

Life Insurance Pricing

Can we predict the future cost of claims



Introduction



Cara is Swiss Re's Head of Retail Pricing for the Australian and New Zealand markets.

She has over 15 years of experience from Life Insurance risk management, capital management, pricing and product development across retail advice, direct and group risk.

Her team at Swiss Re are responsible for the pricing and profitability of retail product lines and working closely with insurance clients by providing pricing support on product enhancement, development knowledge and insights.

- Swiss Re Group was founded in 1863 in Zurich, Switzerland, we are a leader in the reinsurance market globally, operating in all major developed and developing markets for Life, Health and General Insurance.
- Known for our commitment in delivering security, solutions and service to our clients.
- As a wholesale insurer, we diversify and smooth clients' insurance risks across our global markets. Supporting stability of the overall system.
- In the New Zealand market, we support insurers delivering their insurance products to consumers across product development, pricing, underwriting, claims and solutions.

Session Content

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 - Environmental and Societal Expectations
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4. **Can we predict the future cost of claims (and insurance affordability)?**
 - Case Study: Hopes and Concerns for Future Claims Cost
5. **Tips for More Stable Client Premiums**

Global Insurance Outlook

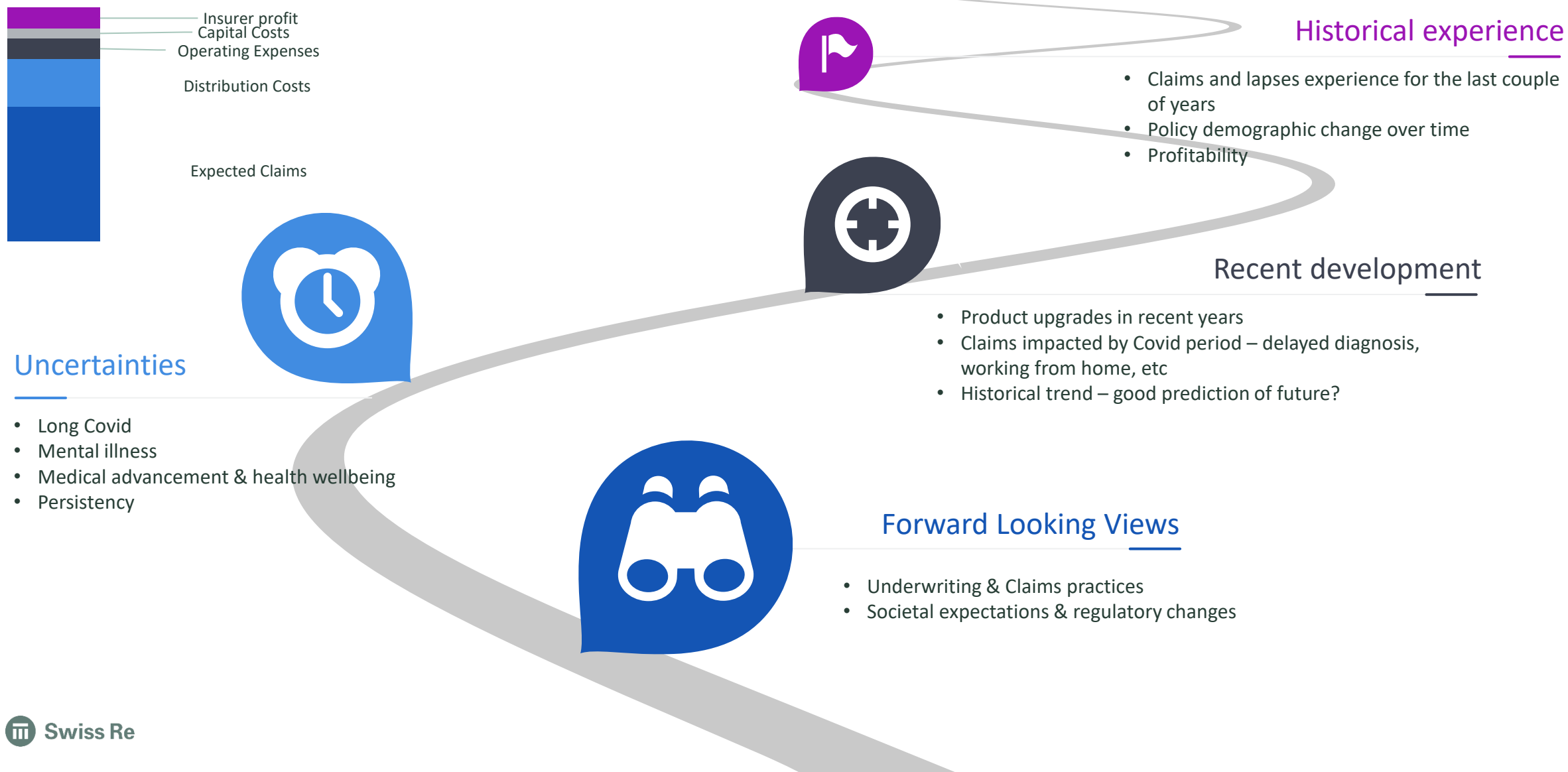
Tailwind

- High interest rates are very good for insurers because they carry reserves for the long term for policyholders.
- Tough period of Covid claims over the last 2 years. Effect of Covid starts to decline so a positive tailwind for insurers.

Outlook

- Some disruptions coming to the way
 - The way insurers construct account and report earning will change under IFRS17. It's uncertain whether it's positive change for some companies.
 - There is significant operational change for companies to cope with and get used with new set of numbers, i.e. to understand the numbers and what to do with them and how to optimise.
- It has been difficult to maintain same volumes as pre-Covid when it was mainly face to face business. However, some recovery coming.
- It is estimated to see 1% in real terms growth rate and premiums this year around the world, varies by market, a bit flattish for advanced economies, but strong growth is expected in the Asian market.

The Pricing Journey



Advanced Pricing Considerations



The Impacts of COVID-19

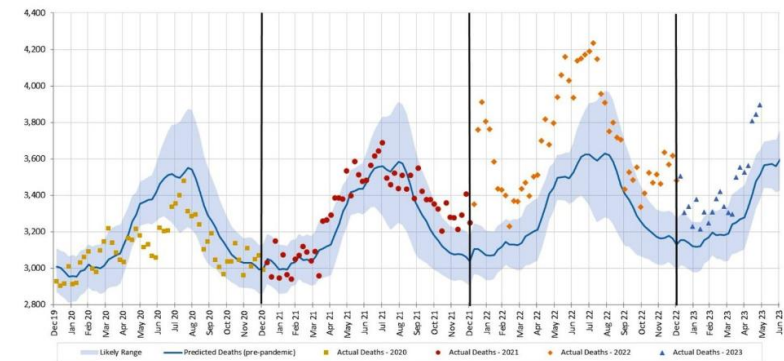
Is it the end of Covid related claims yet?

start with poll

Observations

- An analysis of **excess mortality** data (the increase in the number of deaths) found that COVID-19 and related deaths account for most of the excess mortality, and the excess mortality seems to have stabilised from the most recent analysis done by the Actuaries Institute Australia.
- For Disability Income benefit, it's observed much lower Accidental claims due to reduced activity levels for some countries. However, New Zealand has seen the opposite trend with **increase in Accidental claims**.
- On the Sickness claims side, according to research the number of New Zealanders struggling with poor **mental wellbeing** has risen sharply due to Covid stress and disruption:
 - Loss of main source of income, social isolation, economic worries and other pressures.
 - Some with existing mental illness has deteriorated during and post Covid lock-downs.
 - Some felt heightened sense of community and increased family resilience, more time for hobbies and exercise during Covid.
- The **working landscape** post-COVID has changed dramatically, research on the impact of remote work on return to work and employment for disabled people is still accumulating, but preliminary messages show favourable outcomes and associations.

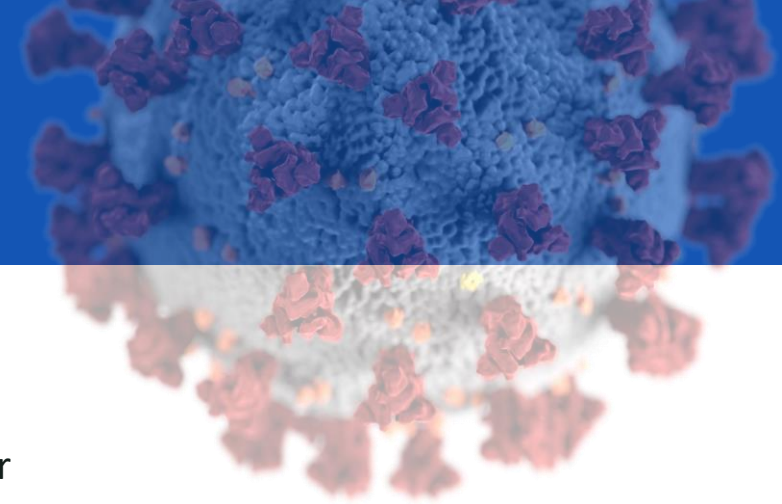
Figure 1 – Weekly actual and predicted deaths – all causes



Stats from Actuaries Institute Australia

The Impacts of COVID-19

Is it the end of Covid related claims yet?



Long Covid

- Long COVID is where symptoms remain or develop long after acute illness and can last for weeks to months.
 - Can **affect nearly all parts of the body** with multiple and varied symptoms. These symptoms can be persistent but come and go over time and have a negative impact on daily life.
 - Can also show up as **new chronic conditions**, such as heart disease, diabetes, kidney disease and neurological conditions.
 - **No specific treatment** for this condition, there are long COVID clinics help people recover from ongoing symptoms.
- There is no substantial evidence that the COVID infection was a major cause of insurance claim, however, researchers have long understood that people with **chronic health conditions are at increased risk for depression**. The same may be true for people with COVID as symptoms linger for months and sometimes years.
- Challenges in assessing and managing Long Covid related claims, such as the potential to **develop secondary Mental Illness claims** and stay on claims longer.

Understanding of Mental Illness and Outlook

start with poll

Observation

- Historic insurance claims incidence show that Mental Illness accounts for approx. 20% of all sickness claims which were relatively stable.
- Claims termination experience (duration of claims) has been volatile and continues to deteriorate.
- Claims duration is significantly longer than other cause of claims.
- Long delay in Mental Illness reporting time vs other sickness causes.

Outlook

- Greater awareness of mental illness in the population, increase usage of supporting service and prescription rate.
 - **Growing acceptance of need to manage mental health** and societal support may help reduce risk of chronic mental illness.
 - High treatment cost and scarce availability of psychiatrists.
- **Better RTW arrangements post COVID19 pandemic**
 - Some studies have demonstrated that remote work can reduce psychological and physical stress which may improve return to work outcomes for mental health claims.
- Consideration of the **impact of economic stressors** on mental health is important as the economic implications of COVID-19 are likely to be long-term.

Medical Advancement & Health Wellbeing

start with poll

Observations

- **Advancement in diagnostic technology** and early screening can detect conditions early before they deteriorate to severe stage.
- Improvements in **healthcare cover and wellbeing focus** would over time reduce the incidence of trauma events, such as AIA Vitality program.
- **Medical definitions of trauma events** and insurance policy wordings alignment. The WHO might reclassify tumour from benign to malignant.
- Trauma claims experience is sensitive on **product enhancements**.

Learnings from other markets

what could impact the claims cost significantly

Experience on trauma in Asia have been problematic in recent years:

- Increasing socioeconomic and medical infrastructure development leading to more medical assistance sought and diagnosis.
- Increase number of **private health screening clinics** and ongoing management services.
- The inclusion of comprehensive annual health check benefit in employee's package.
- **Lower cost of diagnostic machines** that are domestically produced rather than imported.
- National **health data platform** not linked with some of the private clinics led to certain anti-selective behaviour.

Environmental and Societal Expectations

Outlook

- New Zealand is currently dealing with a high degree of **economic uncertainty**, with high inflation rates, rising interest rates impacting insurance sales and claims. Households are feeling the pressures on increased costs of living.
- **Consumer confidence** lifted in October compared to June (using the ANZ-Roy Morgan Consumer Confidence Index). Although this rise was welcome, the level is still very low compared to historical averages.
- The **labour market and wage growth** remains strong.
- **Consumer focus shift** from the product terms to what the community expects of the product.

Lapses Trending Upwards

Retail Industry Analysis Q3 2023



Increasing lapse trend continues

- Q3 quarterly lapse rate continues to exceed same period previous year by ~0.5%, highest Q3 in past 3 years.
- Consistent experience trend across all insurers.
- 12 months rolling lapse rate continues the upward trend, approaching 5 year high.

Drivers Hypothesis

- Partially driven by delayed lapses from COVID period and shock lapses from repricing activities materializing.
- Inflation/cost of living increase and knock on effect from increase in home, car and health insurance prices.

Case Studies: Income Protection Pricing Changes

Australian Income Protection

Income Protection pricing has increased significantly over the past decade. It has jumped by more than 70% when measured now vs 2013. **However**, at a society level safety standards and medical care has actually improved. Biometrically, seems counter intuitive!

Key driver of this has been increases to claims cost partially driven by product terms (competitive pressure):

- Over-insurance which lower financial incentive to return to work
- Generous product terms with additional benefits added over time
- Agreed value, claims escalation benefit and less effective offset terms

Customers seem to have changed how they interact with IP:

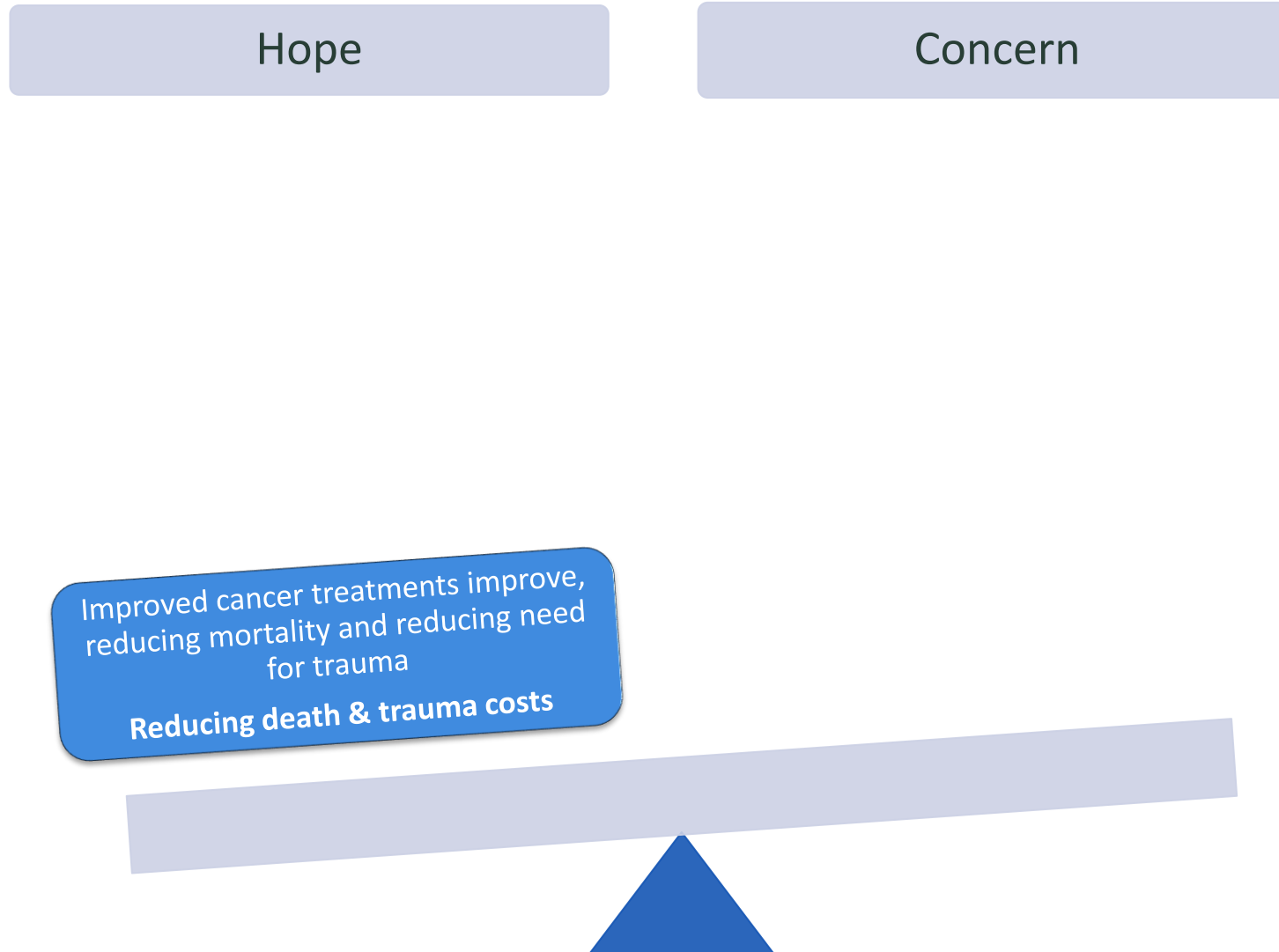
- More customers are claiming; and
- Customers who do claim are staying on claim for longer

Claims data and reporting delay made the situation worse, insurers had to put through pricing increases several time to cover the significant increase in claims.

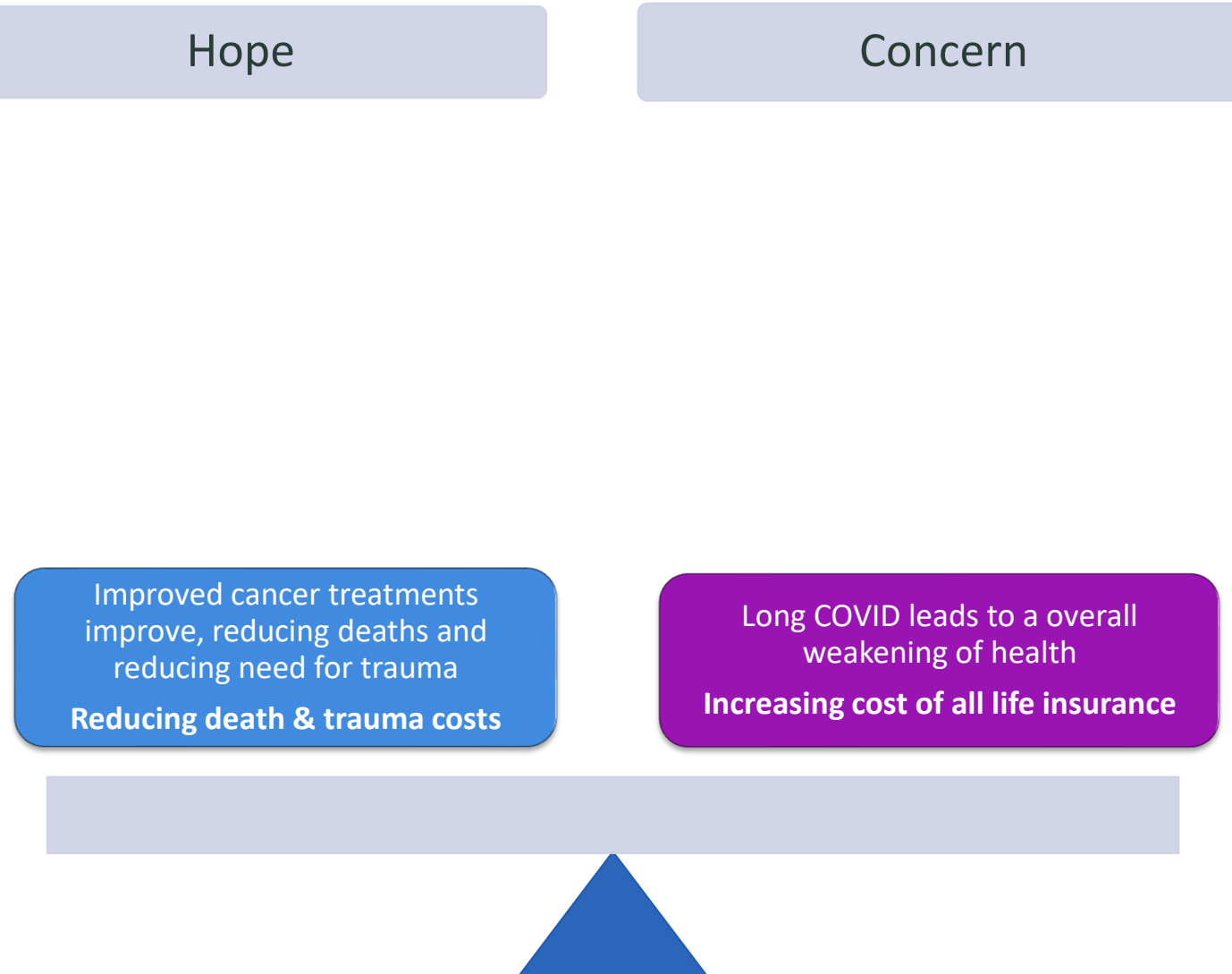
Hope and Concern for Future Claims Cost



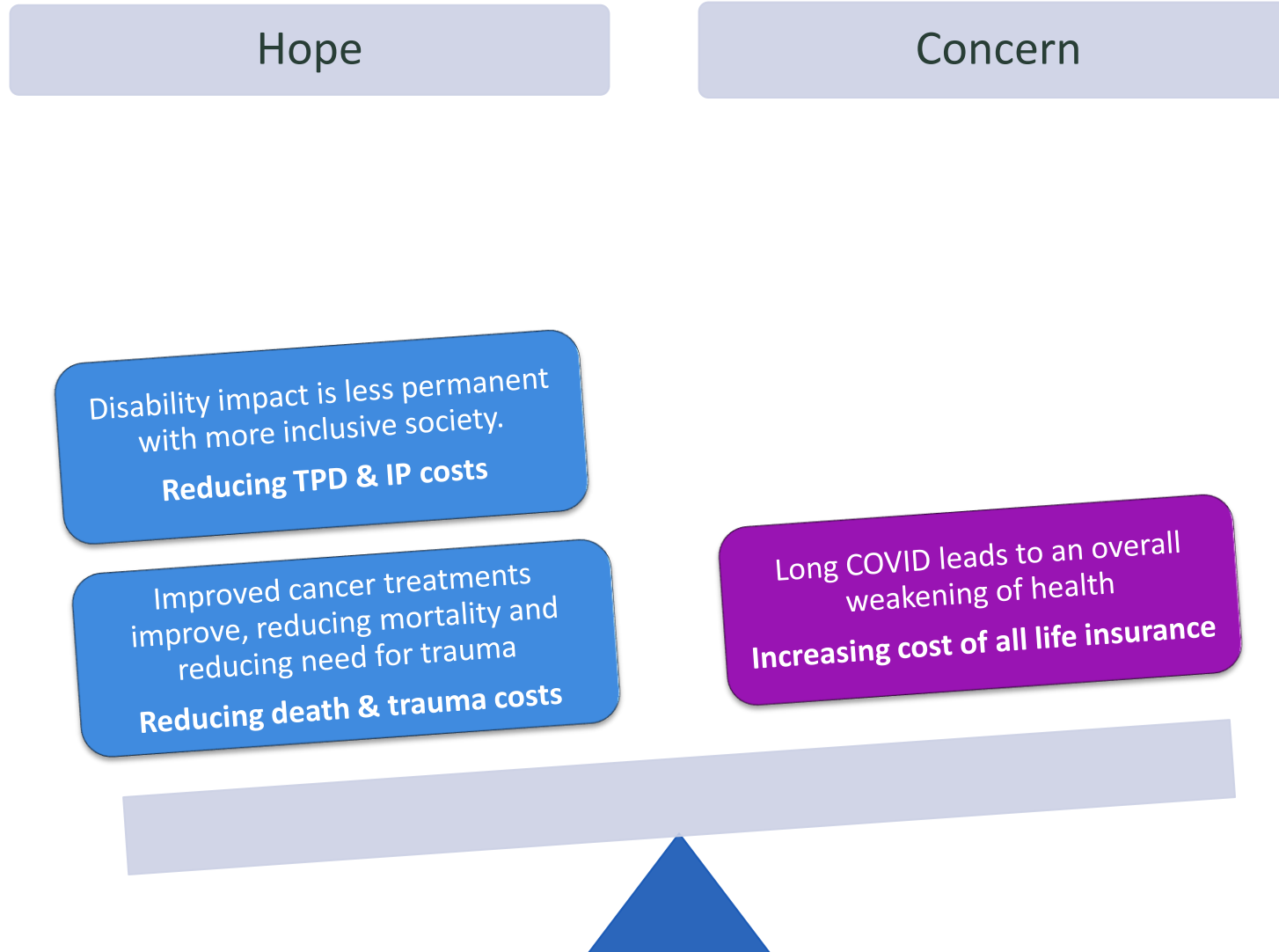
Areas of hope and concern for future claims cost (and insurance affordability)



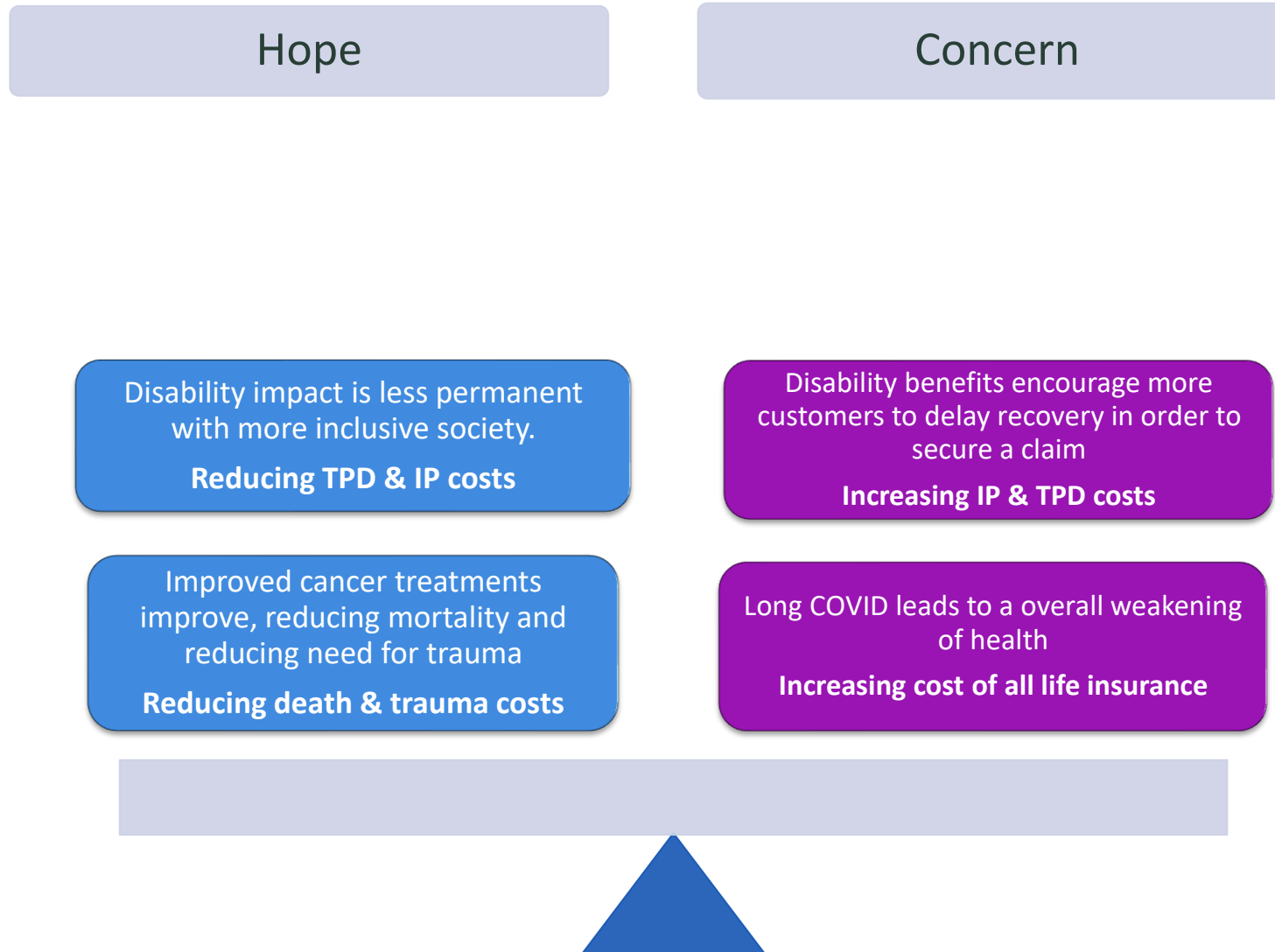
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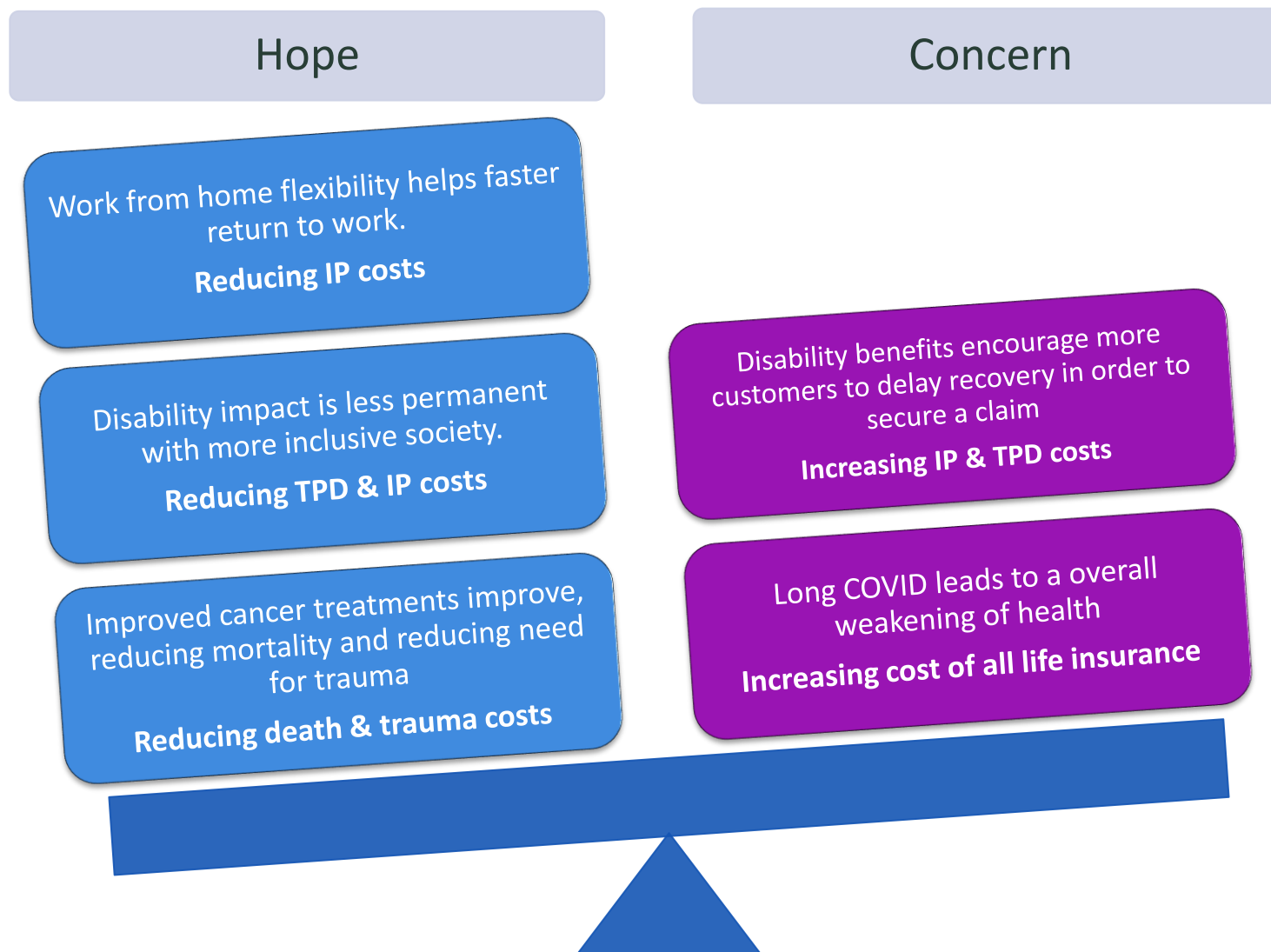
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Areas of hope and concern for future claims cost (and insurance affordability)



Areas of hope and concern for future claims cost (and insurance affordability)



Tips for more stable client premiums

If premium stability is a customer priority...

01

Perhaps recommend an established and mature company

Why?

Newer companies have less developed/credible experience to price from.

There is potential mis-pricing risk due to wrong assumptions made or lack of understanding of the local market.

Hence, correction/catch up might be required later to restore profitability which could lead to large pricing adjustment.

02

Reduce exposure to most generous product benefits or where claims can be influenced by customer motivations

Why?

Product benefits:

- that have subjective claim definitions; or
- where claim eligibility can be influenced by customer behaviour and motivations

Might have a higher chance of increasing claims cost (& premiums)

03

Perhaps recommend insurers with a track record of underwriting diligence and claims practice

Why?

Insurers that admits riskier customers at standard rates will likely lead to price rises for all once the claims experience comes in.

UW & Claims team resource level and expertise on case assessment quality and effective customers return to work support, for better pricing stability.

Any
questions?

