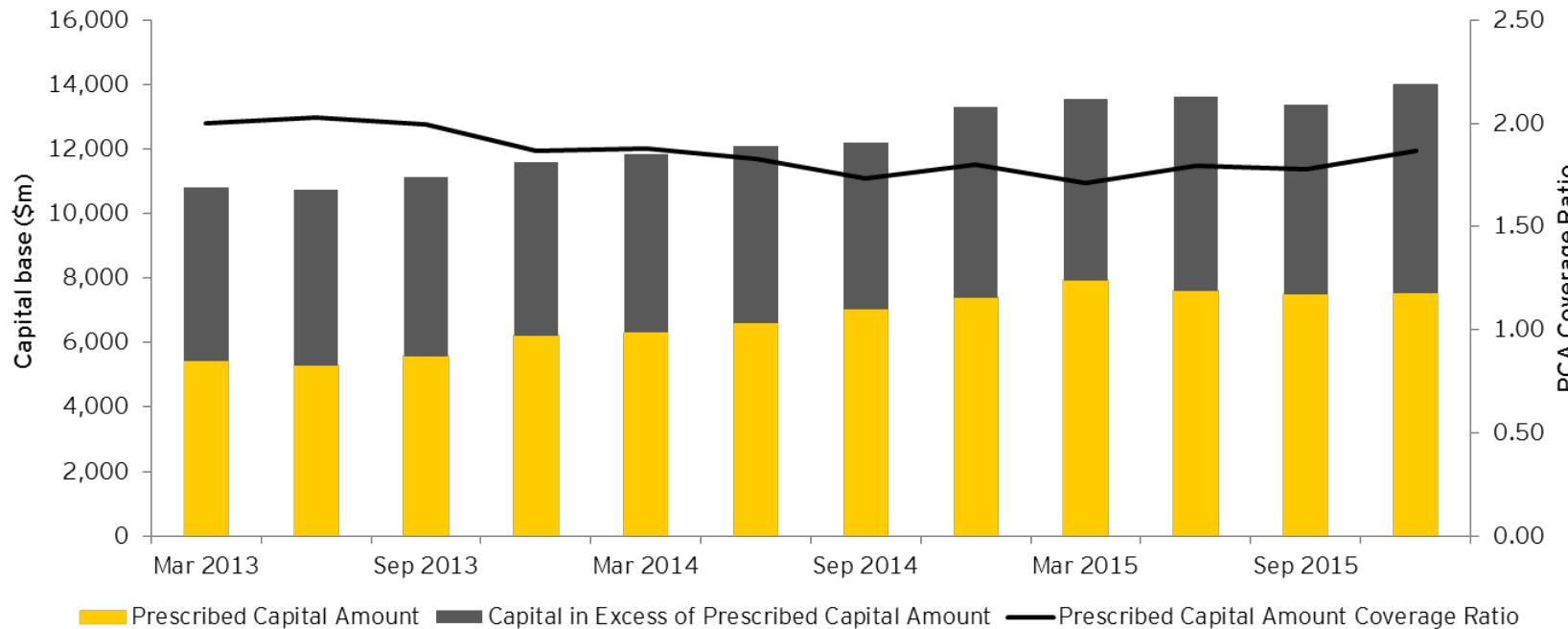
It's a different story for the reinsurers!

Discontinuance experience



Discontinuance rates are improving – Much better than the picture at FSF2014!

Life insurance capital adequacy



Solvency ratios relatively stable; capital base growing at fast rate

Life Insurance Reforms

- Various reviews (ASIC, FSI, Trowbridge) into quality of advice since 2014
- Life Insurance Remuneration Arrangements Bill – 1 July 2016 start date under threat.
- Key changes include maximum commissions, 2 year clawback and ban on other volume-based payments consistent with FoFA.
- Other measures
 - FSC charged with developing Code of Conduct, APL Standard
 - ASIC to review Statements of Advice to make disclosure simpler
- Potential implications of proposals to date:
 - Vertically integrated groups better placed to absorb changes
 - Greater expenditure on and use of technology
 - Advice quality dependant on professional standards and APL Standard
 - Potential need to review direct distribution models to ensure they fit new framework
 - Impact on retention and pricing is yet to be seen

Group Risk – have we really learned?

- Capacity is returning to the market faster than anticipated
 - Driven by new entrants (new reinsurer, overseas insurer)
- Not much has actually changed
 - Price Competition is returning
 - No fundamental product shifts
- Some insurers quoting without reinsurance support
- Some innovation now occurring e.g. SunSuper TPD design
- Suitability of products will be a focus given recent media scrutiny
- Self insurance
 - One fund expected to receive a life license shortly. Will more follow suit?



Global life insurance trends

- Growth in 2015 hindered by equity market volatility, low interest rates and Euro uncertainty
- Expected increase in US rates, product de-risking and shift towards wealth management and retirement products will likely aid top-line growth and stabilise margins in 2016.
- Insurers are likely to increase IT spending to enhance efficiency by investing in legacy systems replacement, digitization and data analytics
- Growth in emerging markets was robust in 2015 with similar gains likely in 2016
- As a distribution channel, "Mobile" is scaling rapidly across emerging markets fuelled by lower distribution cost and vast mobile penetration

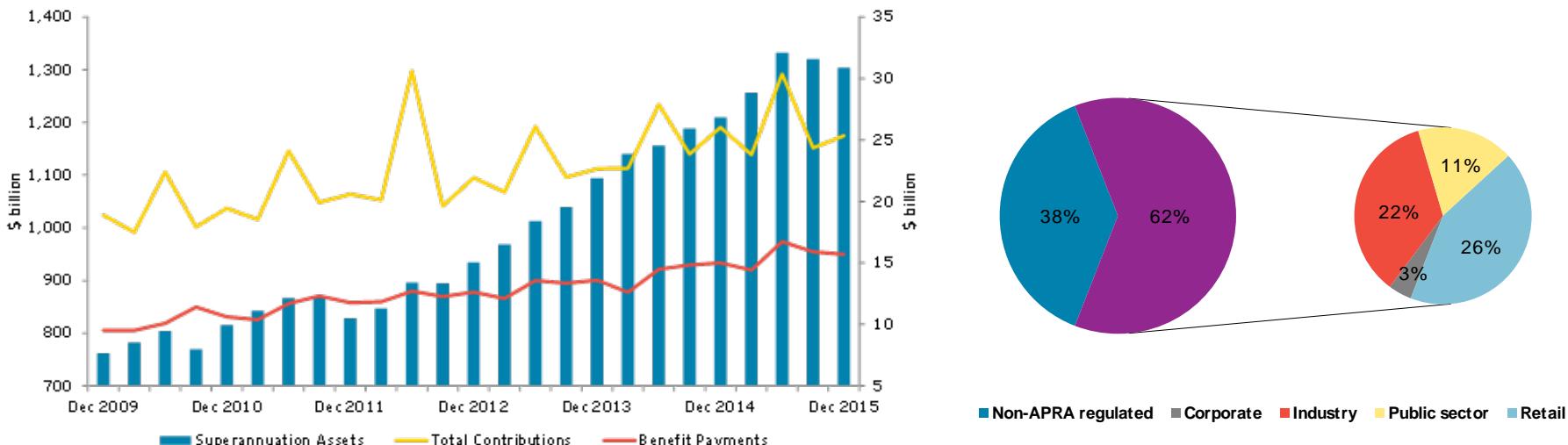


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WEALTH

Wealth management snapshot

- Superannuation assets now total \$2 trillion (\$449b of MySuper products)
- Over \$165b flowed through the APRA regulated system in 2015



Quality of advice - remediation

- The wealth management industry has been impaired by a series of scandals in which rogue advisors from large financial institutions have been found to be failing to act in the best interests of their clients.
- Major review and remediation programs underway for a number of large banks, in some cases impacting the ongoing viability of financial planning licenses
 - Poor advice
 - Lack of advice
 - Absence of (appropriate / required) evidence being kept
- ASIC's next steps

Stronger Super

- MySuper (simplified default superannuation product)
 - Nearly \$500 billion invested in MySuper products (mostly default options)
 - Accrued Default Amounts (ADA) to be transitioned during 2017
 - Preliminary evidence shows 15-20 bps reduction in fees
 - Concerns inc.: variability of fees; focus on fees; drive towards consolidation
- SuperStream (back end administration enhancements)
 - By July 2016, all entities must adhere to SuperStream legislation
 - Decrease in underlying contribution error rates from 5 - 15% down to 2%
 - Industry (and members) yet to see wholesale efficiency benefits, with initial implementation and ongoing compliance costs being 'significant'.

Retirement income developments

- FSI - "Regulatory and other policy impediments to developing income products with risk management features that could benefit retirees."
- FSI Recommendation #11 "Comprehensive Income Products for Retirement"
 - Pre-selected retirement option with minimum mandated features
 - Regular, stable income stream; longevity risk management; flexibility
 - MySuper equivalent product for retirement – The Holy Grail??
- Treasury Review of retirement income streams regulation (Disc. Paper 2014) had a heavy focus on how Deferred Lifetime Annuities may fit around the SIS Act.
- Recent innovations
 - Group self-annuitisation
 - Variable annuities
- As part of the 2016 budget, the government has announced its intention to enshrine the objective of superannuation into legislation.



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Questions?