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Life insurance and wealth management pricing and profitability

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Presentation topics

- Current industry trends in pricing and profitability
- Recent areas of focus – profitability and business performance



Pricing survey

Coverage - Participants covered 85% of life insurance industry in force premium and 95% of life company FUM

Timing – Survey completed in late 2009 and results compiled in early 2010

Survey Themes:

- Teams and reporting structures
- Assumptions and models
- Measures and metrics
- Product development
- Governance and strategy



Focus Areas – Short to Medium Term

Key themes over next few years

General/strategy	Capital and risk management Product innovation
Product focus	Individual life Individual income protection Retirement income

Allowance for Risk

Increased future focus on more accurate allowance for risk in pricing and greater level of data analysis

Product	Ind'l life	Group life	Wealth Mgmt
More focus	50%	67%	45%
Comfortable	50%	33%	55%

Impact of GFC

GFC has resulted in products closed, changed and/or guarantees reviewed

Product	Ind'l life	Group life	Wealth Mgmt
Reprice	18% have or intend to	27% have or intend to	18% have
Change offering	0%	0%	27% have or intend to and another 18% unsure



Pricing Teams

Product	Average team size	Potential Industry staffing shortage
Individual life	3.9	11
Group risk	3.6	4.5
Wealth mgmt	2.4	6
Total		21.5

Business line variation in size and requirements

Across the industry, companies indicated they need at least another 20 people in their pricing teams

Reporting Structures

Pricing actuary reports to	Business/Line exec	Chief Actuary	Other
Individual life	36%	45%	19%
Group risk	42%	25%	33%
Wealth mgmt	45%	27%	28%

Business line variation in structure

- Reporting lines
- Team organisational location

Pricing measures and metrics

A wide variety of metrics and targets used

Product	Most common measure	Other measures
Individual life	VNB	ROC/IRR
Group risk	Reported profit as % of premium	VNB
Wealth mgmt	Bps as % of FUM	VNB

- Hurdle rates
- Fully allocated vs marginal pricing
- Extent of compliance with profitability targets



Governance and Controls

- Models

- Pricing Committee
 - Existence?
 - Members?
 - Frequency?

- Board and senior management information



Comparisons with overseas

Themes	Overseas Market Observations
Governance	Senior pricing committees not consistent across industry
Modelling	Integration of pricing and valuation models also mixed
Focus on Risk	Increased focus on risk but lack of considering pricing on whole of portfolio
Techniques	Wider use of stochastic/MCV techniques and continuing trend towards this
Assumption Review	Annual reviews of mortality/morbidity and lapse assumptions most common

Comparisons with overseas

	Overseas Observations
Pricing Expenses	Combination of marginal and fully allocated expense loadings used
Compliance with Profitability Targets	Acceptance of loss leaders – smaller companies more likely to do so
Metrics	Most common measures in US and UK are IRR and PVFP measures but often no connection made for senior management to key reporting measures of IFRS/MCEV

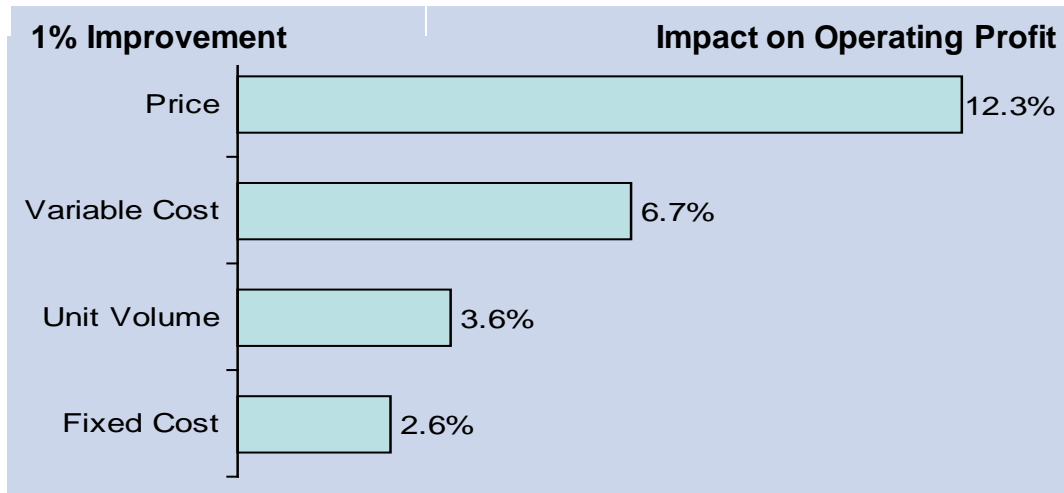
Profitability reviews

As a result of the GFC, greater focus on profitability – many ways to try to improve profitability. Some include:

Options	Profitability levers
1	Pricing process audit
2	Pricing strategy optimisation
3	Channel optimisation
4	Expense reviews
5	Review of arrangements with external providers
6	Alternative distribution and marketing approaches
7	Comprehensive portfolio review

Pricing - impact on profitability

Hypothesis: Pricing has 2-4 times the effect on profitability than other improvements



Do companies understand enough about their profitability to know where to start?

Source: Compustat, Deloitte Analysis

Note: Impact estimate is based on the average Fortune 1000 company

Core competencies to realise the benefits of improved pricing

