REach FOR GOLD

CANADIAN REINSURANCE CONFERENCE / CONGRÈS CANADIEN DE RÉASSURANCE

THE 59th ANNUAL CANADIAN REINSURANCE CONFERENCE

REach FOR GOLD

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Global Lessons Learned - Australia Disability

Objective of Session

- Material losses recently suffered in the Australian protection market
- Share our views on specific circumstances that led to these losses
- Share our experience of the remedial actions
- Possible ’learnings’ for other markets

The Sydney Morning Herald

Almost every working Australian is being hit by price rises for the life insurance that they receive through their superannuation funds.

Fund members have received, or are about to receive, notifications from their funds of increases in the cost of insurance premiums of up to 50 per cent.

From June 29, the two million members of the AustralianSuper fund will face ***increased premiums for death and for total and permanent disability cover by almost 40 per cent and by about 25 per cent for income protection insurance.***

Super funds of all stripes – whether not-for-profit funds, "retail'' funds run by banks or corporate funds – are increasing their insurance premiums.

The insurance is in most cases a default option, unless you actively choose to opt out. The money is deducted automatically from the member's account balance by the fund. The funds note the insurance on their regular statements but in many cases people are unlikely to be aware that they have the insurance.

Super funds have contracts with insurers that typically run for three years; and some of the biggest funds are coming up for renewal at the same time.

More funds are expected to announce price rises this year as they renegotiate prices with their insurers.

Insurers are putting up their premiums because fund members are making more claims as the economy remains weak and unemployment edges up, said Jim Minto, the managing director of insurer TAL Australia, which is AustralianSuper's biggest insurer.

Mr Minto said there were significant premium price falls towards the end of the worst of the GFC as insurers expected claims would start to fall as the economy improves. He said there is a strong relationship between insurance claims and higher unemployment…..

May 28, 2013 **John Collett**

Australian Super Funds

Superannuation Funds (i.e. Saving for retirement)

- Default minimum insurance benefits with the option of higher cover:
  - Death and accelerated TPD cover
  - Terminal illness
  - Income Protection
- Guaranteed Insurability
  - Event options
- Open to:
  - Public service workers
  - White collar
  - Education
  - Health
  - Government employees
  - Police
  - Blue collar
  - Mine workers
  - Anybody!

The Parties

- Members
- Super Fund
- Administrator
- Insurer
- Reinsurer

Typical Default Benefits (1 unit)

- Life plus accelerated TPD (and terminal illness)
- Fixed unit price with cover varying based on current age
- For example, age 35 gender neutral
  - Standard Risk $50,000
  - Low risk $85,000
  - Professional $100,000

- Plus Group Salary Continuation (Income protection cover)
  - 2 year benefit, 60 day deferred period (option for 30 days)
  - Pays on total disability or partial disability (totally sick for at least 14 days)

Typical TPD Benefit

- Unable to work for 3 consecutive months and unlikely to ever be able to engage in "any occupation"
- If you are professional or managerial (salary > $80k, 80% of employment sedentary tasks in an office) then "any occupation" = "own"
- **For all others "any" = "occupation based on your skills and knowledge acquired through previous education, training and experience"**
  - Above applies to employed and those unemployed for less than 12 months
- Work tasks applies to other lives
- Loss of limbs and certain medical conditions presumed to count as disability
  - This definition also applies to the income protection benefit

Changing Economic Climate

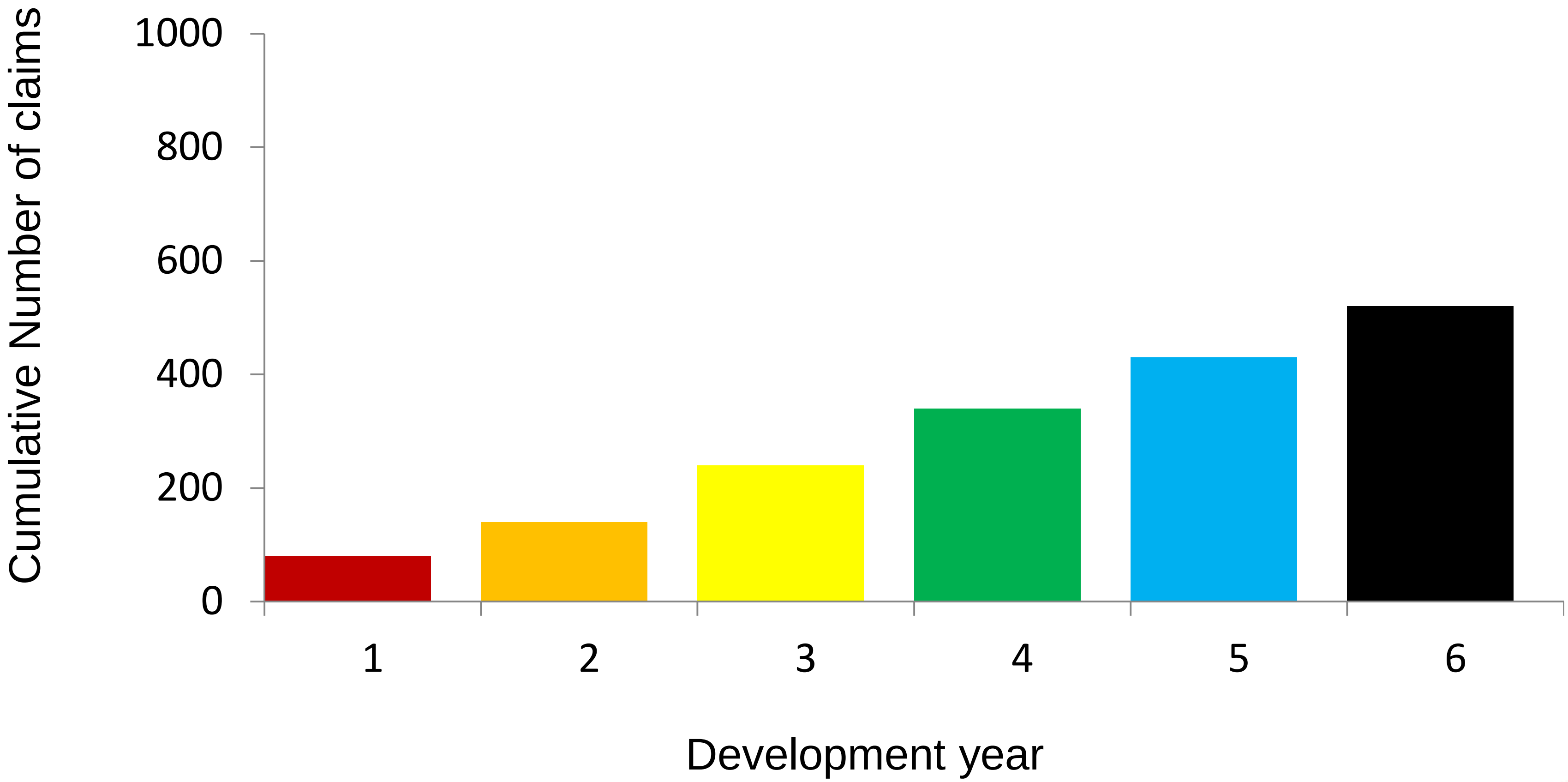
- Difficult for Funds to compete on Investment return
- Insurance benefits seen as an area for differentiation
- Higher levels of default cover
- Generous options to increase cover without underwriting
- Range of cover available to a wider occupation group
- Funds negotiate for best possible insurance price

Market Growth

- $3.7 billion premium at March 2013 from $2.4 billion in 2009
- Inforce growth 11% per annum
- Growth driven by:
  - Consolidation of funds
  - Increasing default cover
- Key vehicle for addressing Australia's underinsurance problem
- The insurers view:
  - 7 primary insurers
  - Competitive quoting cycle
  - Large infrastructure and resource investment so keen to retain Funds

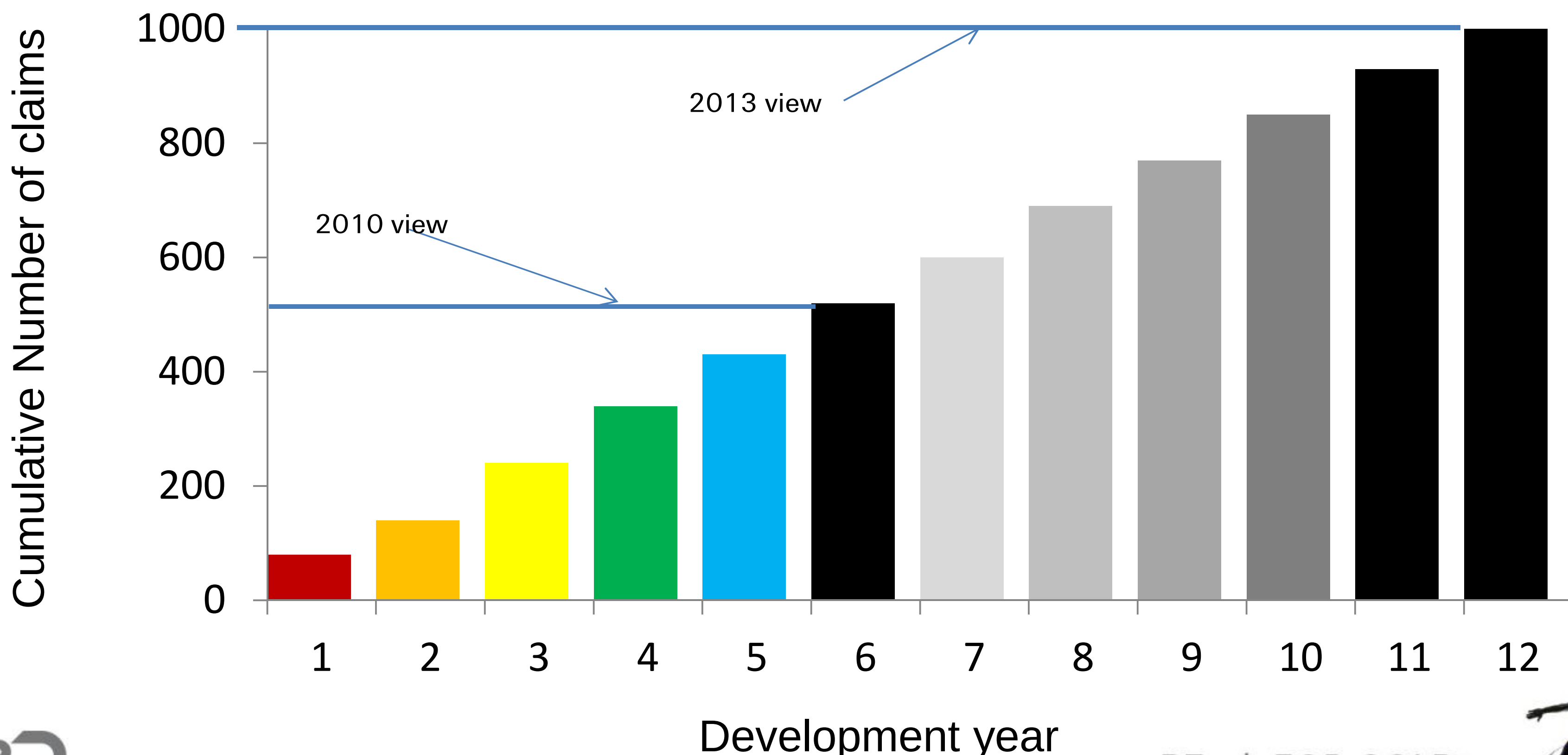
2009/2010 Quoting Cycle

- Assumed claims history was fully developed after 6 years



2012/2013 Quoting Cycle

- Significantly more claims than expected
- Cost of claims much higher than expected
- Late reporting of claims



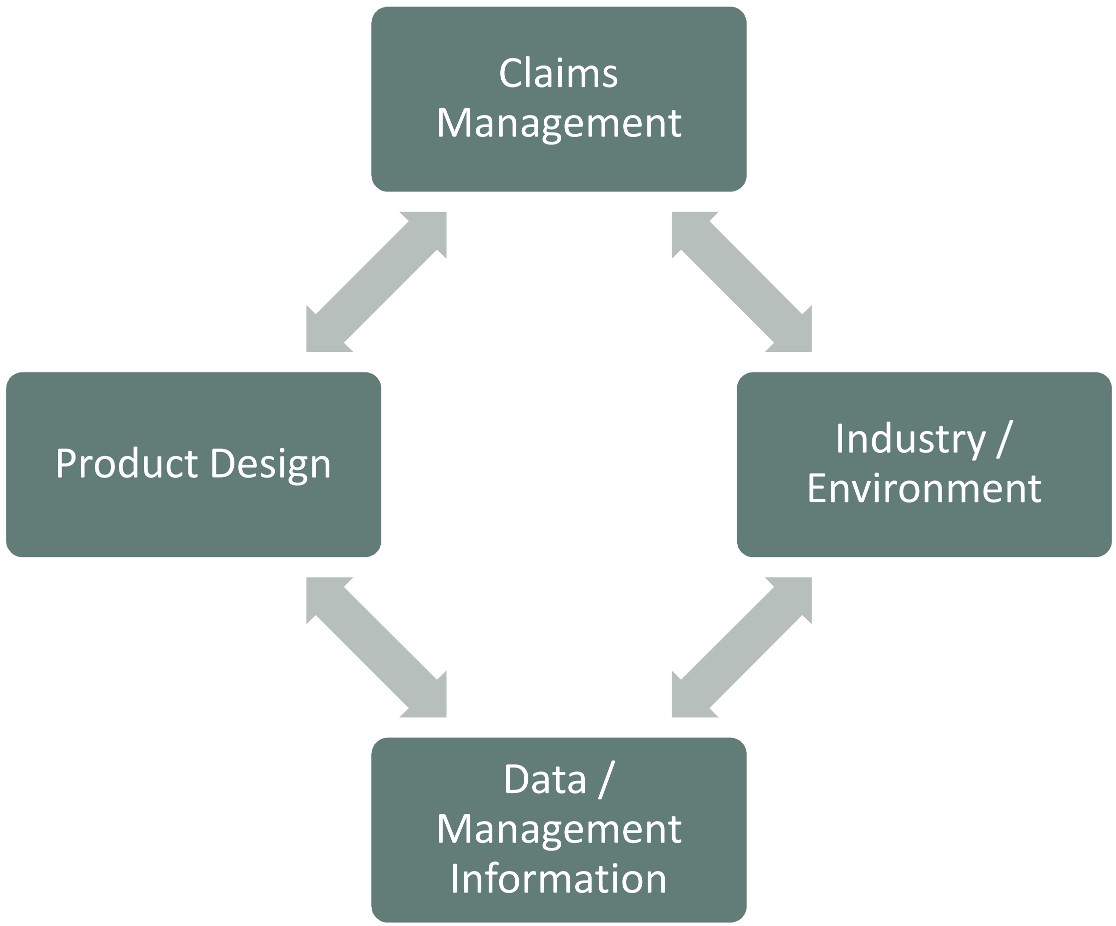
Questions we will address

- How did this happen?
- Why did this happen?
- Could it have been prevented?
- Considerations for our market?

Claims Audit

Fund 1	Insurer 1 - 115 claims
Fund 2	Insurer 2 - 96 claims
Fund 2	Insurer 1 - 120 claims

Claims Audit Key Findings

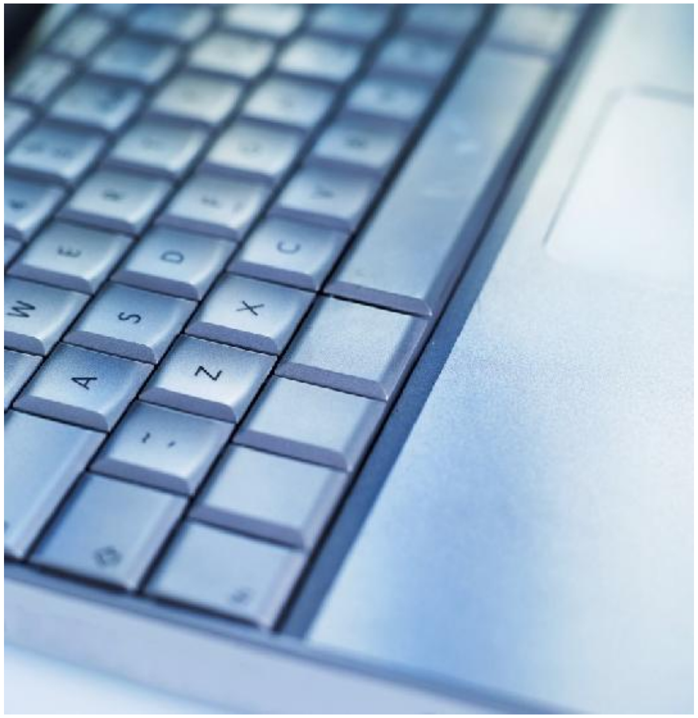


Product Design

- Cover for all!
- Occupation based definition for all!
- "Unlikely, ever"
- Education Training & Experience (ETE)
- 3-6 month waiting period rather than completion of optimal treatment
- Cover remains when contributions cease
- Non underwritten, generous increases

Data / Management Information

- Lack of understanding of the current portfolios with the insurer being far removed in the chain
- Poor data recording by both TPA and insurer
- Difficulty analysing without in depth audit
- Current contract wording between the insurer and the fund doesn't specify robust data requirements
- Clear relationship between fund and TPA
- Each fund had different issues – no one size fits all fix



Data Management Information – number of parties

Member/ Claimant → Fund → Administrator → Insurer → Reinsurer

- Alignment of interests
- Data quality and speed of transfer (IBNR)
- Blurred view of potential liabilities
- Disconnect between claim assessor and claimant
- Delays impede early intervention and effective claim management
- Delays impact recovery rates

Industry / Environment

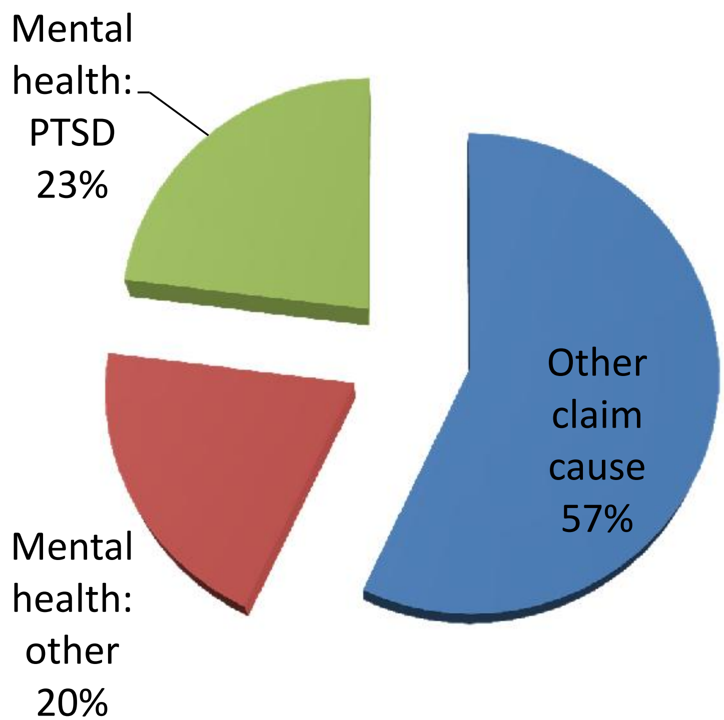
- Everybody has Super!
- Funds are powerful
- Workers Comp legislative changes
- Heightened consumer awareness – late notification of old claims
- Medical profession awareness – know how to make a claim valid
- Solicitors – no win no fee but you only get 50%!
- Current case law
- Legislation e.g. late notification makes no difference
- Brokers advice to poor 'risks' to purchase cover via Supers

Consumer Behaviour

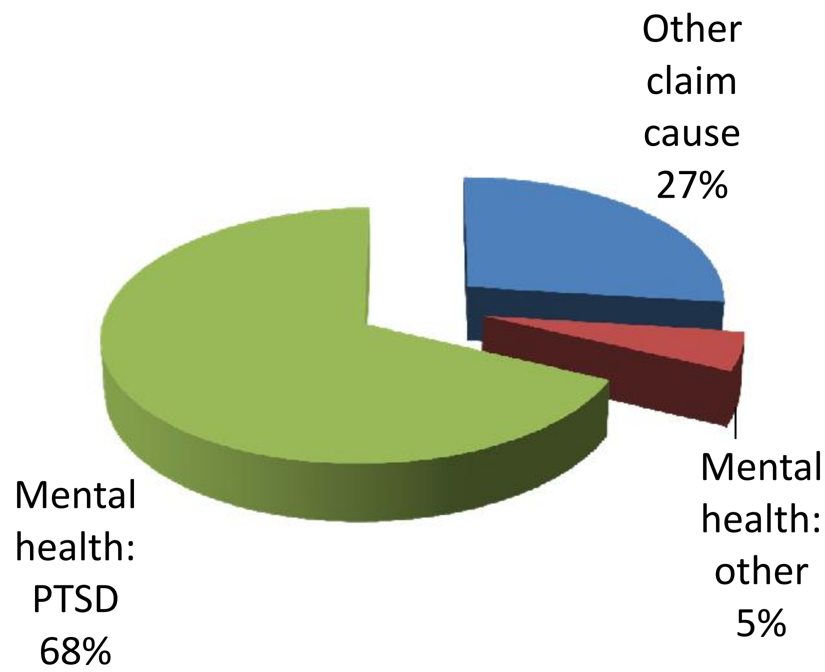
- Anti-selection
- Review of the 11 largest TPD claims showed that 3 policyholders were eligible to claim before they exercised the option to increase cover
- The average claim is AUS $50,000
- Claims for AUS $1.5 million equivalent to 30 "normal" claims
- Exploit imprecise wording on date of insured event
- Examples of 'rush to the door' before some benefits removed/reduced

Consumer Behaviour - PTSD and the XYZ police
Super Fund "X" – cause of claim

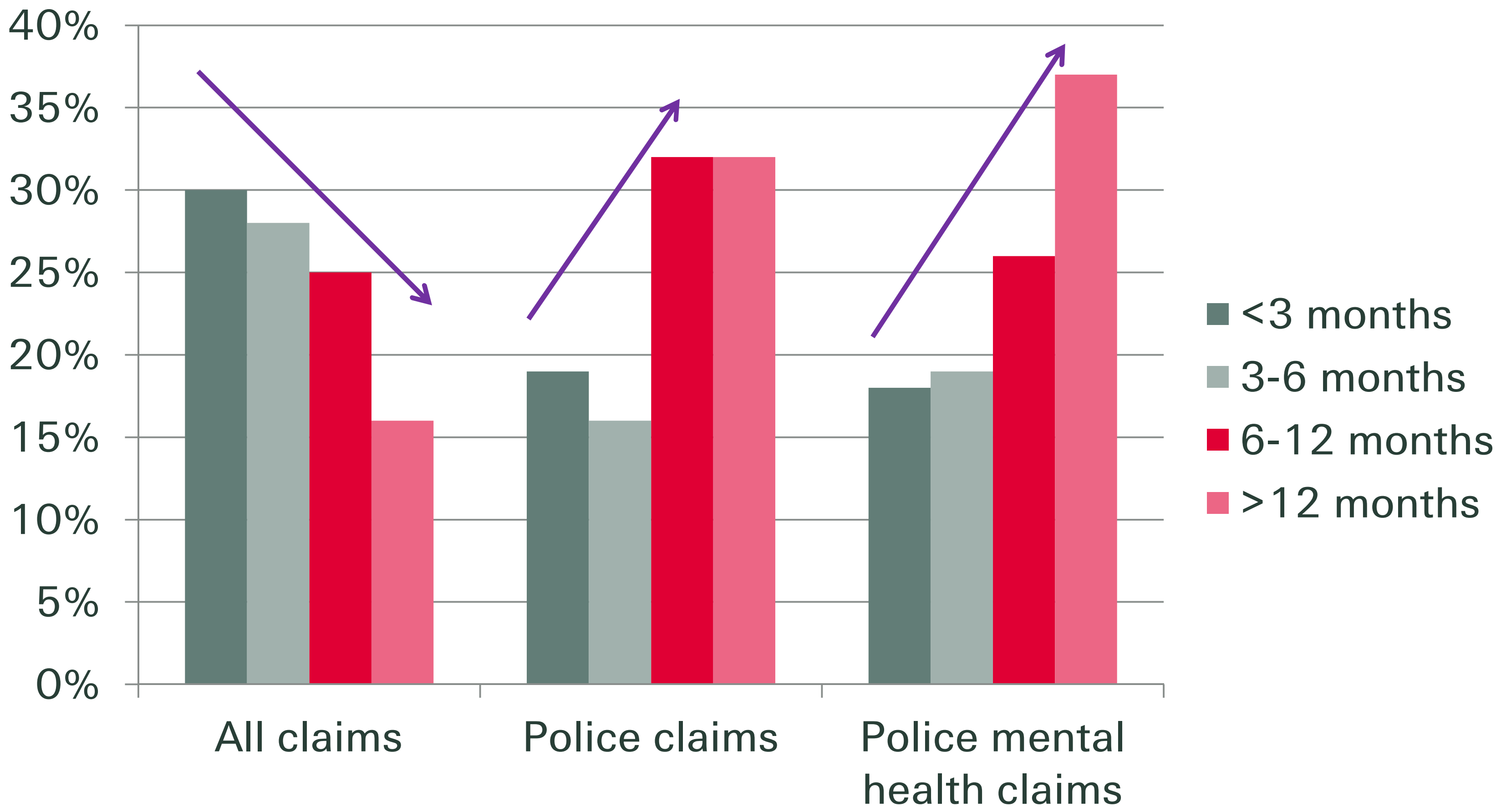
Cause of claim - all claims (100%)



Cause of claim - police claims (32%)



PTSD and the XYZ police:
Super Fund "X" – claim assessment duration



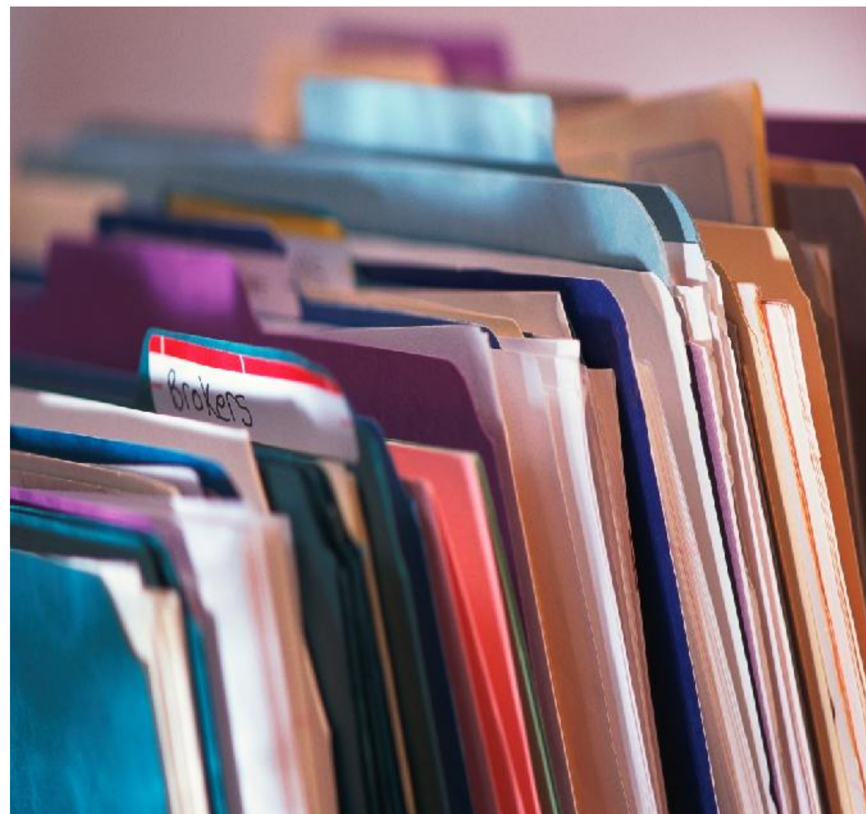
A financially driven epidemic?

Claims Management

- Is only one part of the big picture
- Claims process with no industry best practice or benchmarking
- Many parties involved
- Police – PTSD
- "Early intervention"
- Lack of skilled claims assessors (120 vacancies, high turnover)
- No contact with member directly
- Long delays (gathering evidence, workers comp, other insurers, solicitors)
- Solicitors providing IMEs
- Lack of IMEs to refute the solicitor IMEs
- Claims toolkit (alternatives to IMEs & surveillance)
- Complication of workers comp process and evidence
- Hands tied by product design, late notification, case law and fund
- Lack of sharing between insurers

Claims Management

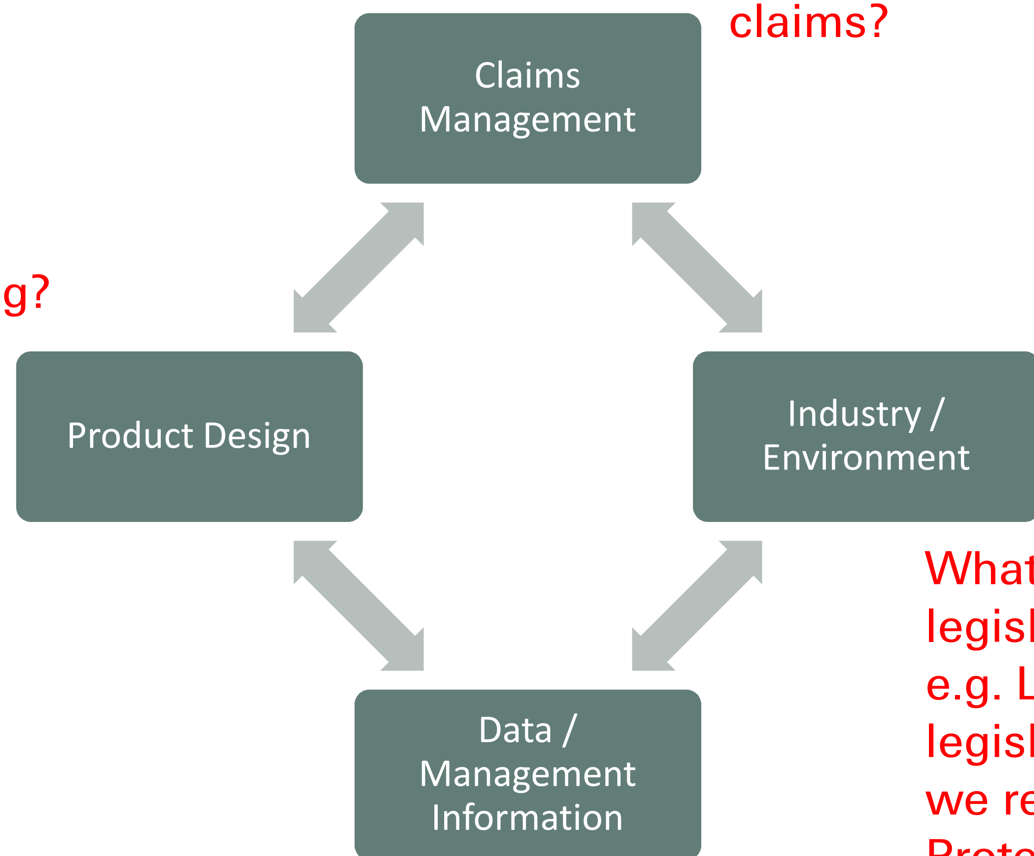
- Late start!
- Case law - late notification / rehabilitation since
- Delays in gathering evidence
- Lack of direct contact with member/claimant
- Industry shortage of skilled claims assessors
- Culture of entitlement



Key thoughts for North America

How well do we manage our claims?

Where are our products heading?



What's next with NA legislation & regulation e.g. Litigation shifts; legislation changes; Are we ready to close the Protection Gap?

How well do we know our business, do we understand our risk?

A New Day in Australia!