

Life reinsurer of the future

Staying relevant in the face of a changing landscape

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Agenda

- Life reinsurance in Australia
- Life reinsurance globally
- The future horizon
- So what do we learn?

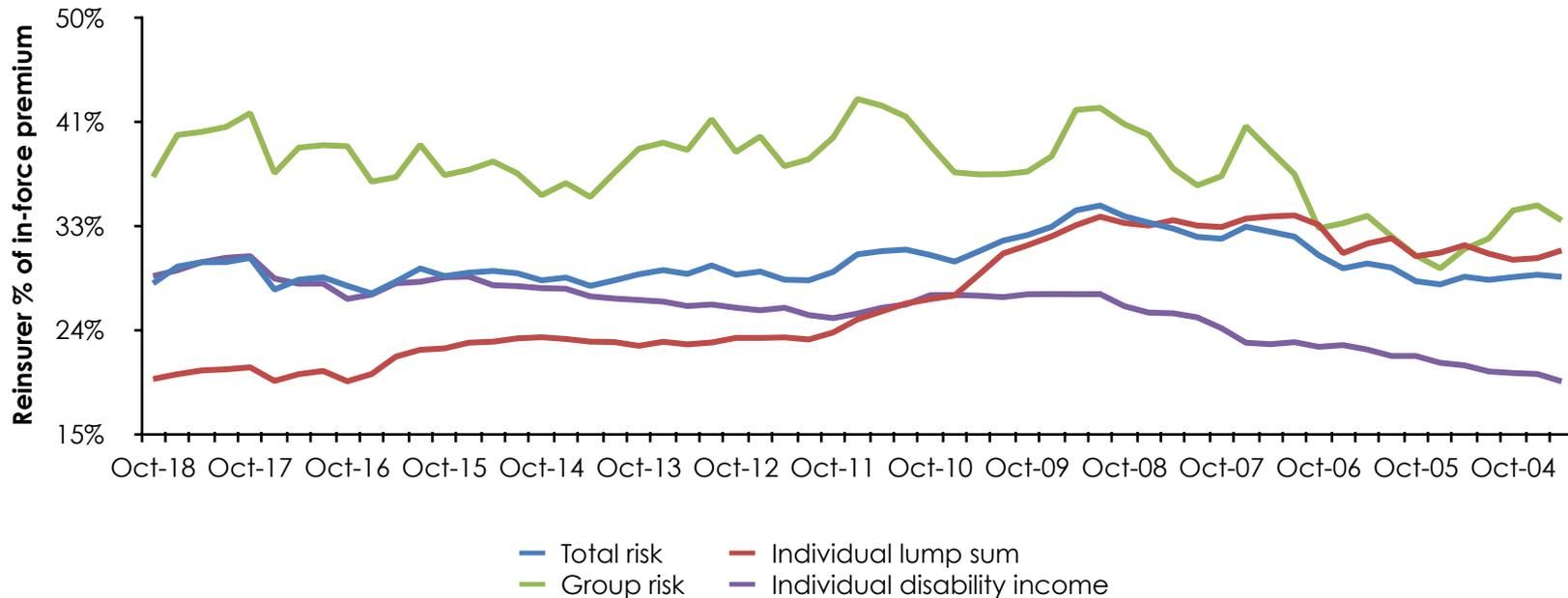
Life reinsurance in Australia

What drove reinsurance?

Then	Now	Then	Now
<ul style="list-style-type: none">• Access to underwriting manual and claims• Capacity the primary market may not have• Reduce earnings volatility / capital strain		<ul style="list-style-type: none">• More aggressive reinsurance pricing• Re-shape risk taken to align to insurer's risk• Global, technical insights	

Reasons to reinsure in the past remain relevant today

Changing business mix during 2000s

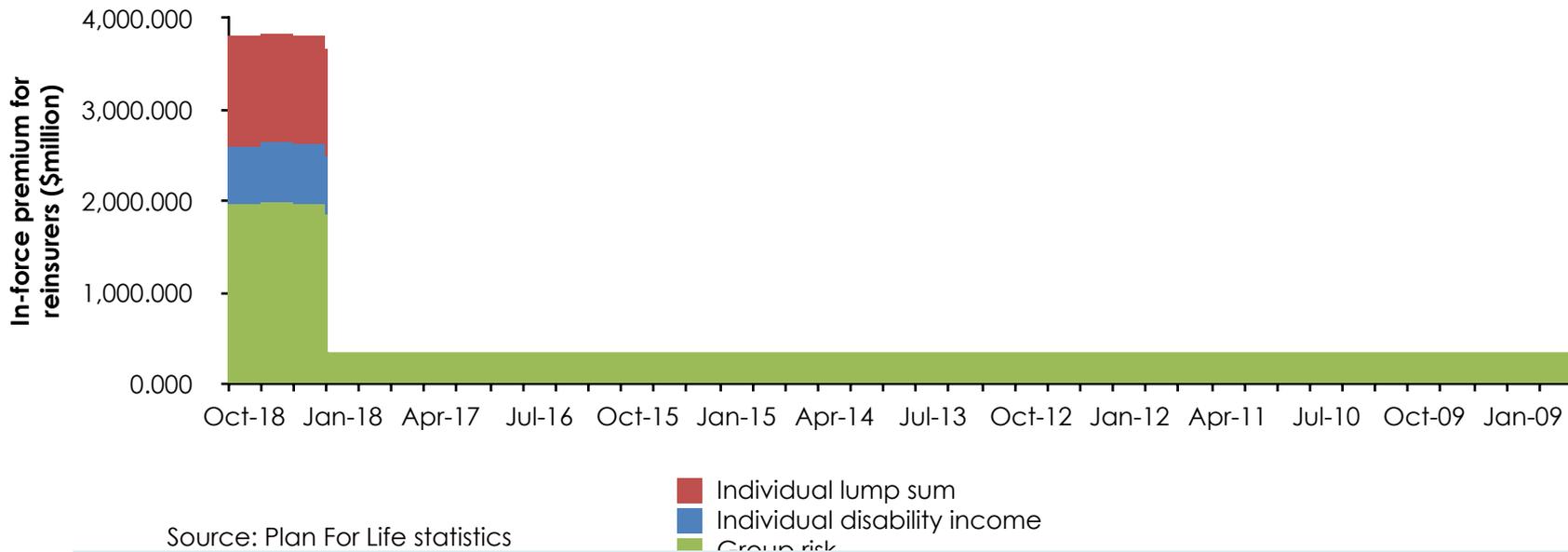


Source: Plan For Life statistics

Reinsurance rate relatively stable but business mix has changed

Continued strong premium growth

In-force premiums have more than doubled in last ten years.



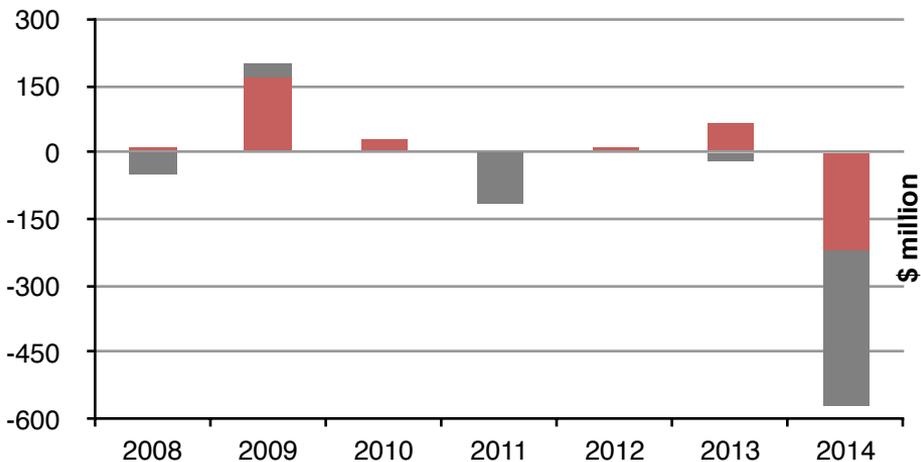
Source: Plan For Life statistics

- Individual lump sum
- Individual disability income
- Group risk

Volume growth has been attractive; at what price?

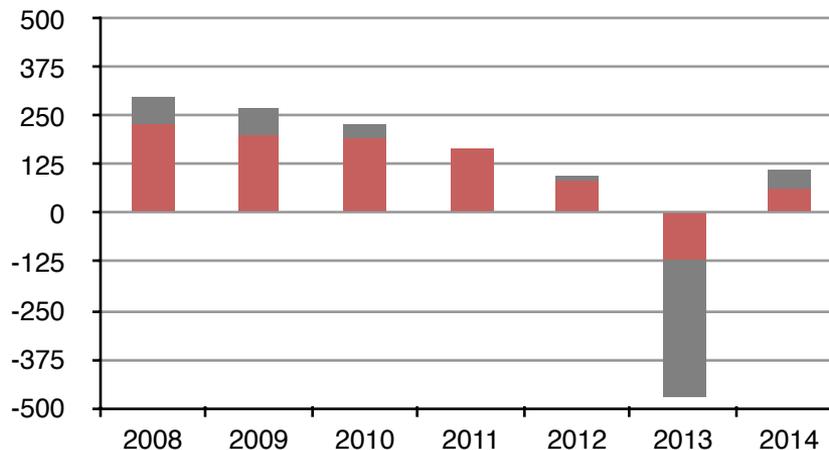
Turbulent times

Cedant & Reinsurer Annual Net Profits - Individual DII -



- Profit Margin % (net)
- Reinsurer
- Direct Writer

Cedant & Reinsurer Annual Net Profits - Group Death/TPD -



- Profit Margin % (net)
- Reinsurer
- Direct Writer

Source: APRA Life Risk Insurance – A challenge to the life industry: managing for long term portfolio health: Insights Session at Actuaries Institute by Ian Laughlin

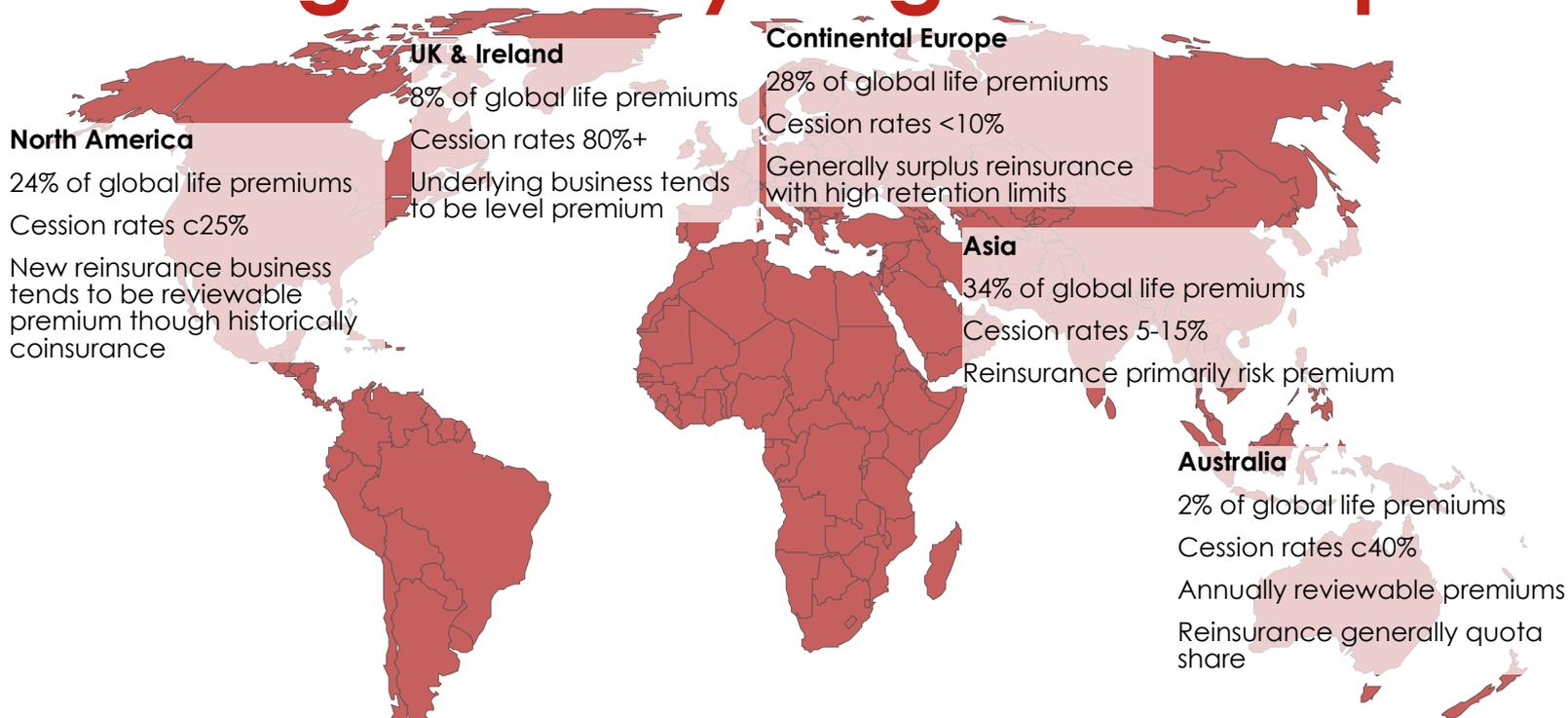
Causes of losses

- Different break-even points and materiality
- Competitive market conditions
- Less data / less timely data
- Definitions scope creep
- Long guarantee periods

Pricing discipline needed in a competitive environment

Life reinsurance globally

Looking sideways – global snapshot



Looking sideways – what is there to learn

Cession rate	Market features	Feature of Australia	Likely to change
60-100 %	▶ Regulatory arbitrage	?	∇
	▶ Reinsurer risk evaluation aggressive	?	?
	▶ Proportional reinsurance dominant	✓	∇
20-60%	▶ New business strain	✓	✓
	▶ Volatile earnings	✓	∇
	▶ Periods of pricing instability	✓	?
0-20%	▶ Barriers to entry	∇	∇
	▶ Lack of granular data	∇	∇
	▶ Surplus reinsurance dominant	∇	∇
	▶ Lanauaae barriers	∇	∇

Market conditions unlikely to see large-scale movement in cession rates

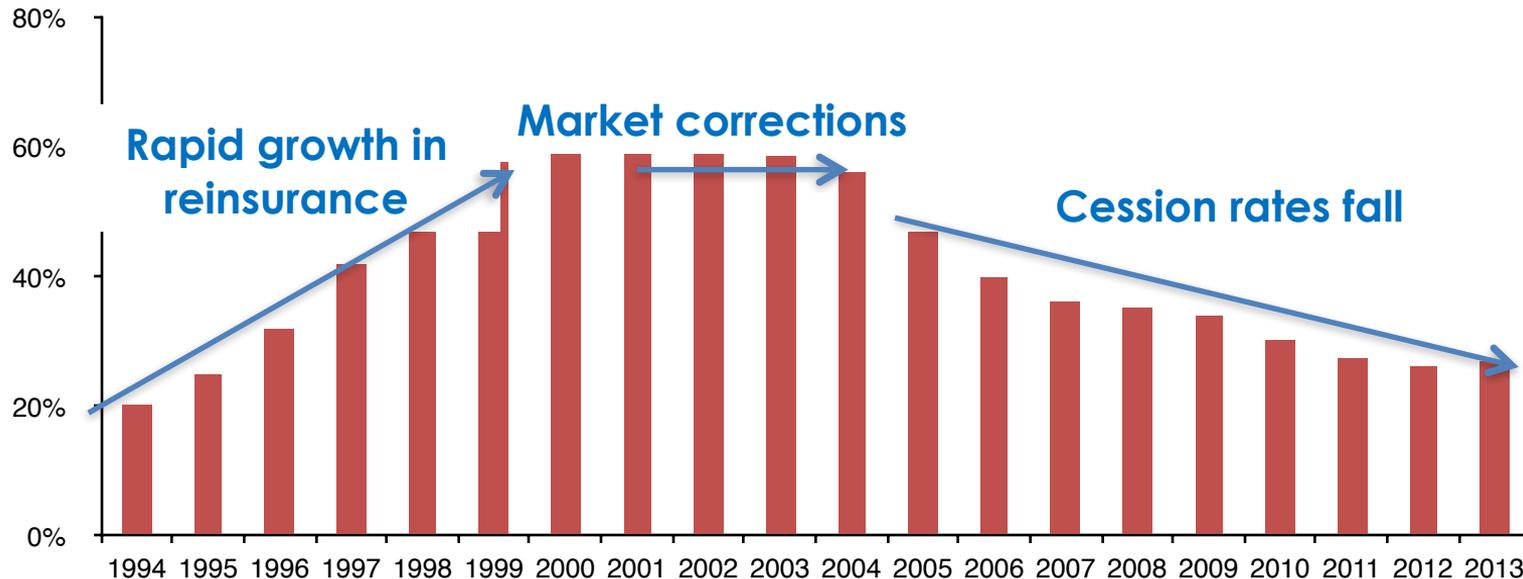
The future horizon

Dark clouds?

- Consolidation of insurers
 - Top 5 insurers in 2003 had \$2.9bn premium and in 2014 had \$9.5bn premium.
- Less reliance on reinsurer claims and underwriting expertise?
- Alternative sources of funding
 - Offshore reinsurers
 - Institutional investors seeking higher risk/yield assets
- Changes to remuneration model

Case study – cession rates and the pricing cycle

US ordinary individual life % new business reinsured



Correlation between attractiveness of market and reinsurance?

Source: Cession rates from Munich Re Life Reinsurance survey; market commentary from EY research

Blue skies?

- Significant re-pricing in recent years
- IFRS 4: potential to offset new business strain
- Increasing digitisation and global connectivity
- Change in product emphasis; the rise of the annuity
- Growth of direct channel

Summary

The future landscape

- A number of dark clouds on the horizon but blue skies also
- Mix of business may change
- Volume growth has been strong, as is underlying need for risk transfer and value add services
- Australian market remains attractive at global level

What can reinsurers do?

- Pricing discipline in the face of competition
 - Aligning break-even points
 - Re-aligning definitions and practice to price (and vice versa)
 - Choosing segments of the market to target
- Capital efficiency to stay ahead
- Explore direct opportunities where insurers choose not to play
- Promotion of ‘value add’ activities; harnessing global resources

Questions, discussion, comment