

Key Trends in Product Innovation



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Introductions



- Nazir Valani, FSA, FCIA, MAAA
Partner, Life & Pensions Actuarial Practice Leader
KPMG LLP
- Gaurav Upadhyia, FSA, FCIA, MAAA, CERA
SVP, Product & Insurance Risk
Manulife Financial
- Brian Louth, FSA, FCIA
SVP, Business Development, Underwriting & Chief Marketing Officer
RGA Canada
- Jason Alleyne , FSA, FCIA, FIA
VP & Product Actuary
BMO Insurance



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Environment

- Low interest rates
- Volatile Stock Markets
- Regulatory
 - ORSA
 - Economic Capital, Solvency II
 - IFRS
- Technology & Social Media



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Gaurav Upadhyia
SVP, Product & Insurance Risk
Manulife Financial



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Key Messages



- Different products do well in different environments
 - Current major drivers include low interest rates, regulatory, aging demographic and capital markets
- Broad insurance product trends are towards:
 - More adjustability and less guarantees
 - Adding customer value through adding & combining risk
 - Expanding reach of insurance products



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Major Drivers of Current Insurance Product Trends



Driver	Current situation
Current and expectations of future interest rates	Historical low rates expected to stay current low for some time (then rise quickly?)
Client demographics	Aging populations with individuals (and governments) looking for robust retirement income and health funding solutions
Regulatory change	Strengthening capital & risk management requirements e.g. Own Risk and Solvency Assessment (ORSA) frameworks
Capital markets	Capital funding can be more challenging and limit flexibility



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Objectives of Key Stakeholders in Current Environment



❖ Clients

1. Less desire to lock in low rates; looking for upside if rates rise
2. Looking for alternatives (e.g. non-fixed assets, foreign denominated)
3. More value from products (as investment return is low)

❖ Insurers

1. Maximize growth based on capital and risk appetite constraints
2. More appetite to take diversifiable mortality/morbidity insurance risks than market risks
3. Ensure products have good risk/return profiles across wide range of scenarios



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Current Insurance Product Trends



1. Adjustable products sales increasing

Examples:

- Canada: Adjustable Whole Life replacing UL Level COI/T100
- US: Indexed UL replacing No-Lapse Guaranteed UL
- US: New LTC rider with pass-through investment return
- Globally: Variable Annuities with significantly lower guarantees

Increased insurer risks:

1. Minimum guarantees e.g. credited rates, cash values
2. Reliance on inforce portfolio returns
3. Disclosure e.g. illustrated rates, range of outcomes



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Current Insurance Product Trends



2. Increase client value by adding and combining risks

Examples:

- Critical illness with early stage benefits or multi-payments
- Combination products e.g.
 - US - Life with LTC accelerated rider
 - Canada - Synergy (Life/Critical Illness/Disability Income product)
- Foreign denominated annuities in Japan

Increased insurer risks:

1. Expertise to manage new insurance and operational risks
2. More complex to educate distributors and clients



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Current Insurance Product Trends



3. Increase reach into new markets

- Expand sales of simpler insurance products supported by technology and simpler underwriting
- New developing markets (e.g. Cambodia, micro-insurance in Vietnam)
- Broader private pension plans (e.g. PRPP in Canada, PRS in Malaysia)
- Sale of term insurance in Walmart!

Increased insurer risks:

1. Anti-selection
2. Need for greater expense efficiency
3. Sufficient direct consumer education



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Summary

Current environment with low interest rates and increased regulatory requirements is challenging, yet

- Clients continue to have strong demand for products to meet financial security needs
- Insurers continue to innovate to meet such client needs while balancing risk and capital constraints across global markets



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Brian Louth

SVP, Business Development, Underwriting and Chief Marketing Officer
RGA Canada



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Selected Industry Trends

Perspective on the Innovation Imperative

Brian Louth
SVP Business Development, Underwriting and Chief Marketing Officer
RGA Canada



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New Approaches to Underwriting

What is Happening

- ✓ Approaches to simplify and streamline the underwriting process
- ✓ Many companies are investing in automated underwriting solutions
- ✓ Successful companies are gaining significant expense efficiencies
- ✓ Implementing predictive analytics using consumer behavior and biomedical data
- ✓ Better underwriting analytics leading to continually improving the process

Key Drivers

- ✓ Current processes are manual, inefficient and not scalable
- ✓ Consumer and producer dissatisfaction with long processes
- ✓ Current approaches not reaching underserved market

Ongoing Industry Impact

- ✓ Simpler, faster sales process
- ✓ Lower costs, higher efficiencies
- ✓ Solutions leveraged across multiple markets
- ✓ Precise life stage targeting
- ✓ Closing of “protection gap”



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More Riders

What is Happening

- ✓ Companies in Asia and US are focused on selling more riders to customers
- ✓ Typically living benefit oriented riders (CI, LTC, DI, etc.)
- ✓ Companies developing comprehensive suite of competitive riders
- ✓ Also building explicit rider sales incentives throughout organization
- ✓ Rider attachment rates are a key management metric

Key Drivers

- ✓ Higher profit margins on riders especially on acceleration versions
- ✓ Focus on protection business
- ✓ Alternative in low interest rate environment
- ✓ Consumer need for comprehensive coverage at lower cost

Ongoing Industry Impact

- ✓ More companies focusing on riders especially those with professional sales forces
- ✓ New types of protection riders will be developed
- ✓ Trend not as prevalent in Europe and Japan



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Combination Products

What is Happening

- ✓ Substantial growth of life/LTC combination products in the US to now 13% of overall life insurance market by total new premium
- ✓ 34% of protection sales in UK is term life/CI combination
- ✓ Significant success in other markets including Asia and South Africa
- ✓ Significant new product development activity and resources globally
- ✓ For example, 8 in 1 products!

Key Drivers

- ✓ Consumer dissatisfaction with “use it or lose it” propositions
- ✓ Consumer need for comprehensive coverage at lower costs
- ✓ Insurer focus on protection business
- ✓ US tax advantages

Ongoing Industry Impact

- ✓ Current level of product development will mean many new designs will be launched
- ✓ Will become a larger proportion of overall market globally
- ✓ Focus on “life stage” products



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Focus on worksite marketing

What is Happening

- ✓ Many insurance companies globally view selling voluntary benefits through worksite marketing programs as way to reach underserved middle class
- ✓ In mature markets, programs are often on top of existing group plans, but in developing markets are often stand-alone individual products
- ✓ Range of protection oriented products (life, CI, disability, health)
- ✓ 77% of US employers offer at least 1 voluntary product
- ✓ Implicit seal of approval of employer providing confidence to employee

Key Drivers

- ✓ Cost shifting to individuals
- ✓ Consumer studies show preference for some professional advice
- ✓ Underserved middle market
- ✓ Ageing distribution force

Ongoing Industry Impact

- ✓ Coordination of group benefit programs with individual products
- ✓ Expanding worksite marketing
- ✓ Integrating payroll deduction billing process
- ✓ New retiree benefits solutions



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Underwritten annuities?

What is Happening

- ✓ Underwritten annuities represent about £3 billion of annual sales in UK
- ✓ Underwriting process at time of sale is now mostly automated
- ✓ Impaired annuities based on evidence of past or present illness and lifestyle annuities based on smoking, obesity
- ✓ Single premium, shorter duration mitigate reinvestment risk
- ✓ No other market has sales close to the UK (20% of total UK annuity market)

Key Drivers

- ✓ Aging population
- ✓ Significant existing Defined Contribution assets
- ✓ Implicit forced annuitization in UK
- ✓ Significant public education in UK

Ongoing Industry Impact

- ✓ There are other countries with similar characteristics to UK
- ✓ Expect this product line to become popular in other countries



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European Gender Directive

What is Happening

- ✓ Gender Directive does not allow for charging different rates by gender
- ✓ Effective December 21, 2012
- ✓ Has resulted in significant re-pricing activity and legacy product withdrawals
- ✓ New product initiatives such as “pink” and “blue” products to stratify market
- ✓ Premium increases for males on longevity & income protection and decreases on mortality

Key Drivers

- ✓ European focus on anti-discrimination
- ✓ Applies to all types of insurance, life and P&C

Ongoing Industry Impact

- ✓ Mix risk a bigger issue that is being monitored more closely
- ✓ More focus on products that indirectly attract certain genders



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Selected Industry Trends Reinsurer Perspective on the Innovation Imperative



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What is Innovation?

Idea to Impact

Jason Alleyne

VP & Product Actuary, BMO Insurance

BMO Financial Group



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Agenda



- Innovation Mindset
- Using Environmental Signals
- Messaging

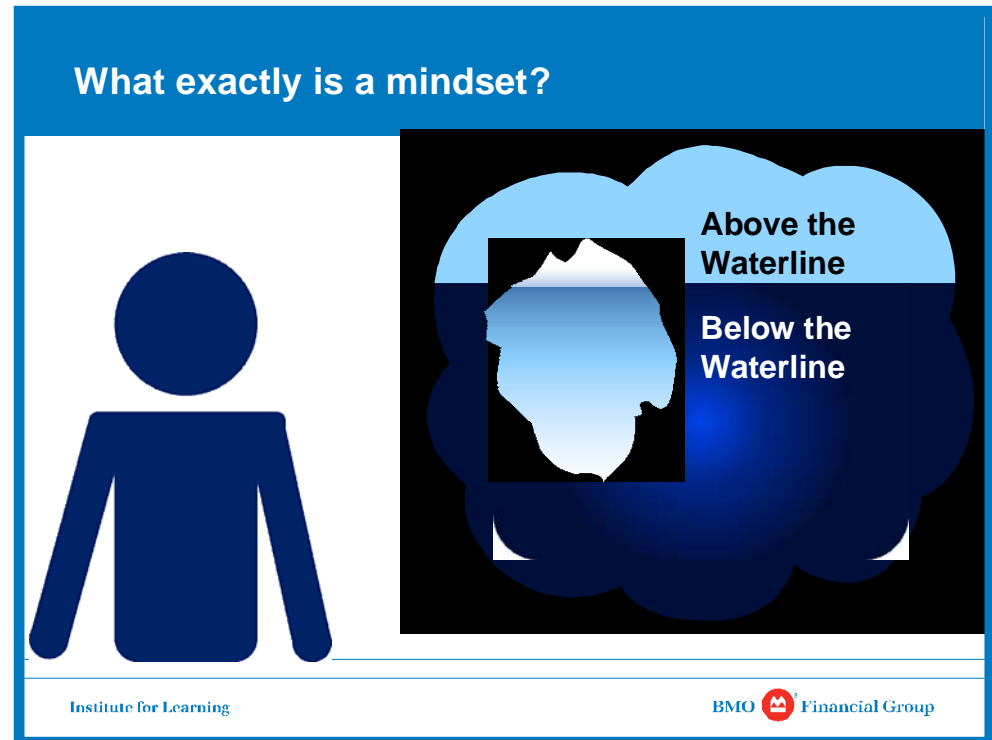


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The Innovation Mindset

- The Idea and Product concept is only 5% of innovation
- Culture and Attitudes are the real drivers behind innovation
 - Experimentation
 - Fail-Fast approach
 - Continual improvement
 - Agile Implementation



<http://www.youtube.com/watch?v=9YHZoSeHKzU&feature=youtu.be>



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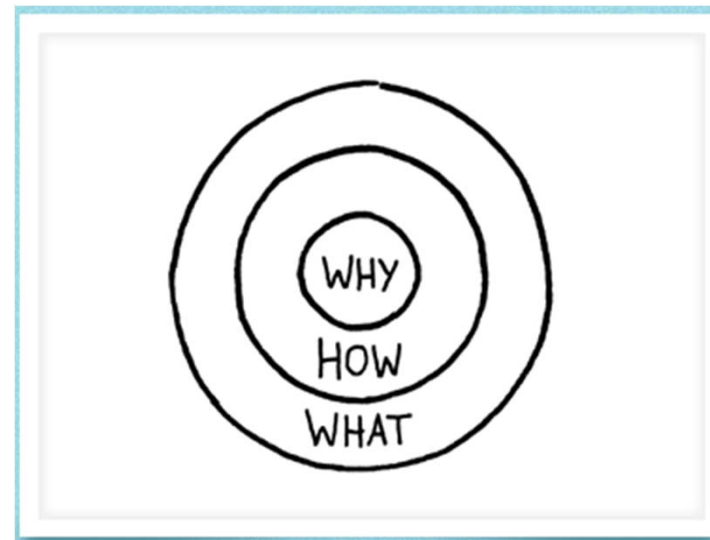
Environment as a Guide

- Who is your customer?
 - The broker or insured?
- What's the motivation behind your innovation?
- Consider examples of behaviour or social change that might be signals for the acceptance of new ideas/products
- www.KhanAcademy.org
 - Online video library of instruction as self-learning tool
 - Instead of replacing the teacher, this has become an aid to teachers
- The Wii play station
 - A shift in the target market revolutionised gaming?



Strike the right Message

- www.startwithwhy.com
(Simon Sinek)
 - Here is **what** you need
 - This is **why** you want it
- Choice Architecture (Thaler and Sunstein)
 - Insurance Premium is just 1 starbuck's coffee a week
- Have you ever bought 1 bottle of water? Why not 8?
- NoBrainer Insurance:
http://www.youtube.com/watch?feature=player_embedded&v=SmGu5tmvm0A



Steve Jobs: “A lot of times, people don’t know what they want until you show it to them”

Henry Ford: “If I had asked people what they wanted, they would have said faster horses”



Thank You!



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