
ICA Cancun 2002

Learning from Experience

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Objectives

To help a Product Manager to

- Understand the impact on the insurer's financials
- Identify the key risk factors
- Learn from experience
- Modify strategy and tactics



Health Insurance Products

- Critical Illness
- Income Protection
- Long Term Care
- Medical Expense
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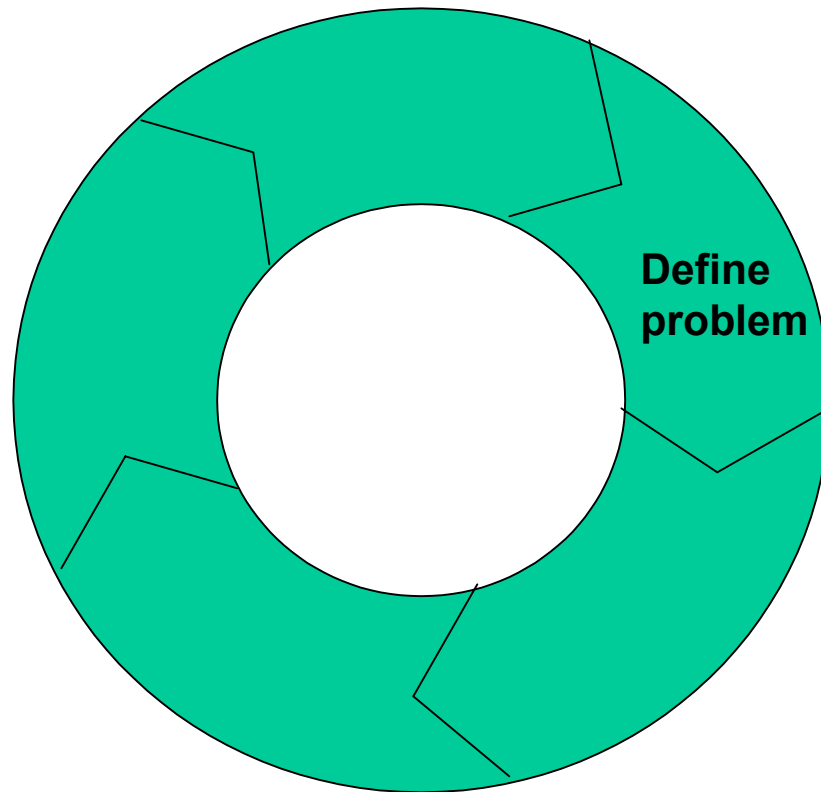


Scope

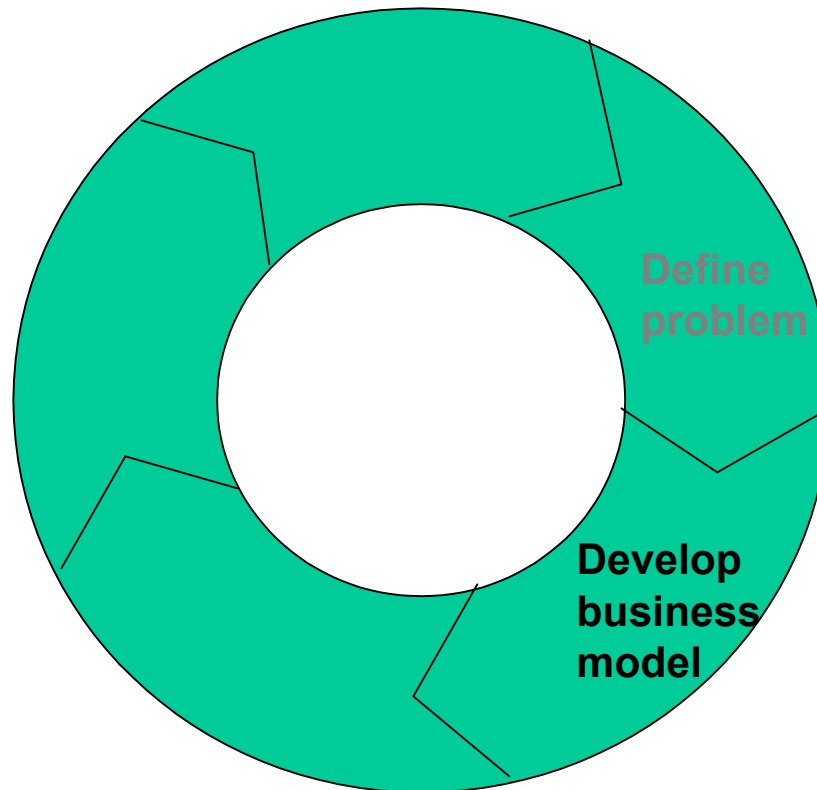
- Product Design
- Distribution
- Pricing
- Reserving



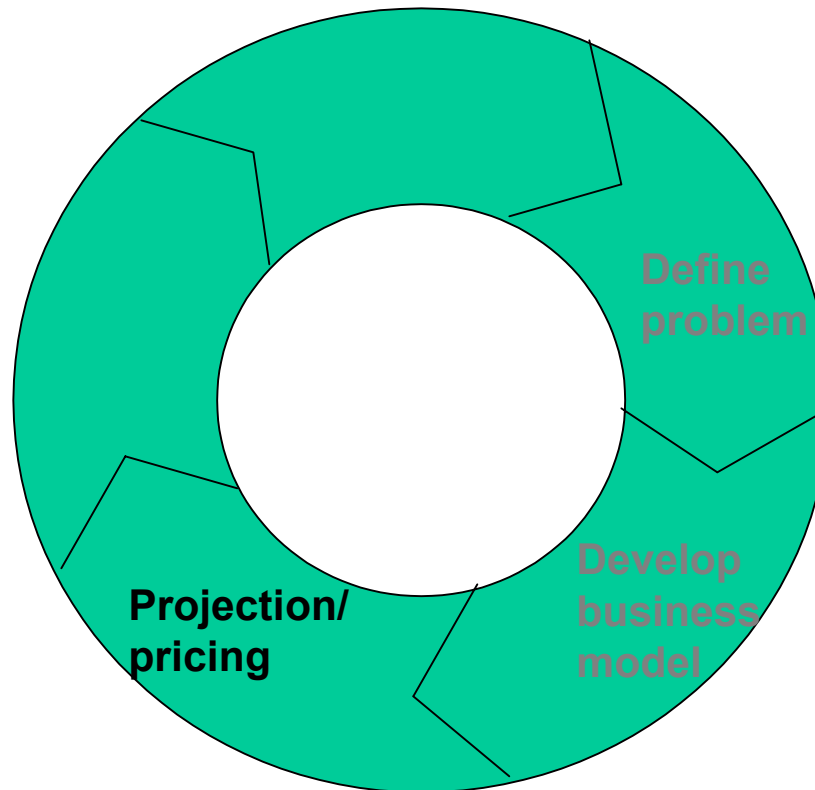
Control Cycle



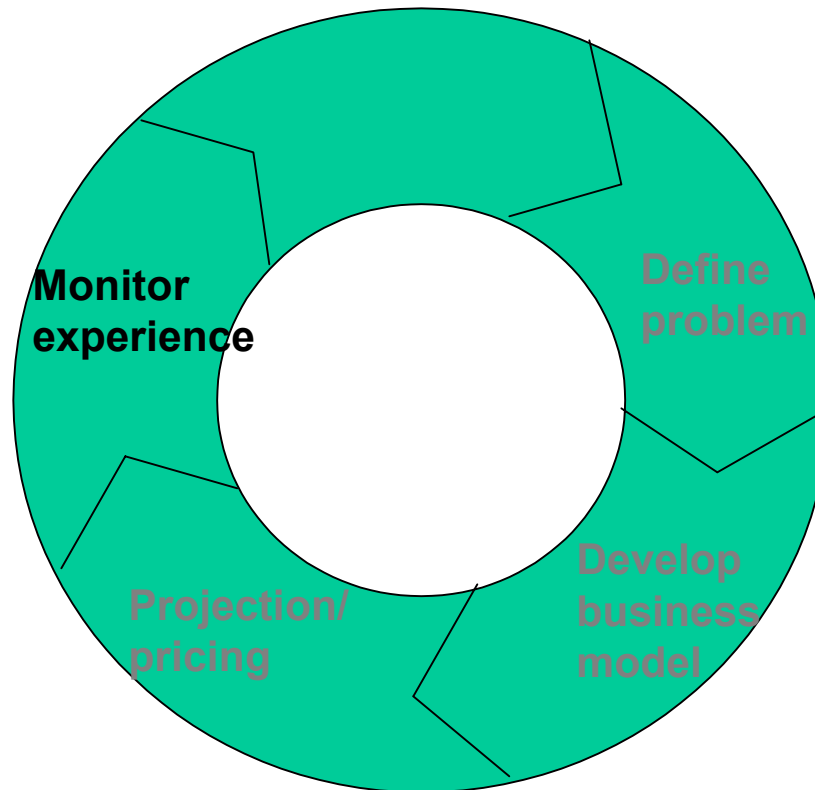
Control Cycle



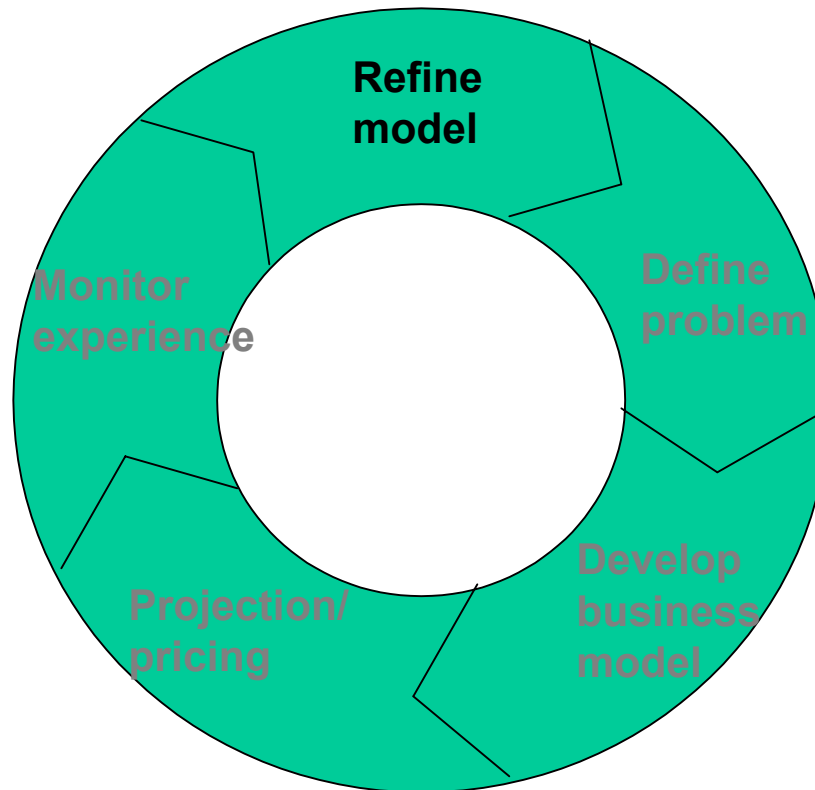
Control Cycle



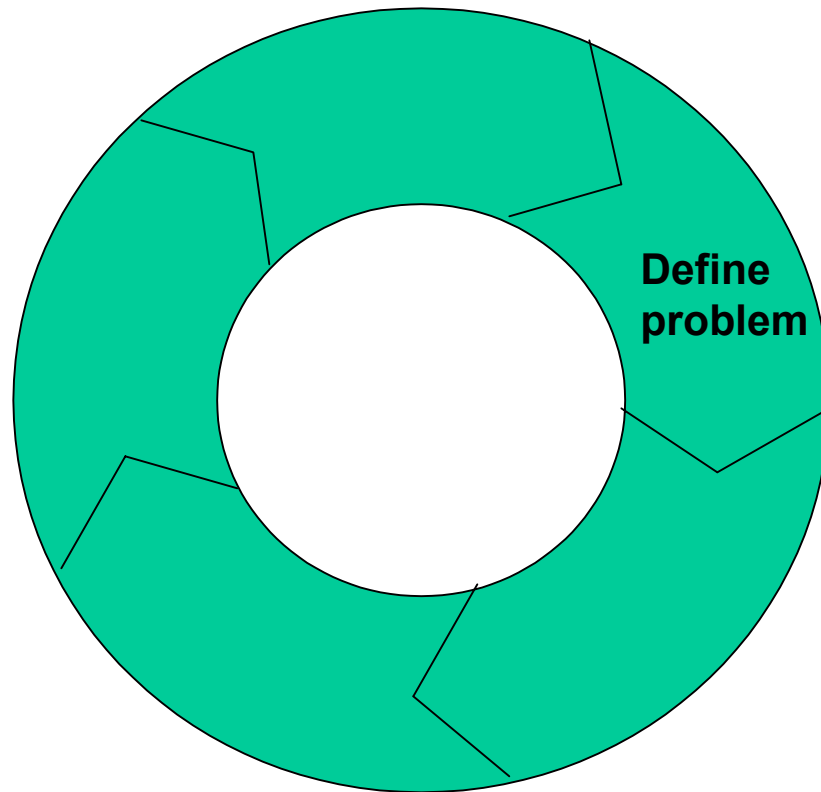
Control Cycle



Control Cycle



Control Cycle



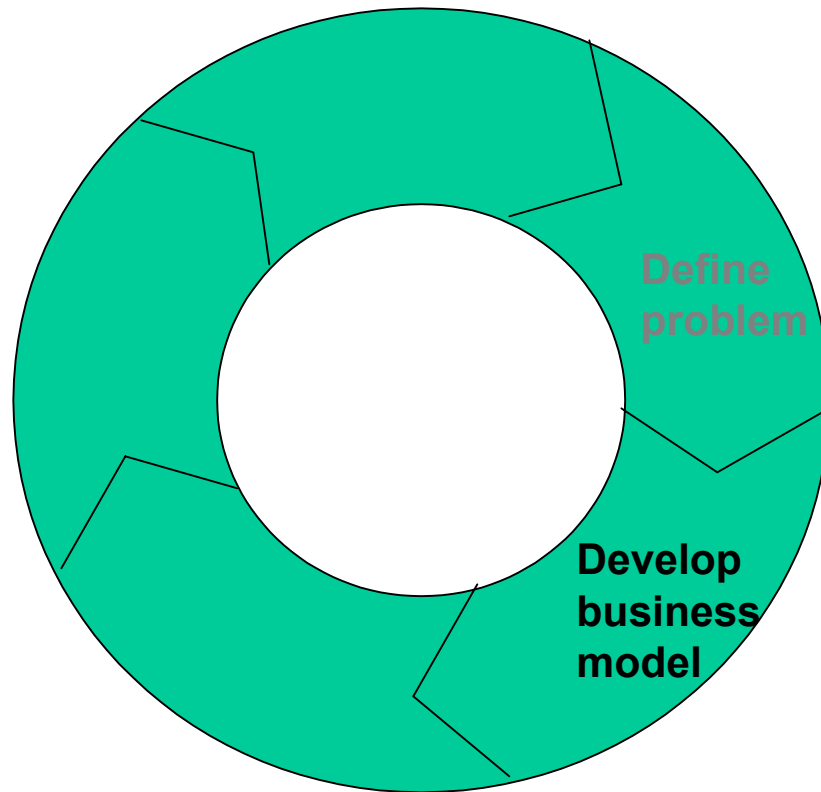
Define the Problem

Establish objectives

- Volume
- Profitability/contribution to overhead
- Modernise product range
- Timescale



Control Cycle



Business Model

Input items

- Product Design
- Distribution Strategy
- Anticipated Experience
- Reinsurance
- External costs and inputs
- Reporting Framework(s)



Business Model

Output items

- Projected Revenue
- Projected Capital needs
- Projected use of other resources
- Sensitivities



Product Design

- Benefits scale
- Benefit definitions
- Guarantees
- Options



Distribution Strategy

- Channel
- Target Market(s)
- Model Points
- Pricing Structure
- Underwriting Strategy



Anticipated Experience

- Product Related

- One-off Development Cost
- Morbidity
- Persistency



Anticipated Experience - Distribution Related

- Development Cost
- Volumes
- Mix



Reinsurance

- Method
- Reinsurance Limits
- Reinsurance Terms



External Costs/Inputs

- Capital
- Issue Expense
- Maintenance Expense
- Tax
- Investment Income

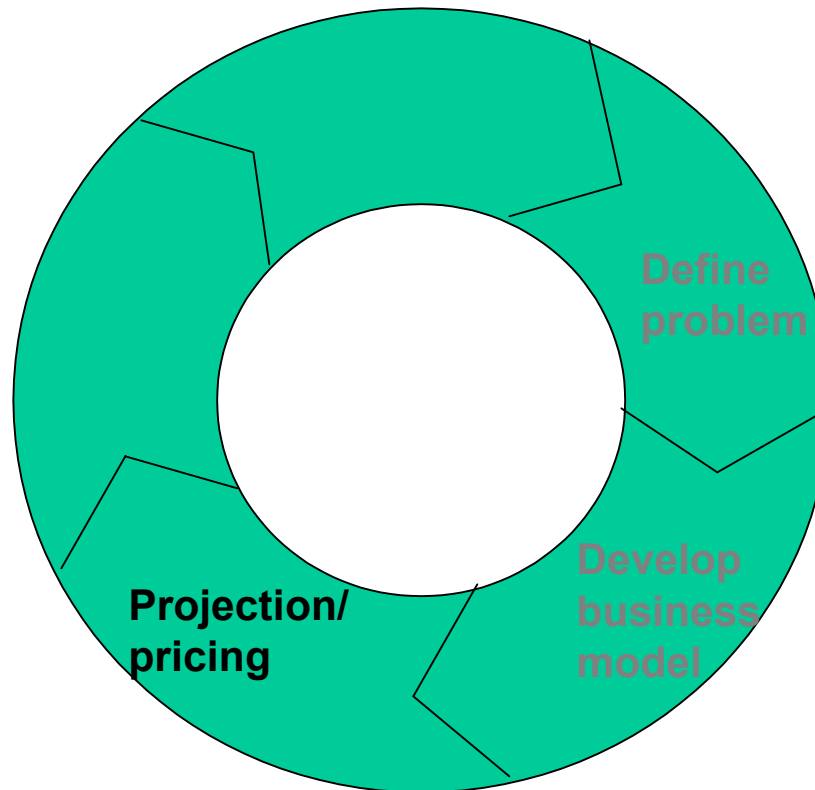


Reporting Framework

- Accounting Conventions
- Reserving algorithms
- Solvency Capital
- Possible future changes



Control Cycle



Projected Revenue

- On all the bases that matter
- Monthly intervals
- Full revenue account
- Surplus/deficit
- “Drill-down” facility



Resource Utilisation

Capital

- Accumulated Statutory deficit
- Solvency Margin
- RoCE

Other

- People, space, IT capacity....



Sensitivities

- Deterministic versus Stochastic
- Single parameter tests
- Environment tests
- Combination “Doomsday” tests
- Identify key risk factors....and manage



Model Overview

- Own the Model
- Document
- Communicate key findings



Parameter Setting

Sources

- Own experience
- Colleagues
- Market Experience
- Reinsurers
- Official Statistics
- Professional papers



Pricing Benchmark

- Price to achieve profit target
- Compare with peer group
- Investigate differences



Benchmarking Review

- Confirm approach
- Modify approach
- Abandon?



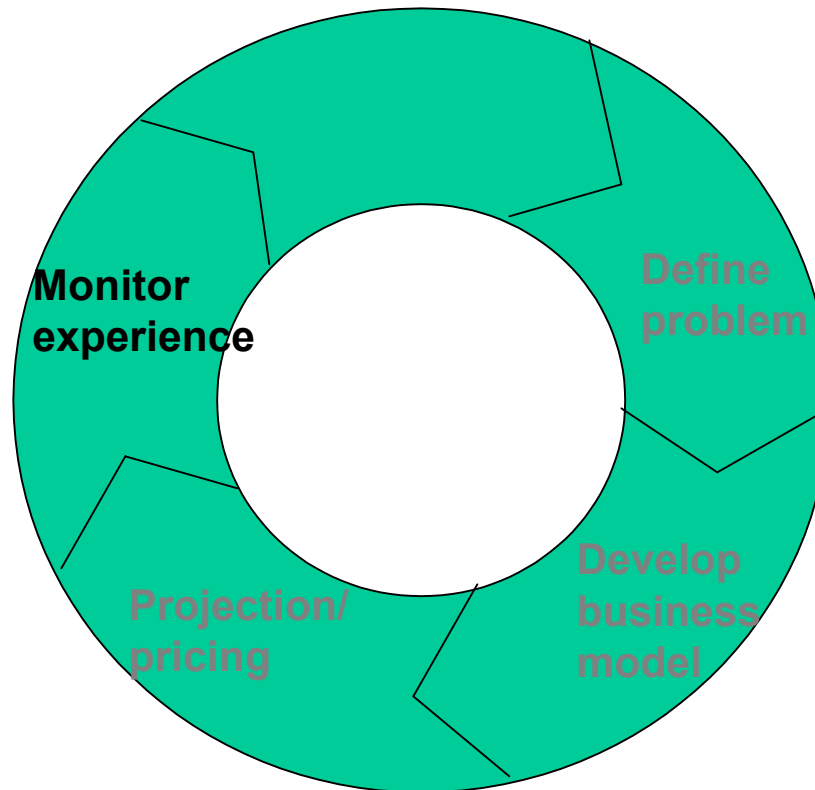
Systems

Objectives

- Collect any data that might indicate a risk factor
- Collect detailed claims data
- Facilitate changes to product design



Control Cycle



Evaluate Experience

Tools

- Whole account studies
- Single factor studies
- Progressively refine if/when data allows
- Multiple regression analysis



Things to look at....

- All the assumptions in the model
- Numbers vs amounts
- Decrements rates vs anticipated actual
- Analysis of surplus under different regimes
- Projected revenue: outturn
- Peer group performance

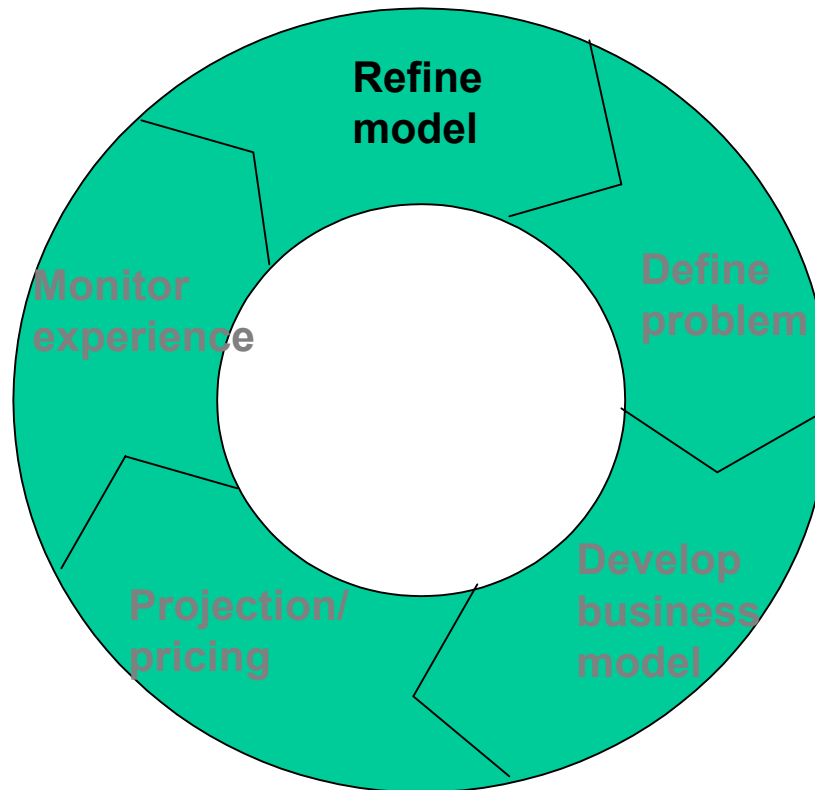


Research Programme

- Prioritise
- Rolling program
- Standardise
- Automate
- Contribute to industry studies



Control Cycle



Learning the Lessons

- Identify the best parts of the portfolio
- Identify the worst-performing parts of the portfolio
- Modify Business Plan
- Reprice



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Overview

Control cycle is a vital tool

Provides early clues as to best route through largely uncharted territory

Key elements

- documentation
- projection
- data collection
- analysis
- modification of policy

