

ICA 2014

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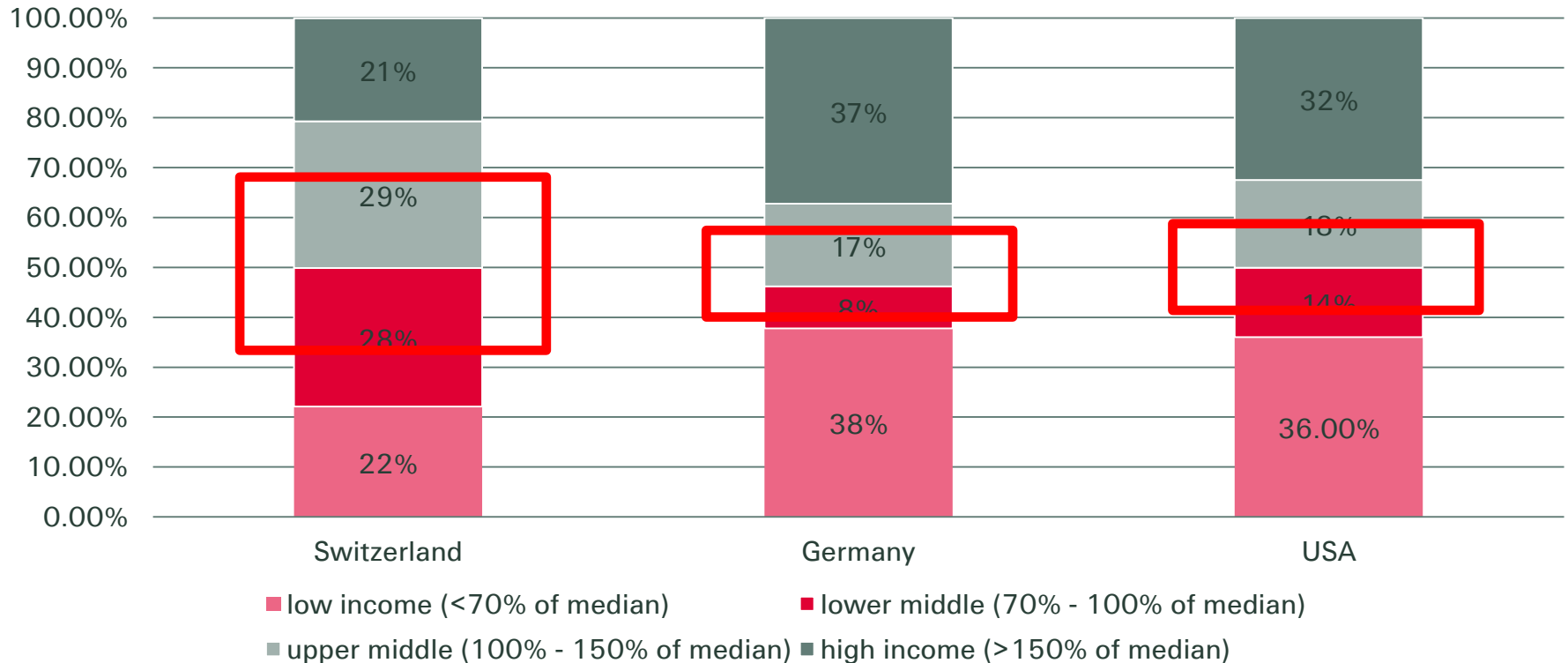
The Middle Market New business: Different business

There is great potential for growth in the middle market,
but it needs a fresh approach



Who is this "Middle Market"?

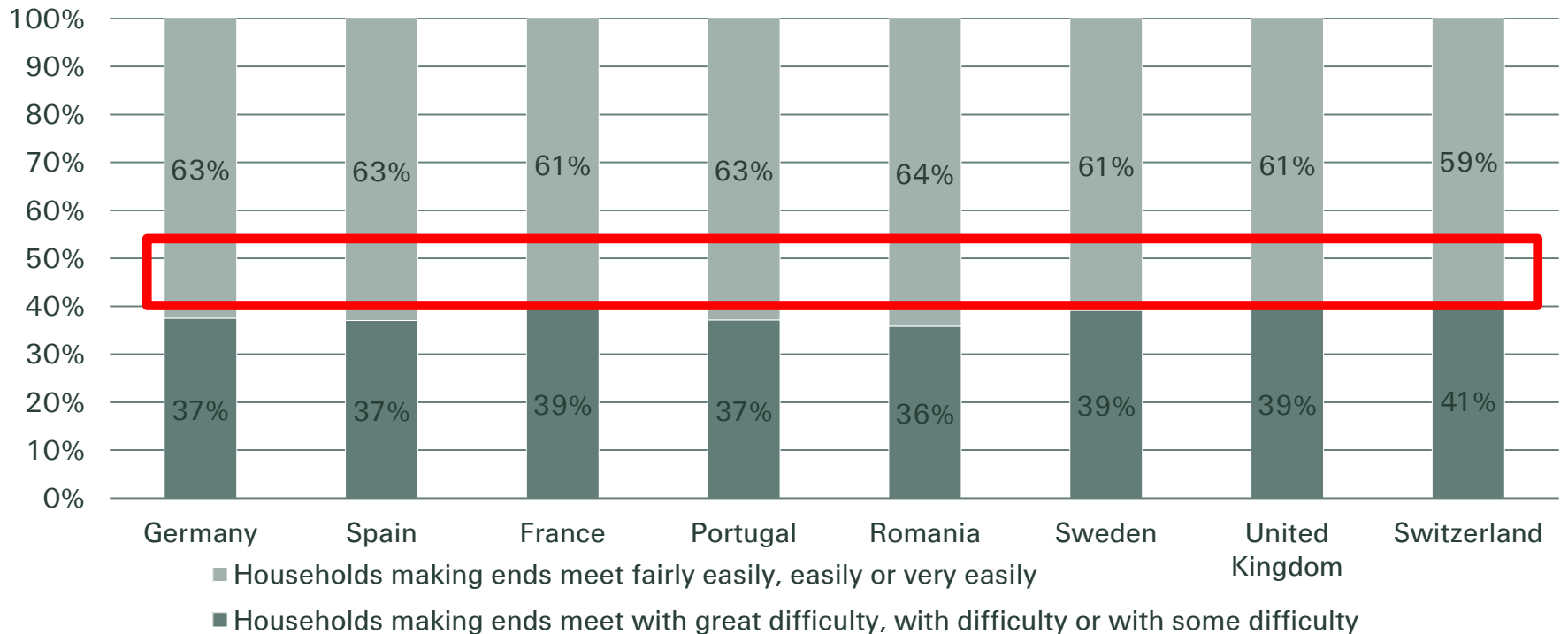
If we look at it by income...



Source: Swiss Re Economic Research & Consulting

"The Middle Market" is partly identified through a income definition...

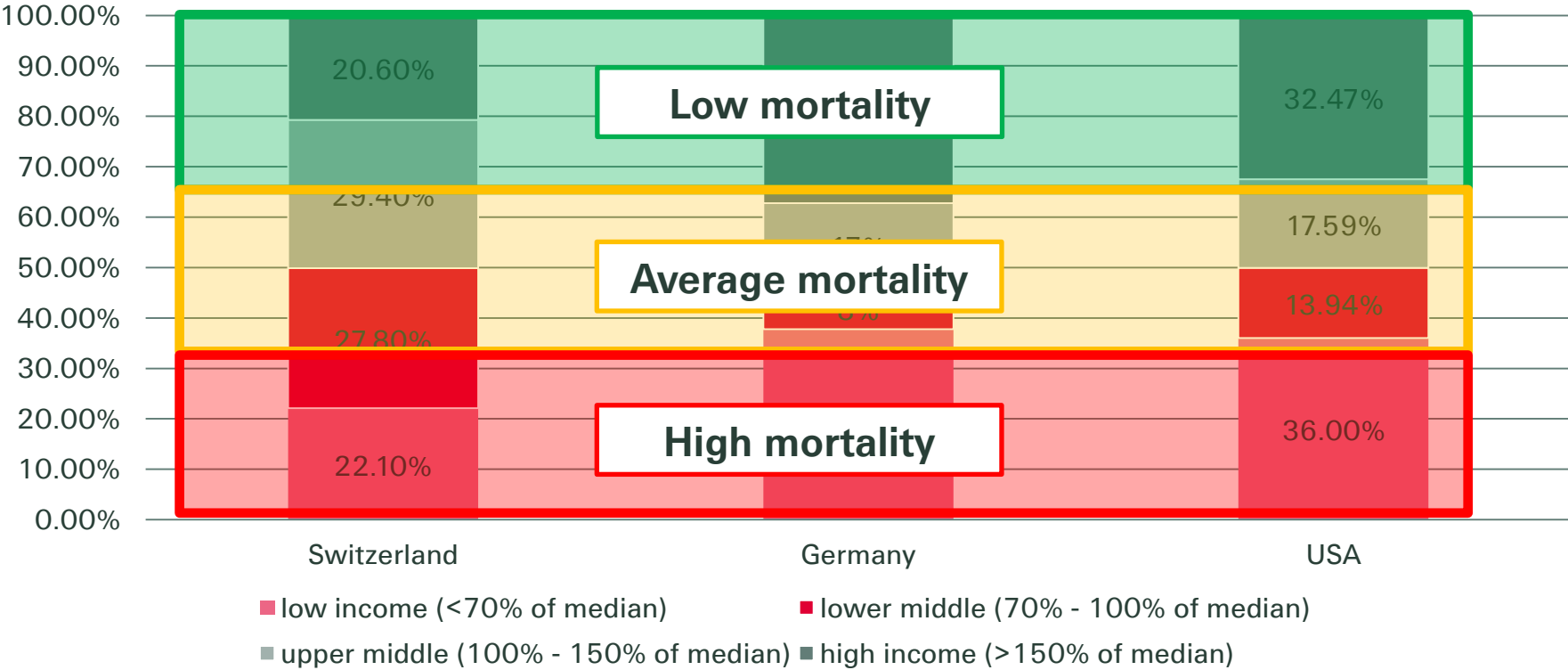
... and how easily people make ends meet



Source: Swiss Re Economic Research & Consulting

... but also its ability to make ends meet.

And claims experience does matter

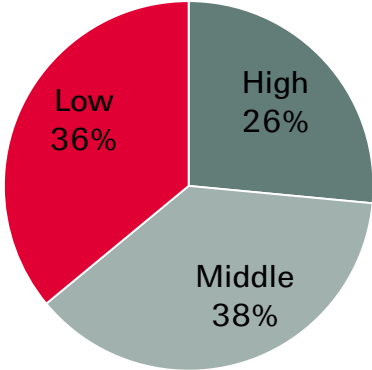


Source: Swiss Re Economic Research & Consulting

It is important to understand the underlying risk of this group

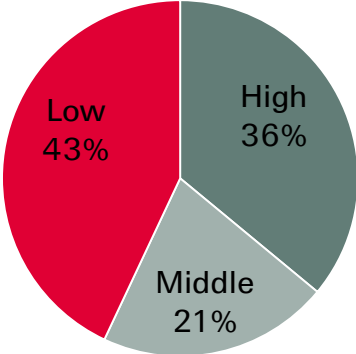
What are the numbers?

Switzerland



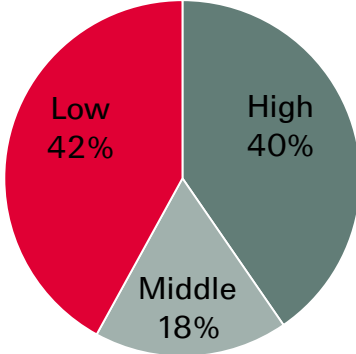
3 million

USA



66 million

Germany



14 million

This is a market with numbers. But it is different.



The Protection Gap

The massive Protection Gap globally

The mortality protection gap by region



Source: Swiss Re estimates

Why are consumers not buying?

Main reasons why consumers do not buy life insurance



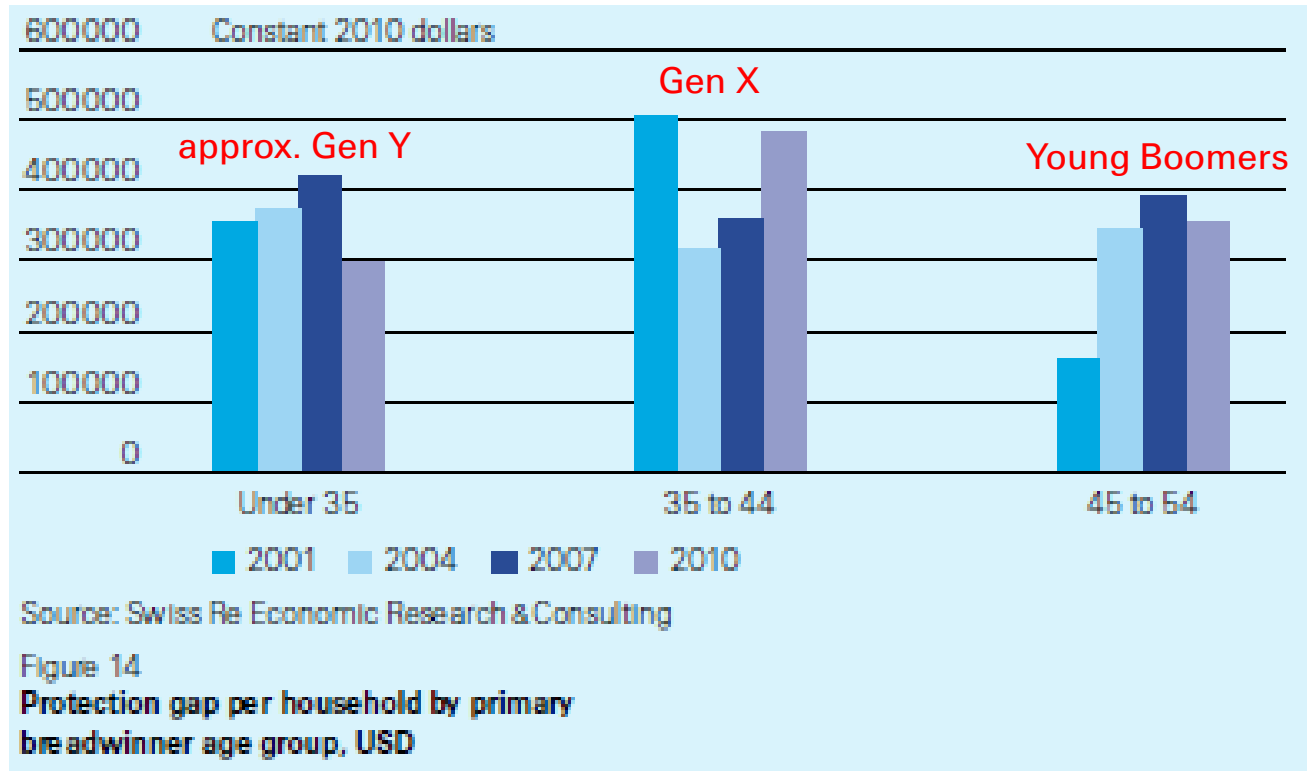
Behavioural Economics

Automated Underwriting

Data Driven Target Marketing

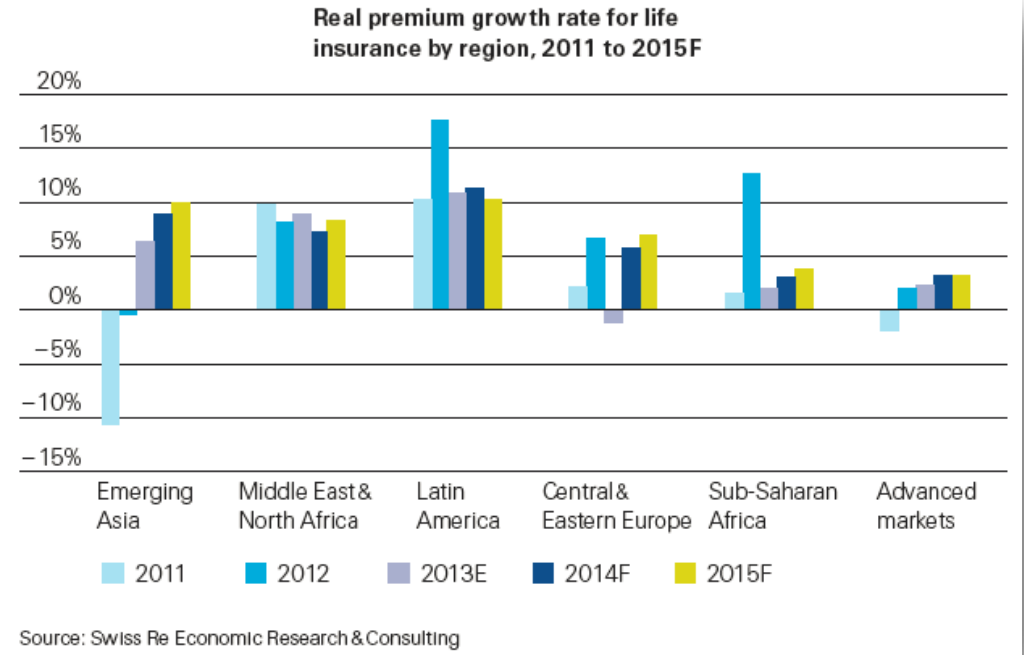
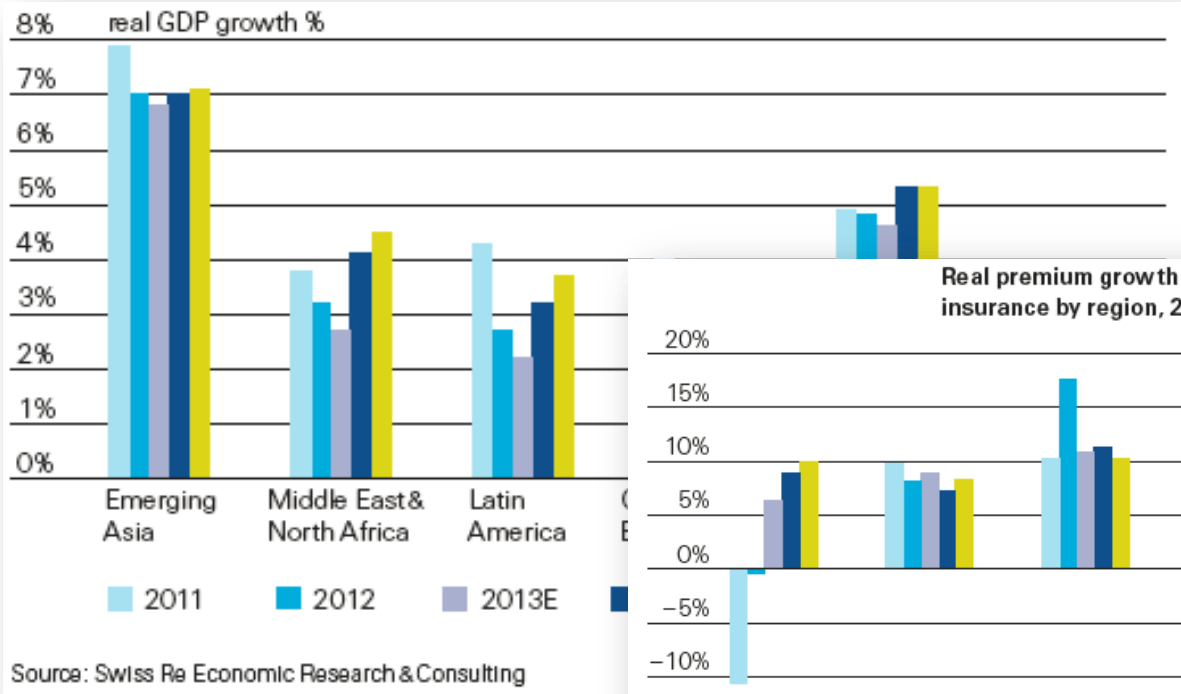
Sources: US: *Buyers and Non-Buyers*, LIMRA, 2012; Continental Europe: *European Insurance Report: Customers for Life*, Swiss Re, 2012; UK: *The Insurance Report, Facing Life's Responsibilities*, Swiss Re, 2011; Latin America: *Latin America Insurance Report 2013*, Swiss Re, forthcoming.

Protection Gap Middle Market, US



Generation X, middle market, is a major contributor to the Protection Gap

Where is the growth?



GDP growth -> rising middle class -> opportunities for insurance

Why is there such a gap?

Smaller policies

Less Advice
Driven

Poor
Communication

Complex
Propositions

Fulfilment time
Far Too Long

There is a clear opportunity here

In the US, the middle market represents the largest segment of uninsured households, with half (36 million) admitting they need more life insurance

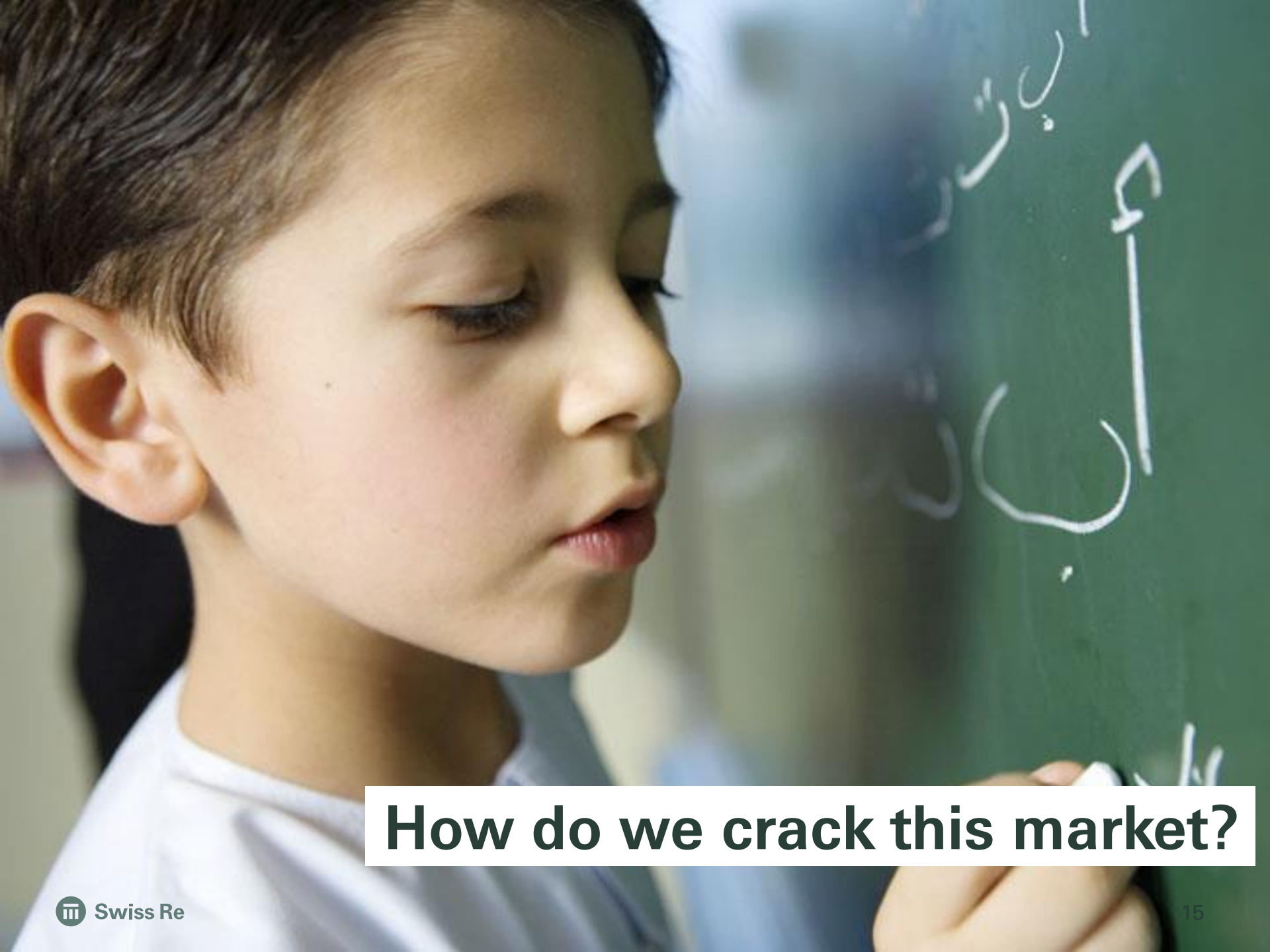
LIMRA

The top two reasons people don't buy life insurance are:

1. Competing financial priorities
2. Because they think they cannot afford it

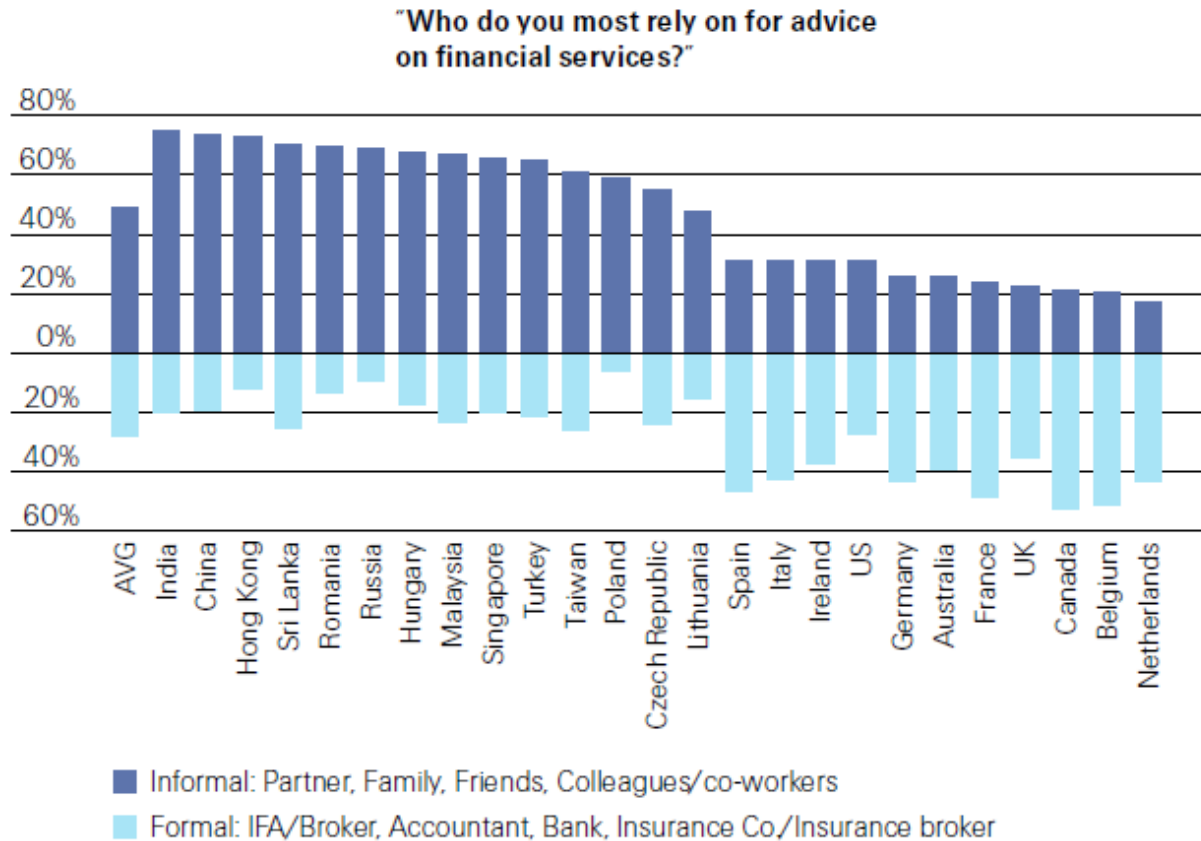
LIMRA

Interestingly though, studies found that consumers overestimate the cost of life insurance by as much as three-fold (**LIMRA**/LIFE, Swiss Re European Insurance Report, ...)



How do we crack this market?

Simplification is critical



Formal Advice Is Not Always Tops

Customer Experience Critical

Reduce And Manage Fraud

Risk Classification Critical

Source: *Understanding Consumer Attitudes to Saving*, AVIVA, 2008

Product experience is critical

Underwriting

- Reduce number of questions
- Move onto different technologies

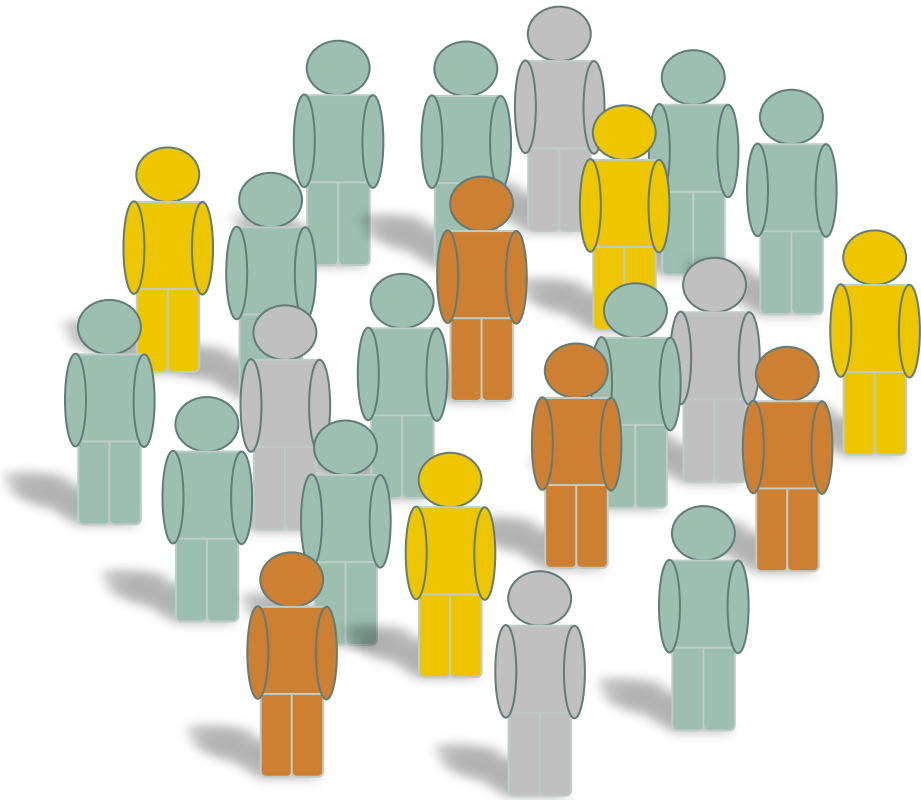
Advice / Information

- Remuneration based on experience
- Information easy to understand

Clever Use of Data

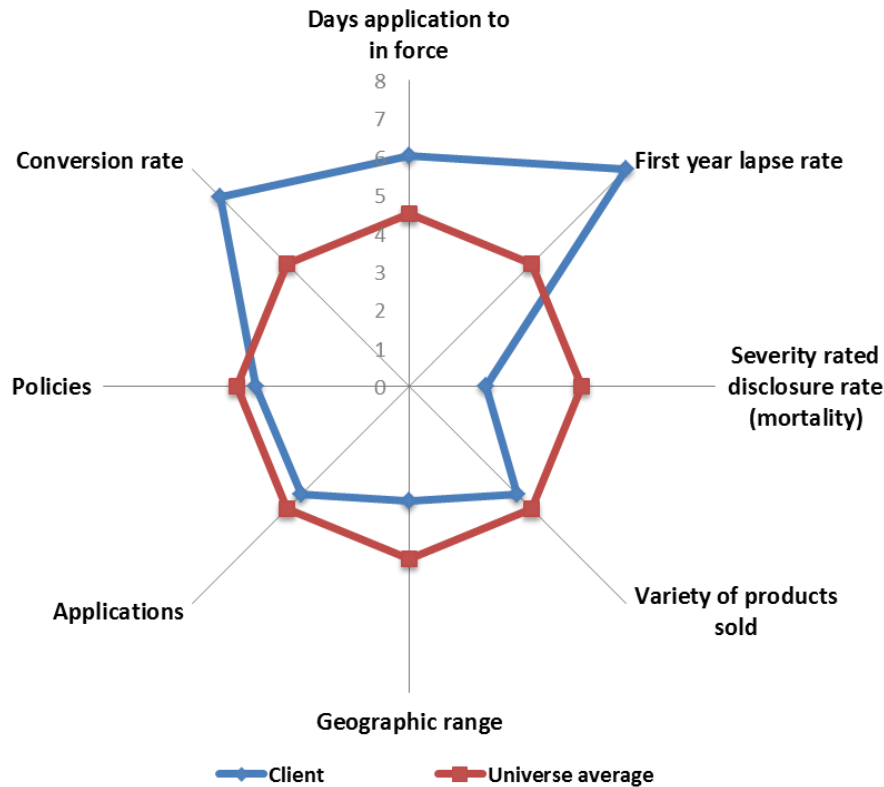
- Use insights from data to understand profit potential of clients
- Consider new sources of data

Identifying "good" and "bad" agents



Category	Description
Market reach	An agent with a wide market reach will tend to sell larger volumes of business
Geography	Some smaller agents may concentrate their sales locally which may be perfect for niche local products but not for nationwide reach
Range of products sales	Some agents may be good at selling a range of products such as life, CI and IPI, however some may be only comfortable with life. If a client is wishing to expand IPI then understanding the type of agent selling IPI will be useful
Lapse rates	The extent of churning business is a key factor when deciding upon the quality of a distributor. Insurers will want sticky business
Conversion rates	A good agent will convert a high number of applicants into policies
Number of medium to high risk disclosures	The truthfulness and ability to complete an application form is important to ensure the correct disclosures are included

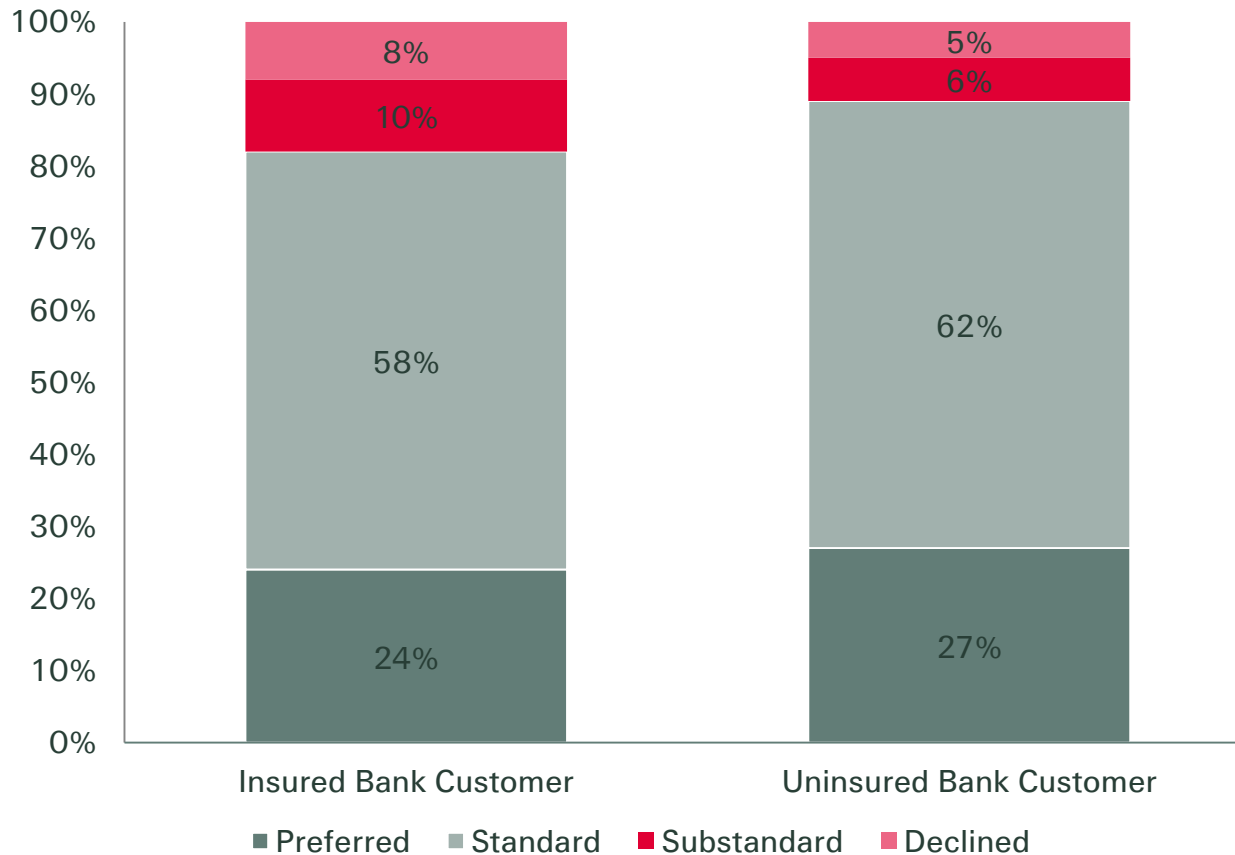
Understanding agent performance



The red radar shows the average score for the aggregated industry universe

Inside the radar is good, outside needs investigating

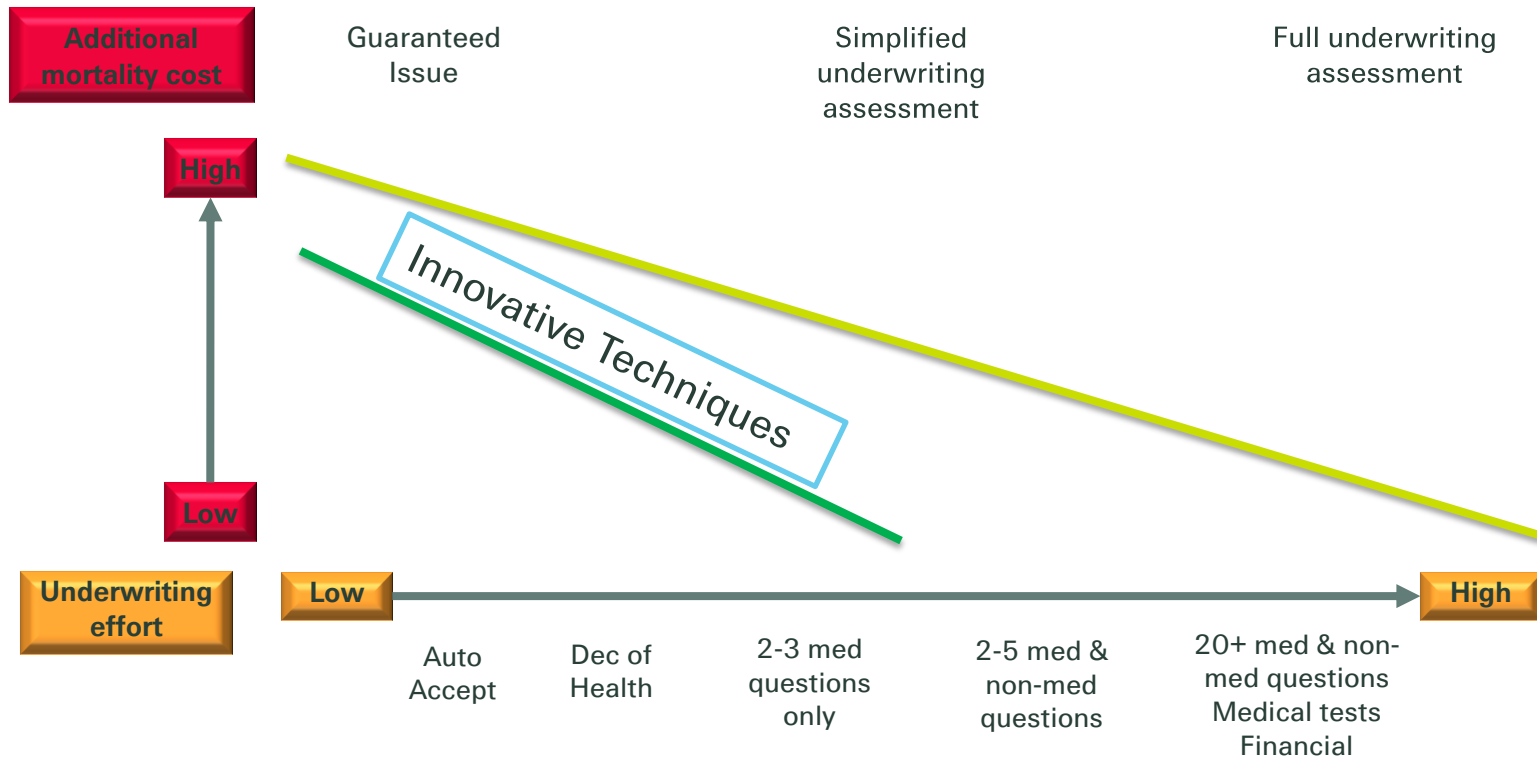
Understanding the target population



Source: Swiss Re Global Underwriting and Client Services

There is a lot of value in the uninsured population that is waiting to be unlocked

Balancing risk management, pricing and efficiencies



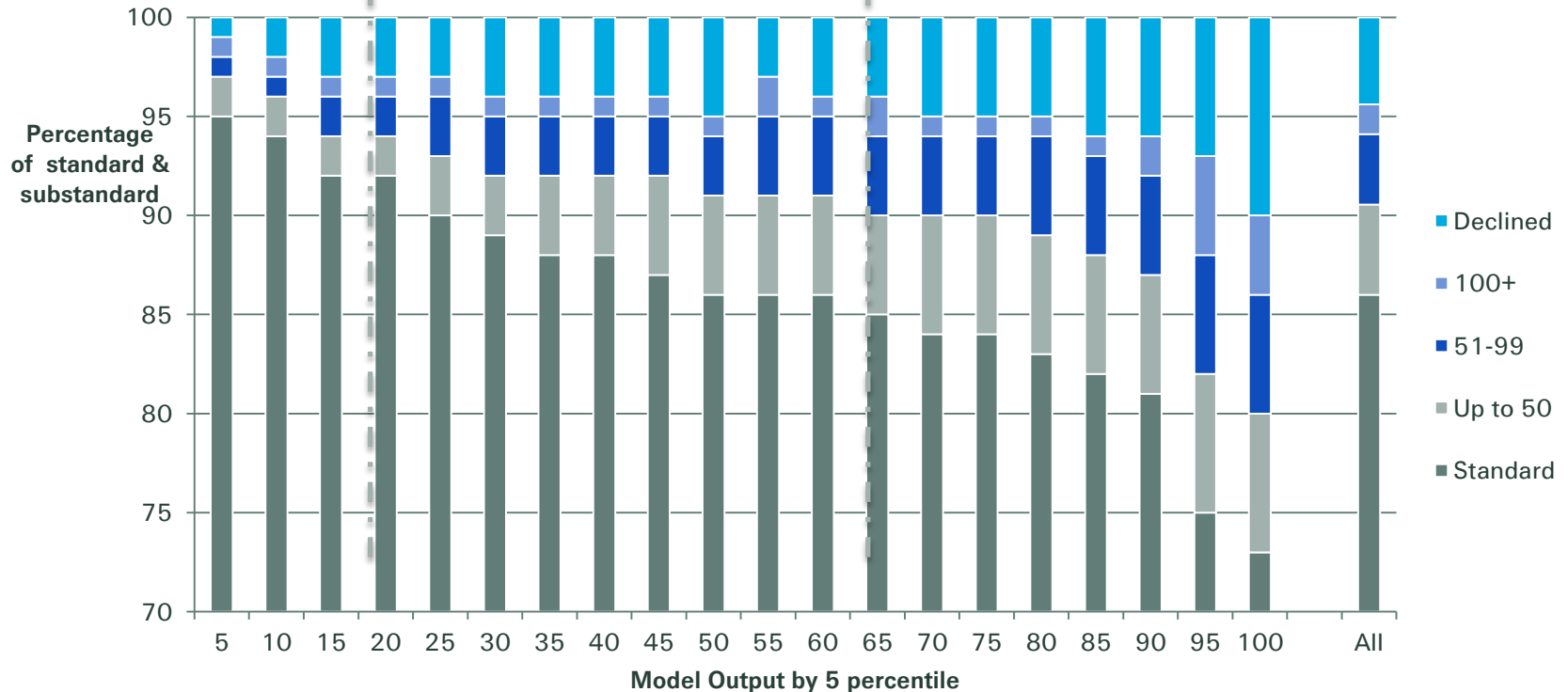


Case studies and insights

Predictive Underwriting

Cut-off could be set anywhere within this range

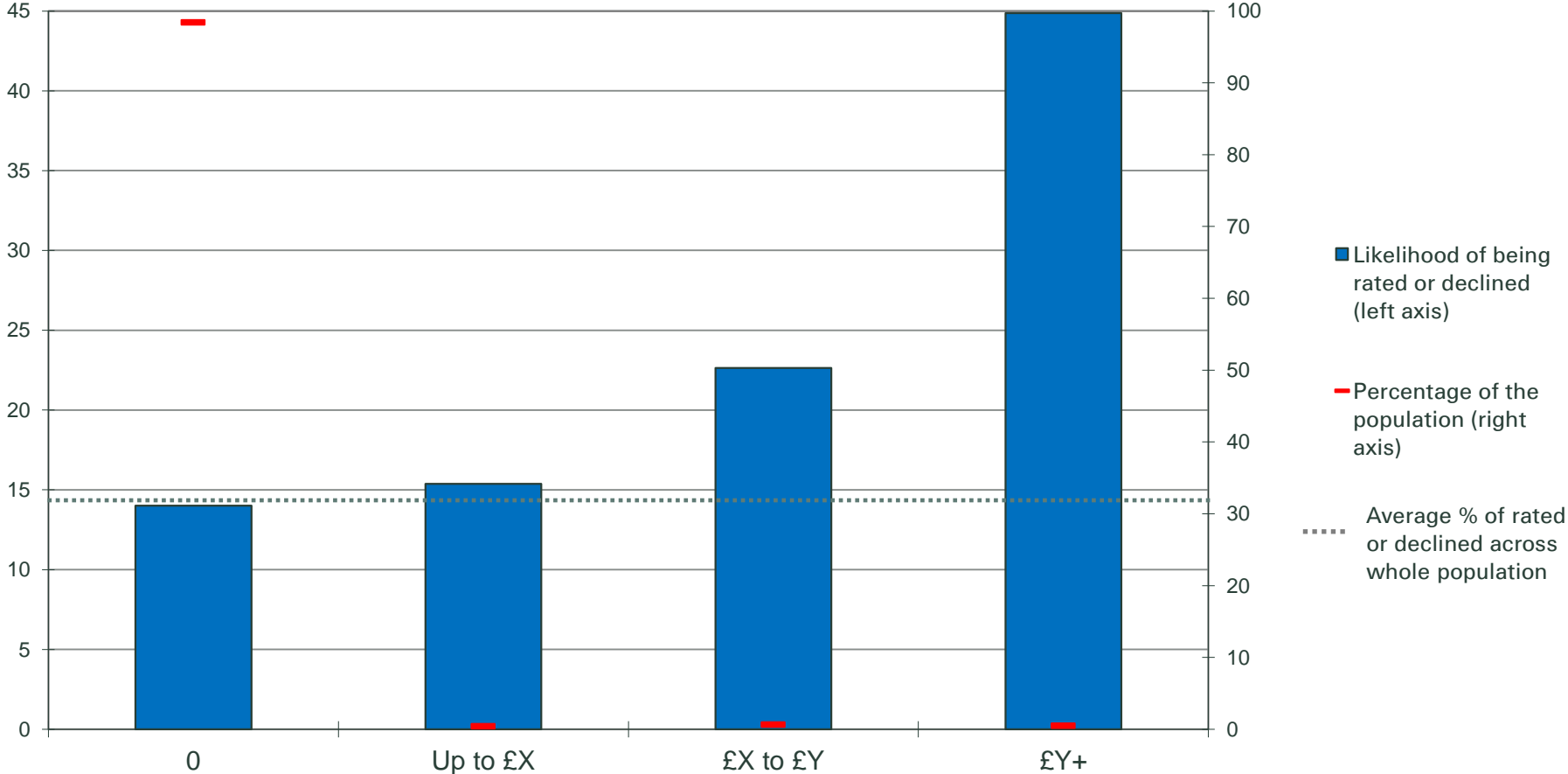
Fictional model output



This tells us, for example, that the top 5% of the model contains a "rated or decline" rate of 5%, as opposed to 14% were no model built (see "All" column)

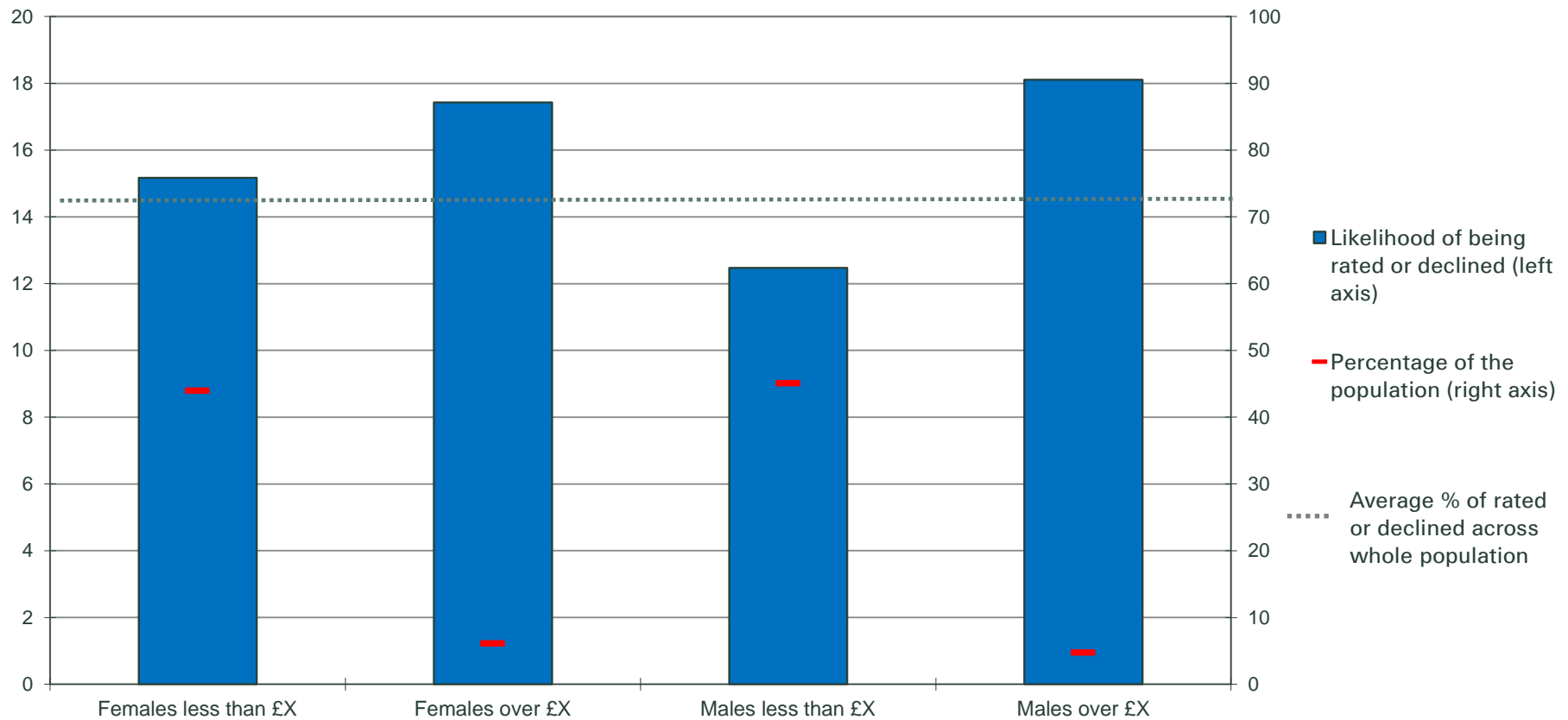
How intelligent can data be?

Customer in receipt of incapacity benefit (last 12 months)



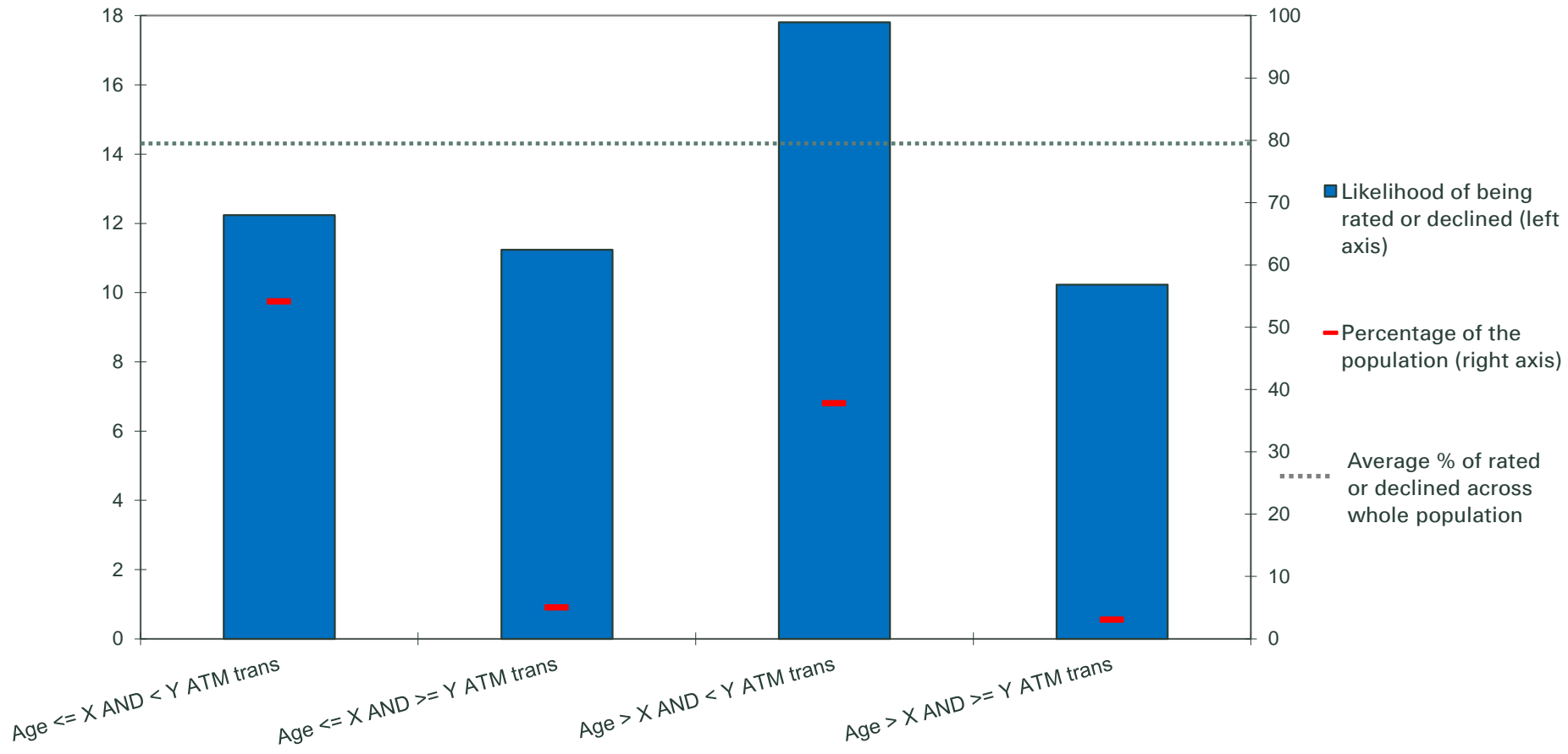
Digging deeper...

Value of Health Transactions in last 12 months

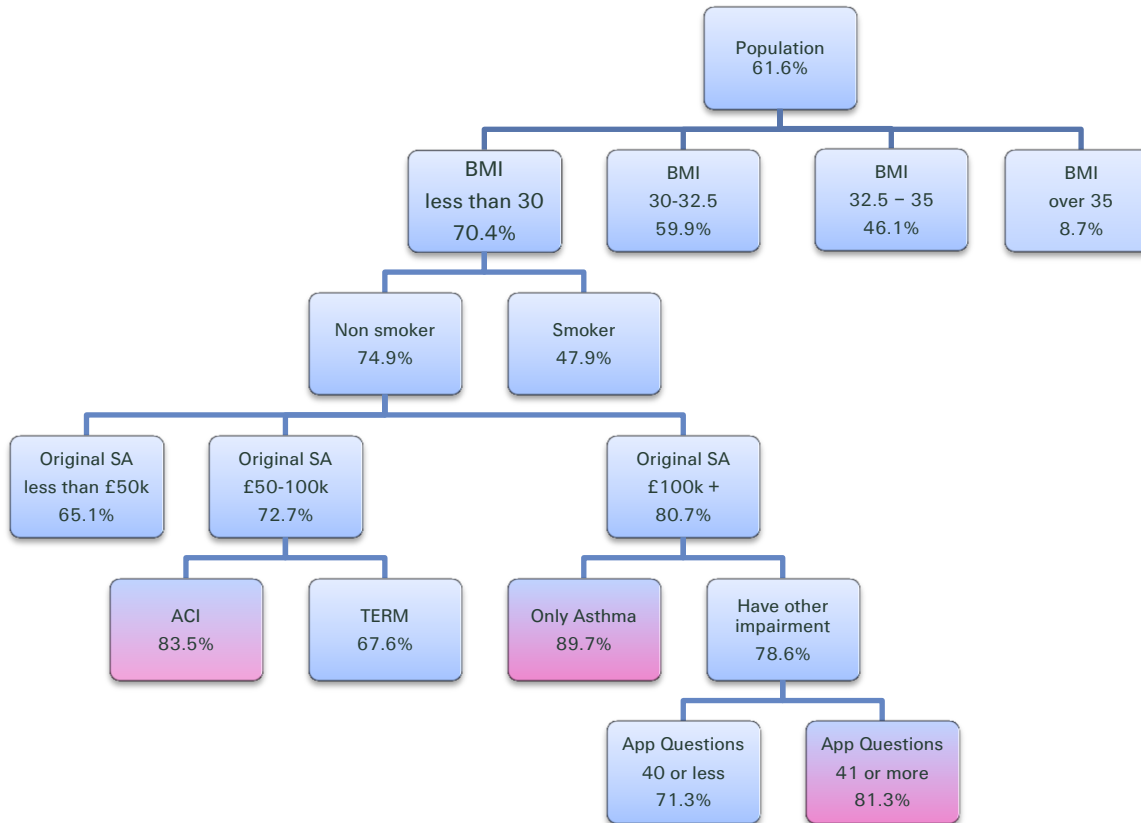


Further refining...

ATM cash withdrawals in last month



Optimising through targeting: Low Risk Asthmatics



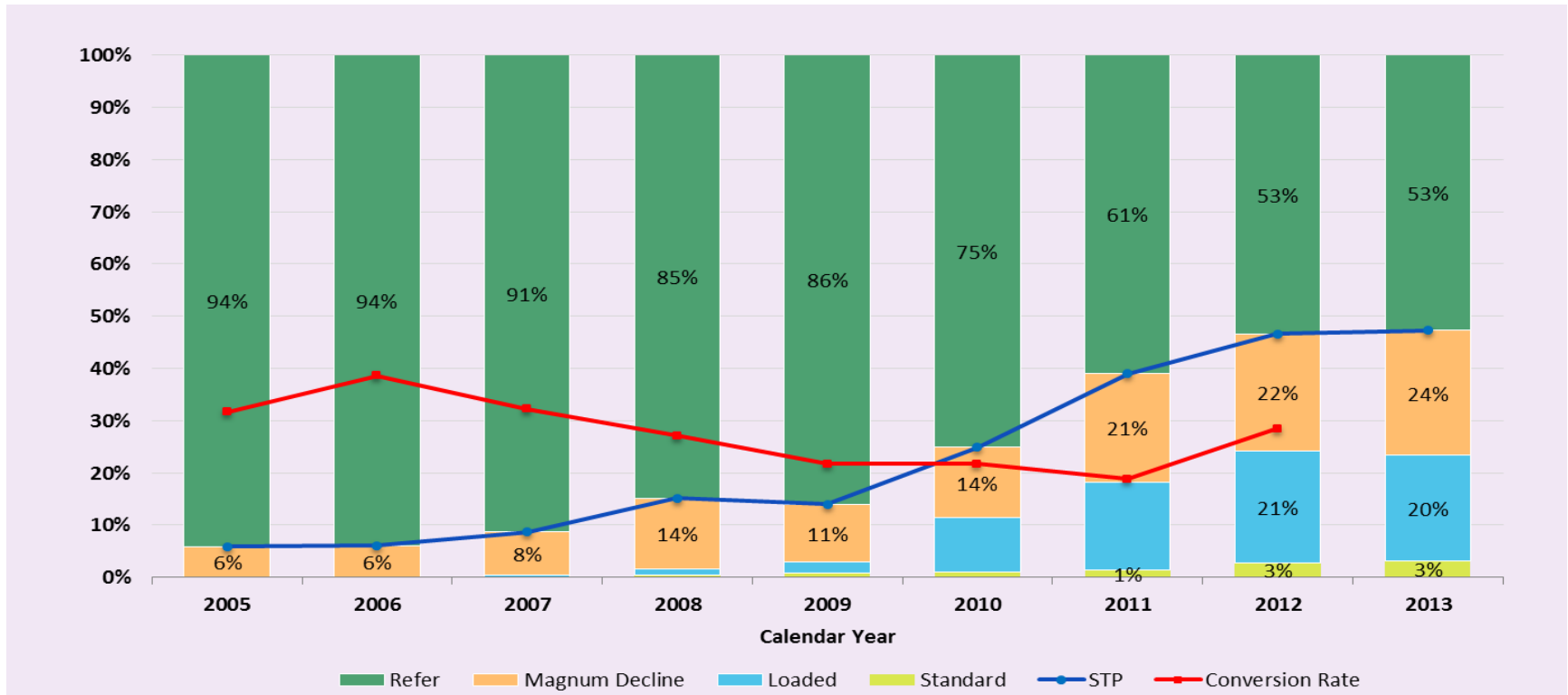
➤ Shows proportion of applicants with Asthma disclosure & standard rates

➤ Savings from understanding the trade-off between evidence and extra mortality

Source: Swiss Re Global Underwriting and Client Services

Data analysis to understand trends and the effects of a change in underwriting philosophy

Diabetes Mellitus

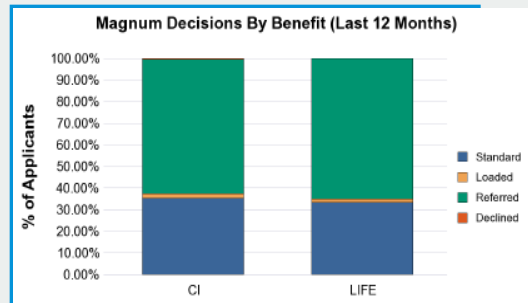


Source: Swiss Re Global Underwriting and Client Services

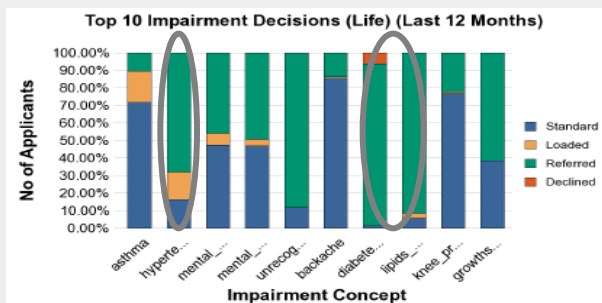
Rulebase Optimisation

One of the key uses of Magnum data is to optimise performance of the rulebase. We perform analysis on the operation of the rulebase to identify areas where changes could be made. This has helped clients achieve market-leading acceptance rates and significantly reduce costs

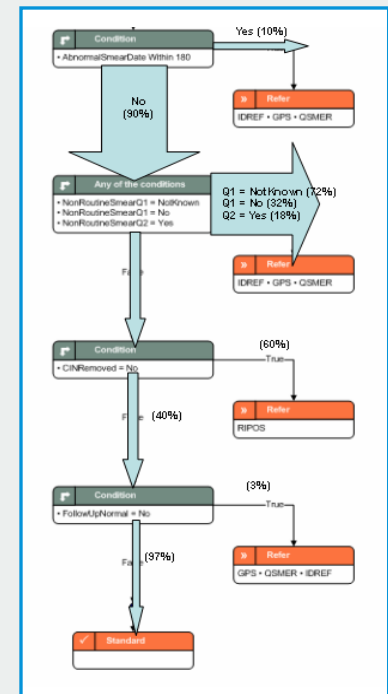
Step 1: Review current performance



Step 2: Identify rules for improvement



Step 3: Model rule changes



Case Study

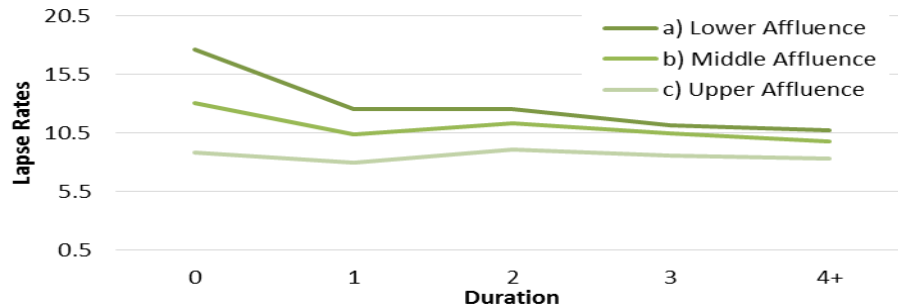
Client Magnum Client since 2000
Processing around 150,000 cases p.a

Action Rule review conducted driven by Magnum data & Swiss Re analysis
Changes identified to around 100 commonly used rules
Rulebase development period = 3 months

Result 15% increase in acceptance rates
Cost savings through medical evidence improvements uw costs
reduction = £450,000 p.a.

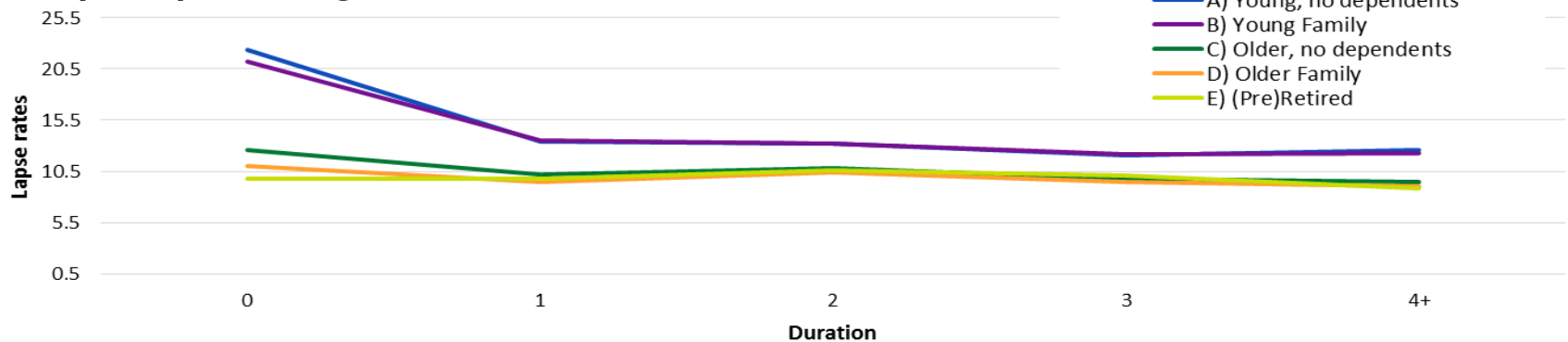
Lapse rate analysis by life stage and affluence provides insight into policyholder behaviour

Lapse by affluence



- Higher lapses at all durations for lives in the lower affluence banding
- Young lives exhibit higher lapses than those in older life stages

Lapse by Life Stage



Source: Swiss Re Global Underwriting and Client Services

Insights enabled through technology

Underwriting Data Insights

Easy to
buy

Little
advice

Not big
premiums

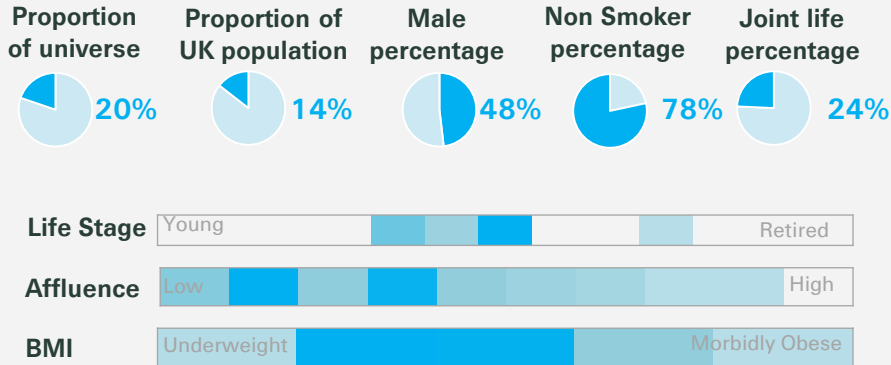
Immediate

This middle market sees a high proportion of lives with these preferences



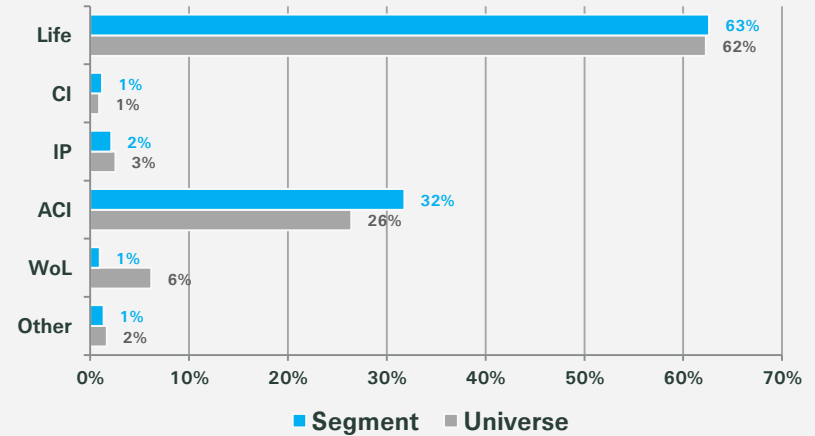
Middle Rung Living

Mid age and less affluent

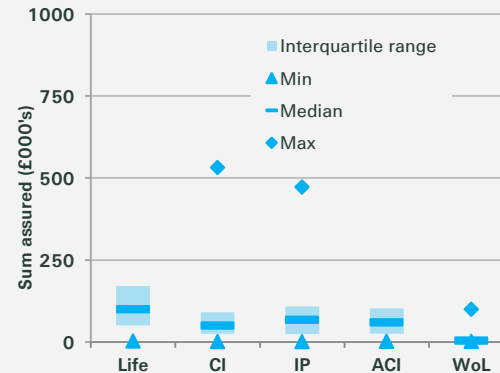


- This group of lives are mid age with an average age of 40 years
 - This is a over represented segment with 20% of the MDP universe, compared to UK population of 14%.
 - Lapse rates and in force are similar for this segment compared to the market at almost 20% of the total
 - There is an overrepresentation of ACI policies, and higher than average sum assured in IP
- Segment size: 59.7k policies, 81.6k applications
- UK market size: circa 4.0m individuals

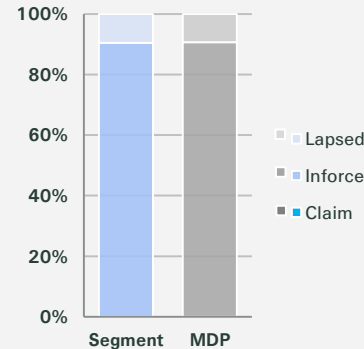
Product Mix



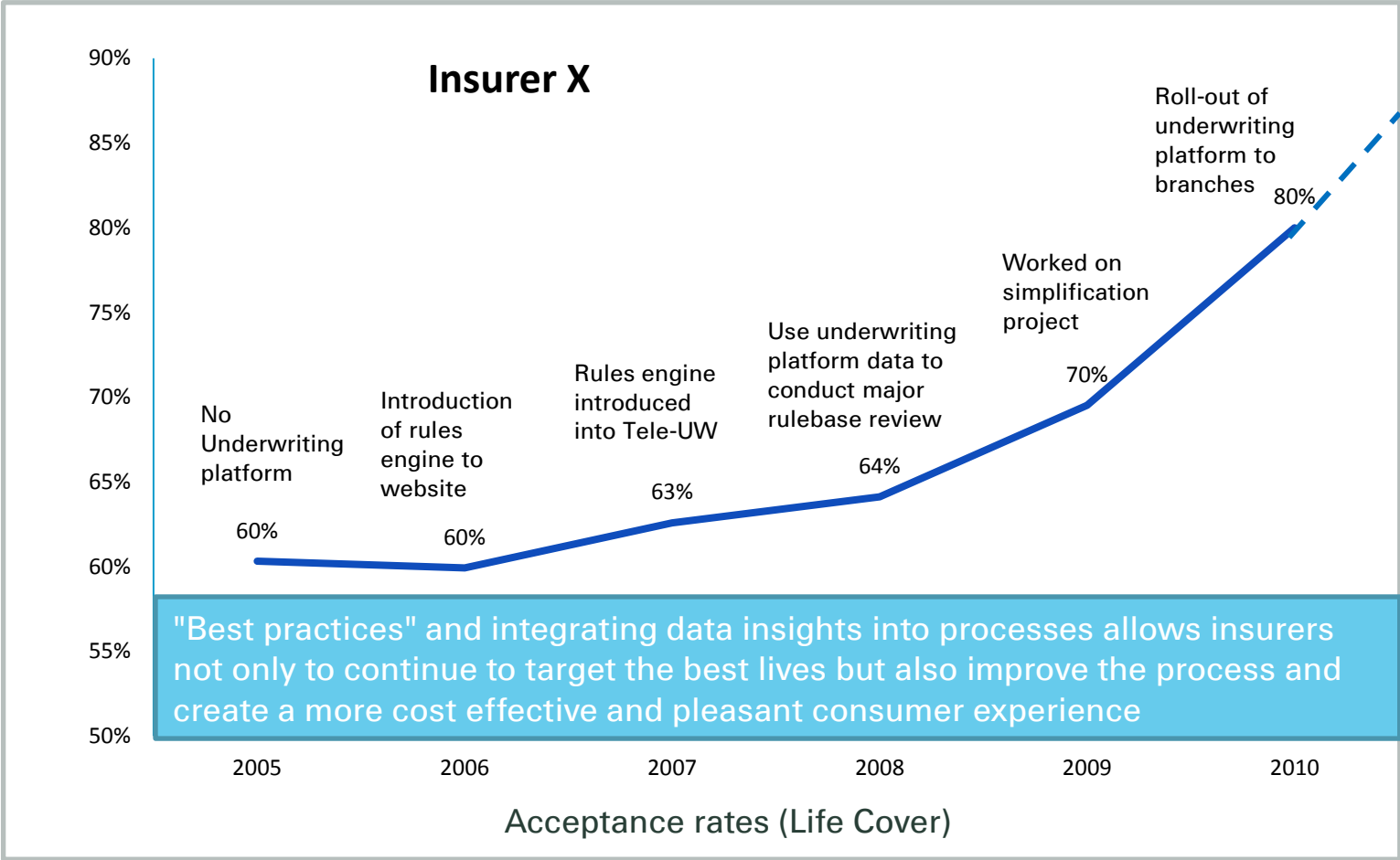
Sum Assured profile by product



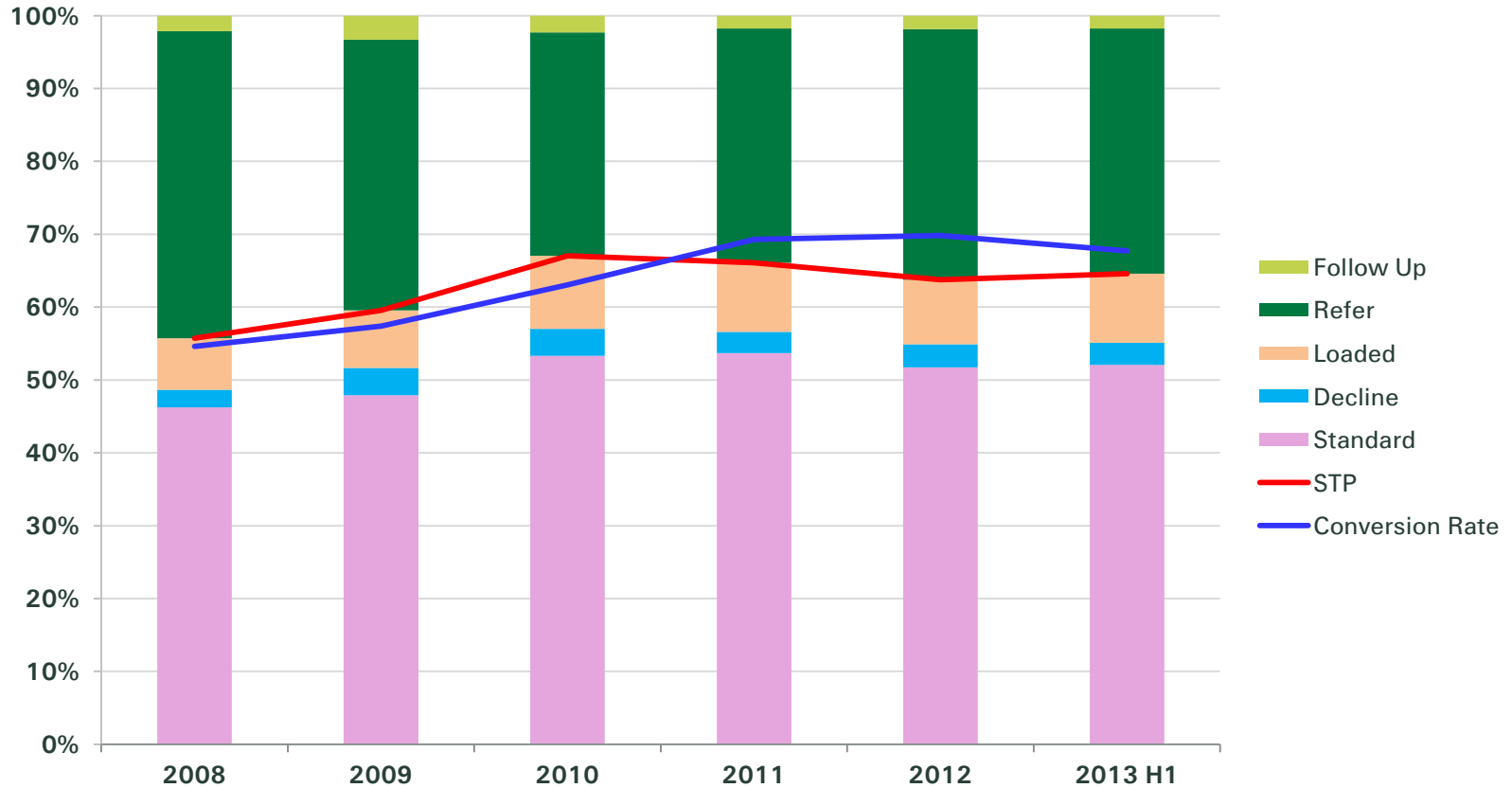
Policy outcome



Underwriting platforms drive improvements

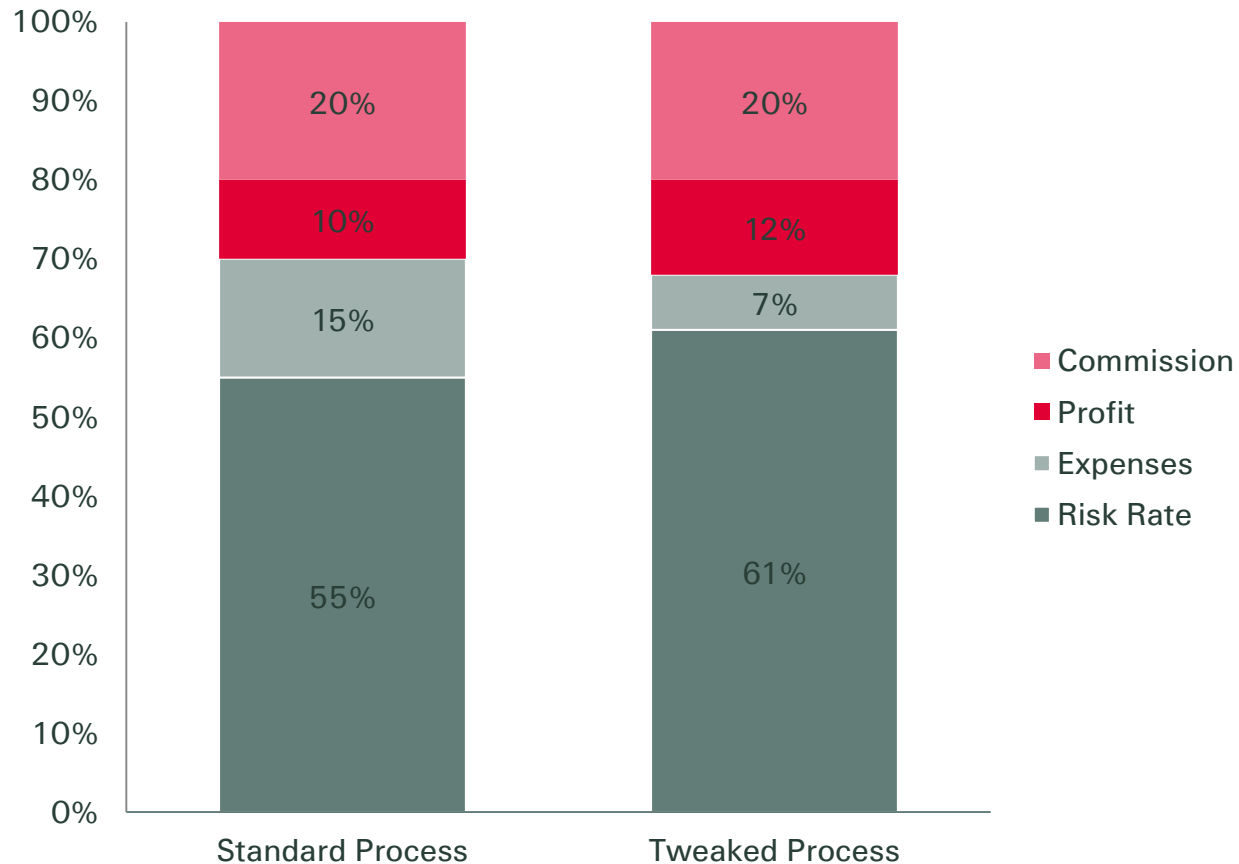


Interesting insights



Time taken to make a decision has a big influence

Increased risk can still mean increased profits



Profit is a function of multiple factors – explore their interaction to optimise profits



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