

**SURVIVE THRIVE**



# Natural Selection

**Financial Services Forum**

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# The Future of Disability Income Insurance

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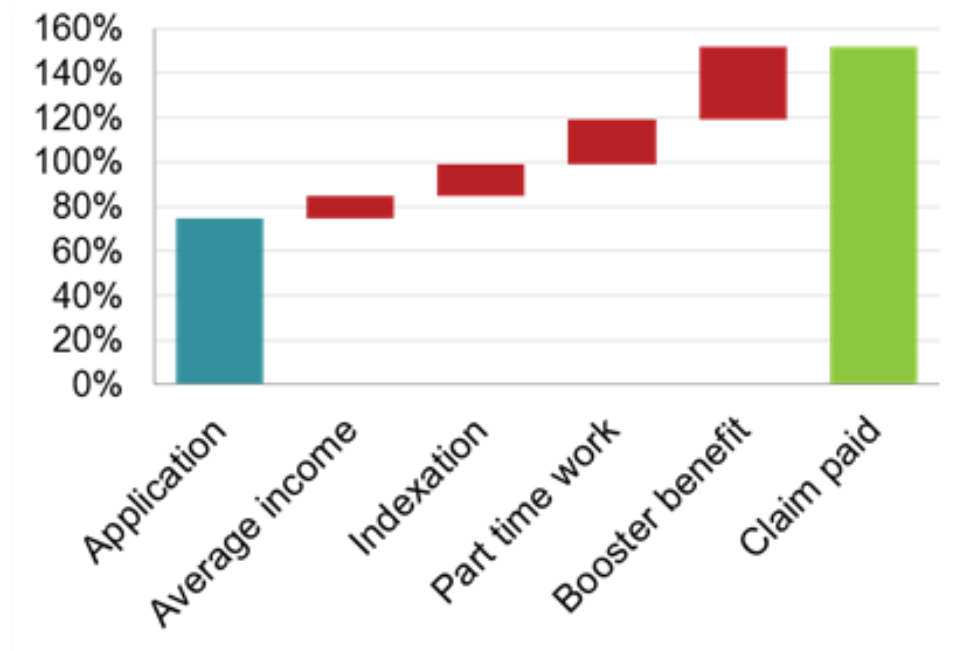
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# Disability Income Insurance is Great !



# Disability Income Insurance is NOT Great:

We insure WAY more than the insurable interest



# Disability Income Insurance is NOT Great:

Do we tell customers how much their premiums will go up ?

- Annual age increases

X

- Super-inflationary increases

X

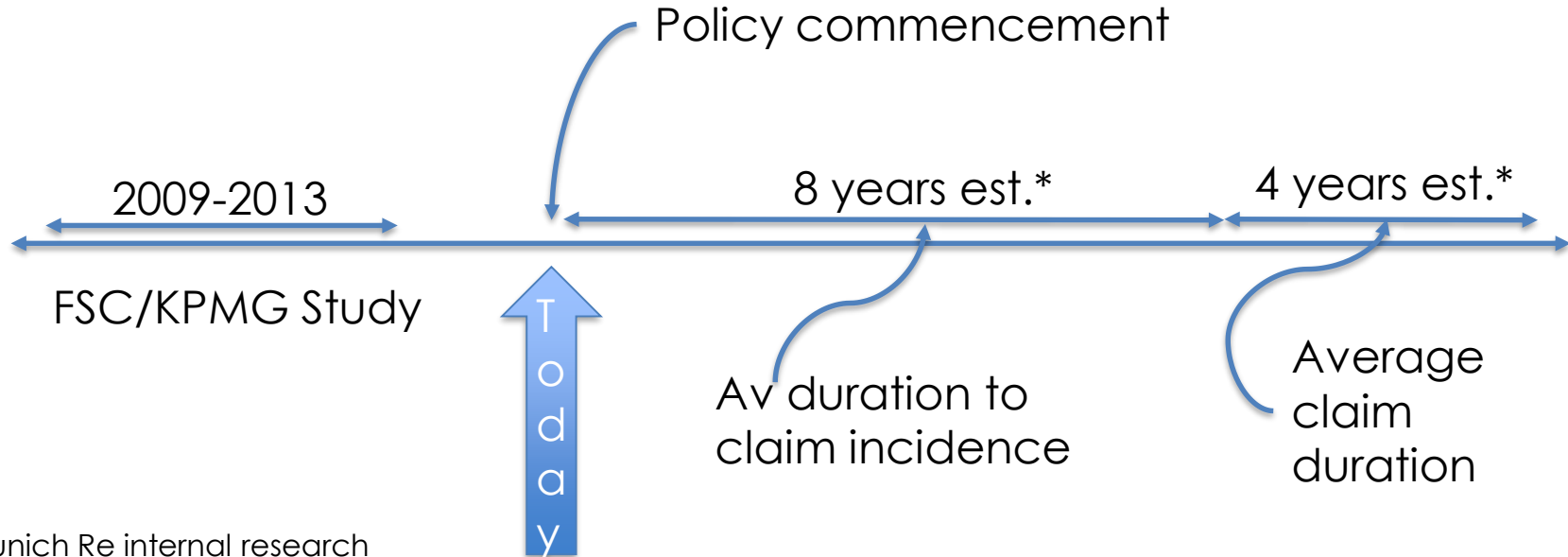
- Allowance for observed deteriorations

X

- Further increases to reach product profit hurdles

# Disability Income Insurance is NOT Great:

Our best published data are almost 20 years out of date:



\* Munich Re internal research



## Disability Income Insurance is NOT Great:

Utmost good faith requires the policyholder to disclose all the information that might affect the decision to accept the risk.

Yet the amount of non-disclosure we can prove, let alone what we suspect but cannot prove, means this is not adhered to.

Some causes of claim have subjective symptoms.

## Result:

- Product fails insurance principles
  - We exceed insurable interest
  - Underwriting and claims assessment are problematic
  - Living benefits incentivise behavioural change
    - Moral hazard is HUGE
- Pricing and reserving data are unreliable
- But we assume that repricing will save us



## How did we get here?

- Insurers need sales, so pay commissions
  - Regulators need to balance sales incentives, so legislate best interests duties
  - Advisers need to comply, so follow product ratings
  - Ratings houses need differentiators, so they rank features
  - Insurers need high rankings, so they provide features
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- It's all quite logical, really



# Let's make DI GREAT again!

- Minimize moral hazard
- Underwrite and manage claims fairly
- ONLY THEN do we have a chance of offering an affordable and sustainable product.