



IFRS Insurance – Are you ready for Disruption?

Paul Swinhoe and Peter Baker

© 2014 Deloitte Actuaries & Consultants Limited

*This presentation has been prepared for the Actuaries Institute 2014 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.*



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...

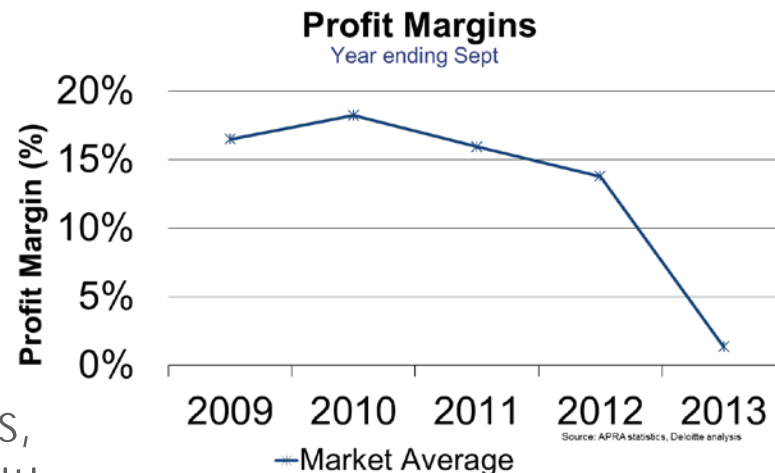
- Continued market growth – particularly Direct (half of new sales)

...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?

Financial Services Forum



**Scoring Goals
in a Changing World**

5-6 May 2014 • Hilton Sydney



Financial Services Forum



**Scoring Goals
in a Changing World**

5-6 May 2014 • Hilton Sydney



About 948,000,000 results (0.28 seconds)

Compare Life Insurance - iSelect.com.au

Ad www.iselect.com.au/Life_Insurance ▾

Compare Life Insurance Policies At iSelect. Compare, Select & Save.®

Life Insurance - insuranceline.com.au

Ad www.insuranceline.com.au/Life_Insurance ▾ 1800 083 069

Australia's No 1 Choice For Direct Life Insurance! Get A Free Quote
Tax Free Payout up to \$1M - Obligation Free Quote

Allianz Life Insurance - Allianz.com.au

Ad www.allianz.com.au/Life-Insurance ▾

Award Winning Life Insurance At 25% Less Than Competitor Prices
Fast 1 Min Quote - Funeral Advancement - Critical Illness Cover

Life Insurance - Life Insurance Quotes - Allianz Australia

www.allianz.com.au/life-insurance/ ▾

Allianz Life Insurance Awarded 5 Star CANSTAR Rating For Outstanding Value.
Covers Up To \$1.5 Million. Get Your Online Life Insurance Quote Today!
Life Cover - How to apply - FAQs - Young couples

Compare Life Insurance | Compare the Market

www.comparethemarket.com.au/life-insurance/ ▾

Protect your family's future by comparing life insurance quotes online at Compare the Market.

AIA Australia - TAL Life Limited - Commlnsure - Asteron Life

iSelect - Life Insurance | Compare Life Insurance Quotes

www.iselect.com.au/life/ ▾

iSelect has a range of trained consultants to help you choose the right Life Insurance policy matched to your needs and budget.

Car Insurance - Home Loans - Switching Funds - Health Insurance Glossary

Life Insurance Quotes Australia | NRMA Life Insurance

www.nrma.com.au/life-insurance ▾

With an NRMA Life Insurance Policy, the financial future of your loved ones is safe and secure. Visit NRMA online to get a life insurance quote.

Ads ⓘ

Zurich Life Insurance

www.zurich.com.au/Ezicover_Life ▾

Get a Quick and Easy Zurich Life Insurance Quote Online Now

Life Insurance

www.nib.com.au/Life ▾

Up to \$1M Cover and a Free Will Kit
When You Take Out a Plan Today!

Better Life Insurance

www.1300lifeinsurance.com.au/ ▾

Dedicated Advisors To Help You!
Compare & Choose Better Options

Life Insurance Comparison

www.lifeinsurancecomparison.com.au/ ▾

1300 725 009

Life Insurance Policy Comparison.
Get Quotes & Save Big in 2 Minutes!

Compare Life Insurance

www.comparethemarket.com.au/life ▾

Try it for yourself & see how easy it is to compare life insurance

Virgin Life Insurance

www.virginmoney.com.au/Life-Insurance ▾

No Medical/Blood Tests. Cover From A Few Dollars Per Week. Get A Quote

Aussie Life Insurance

www.aussielifeinsurance.com.au/ ▾

Compare all 15 Major Insurers
We will SAVE you over 30%

Financial Services Forum



Scoring Goals in a Changing World

5-6 May 2014 • Hilton Sydney



Life Insurance - Compare, Select and Save®

Prefer to talk ? **1300 887 299**

Mon - Fri 8.30am to 6.30pm (EDT)

Health Car **Life** Home Loans Electricity & Gas Broadband Home & Contents

Your results

Thanks **Paul**, based on what you've told us here are some initial products you may qualify for. One of our qualified Advisors will contact you shortly and discuss in more detail the cover and product options available to you.

Save & Share

| | | |
|--|--|----------------------------|
| | AIA Priority Protection View product disclosure statement | \$548.77 per month* |
| | TAL Accelerated Protection View product disclosure statement | \$583.57 per month* |
| | Zurich Wealth Protection View product disclosure statement | \$594.09 per month* |
| | Macquarie FutureWise View product disclosure statement | \$623.09 per month* |
| | AMP Elevate View product disclosure statement | \$646.66 per month* |

Your quote summary

Your cover:

Life Insurance

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

Quote date
30 Apr 2014

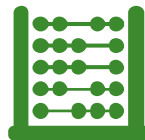
One of our qualified Advisors will contact you shortly to better understand your needs and to discuss the product options available to you, alternatively you can call us on

1300 887 299

*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

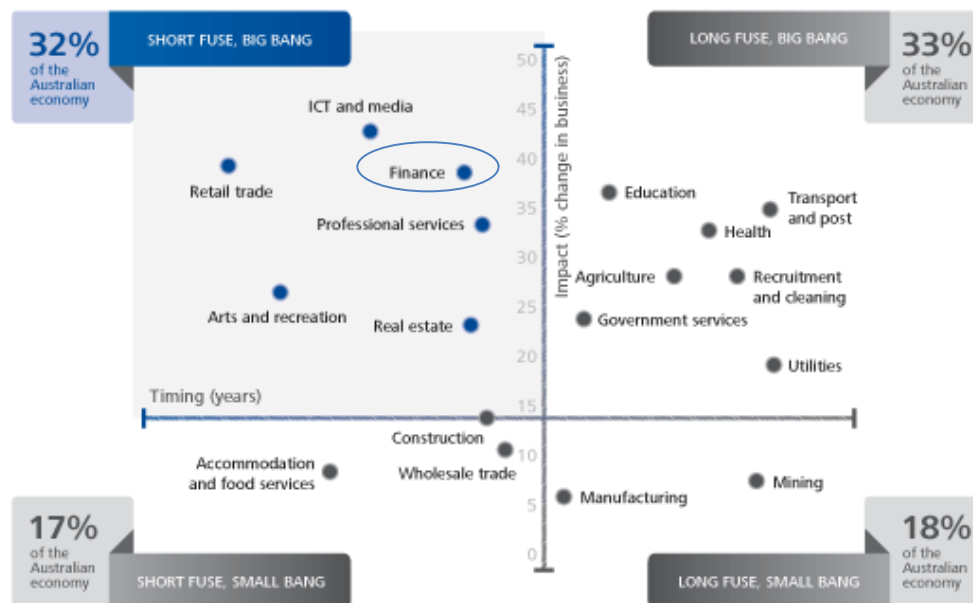
- FS industry – short fuse, big bang
 - Learnings from banking implementations can be leveraged

Customers demanding change

- Customer engagement
- Online access

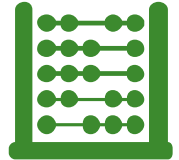
Implications for insurers

- 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

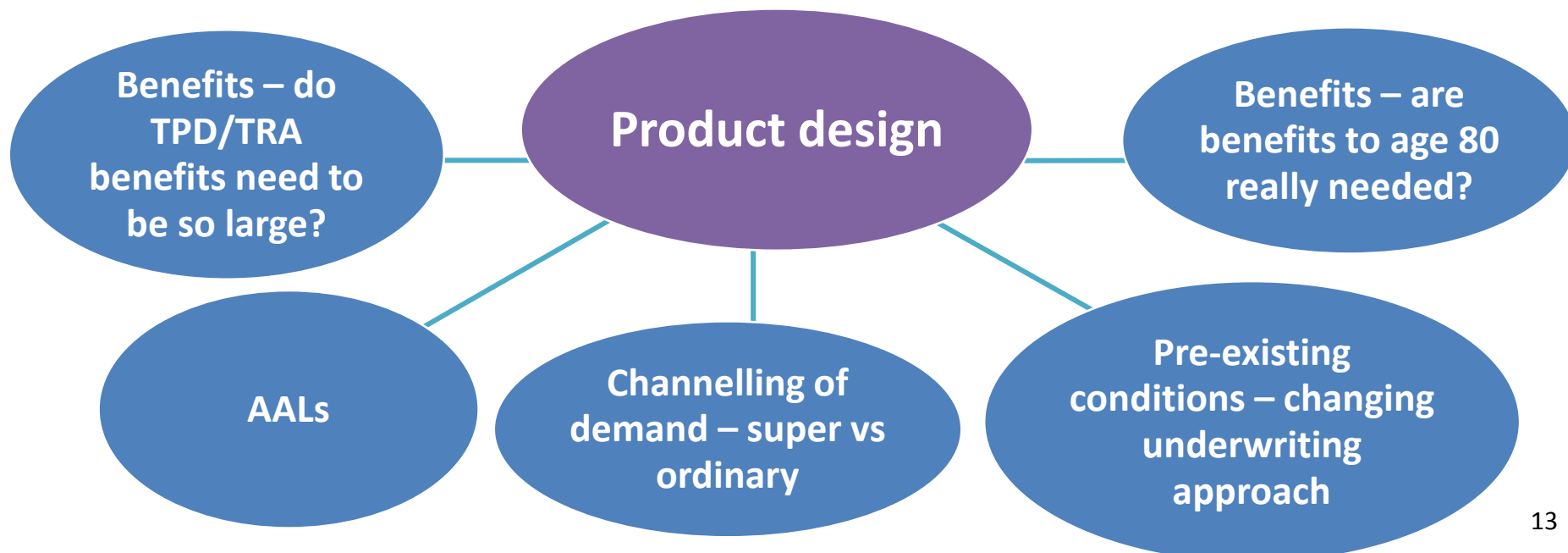
- “Big Data” experts are growing in number – specialists in this field
- Cross-industry experience growing; common stumbling blocks can be avoided



Radical responses – Customer centricity

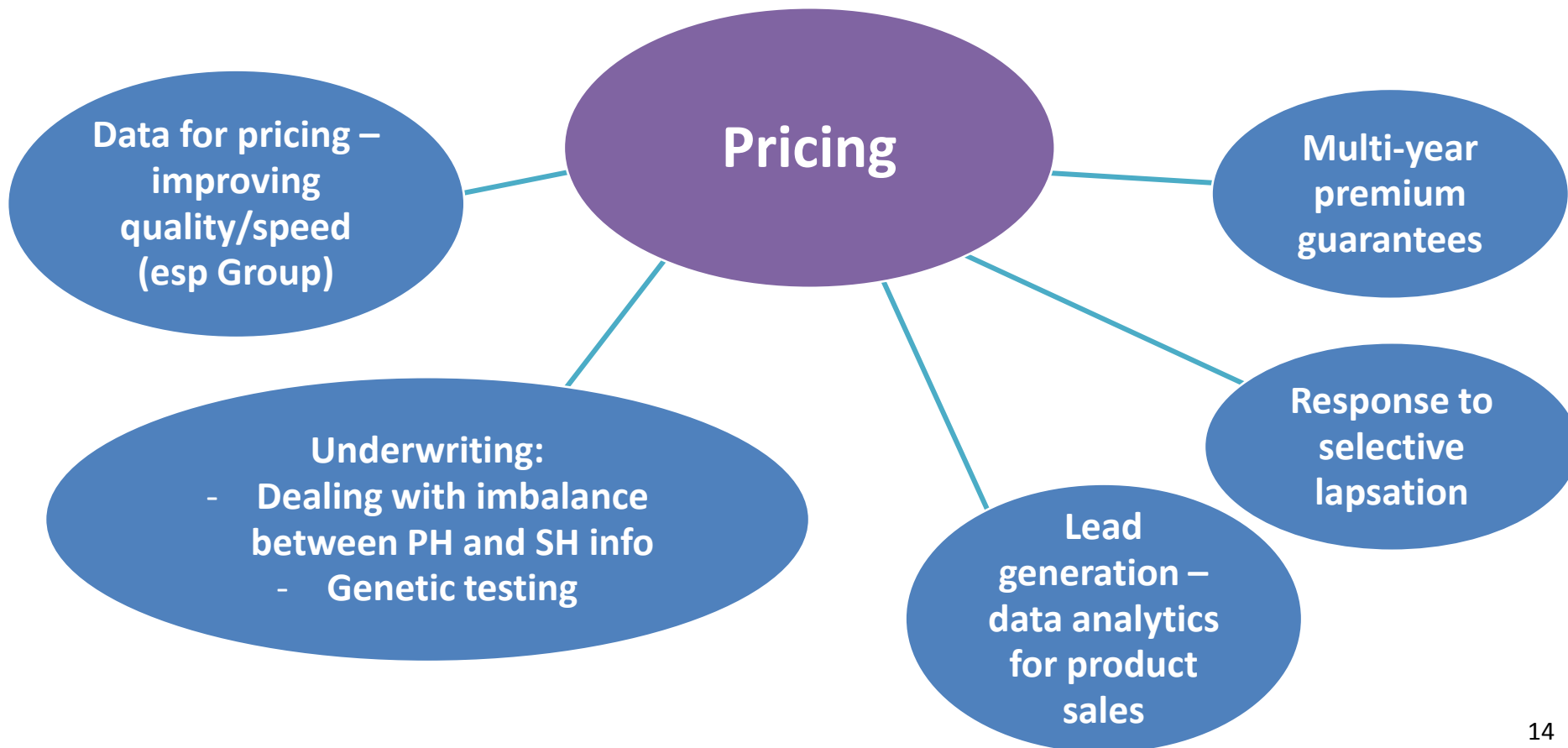


- More extensive review of product structure
 - “Design thinking” approach
 - Needs based benefits
- IFRS – should regulatory changes affect product design?





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.

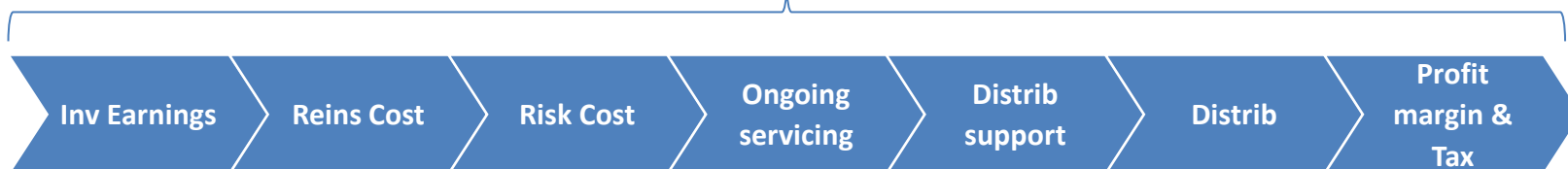


Radical responses – Value chain review



- 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

Financial Services Forum



**Scoring Goals
in a Changing World**

5-6 May 2014 • Hilton Sydney



Discussion