

SURVIVE THRIVE



Natural Selection

Financial Services Forum

21-22 May 2018 • Hilton Sydney



**Actuarial
Institute**



Life Plenary: Future of disability Income Insurance

Greg Martin

© < copyright name, company or Institute >

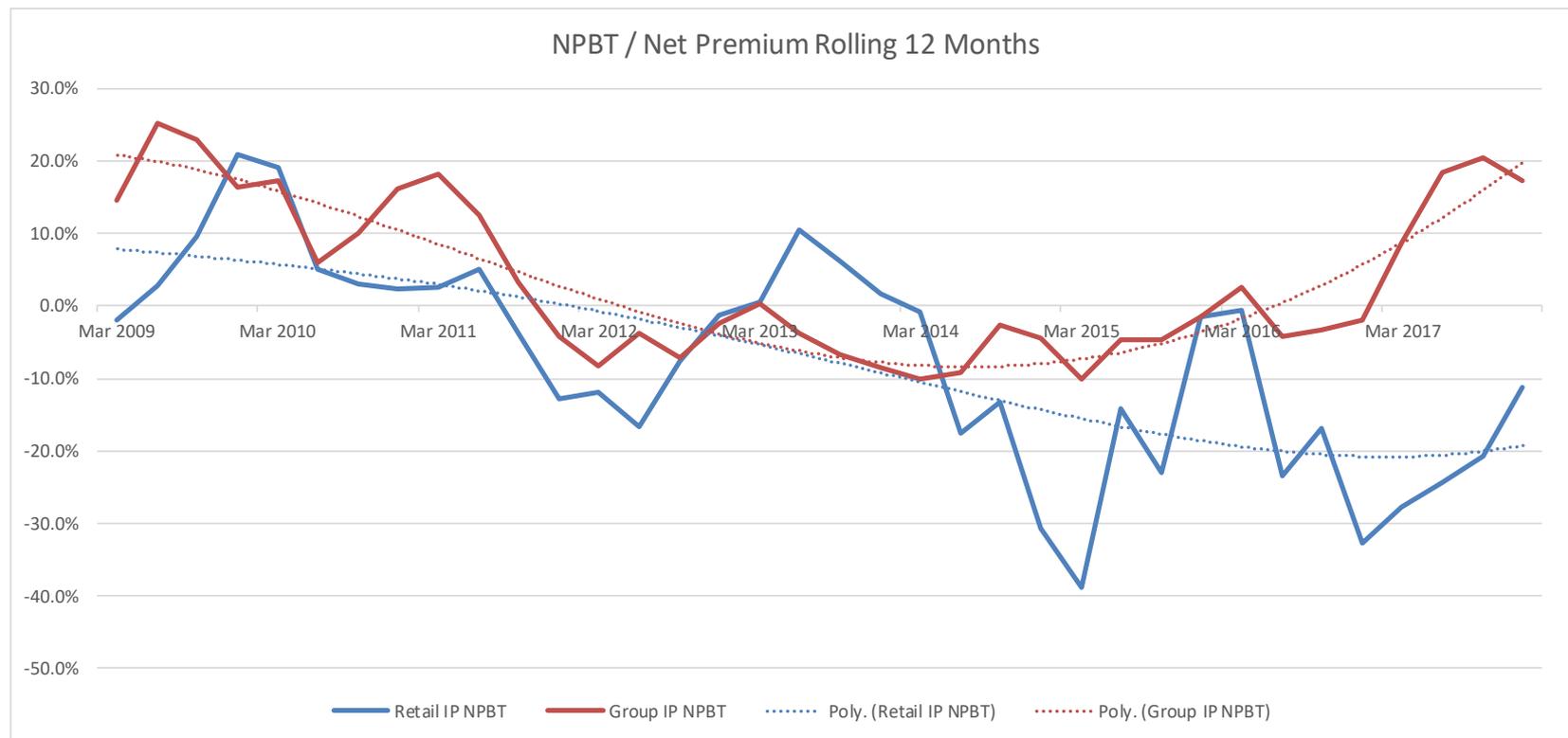
*This presentation has been prepared for the Actuaries Institute 2018 Financial Services Forum.
The Institute Council wishes it to be understood that opinions put forward herein are not necessarily those of the
Institute and the Council is not responsible for those opinions.*



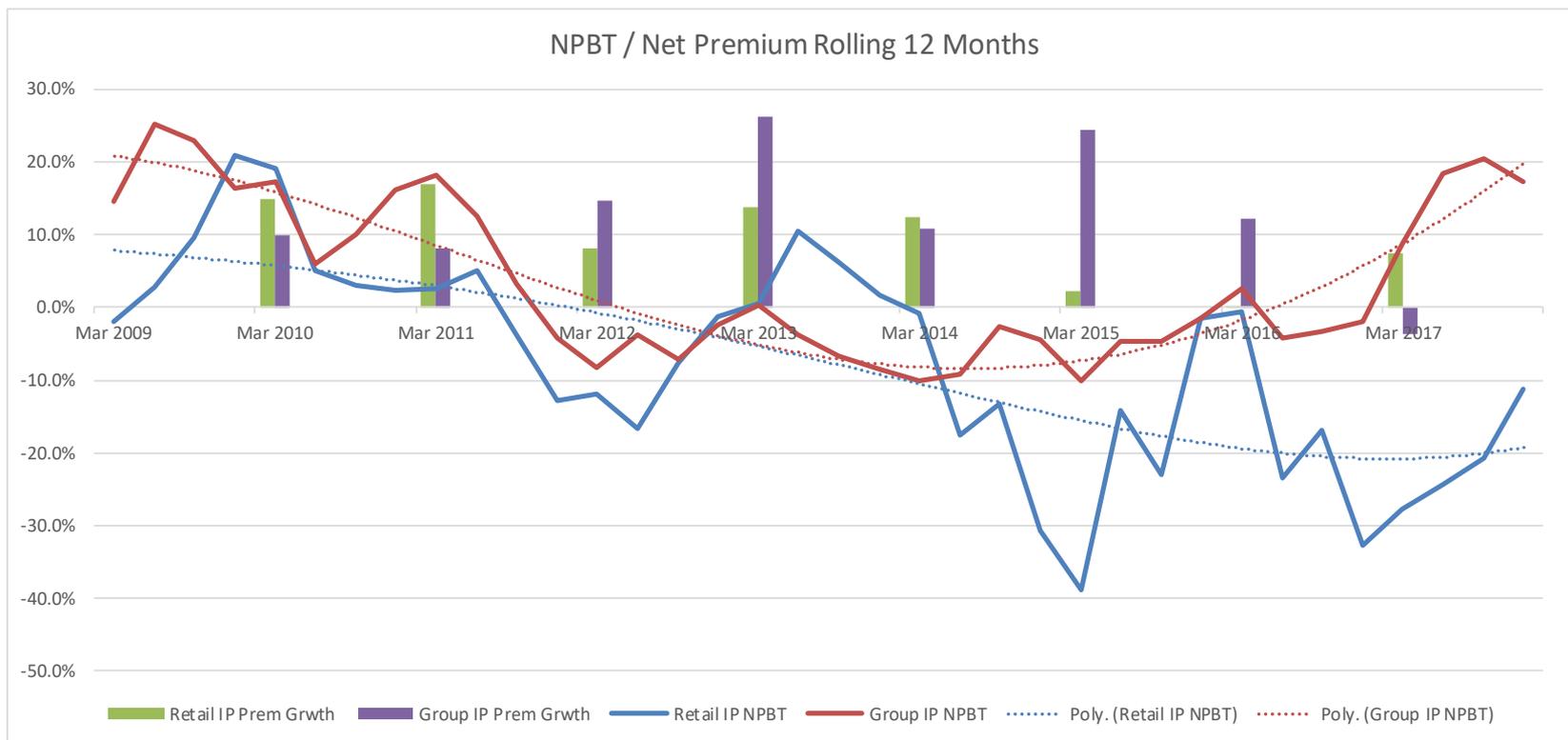
Are we clear on the problem?

- Recent rising retail IP claims costs, rising premiums
 - Unhappy customers (prices going up)
 - Unhappy life insurers (profits down)
 - Embarrassed actuaries (“can’t get it right”)
- Lots of debate and focus on.....
 - “Gold plated terms”.
 - Partial benefits, “one duty”, 10hrs, working in WPs, etc
 - Increasing mental health claims and co-morbidity factors
- Are these key issues to focus on in these terms?

Retail & Group IP Pre Tax Profit Margins



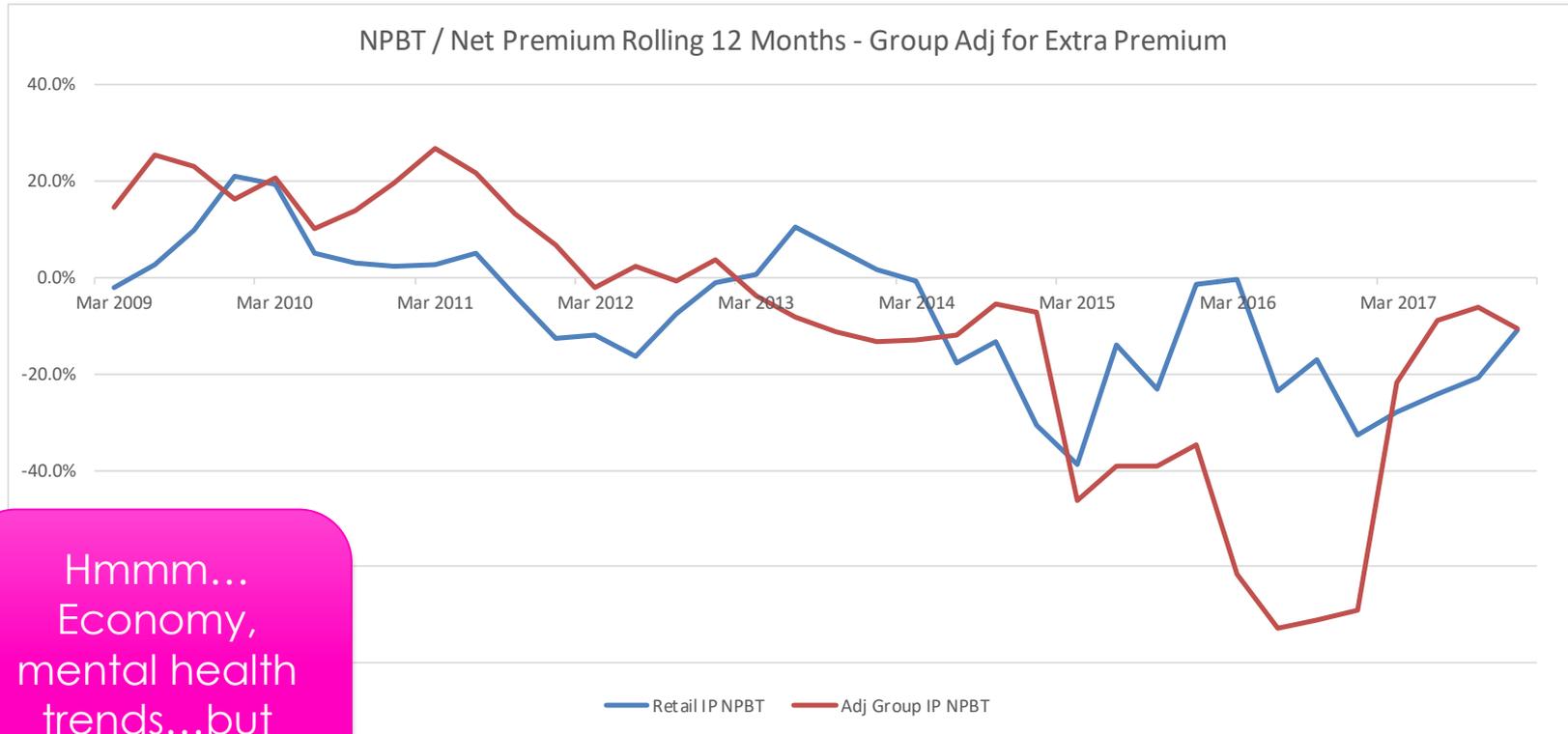
Pre Tax Profit Margins + Premium Growth



Source: APRA Insights Tables Dec 2017



Adjusted Group Pre Tax Profit Margins



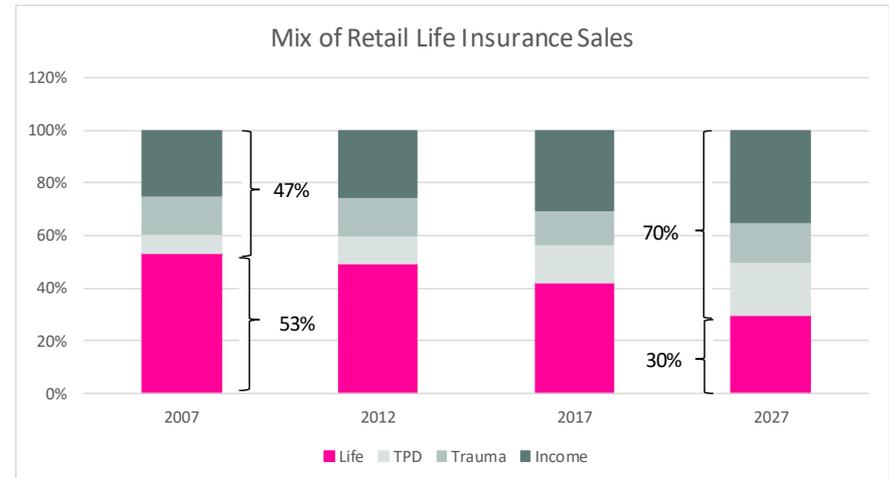
Hmmm...
Economy,
mental health
trends...but
terms?

Do we understand our industry today ↔ tomorrow?



- Mortality risk is no longer the core of our industry
 - Could well be <30% in near future
- Mortality risk is “easy” – predictable, improving
- **Morbidity is “complex” and evolves thru time**
 - **Insurable interests**
 - **Moral hazard**
 - **Pricing cycles (economic)**
 - **Medical/societal trends**
- Need to educate market (customers, advisers, media, politicians, ourselves) that cycles & change inevitable

Our industry looks more GI than Life now, and needs to be managed that way



Back to the “problem” ...more broadly...

- Are we trying to bring back the horse and cart?
 - Fixated on the negative; missing the opportunity?
- Are IP issues a “*canary in the coal mine*” more broadly?
 - Pursuing over granular risk rating...shrinking our market
 - Seeing genetics as threat rather than core opportunity
 - The whole positioning and “phrasing” of our products
 - “Arbitrating on entitlements” rather than “support”
 - Not seeing the changing world around us...
 - Trauma construct? Role of TPD in the current world?
 - Ignoring developments in related areas? Workers Comp...
- **We are in the 21st Century**

Do we understand our products and their role in the 21st Century?

- The claims cost effects from income replacement ratios (**IRRs**)
 - Unemployment + underemployment
 - Offering material increases when incomes are flat/down
 - Are the economic cycle effects as much about this?
- We are in a services and knowledge economy
 - Rising “mental disability” is inevitable. Exclusions or limitations don’t make sense
- Will our (do our!) products fit today ⇔ tomorrow?
 - Mental stress and disability events are a reality
 - Gig eco, part time work, career breaks/change, work >70
 - 21C reality: Disability can be serious, but rarely (in truth) “permanent” – more about recovery and life change...

Real drivers of recent trends....???

- 15% IRR & excess sums insured (exacerbates next point)
 - Rethink 75% (e.g. tax), indexation, passive income
- 25% Current economic cycle (this is not a boom for workers)
 - Underemployment, tough, change (links to IRR)
 - Really: Poor pricing cycle management (front & back)
- 20% Poor management of mental health (consequence)
 - Late intervention, wrong engagement model
- 15% Wrong product position, value proposition, law (PHI)
 - Issues around ability (law) + approach to rehab
- 25% Wrong benchmark of “normal”...2004-2008 not it!

100%

What should we be doing...



- Actually manage the pricing cycle:
 - Educate market
 - Reconsider pricing approach
 - Rethink approach to reinsurance
- “Human centred design”.
 - Customer in the middle. Reframe product
 - “Return to health and work”
 - Early intervention & rehab
 - Rehab, dealing with change + income support
 - Not ask people to prove how sick they are to gain “entitlement” to “contracted money”
 - Not “sit down” money. Reward for positive action

Educate market
and ourselves.

Be undeniably
helpful to
customers. Be part
of the solution, not
another difficulty.

What should we be doing...maybe....

- And early “intervention” means day 1:
 - psychometric and biosocial assessment
 - intervention asap..... before on claim...
- Need legal change to do rehab properly (lobbying)
- Review our financial underwriting:
 - Insurable interest; passive income
 - The standard 75% IRR (75% on gross is >75% net of tax)
 - The basis of indexation. Managing and pricing for the IRR?
 - And given the importance of IRR on claims experience, where is our company and industry data on this?



What should we be doing...related....

- Maximise the insured pool
 - Why nationalise half our industry?
 - Reduce barriers/underwriting
 - Restrict excessive rating factors?
 - Albeit we need enough to be stable
- Use genetics to help manage health and outcomes, NOT to deny access to cover. Help people, not turn them away!

No business or industry ever shrunk itself to greatness....