

2013 Convention

new solutions for a new world

31 Oct - 1 Nov 2013

Sandton, Johannesburg

ACTUARIAL
SOCIETY
OF SOUTH AFRICA



Disability Income

What can we learn from other markets?

(A warning from history)

Leza Wells

Peter Barrett

2013 Convention

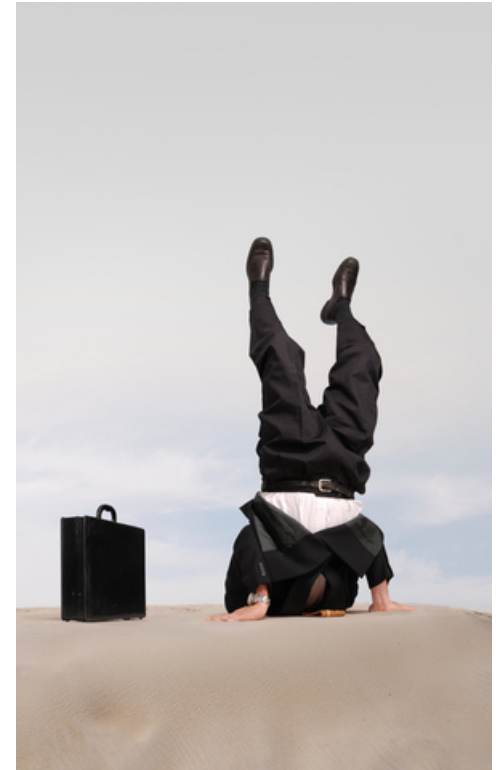
31 Oct & 1 Nov

Agenda

1. Why disability income and why now?
2. Our focus.
3. 1990 – 2000 What happened in US & Australia ?
4. 2000 - 2013.
 - i. Products
 - ii. Profitability
 - iii. Economy
 - iv. Experience
 - v. Cause of claim .
5. Claims Management.
6. Conclusions.

Why disability income, why now?

- Recent history in North America & Australia.
 - 1990's
 - 2000's
 - Now
- Growth product in South Africa.
- Can we learn from their markets?



Our Focus?

- Markets 1990's to 2013.
 - Australia.
 - North America (Canada/USA).
 - South Africa
- Influential Factors – what is happening now?
 - Profitability
 - Economy
 - Products
 - Experience
 - Cause of claim
 - Claims management

1990 - 2000 What happened? North America

- '1991 – 1995 catastrophic losses for the IDI market'
(Individual Disability Income in the United States - Robert Beal FSA)
- Market consolidation of IDI providers
- Product benefit restrictions introduced
- Premium increases
- Investment and focus on claims management
- Greater occupational classification
- Precipitating factor?
 - Re-structure of medical profession



1990 - 2000 What happened? North America

1990	2000
60 companies providing DI	24 companies providing DI
<p>Products</p> <ul style="list-style-type: none">• Own occupation based on either total or partial disability• Zero day – partial disability available• Average earnings over prior 12 months or greatest average for any 2 successive years over the prior 5• Lifetime sickness benefit• Indexing provisions for benefits in claim (COLA riders)• Indexing provisions for pre-claim benefits	<p>Products</p> <ul style="list-style-type: none">• Premiums increased up to 25% in certain states• Reclassify certain occupations – specifically medical profession• 2 year benefit limit on certain causes of claim• Tighter financial disclosure at underwriting• Removal of lifetime sickness benefits• Partial benefits limited to 24 months• Maximum benefit limits reduced

1990 - 2000 – What happened? Australia

- Deteriorating claims experience
- Market consolidation of DI providers
- Product benefit restrictions introduced
- Premium increases
- Investment and focus on claims management
- Greater occupational classification
- Precipitating factor?
 - General economic turbulence



1990 - 2000 What happened? Australia

1990	2000
55 companies providing DI	20 companies providing DI
<p>Products</p> <ul style="list-style-type: none"> • Own occupation • Zero day – partial disability available • Average earnings over prior 12 months or greatest average for any 2 successive years over the prior 5 • Lifetime sickness benefit • Indexing riders for benefits in claim • Indexing provisions for pre-claim benefits • Level premiums 	<p>Products</p> <ul style="list-style-type: none"> • Premiums increased significantly • Reclassify certain occupations • 2 – 5 year benefit limit on certain causes & occupations introduced • Tighter financial disclosure at underwriting • Benefits available to age 65 • Maximum benefit limits reduced • Stepped premiums – changing each year in line with age

Disability Income

The current position

- Products
- Profitability
- Economy
- Experience
- Cause of claim
- Claims management

2013 – IDI Products North America

Policy condition	Detail
Definition of disability	<ul style="list-style-type: none">• Own occupation, unable to perform the substantial duties of your regular occupation, or• Regular occupation for the first 24 months of claim thereafter any occupation suited by experience education or training.
Pre-disability earnings	<ul style="list-style-type: none">• Agreed value at outset, or• Last full calendar year earnings, or three best years out of five whichever is the higher
Benefit replacement ratio	<ul style="list-style-type: none">• 90% of average monthly net income earned
Benefit limit	<ul style="list-style-type: none">• \$20,000 per month

2013 – IDI Products North America

Policy condition	Detail
Maximum benefit term	<ul style="list-style-type: none">• Age 65
Deductions	<ul style="list-style-type: none">• Other regular income disability policies• Government disability benefits• Continuing income from employment
Benefit escalation	<ul style="list-style-type: none">• CPI or maximum of 10%
Common exclusions	<ul style="list-style-type: none">• Armed forces• Self inflicted injury• Pregnancy and child birth• Incarceration in prison

2013 – IDI Products Australia

Policy condition	Detail
Definition of disability	<ul style="list-style-type: none"> • Unable to perform one or more important duty of own occupation, OR • Can't work in usual occupation for more than 10 hours a week, Or • Pre-disability income has reduced by 20% or more, AND under the regular care of a medical practitioner
Pre-disability earnings	<ul style="list-style-type: none"> • Agreed value – the best 12 months in the period from claim to the 12 months prior to policy commencement, OR • Indemnity – the best consecutive 12 months of earnings from 3 years immediately prior to disability
Benefit replacement ratio (gross income)	<ul style="list-style-type: none"> • 75% up to \$26,667 • 50% of next \$20,000 • 20% of balance
Benefit limit	<ul style="list-style-type: none"> • \$60,000 per month

2013 – IDI Products Australia

Policy condition	Detail
Maximum benefit term	<ul style="list-style-type: none"> To age 70
Deductions	<ul style="list-style-type: none"> Other sources of continuing employment income where working \geq 10 hours per week, OR Any monthly earnings which \geq 20% of pre claim earnings
Benefit escalation	<ul style="list-style-type: none"> Maximum of 5% and CPI before claim Maximum of 3% and CPI after claim
Ad hoc increases	<ul style="list-style-type: none"> Future insurability option allows up to 20% increase every 3 years on the renewal date to age 55
Common exclusions	<ul style="list-style-type: none"> War Self inflicted Non-disclosure Pregnancy / childbirth Pre-existing conditions

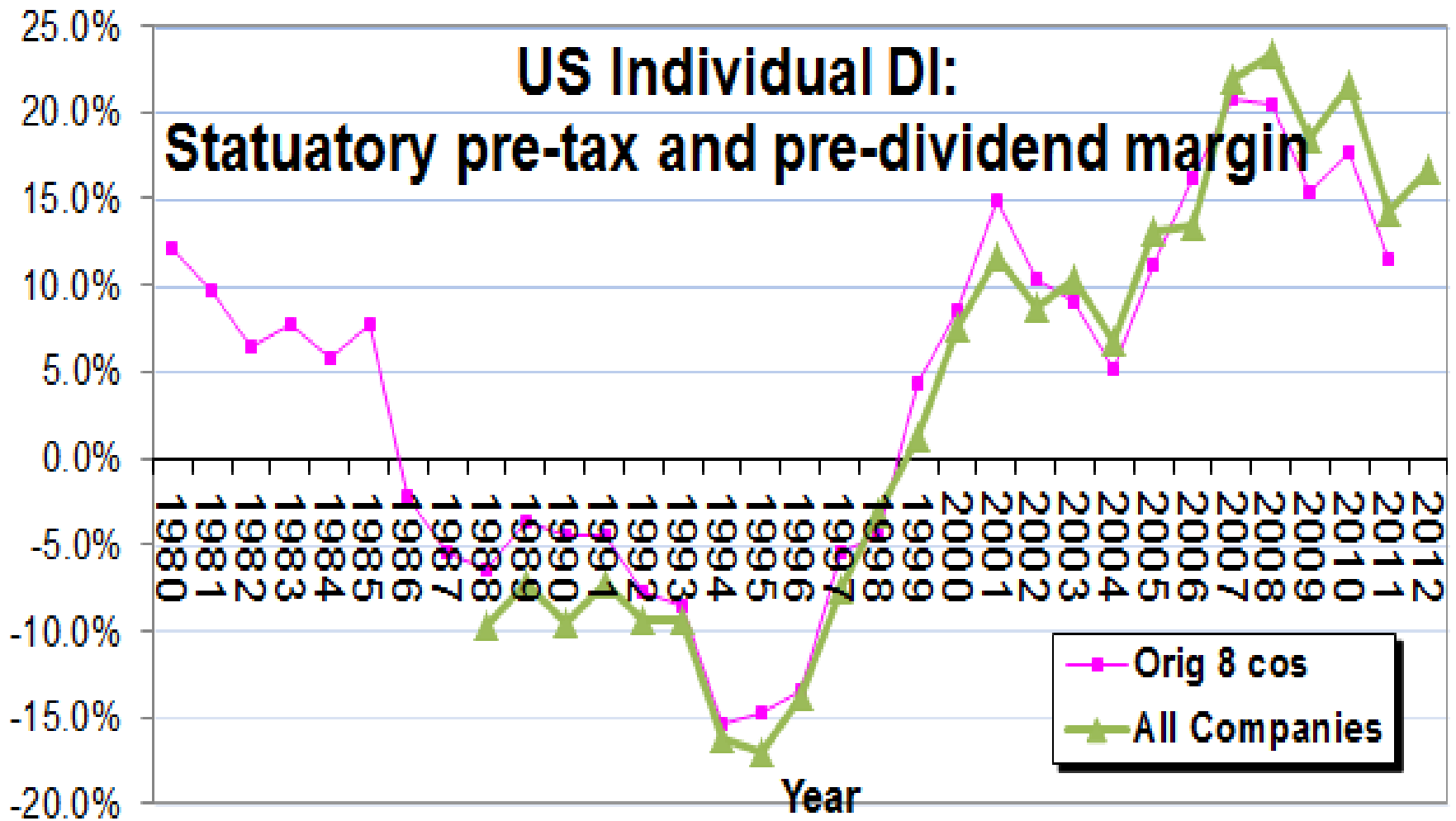
IDI Product Summary

Policy condition	Most generous term
Waiting period	Australia – allow partial disability to qualify
Notification of claims	Australia – no time limit, no sanction for late notification
Definition of disability	Australia – qualify by being unable to do one important duty
Definition of pre-disability income	Australia – agreed value
Benefit replacement ratio	Australia – minimum 75% of gross income
Monthly benefit amount	Australia - \$60,000 pm
Deductions from benefit	Australia – no deductions if you earn up to 20% of pre disability income
Maximum benefit term	Australia – to age 70
Benefit escalation	Both allow CPI
Ad hoc increases	Australia – 20% every three years up to 55
Exclusions	Australia – fewest

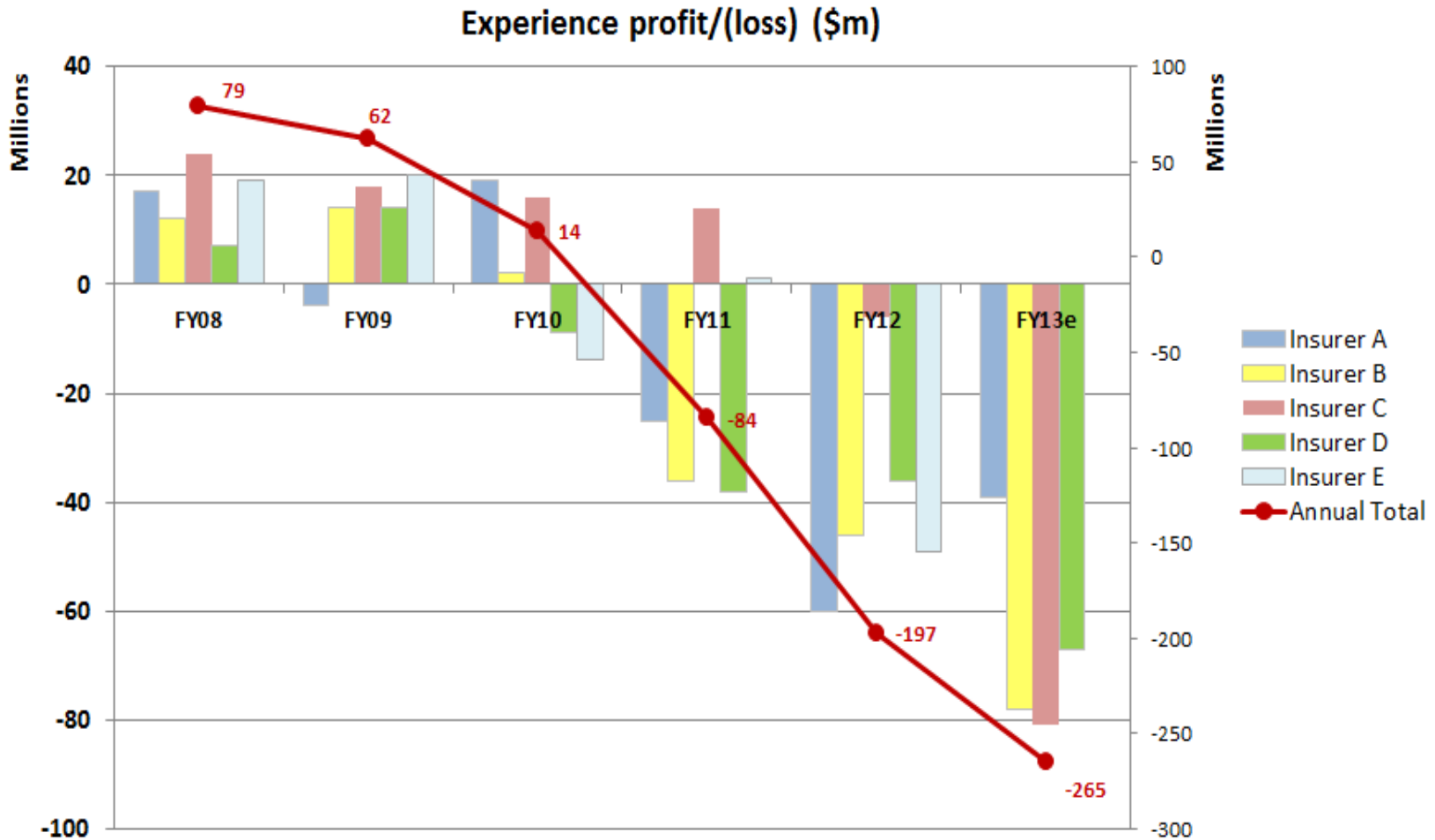
Profitability

- Individual DI Profits
 - US - Milliman disability newsletter monitoring since 1980s
 - Australia – KPMG monitoring more recently
 - Canada and SA – Anecdotally profitable
- Group DI profits
 - US - Industry earnings reports show stable loss ratio's
 - Australia – KPMG monitoring more recently
 - Canada (Fraser Group) – satisfaction increased during 2000s
 - SA – 3 of 6 group insurers are satisfied with 2012 DI results

Profitability North America

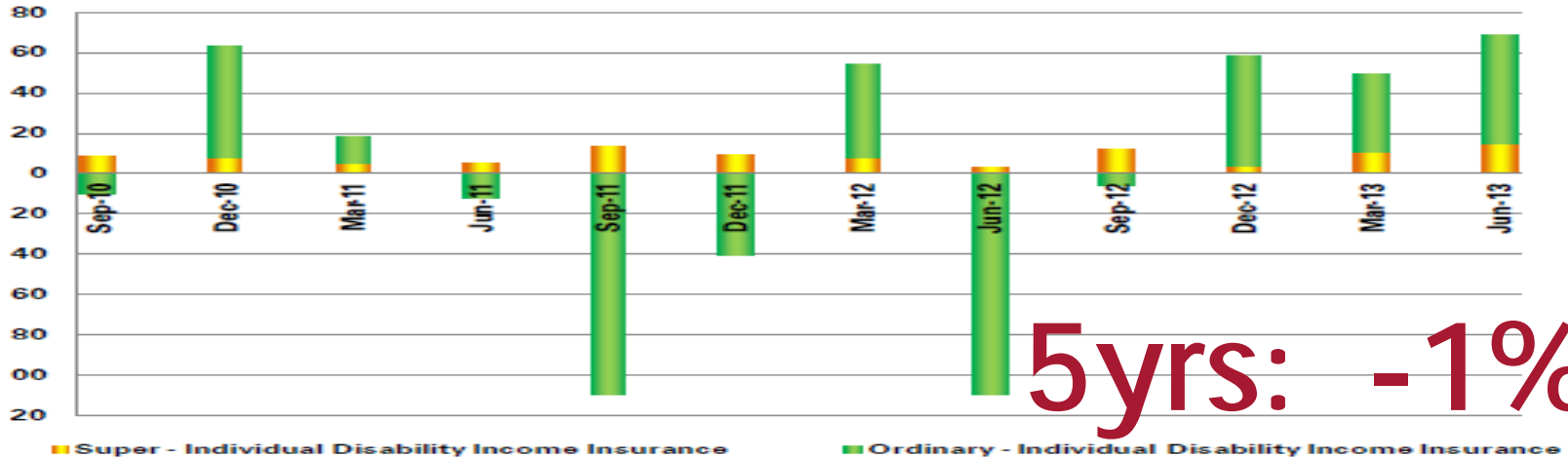


Profitability Australia

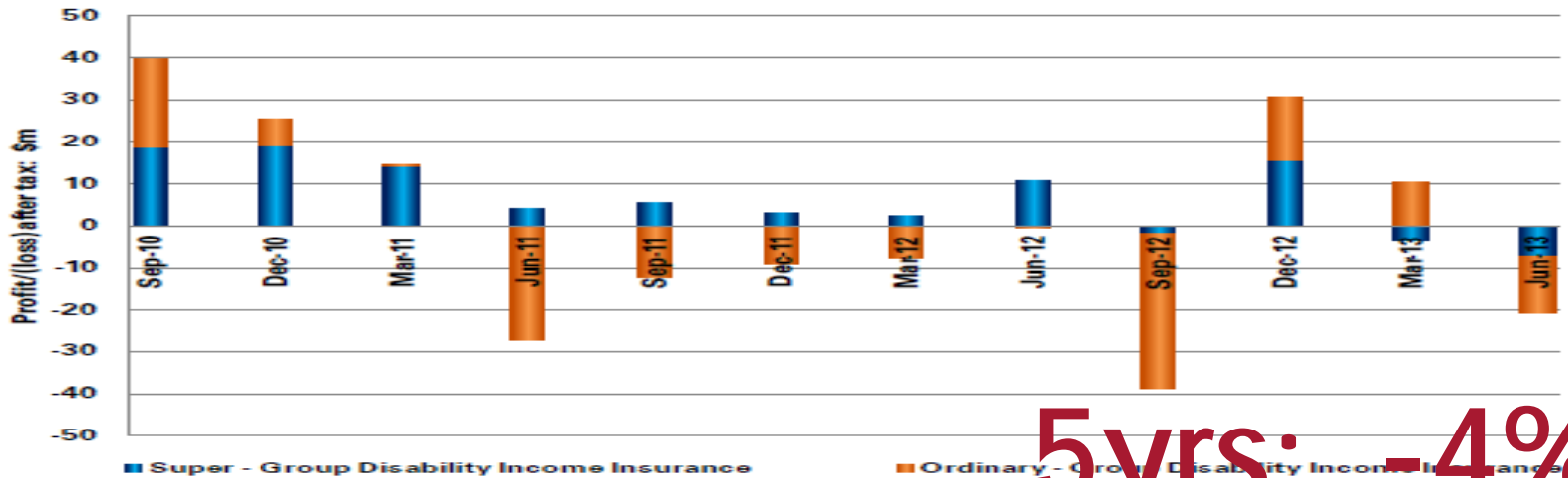


Profitability Australia

Australian Industry Retail DI Experience - Quarter to 30 June 2013

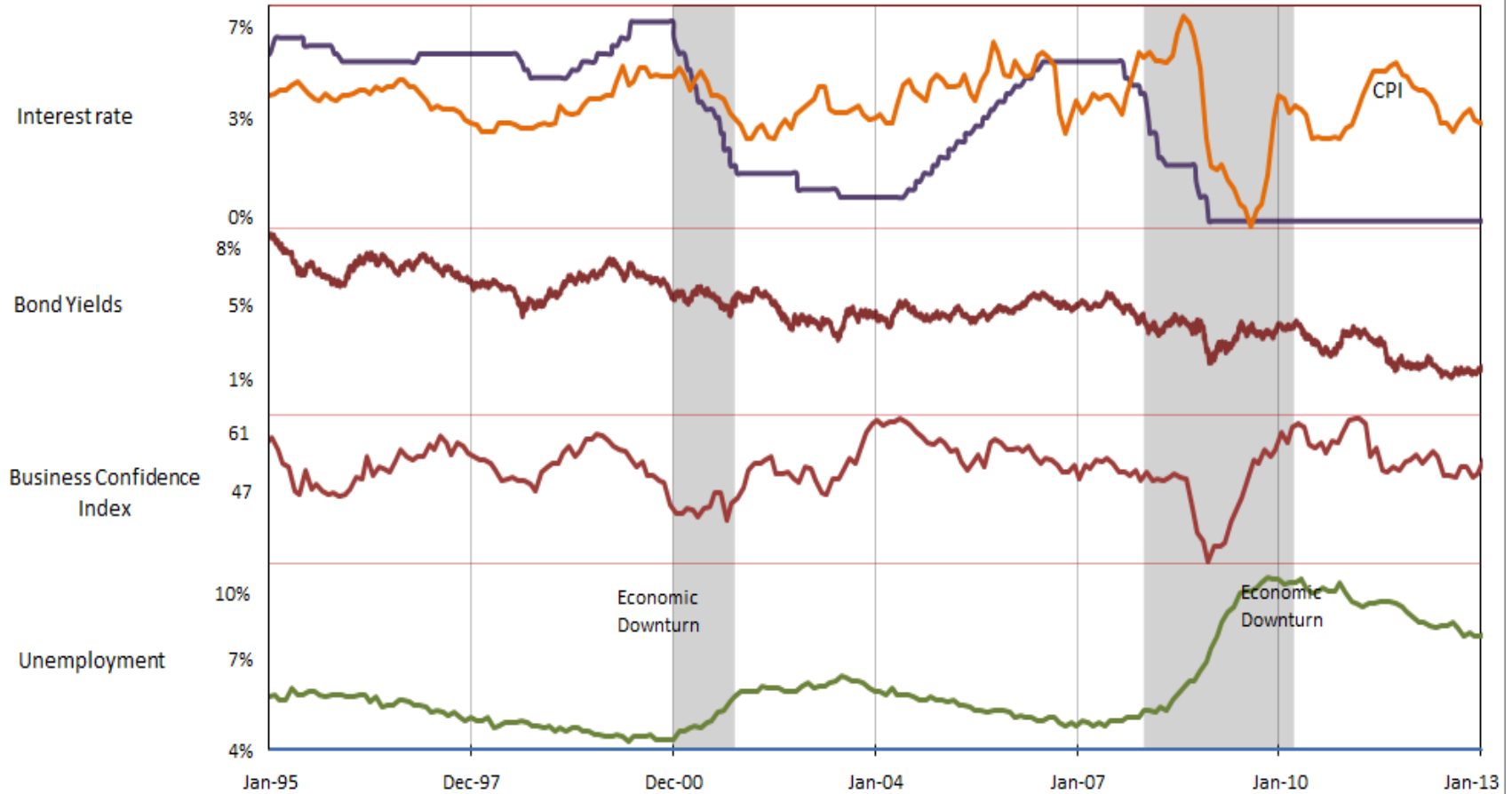


Australian Industry GSC Experience - Quarter to 30 June 2013



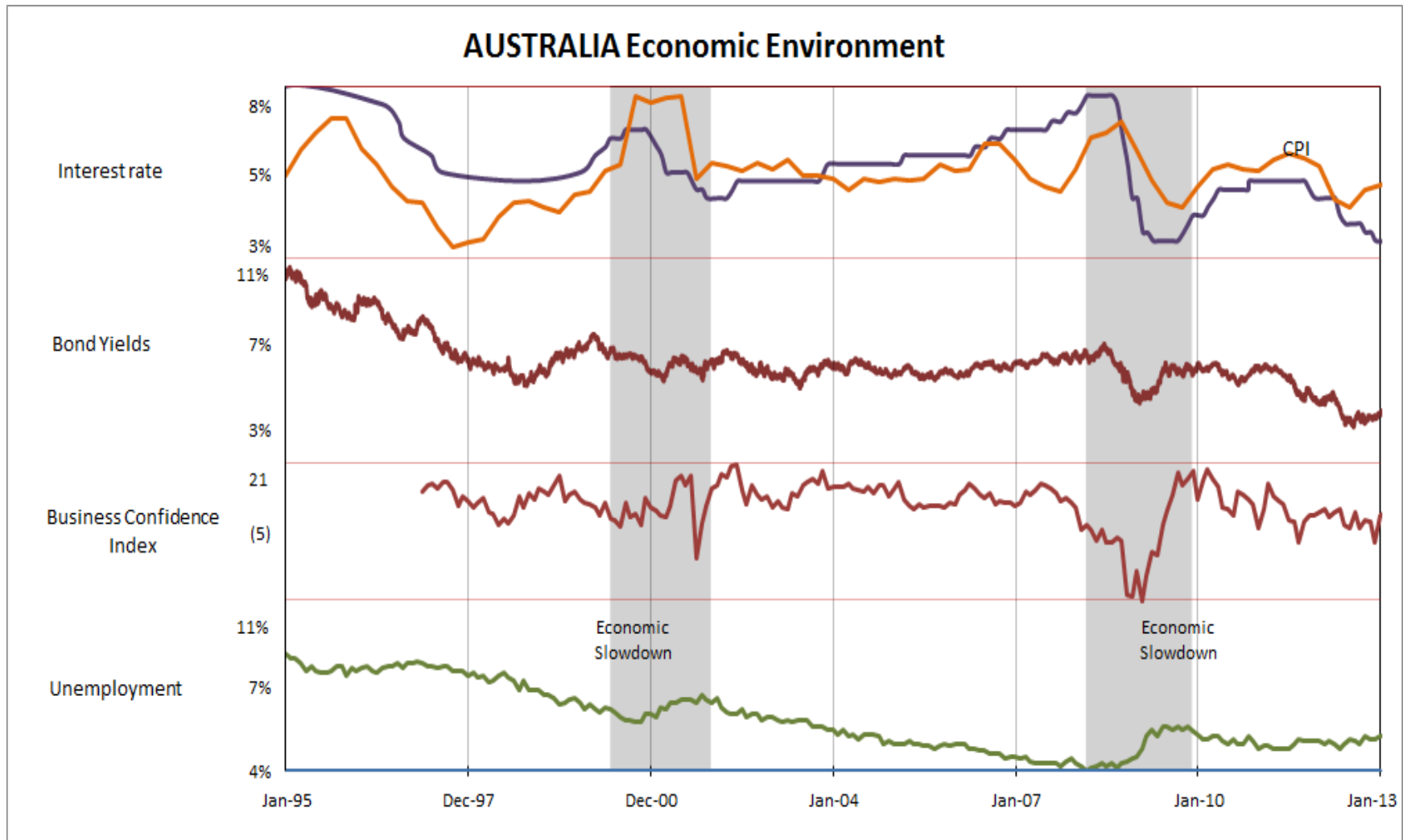
Economy North America

USA Economic Environment



Source: www.tradingeconomics.com

Economy Australia



Source: www.tradingeconomics.com

Profitability & the economy?

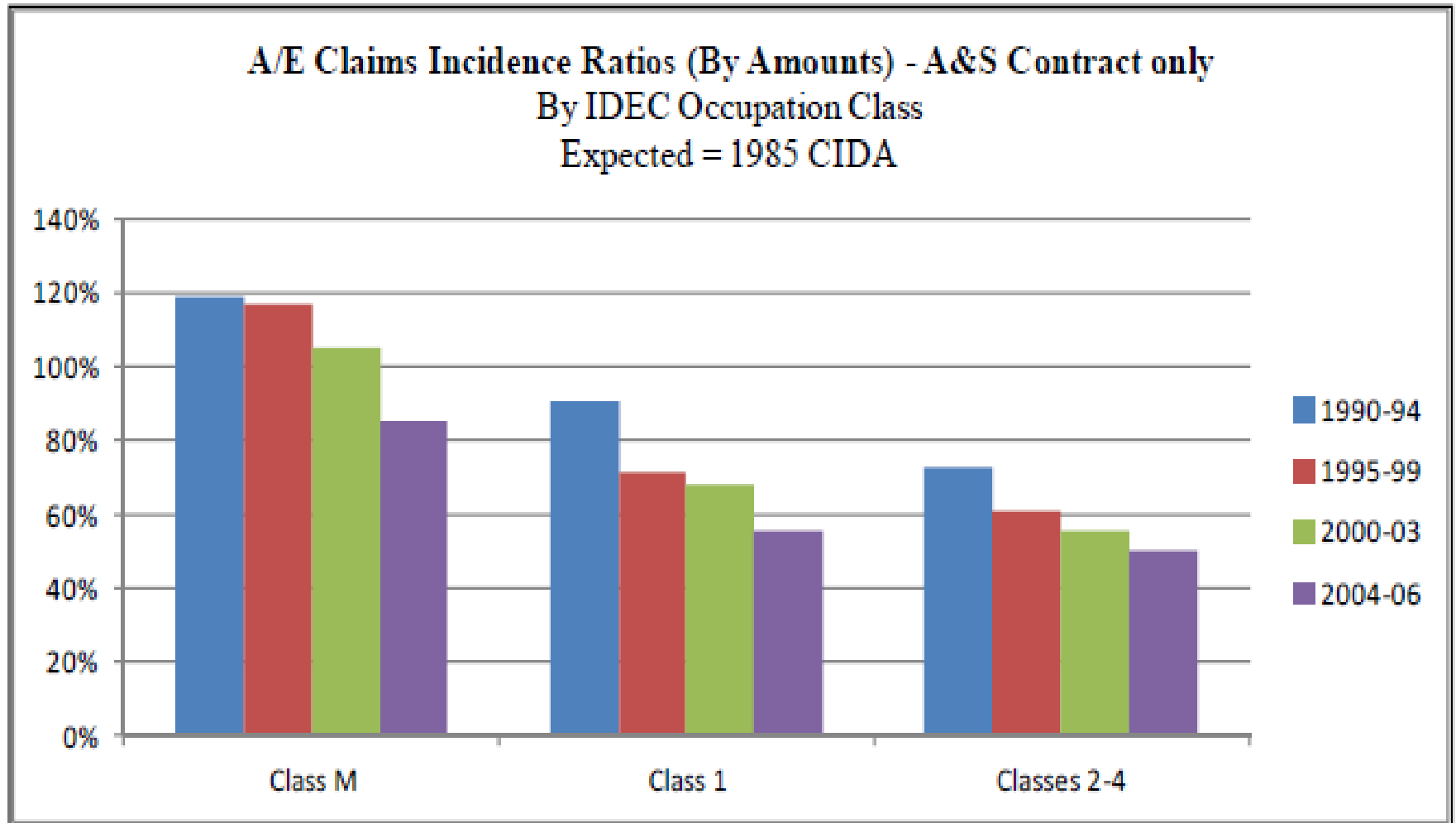
- All markets currently have similar economic indicators
 - low interest rates, a trend of reducing bond yields, stable BCI
- Challenging environment for DI products
- A missing link?
 - US has highest unemployment (higher than 1980s)
 - Although Australia has the lowest unemployment rate it is the market with the most deteriorating disability experience



Experience

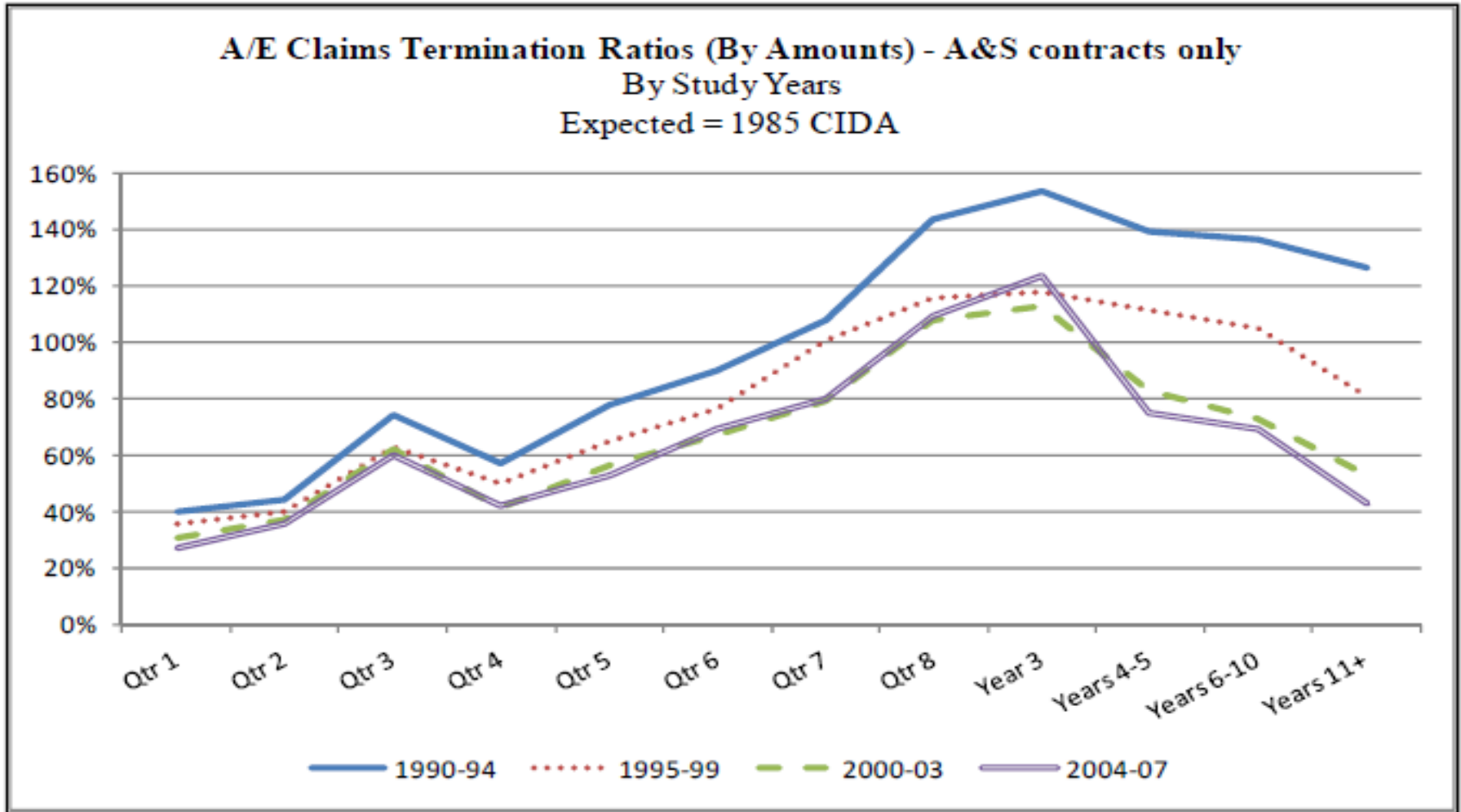
- Individual Experience
 - US - SOA Study 1990-2007 released in 2013
 - Australia – FSC-KPMG study 2007-2009 – due Feb2014
 - Canada and SA – no industry experience
- Group Experience
 - No recent industry incidence experience
 - US – Termination experience & new industry tables (1997-2006)
 - Australia – RGA termination experience
 - Canada – CIA Termination study (2004-2008)
 - SA – RGA PHI Termination study (2000-2008)

Individual Experience North America



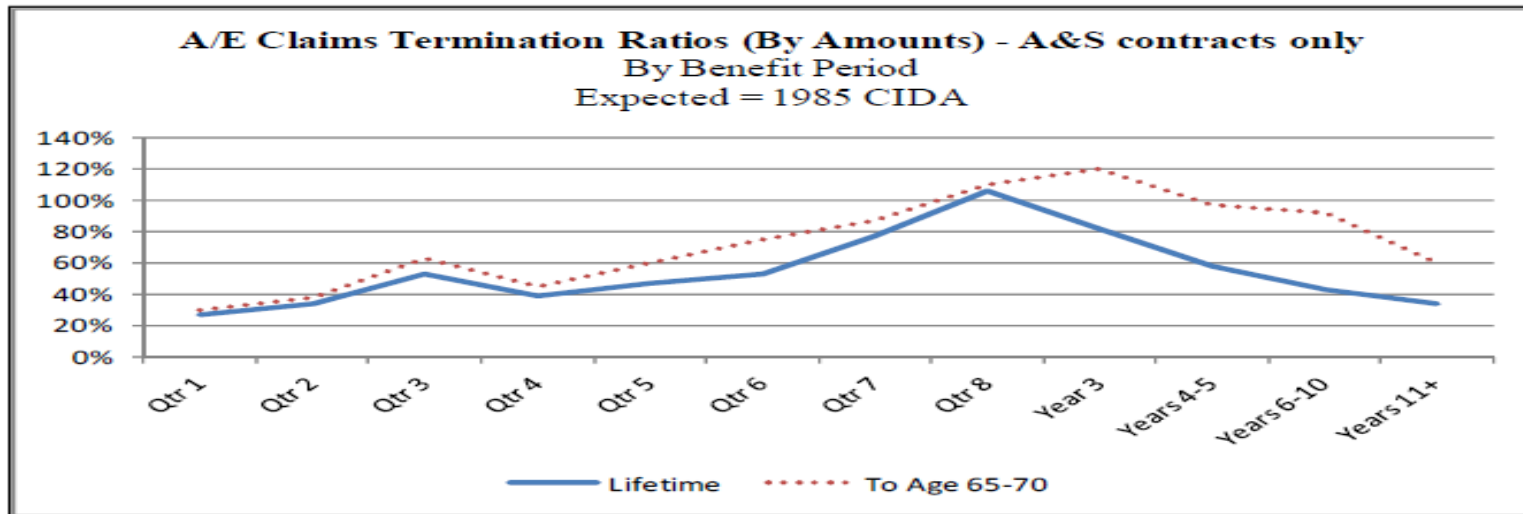
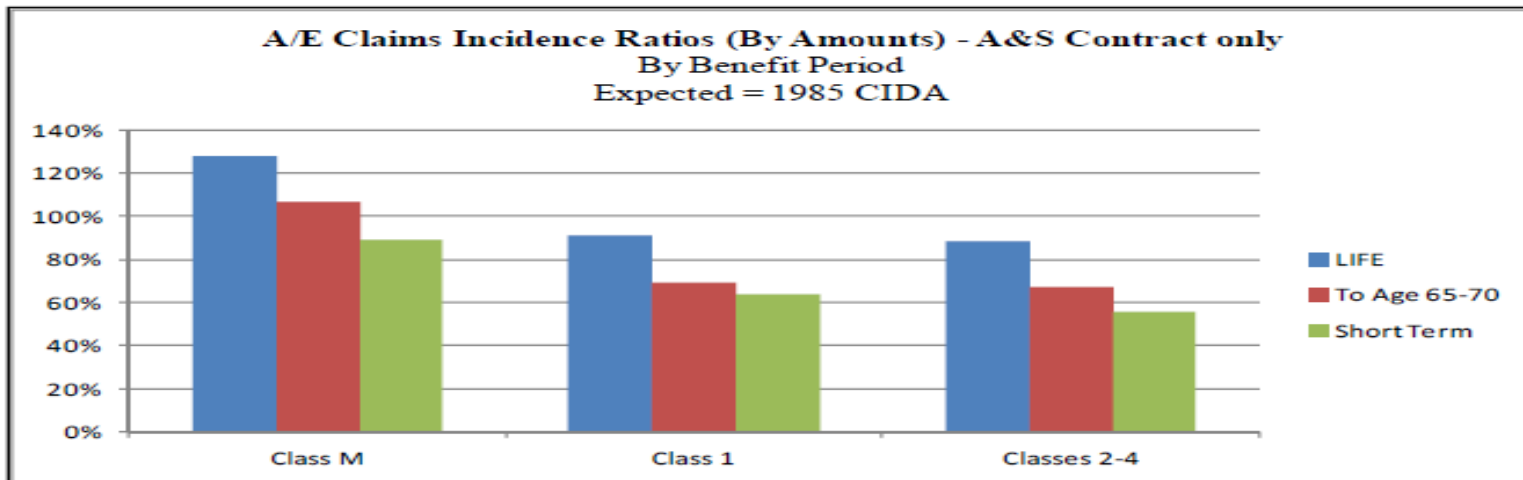
Source: Society of Actuaries, Report of IDEC analysis of experience from 1990 to 2007

Individual Experience North America



Source: Society of Actuaries, Report of IDEC analysis of experience from 1990 to 2007

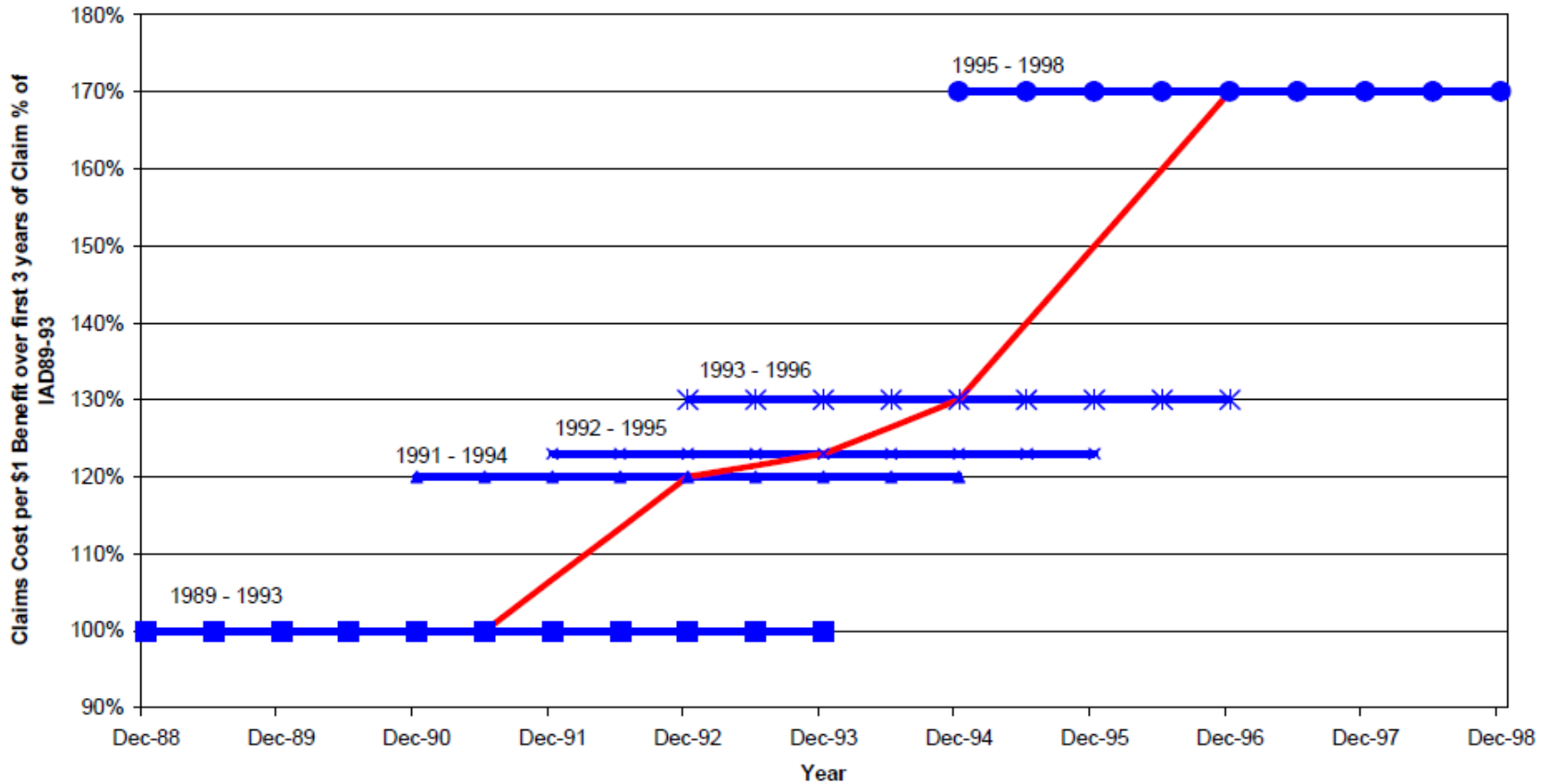
Individual Experience North America (Lifetime Benefits)



Source: Society of Actuaries, Report of IDEC analysis of experience from 1990 to 2007

Individual Experience Australia

Claim Cost % of IAD89-93
Male 2 Week Class A

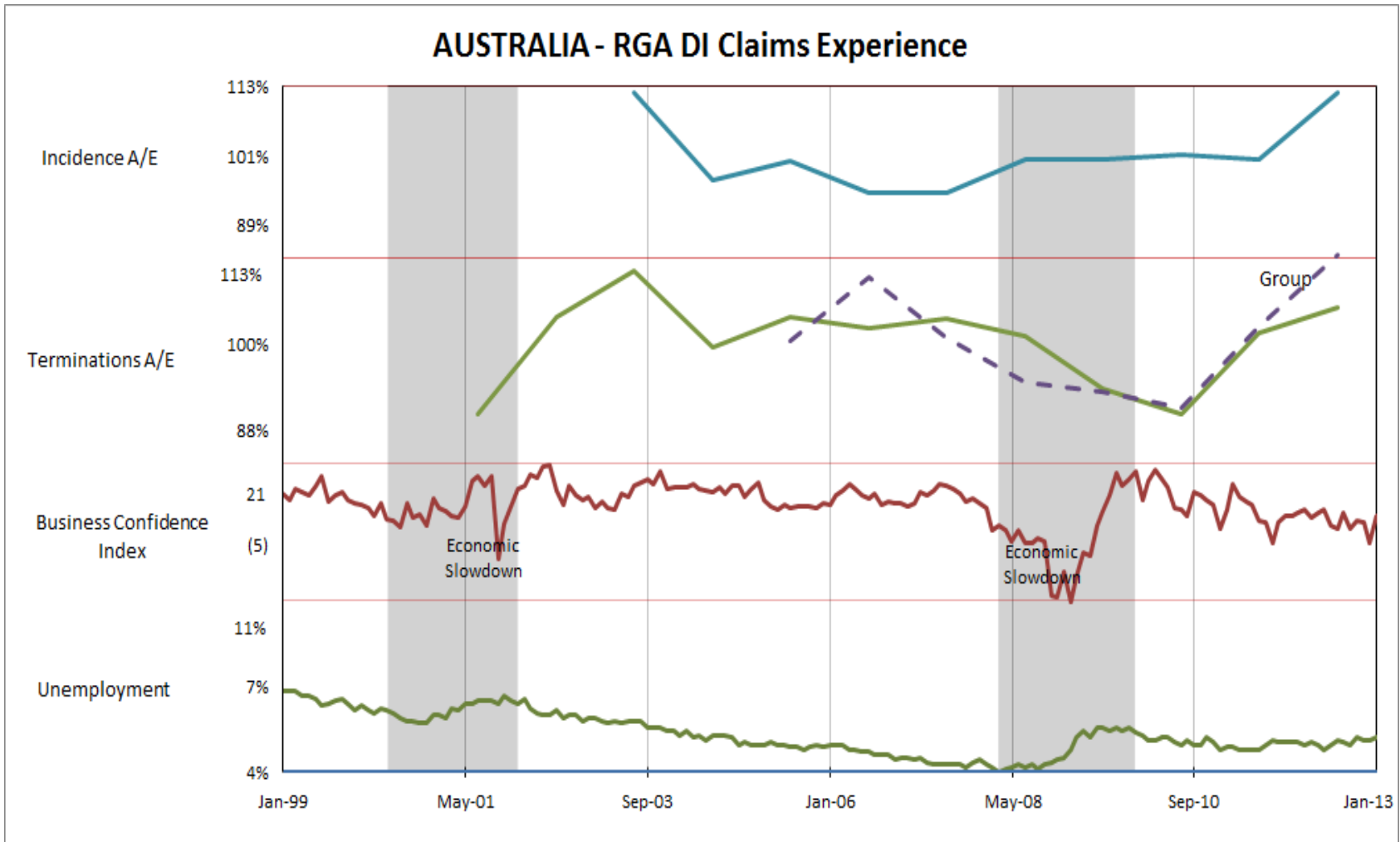


Source: IAA 2002 report.

Graph from presentation by Hoa Bui & Andre Dreyer, FSC forum

Individual Experience Australia

AUSTRALIA - RGA DI Claims Experience



Group Termination Experience

- Key Observations
 - Disability results do vary materially by market but several themes do translate across markets
 - Recovery rates have generally been improving over time for US, Canada and South Africa indicating better claims mgt
 - Benefit Escalation is associated with lower termination rates
 - Higher salary claimants typically have lower termination rates

Cause of Claim

All Markets – Incidence Split

% of Number of Claims by Cause	Australia Individual (RGA Experience)	US Individual	US Group	Canada Group Quebec	Canada Group Non-Quebec	South Africa Group
Claims incepting when?	2006-2010	1990 to 2006	2008 to 2012	Prior to 2008	Prior to 2008	2004 to 2008
Source	RGA Experience	SOA, 2013	CDA, 2013	CIA, 2011	CIA, 2013	RGA, 2010
Musculoskeletal	35%	32%	28%	20%	23%	20%
Psychiatric	10%	7%	9%	46%	31%	7%
Neurological	0%	8%	7%			8%
Cardiac/ Ciculatory	8%	15%	9%	**	**	11%
Cancer/ Neoplasms	9%	12%	15%	9%	12%	9%
Accidents/ Injury	10%	7%	11%	7%	10%	35%
Other Causes	15%	21%	23%	15%	21%	
Unknown	12%	*	0%	3%	4%	10%
All Causes	100%	100%	100%	100%	100%	100%

*US Individual proportions were shown as % of known causes

**Included in Other Causes

- Musculoskeletal typically most common
- Musculoskeletal, psychiatric, neurological, cancer increasing
- Musculoskeletal, psychiatric, neurological longest durations
- Cancer shortest durations

2000 to 2013 – Claims Management North America

- Well resourced with scale and specialisation
- Established rehabilitation protocols and resource
- Policy terms that obligate early notification incentivise a return to work
- Stay at work initiatives before the claimant ceases work
- Change of benefit definition from own to any occupation at 2 – 3 years

2000 to 2013 – Claims Management Australia

- Resource shortage across market
- Strain on existing resource
- Generous policy/scheme provisions
- Superfunds acting as gatekeepers to the claimant
- Developing network of 'no win, no fee' lawyers
- Reliance on pre-printed questionnaires
- Reliance on claimant's doctor to determine disability

Market Summary

- North America
- Australia
- Lessons for South Africa?
- Conclusions

North American - Summary

Prudent or missed opportunity?

- Catastrophic losses of 1990's not repeated to date
- Now modest premium growth & prolonged profitability despite global financial crisis.
- Identified unprofitable segments and increased premiums and tightened underwriting accordingly
- Tightening of policy terms and conditions no return to policy conditions of the 1980/90's

Australian Summary

Innocent victims or **authors of their own downfall?**

- When incidence improved in the early 2000's, benefits improved rather than reducing premiums
- Benefit liberalisation continues
- Supremacy of Superfunds has impacted the risk management balance
- Growth of market has outstripped the supplier of claims assessors

South Africa

Lessons to learn or genuinely different?

- Unlikely to identify cause of poor experience
- Impact of the economy & regulatory change
- Invest in claims mgt - Retaining control of claims process is vital
- Can't manage what we can't measure
- Generous disability benefits
- Which model should we follow?

South Africa – IDI Product Features

Policy condition	Most generous term
Waiting period	Australia/South Africa – allows partial disability to qualify
Notification of claims	Australia – no time limit and no sanction for late notification
Definition of disability	Australia – can qualify by being unable to do one important duty
Definition of pre-disability income	Australia – allow agreed value with no benefit replacement ratio check at claims stage?
Benefit replacement ratio	South Africa – allow up to 100% for limited period
Monthly benefit amount	Australia – allow up to A\$60,000 per month
Deductions from benefit	South Africa – No deductions for limited period Australia – allows you to earn up to 20% of your personal disposable income
Maximum benefit term	South Africa – whole life option available
Benefit escalation	South Africa, CPI up to 13%
Ad hoc increases	Australia – allow up to 20% each year without underwriting
Exclusions	Australia has the fewest

Conclusions

1. Unable to identify one common precipitating (economic or otherwise) factor for a deterioration of disability experience
2. Market expansion preceded a deterioration in experience in both US and Australia
3. US has not undergone a further period of high growth or deterioration in experience since 2000
4. The US has not liberalised benefit definitions since 2000's
5. Australia has experienced high growth in 2000's and appears to be entering a further period of poor experience

Conclusions

6. The deterioration in disability experience in Australia has

been impacted by;

- I. Liberalisation of benefit terms making it harder for claims to be managed back to work
- II. Scarcity of claims resource
- III. Impact of Superfunds on claims management
- IV. Increasing use of 'no win, no fee' lawyers

Those who don't know history are destined to repeat it

Edmund Burke (Philosopher)



Disability Income

What can we learn from other markets?

QUESTIONS ?

lwells@rgare.com

pbarrett@rgare.com