



IFRS Insurance – Are you ready for Disruption?

Paul Swinhoe and Peter Baker

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Agenda

- What has happened recently in life insurance Slide 3
- What is coming up in the life insurance market Slide 4 - 8
- Radical responses Slide 9 - 16



What has happened recently in life insurance?

The Good...

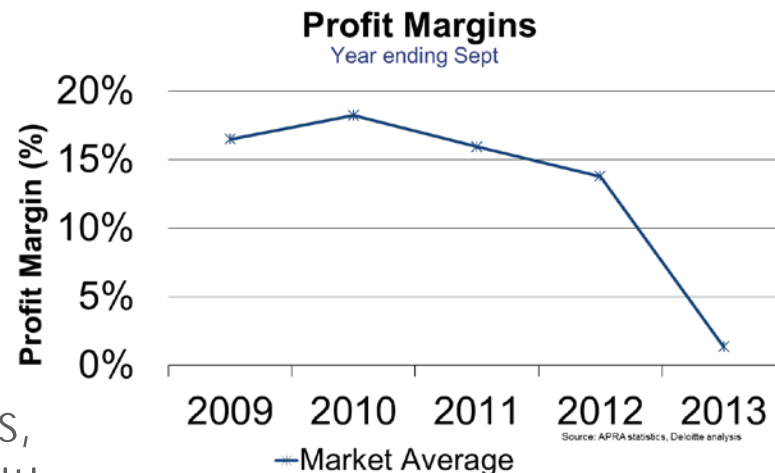
- Continued market growth – particularly Direct (half of new sales)

...The Bad...

- Lower profitability – driven by rising lapses, higher claims, increased market competition
- Higher claims – DII and Group TPD
- Lapses – increasing trend; APRA concerned about industry

...and The Ugly.

- Profit warnings, premium deficiencies
- Unwanted press coverage





What is coming up in life insurance?

- **IFRS**

YRT will be a 1 year contract
Only direct acquisition costs deferrable (but only for 1 year for YRT)
Profits will be lower at first – harder to attract capital
- **Digital revolution?**

Technological evolution has transformed a number of other industries already – including retail and mining. Tourism, education and wealth management are continuing to evolve.
How will the life insurance industry take advantage of this?

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	AIA Priority Protection View product disclosure statement	\$548.77 per month*
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Your quote summary

Your cover:

Life Insurance

----- \$1,000,000

Quote date
30 Apr 2014

One of our qualified Advisors will contact you shortly to better understand your needs and to discuss the product options available to you, alternatively you can call us on

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*These prices are based on a set of default product options we have chosen to assist in providing you with this quote and should be used as an indicative tool for comparative purposes. The prices displayed are valid as at the date quoted and may be subject to change. This information and calculation is general advice only and does not take into account your needs, objectives and personal circumstances. A qualified Advisor will contact you shortly to help you further.



Radical Responses





Radical responses

- **Going Digital** – “digital strategy”
- **Data** – using data sources that are now coming to a critical mass
- **Customer centricity** – what does the customer want/need
- **Value chain review** – where to “play”



Radical responses – Going Digital



Industry facing change

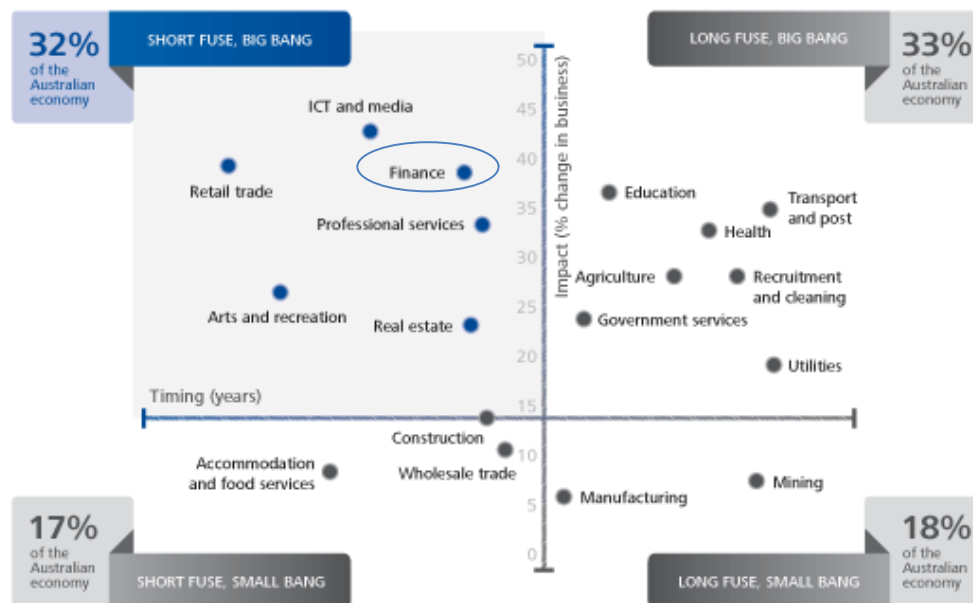
- FS industry – short fuse, big bang
 - Learnings from banking implementations can be leveraged

Customers demanding change

- Customer engagement
- Online access

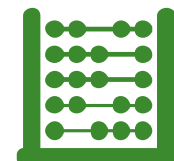
Implications for insurers

- Underwriting – difficulties of electronic applications
- Legal obligations
- Privacy vs underwriting
- Pricing automation





Radical responses – Data



Faster

- Automation “speed of thought” is the key to success – move towards real time applications of data



Smarter

- Use data differently – competitive forces driving innovation
- Synergistic use of data across the group
- Computer system prices constantly reducing
- Clarity over ownership (data, customers, analysis) and power to implement required



Stronger

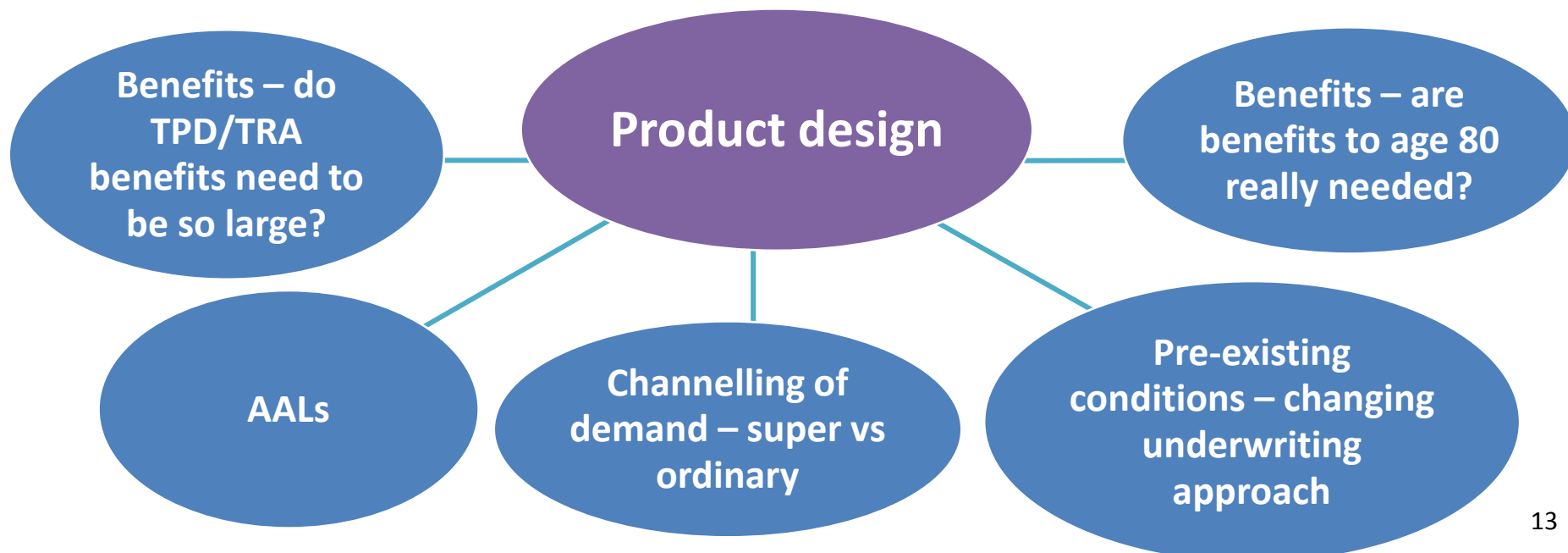
- “Big Data” experts are growing in number – specialists in this field
- Cross-industry experience growing; common stumbling blocks can be avoided



Radical responses – Customer centricity

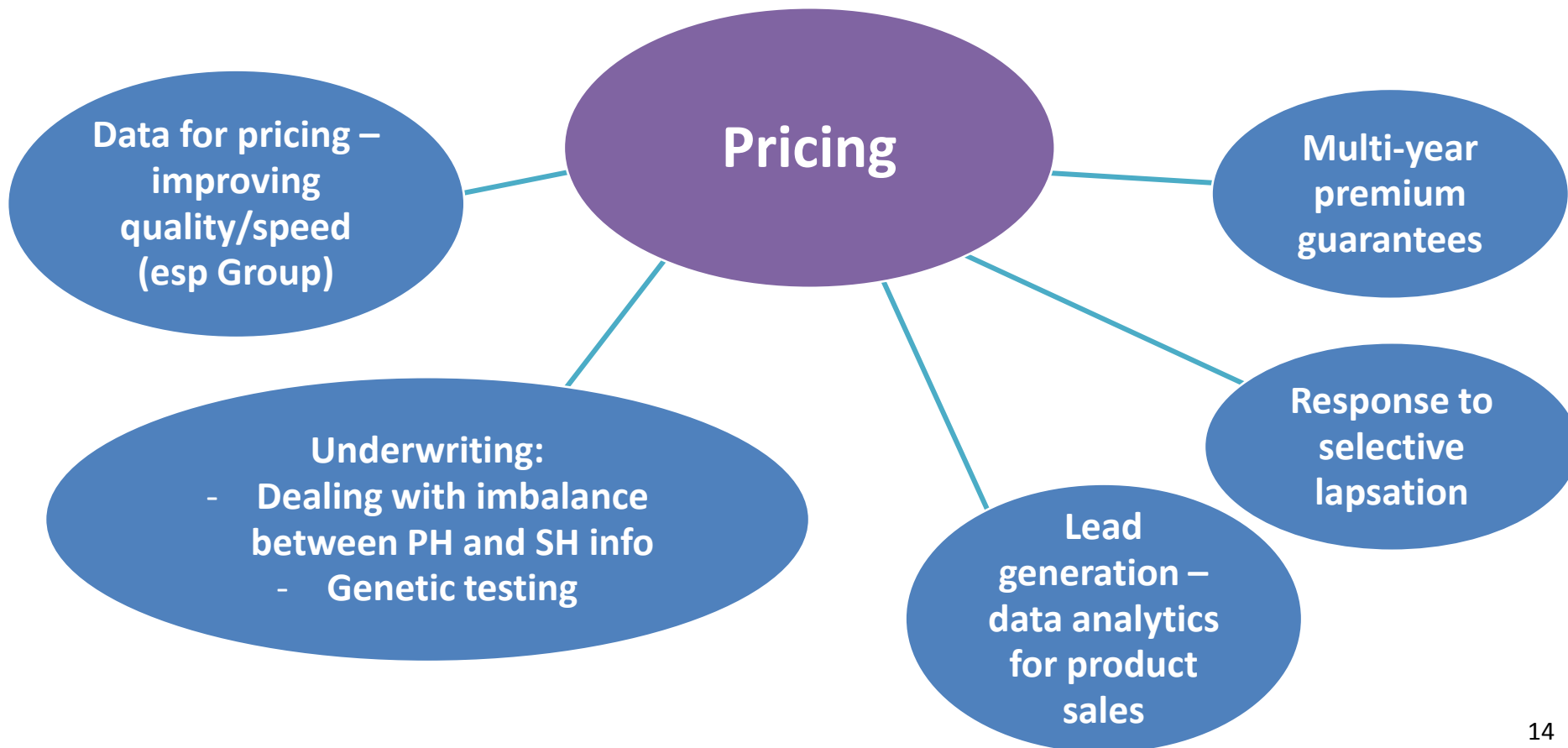


- More extensive review of product structure
 - “Design thinking” approach
 - Needs based benefits
- IFRS – should regulatory changes affect product design?





Radical responses – Customer centricity





Radical responses – Customer centricity



Multi-year premium guarantees

• The need

- IFRS – ability to continue deferring DAC
- Certainty for both PH and insurer

• The method

- Need ability to price and value shorter options
- Determine model for pricing – what “steps” to use as base, when mortality changes by age, but prems are not.
- Calculate cost of multi-year guarantee. Would it be much different from existing YRT pricing?...

Selective lapsation

• The need

- Improvements in analysis and pricing can help reduce losses
- Evidence emerging that selective lapsation is evident in portfolios ¹

• The method

- Model selective lapsation, based on existing portfolio experience
- Determine level of selective lapsation
- Include in premium pricing

¹James Louw, *GenRe Risk Matters Oceania*, January 2014.

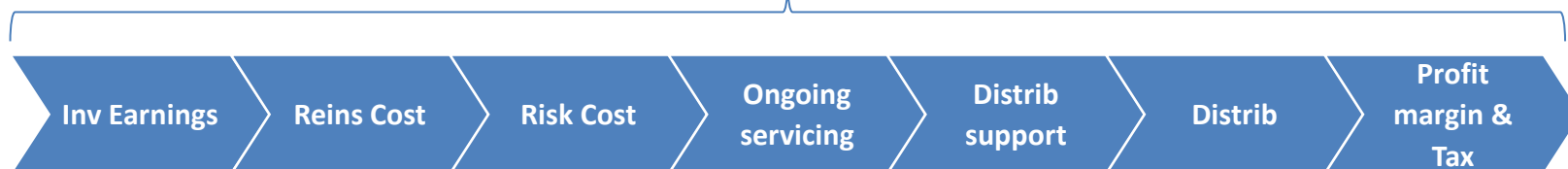


Radical responses – Value chain review



- Reposition on the value chain:
 - Where is the profit being made?
 - Where does the company strategically want to play?
- Business process outsourcing
- Divestment

Life insurance – the value chain



Data and digital – back end, eg:

- Data analytics
- Group data
- Database improvement

Services – outsourcing or efficiency improvement.

Digital strategy – customer facing front end

Distribution strategy – direct vs other channels

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