

General Insurance Seminar

Insuring Tomorrow



**Actuaries
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Silver Economy: How the over 50's will reshape general insurance

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The Silver Tsunami

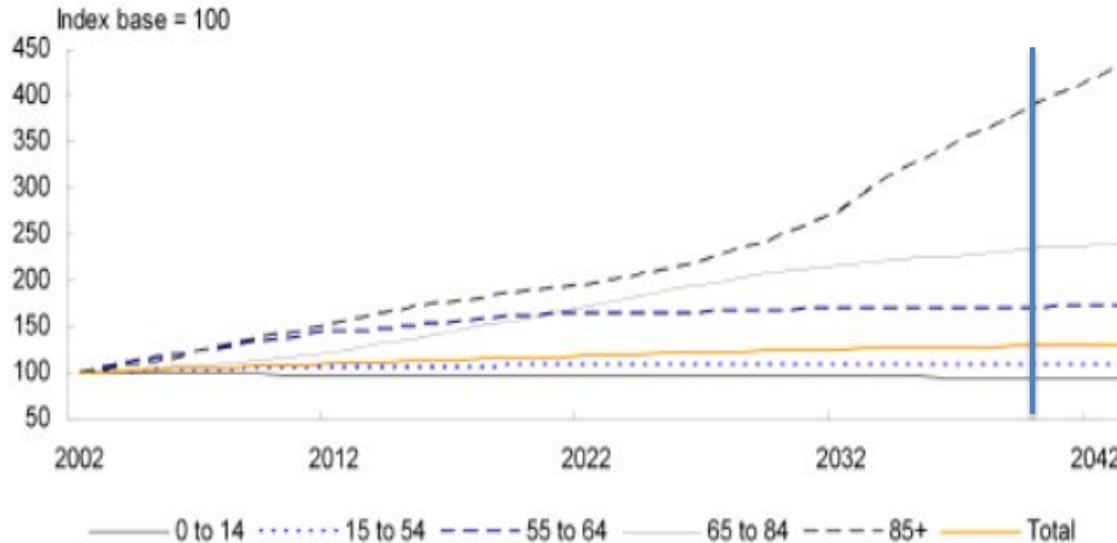
The Silver Tsunami

- The shift in the demographic profile
- People are staying healthy for longer
- The over 50s are spending big

The Silver Tsunami

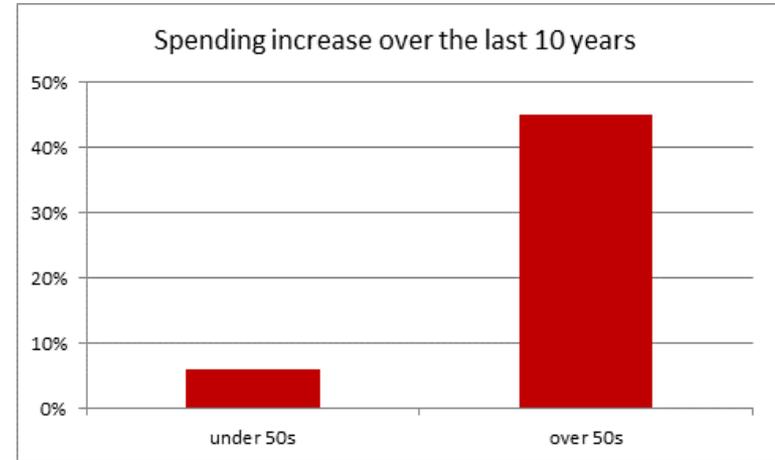
- The shift in the demographic profile

Population indices by Age Group



The Silver Tsunami

- People are staying healthy for longer
- The over 50s are spending big



Challenges to Address

Challenges to address

- Invisibility and Stereotyping
- Age – a relative concept
- Mis-selling and misrepresentation
- Issue of Age discrimination – pricing and accessibility

Invisibility and Stereotyping

- Low representation of the silver population in the media content

Australian Human Rights Commission survey findings:

- **Only 4.7%** of advertisement featured over 65s (a fast growing demographics)
- **Less than 30%** participants (from all age groups) felt that the elderly are represented in diverse ways in the media

Age – a relative concept

- Age - a relative concept

Self perception of over 50s

Young at heart	76%
Middle of life	60%
The best years	60%
Young elders	52%
Seniors	34%
Best age	28%

New
Marketing
Strategy?

Mis-selling and misrepresentation

- Misunderstanding the terms and conditions

Explaining
Policy Terms
clearly.

Example: Travel Insurance

- Exclusion of pre-existing condition often misunderstood.
- Growing number of complaints received by IOS from Australian in the 70s and 80s due to claims being rejected on the basis of existing heart condition

Issue of Age Discrimination

- Pricing - risk based or discriminatory?

New pricing
methods?

Findings of the Travel Survey 2012

"The age loading built into travel insurance premiums is seen by many, but not all, respondents as discriminatory. This is not necessarily the case, however, because insurance premiums of any kind are risk based and age is one of the risk factors travel insurers usually explicitly identify in their Product Disclosure Statements."

Issue of Age Discrimination

- Accessibility, example - Income Protection

*"I am a **self-employed** primary producer now aged 69 years and cannot access accident or illness insurance to cover me at work. I was told I was **too old for illness insurance**, but could get some cover for accident insurance at greatly reduced benefits up to the age of 70. I have therefore been working full time without any illness cover for 5 years, and **soon will have no accident cover either when I turn 70**. I have a **clean bill of health each year from my GP** which I submit to the insurance company. **The government encourages us to work after retirement age, but does not care that insurance companies say we are uninsurable.**"*

Issue of Age Discrimination

- Accessibility, Example - Volunteer insurance

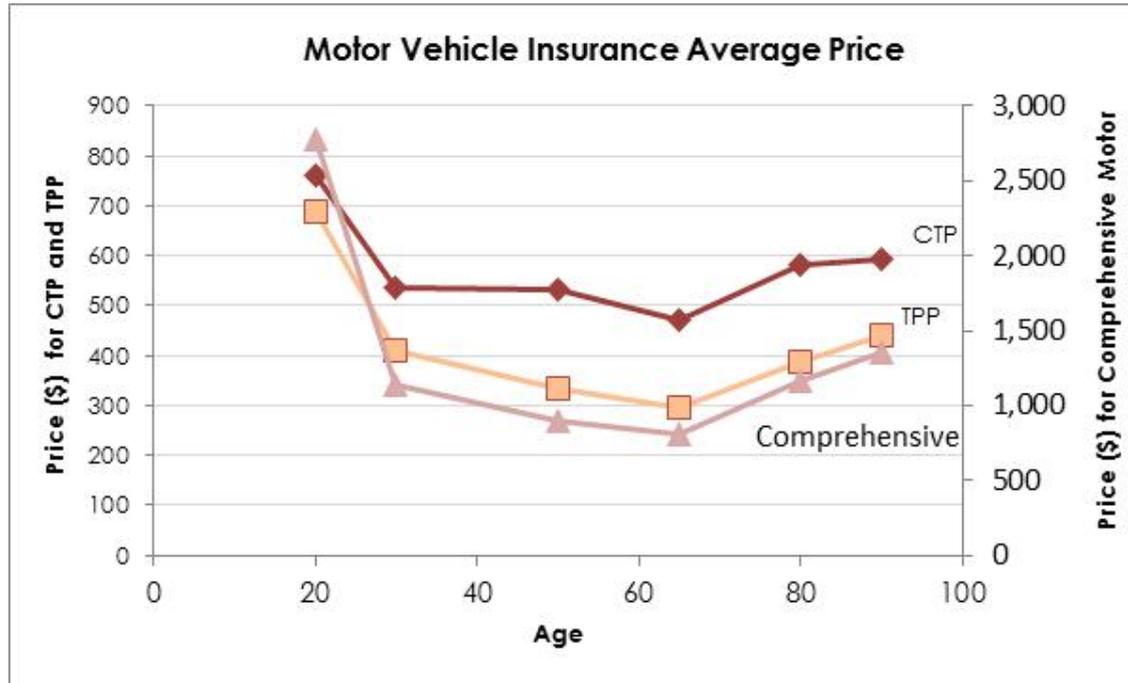
New Products?

*“Whilst doing this volunteer work [my mother and father] were involved in a horrific accident which left my Dad in a coma for 6 months before he finally passed away. **The [organisation] involved said that he was not covered by their insurance because he was too old (he was just 75.6 years old).**”*

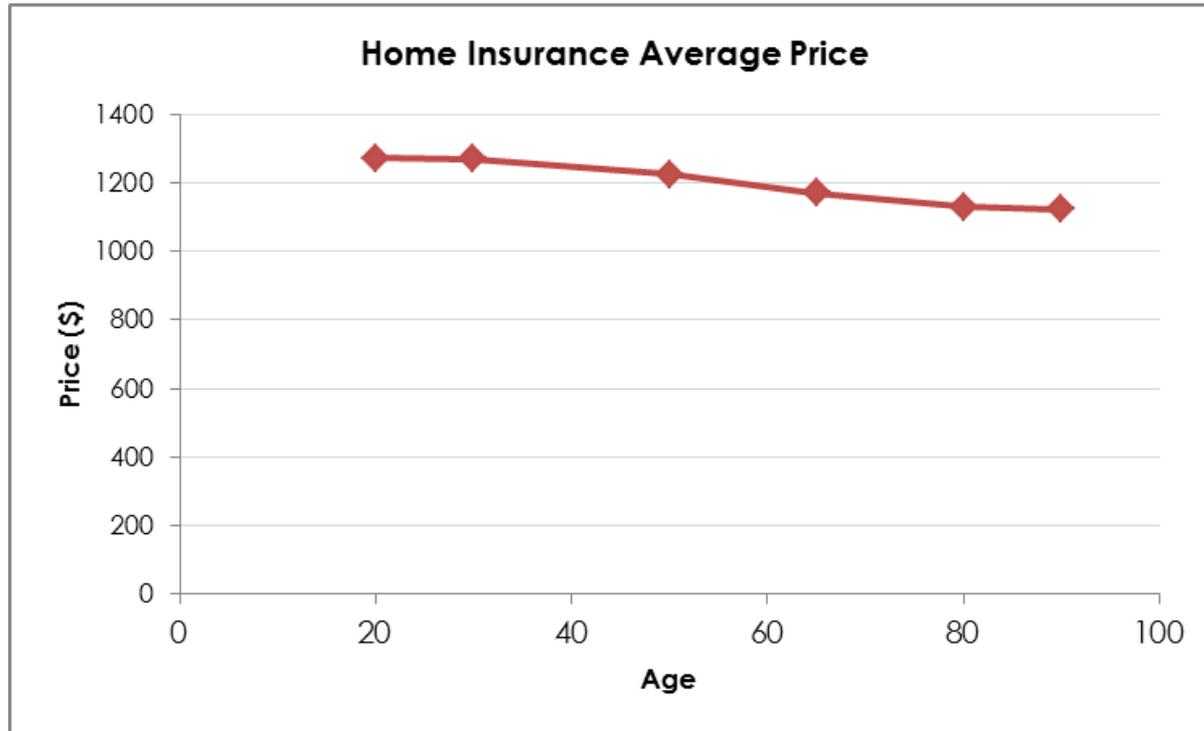


Age based pricing

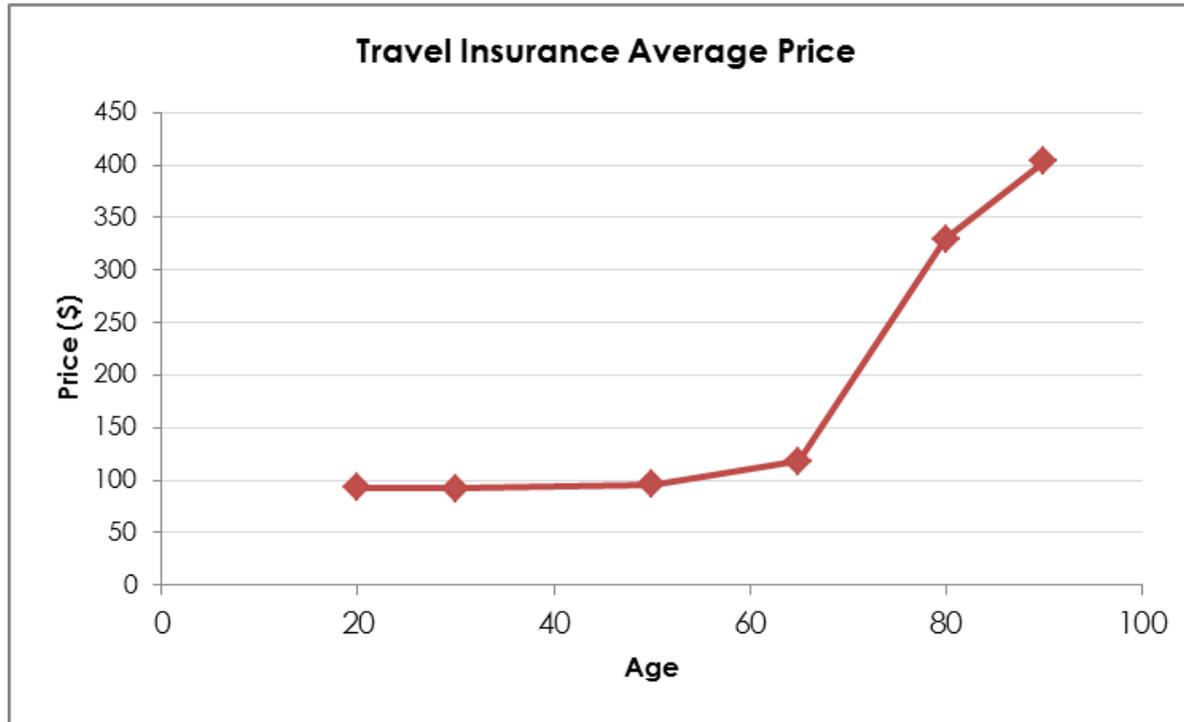
Current Landscape - Motor



Current Landscape - Home



Current Landscape - Travel



UK Data:
Ages 66 – 70 –
2.5x as likely to
make a claim
and average
cost - 5.5x
greater
compared to
ages 21-25

Age as a Rating Factor

Reasons For

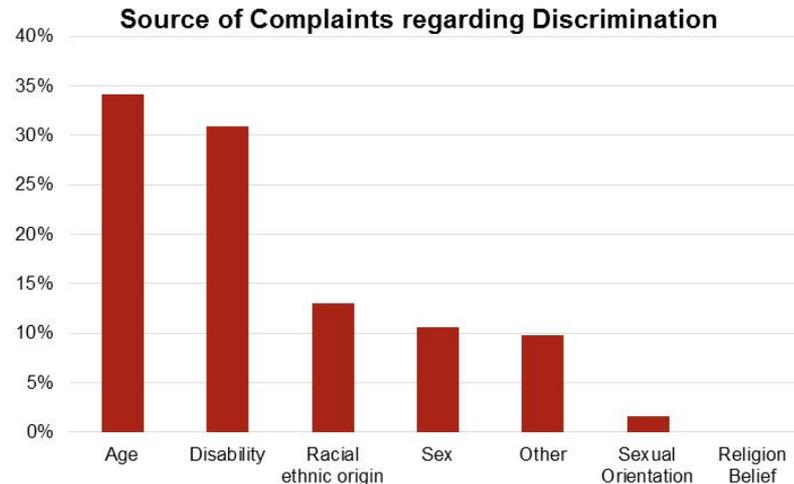
- Well defined and easily verifiable
- Strong predictive influence
- Age is a normal part of life and does not require specific protection

Reasons Against

- Age is similar to gender and race in the way that people do not possess control over it
- Accuracy of age as a rating proxy
- Lack of transparency

Developments in Overseas Jurisdictions

- EU Gender Directive ruling in 2011 prohibited insurers from using gender as a rating factor.
- A survey in the EU in 2010 indicated that most customer complaints regarding discrimination in the financial services sector resulted from age discrimination.

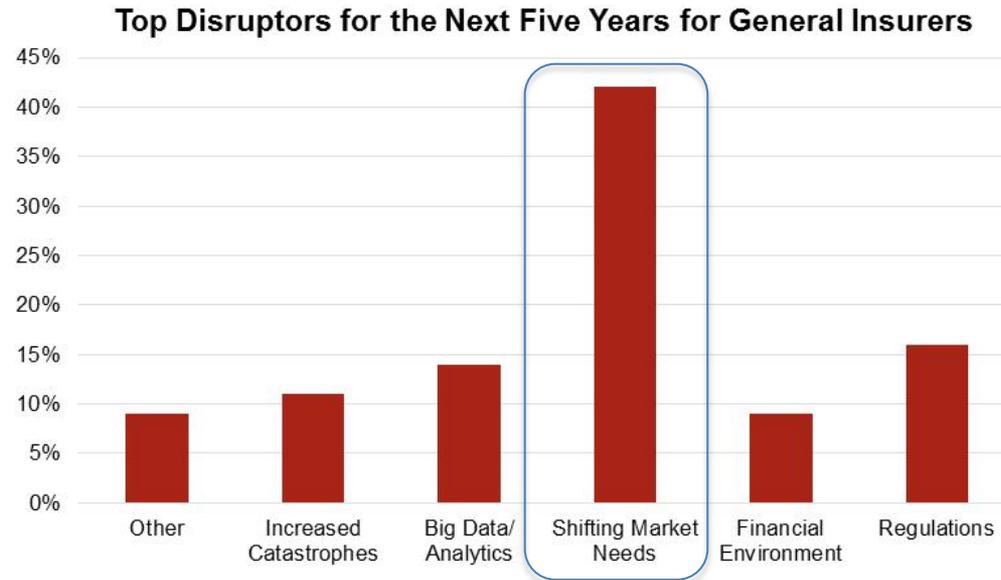


Relevance of Age as a Rating Factor

- Age as proxy – is it still reasonable with the growing older population?
- The role of technology
 - Big data
 - Social media information
 - New means of collecting relevant data eg Telematics

Market Disruptors

- A study in the US in 2013 has identified shifting market needs as the biggest potential market disruptor over the next five years for general insurers.



Current Market Disruptors

- Specialist senior insurers
- Transformation in pricing approaches
- Products which specifically target the older population
- Products which target activities

Quick Quiz

Plausible Market Disruptors

Difficult to hypothesise what the market would look like in 10 years!

- Medical Tourism and Travel Insurance?
- Reliance on electrical appliances and Home insurance?
- Commercialisation of driverless car and impact on motor insurance pricing?
- New entrants such as Google?
- Age based pricing prohibited by regulation?

Strategy Going Forward

Business Strategy

A clear strategic direction will help the insurer to design its business to manage the risks and exploit the opportunities that come its way

- Be an innovator
- Be an expansionist
- Be a fast-follower
- Be a survivor

The Third Age

- Healthier and more independent older population
- Life expectancy increased by 35 years since turn of the century
- The third age
 - Early third age
 - Later third age

Early and Later Third Age

- More likely than not that the age cut-off between the early third age and the later third age population will be a moving threshold over time.

General insurers may benefit from a critical evaluation of their product design and/or underwriting processes by adequately recognising the distinctions between these two population groups

Reaching Out

Marketing which appeals to the silver population is important!

- Stereotyping and alienating potential consumers
- Risk of marketing backlash
- Ageless marketing
- Sales channels
 - The greatest growth in internet usage in any age group is in the 55–64 year age group, up from 63% in 2008–09 to 71% in 2010–11.

Loyalty and Trust

- ★ More loyal
→ greater profitability

36% of older customers had never considered changing providers and had remained with their provider for over 20 years

- ★ Factors beyond the brand name

“Professionals can't rely on their company's brand name or a personal referral if they hope to establish trust with a senior. While important, these factors ranked less important than seniors' perception of professionals' good character or ethics...”

Loyalty and Trust: Reaching Out

Good customer service is always a winner!

- Most sales and call centres staff are generally staffed with 20 to 30 year-olds.
- What can be done to reduce misrepresentation or mis-selling of insurance products to the older customers?
- What is the customer end-to-end experience?
- What can be done to offer convenience to the older customers?
- How is loyalty rewarded?

Final Thoughts

- The population is **ageing**.
- **The ageing population is changing**, in terms of their health and wealth; their needs and demands; their attitude towards work and leisure activities; and their workforce participation.
- While there is justification for age based underwriting and pricing, there is also **scope for exploring other rating factors and mechanisms**.
- **Changes create opportunities**. There is no right strategy to be adopted to realise and tap into the opportunities that the ageing population presents.

Questions/Discussion