

# Post Retirement Products – The Need For Protection When People Live Longer

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28 November 2014

# Agenda

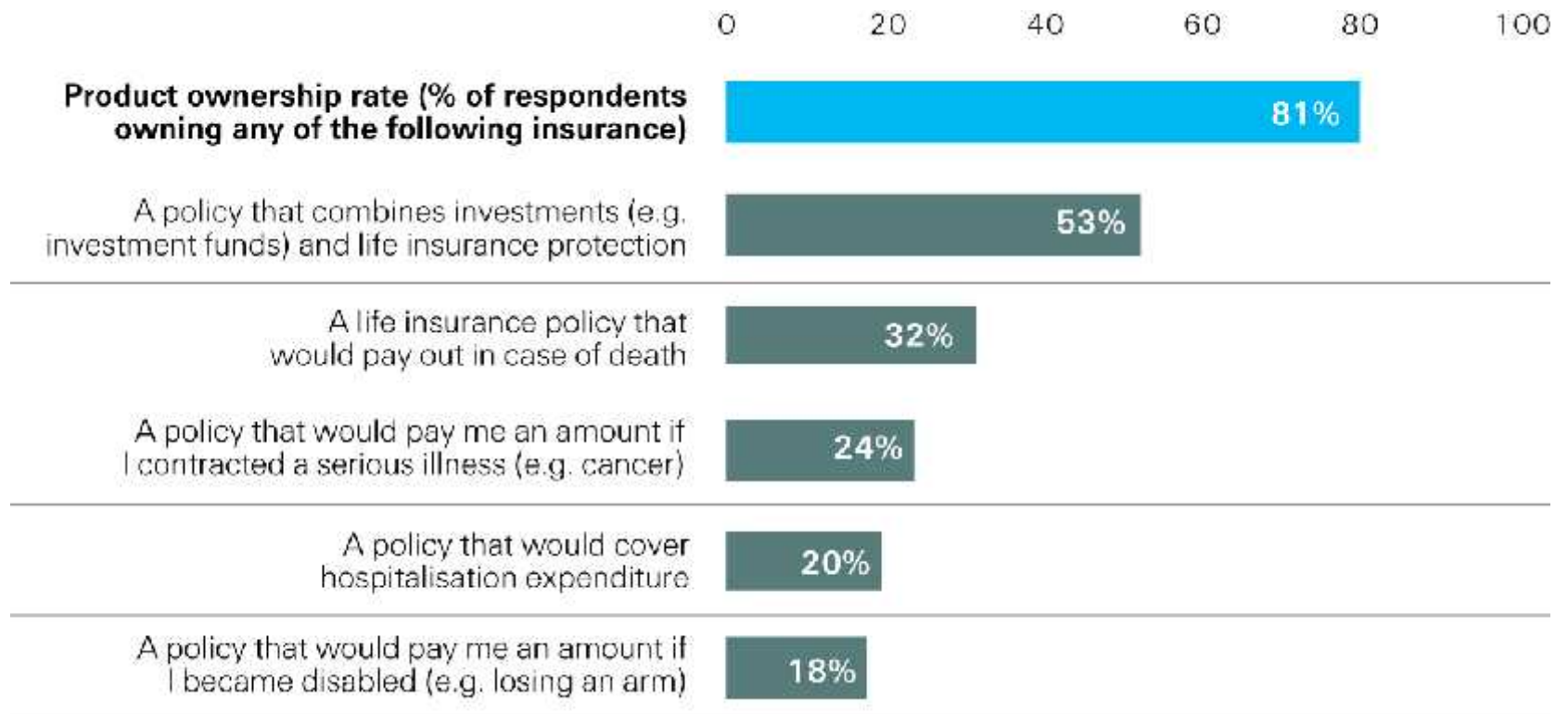
- Introduction
- People are living longer...
- Morbidity
- Longevity
- Long Term Care
- Conclusion



# Introduction

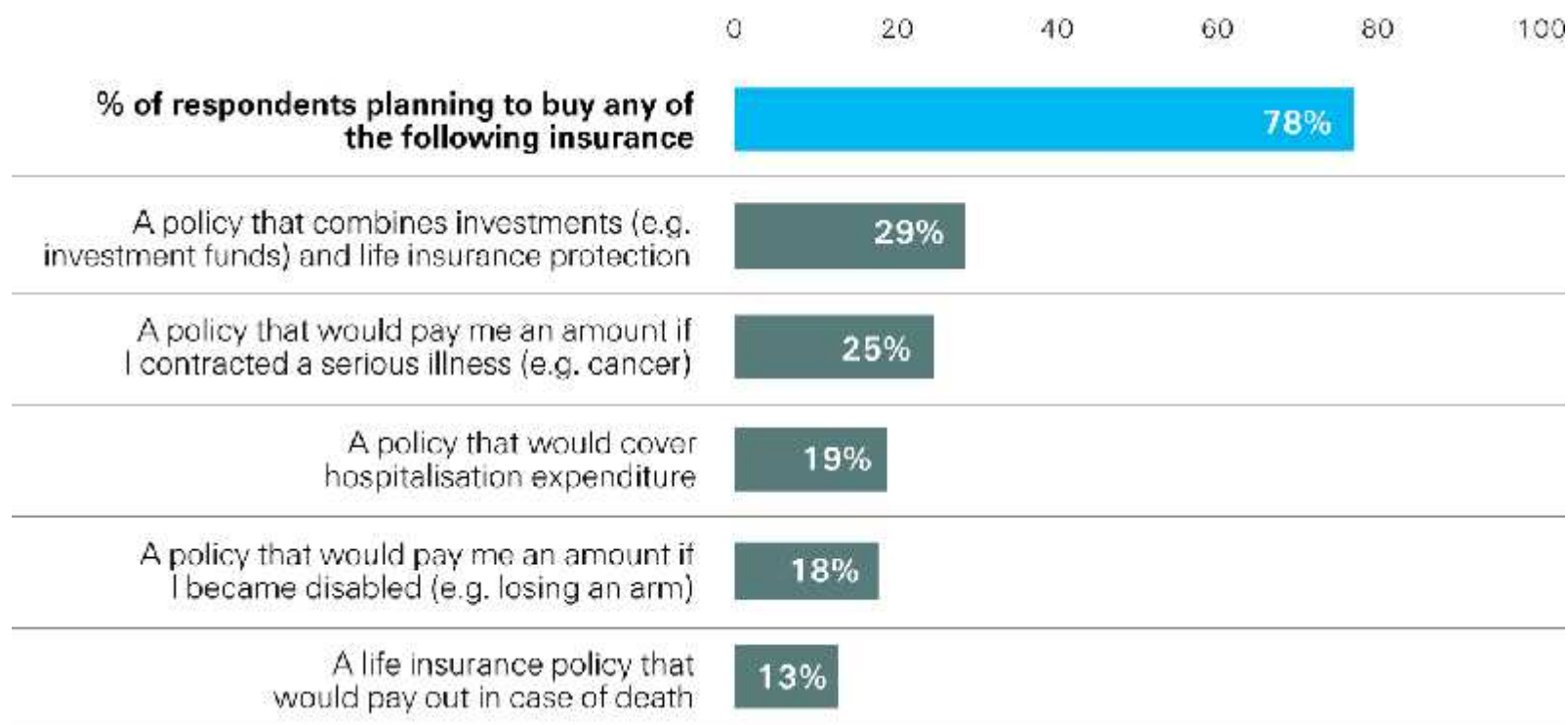
# 81% of respondents in India own some kind of insurance

## Insurance products personally owned (in%)



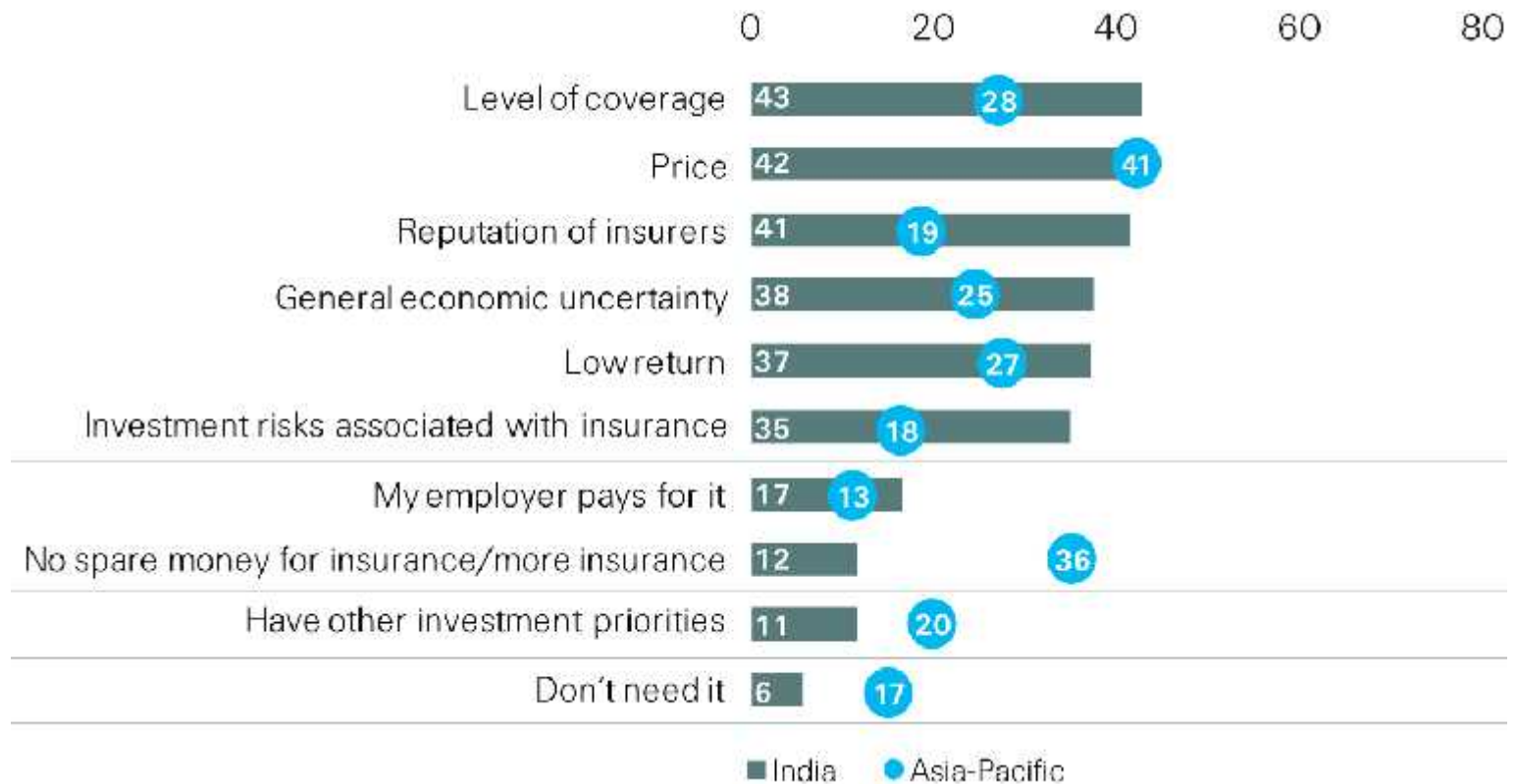
# 78% are planning to buy insurance in next 12 months – the highest ratio in Asia-Pacific alongside Indonesia

Insurance products considered to purchase in next 12 months (in%)



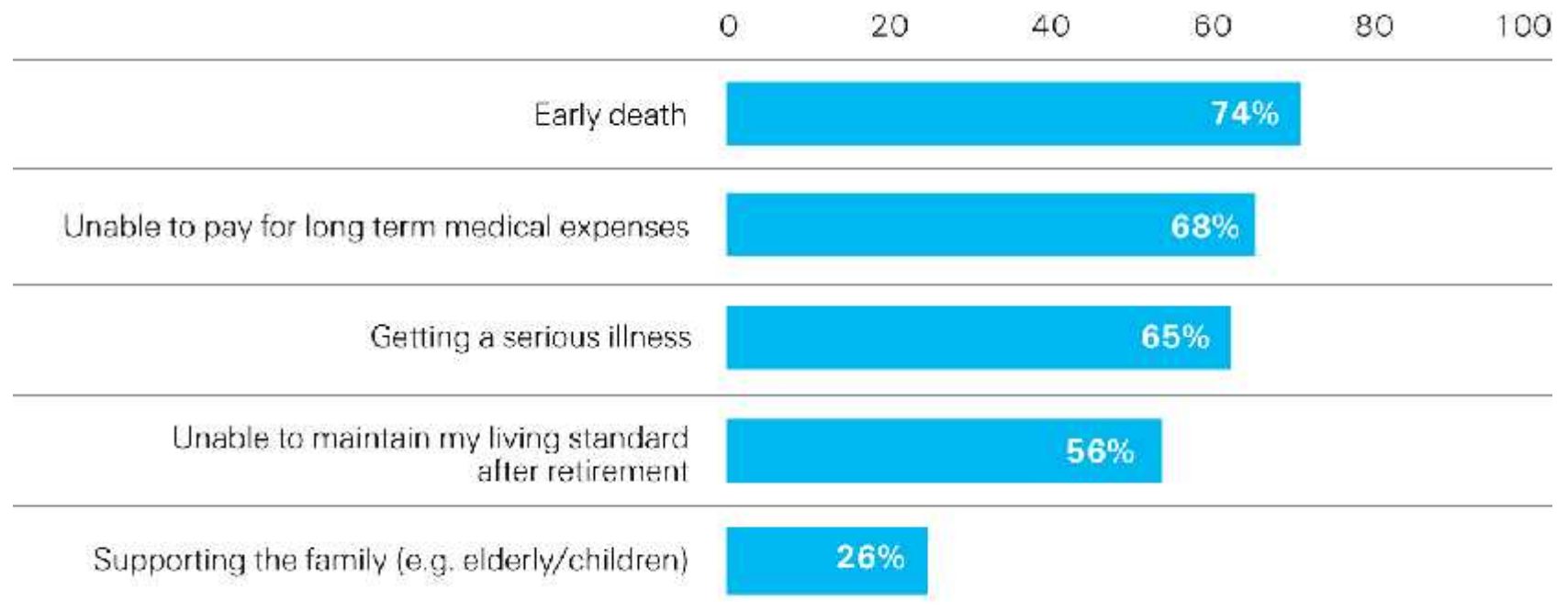
# Biggest barriers for insurance purchases – level of coverage, price and reputation of insurers

Important reasons that would put respondents off purchasing life/protection insurance (in %)

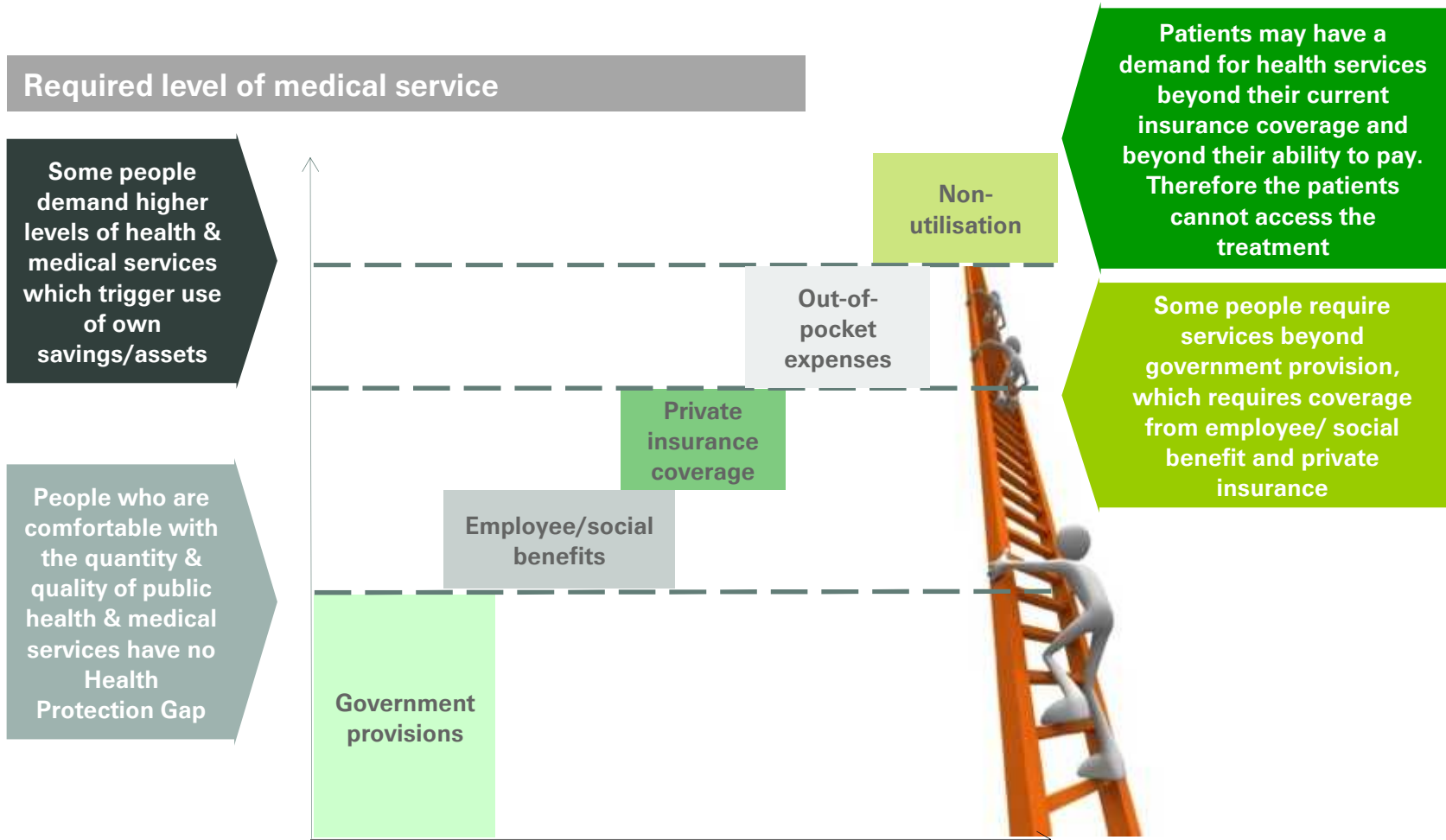


## Key drivers for insurance purchases in India – early death, inability to pay medical expenses and getting a serious illness

Main worries/concerns for the future that might lead you to consider buying life/health insurance (in %)



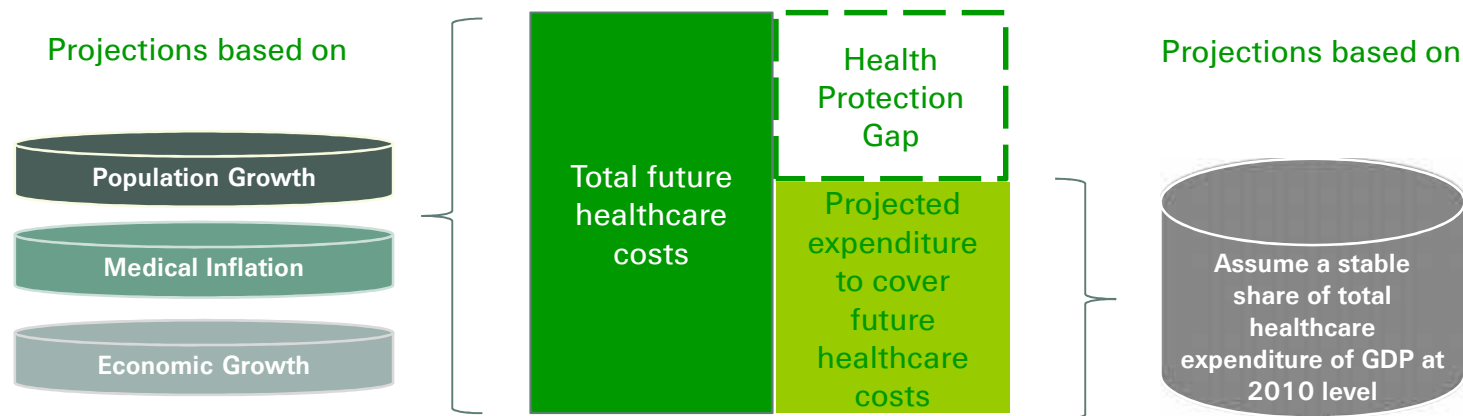
# The size of the Health Protection Gap varies with demand & willingness to pay





# Background of the Health Protection Gap study

- This is the first Health Protection Gap study to feature multiple markets in Asia-Pacific\*
- Swiss Re expects that such a study will be beneficial to both the insurance industry and the public



**The Health Protection Gap should be seen as the shortfall in future financing, should governments and private expenditure fail to match expected increases in medical payouts.**

**Note:** \*In this presentation, unless stated otherwise, Asia-Pacific refers to the 13 markets covered in our study and not the entire region.

# Asia-Pacific markets will see a rising Health Protection Gap over time

## Total healthcare expenditure/ GDP share (%)

	Australia	China	HK	India	Indonesia	Japan	S Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand	Vietnam	Total
2000	8.0%	4.6%	5.1%	4.4%	2.0%	7.7%	4.5%	3.1%	3.2%	2.8%	5.5%	3.4%	5.3%	6.4%
2005	8.4%	4.7%	5.2%	4.2%	2.4%	8.2%	5.7%	3.6%	3.5%	3.0%	6.2%	3.5%	5.9%	6.4%
2010	8.7%	5.1%	5.1%*	4.1%	2.6%	9.5%	6.9%	4.4%	3.6%	4.0%	6.6%	3.9%	6.8%	6.6%

Note: \*2009 figure

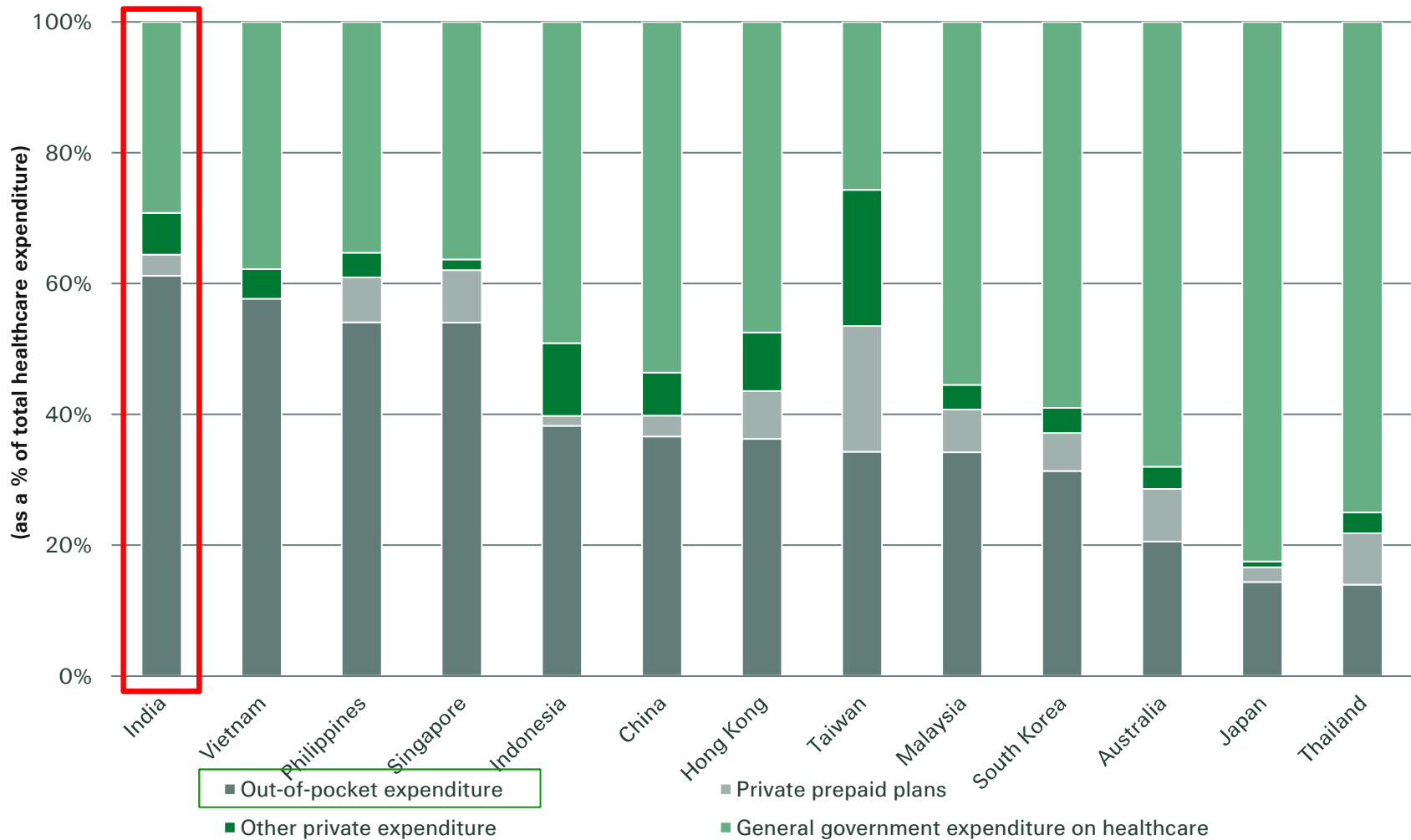
## Health Protection Gap (S1 minus S2)

USD bn	Australia	China	HK	India	Indonesia	Japan	S Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand	Vietnam	Total
2011F	0.2	3.2	0.3	2.2	0.1	1.4	0.4	0.1	0.1	0.1	0.3	0.5	0.1	9
2012F	0.5	4.7	0.3	4.2	0.9	3.4	1.6	0.1	0.2	0.1	0.5	1.1	0.2	18
2013F	1.8	7.3	0.4	6.5	1.3	9.6	2.8	0.2	0.3	0.1	0.7	1.6	0.5	33
2014F	2.6	12.2	0.5	10.2	2.0	17.4	4.5	0.5	0.4	0.1	0.9	2.2	0.6	54
2015F	3.9	18.4	0.6	14.2	2.8	24.2	6.1	0.9	0.6	0.1	1.2	2.8	0.6	77
2016F	4.3	30.5	0.7	18.1	3.5	23.2	7.5	1.3	0.9	0.1	1.5	3.5	0.6	96
2017F	4.5	40.1	0.8	23.2	4.5	23.8	9.2	1.8	1.2	0.2	1.9	4.2	0.7	116
2018F	6.2	46.5	0.9	29.2	5.5	25.4	11.7	2.5	1.6	0.3	2.3	5.0	0.9	138
2019F	7.4	60.4	1.0	36.0	6.6	27.0	14.0	3.0	2.0	0.6	2.8	5.7	1.1	168
2020F	8.2	73.0	1.1	43.6	8.0	28.7	16.7	4.1	2.5	0.6	3.2	6.5	1.3	197

Note: S1 is based on projections of economic growth, medical inflation and population growth; S2 is based on individual market's stable share of total health expenditure of GDP at 2010 level, except Hong Kong's case which assumes stable share at 2009 level

# The composition of healthcare expenditure across Asia-Pacific shows a material amount of "out-of-pocket" expenditure

Total healthcare expenditure breakdown in 2010





People are living longer...

# Living too long...

**Problems**

- People are living longer but they don't realise it
- Morbidity is generally deteriorating coupled with medical inflation
- Longer period spent in post-retirement years
- Smaller working age population supporting larger retired population

**Consequences**

- Cannot rely on subsequent generations to fund retirement
- Need to save more for retirement than ever before or postpone retirement
- Need to save more or take greater investment risks
- Difficult to rely on the financial support of children

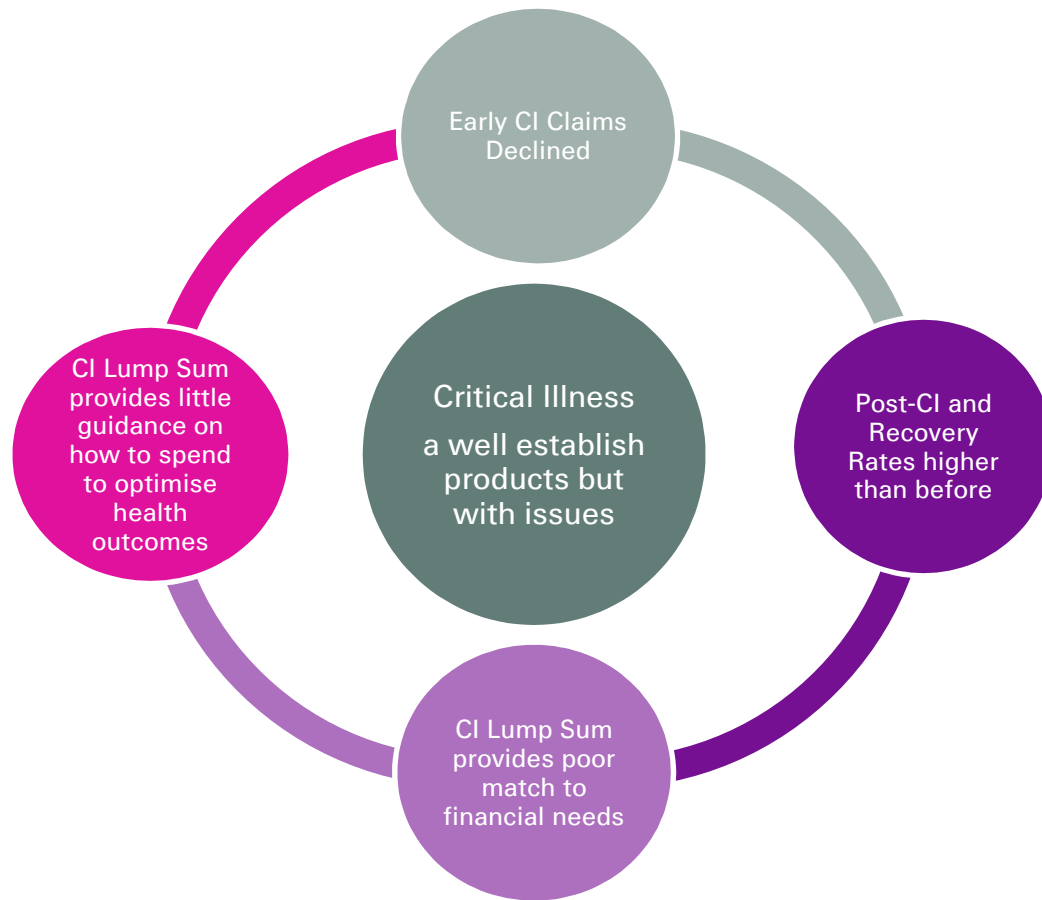
## What can we do with mortality improvement and longevity risk?

- There are needs in the market for post retirement products
  - Target the elder generation
  - Target the working generation as they prepare for retirement



# Morbidity

# Building on success



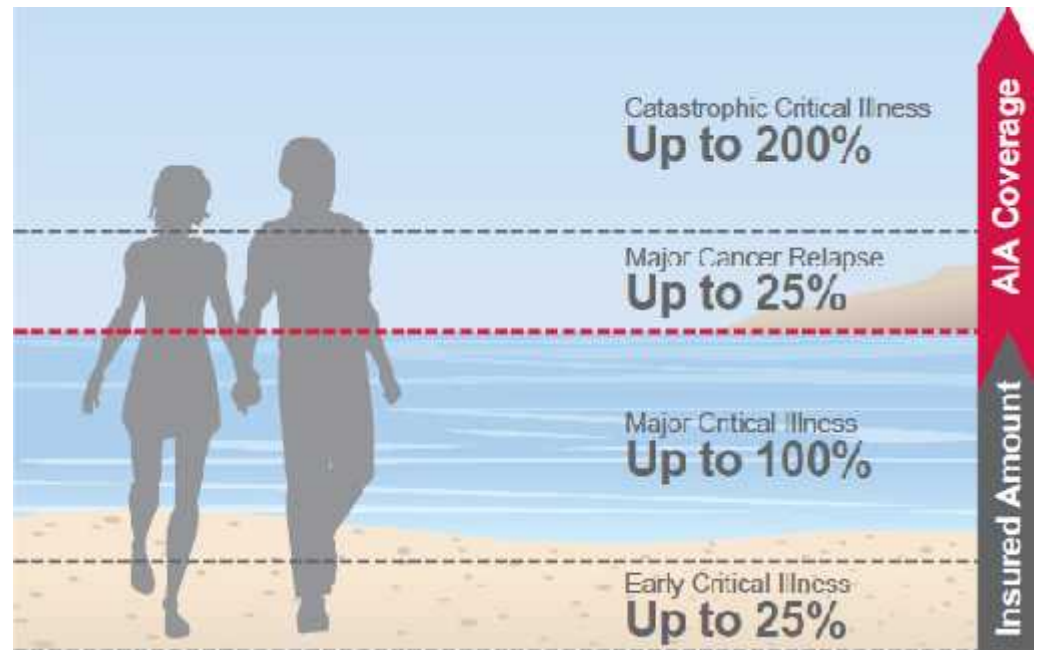


# Multi-pay Critical Illness – Hong Kong Example

<b>Group 1: Cancer</b>	<b>Group 2: Illnesses related to the Major Organs and Functions</b>	
1. Cancer	2. Chronic Liver Disease 3. End Stage Lung Disease 4. Kidney Failure 5. Major Organ Transplantation 6. Severance of Limbs	
<b>Group 3: Illnesses related to the Heart</b>	<b>Group 4: Illnesses related to the Nervous System</b>	
7. Cardiomegaly 8. Coronary Artery Disease Requiring Surgery 9. Heart Attack 10. Heart Valve and Structural Surgery 11. Primary Pulmonary Arterial Hypertension 12. Surgery to the Aorta	13. Alzheimer’s Disease 15. Benign Brain Tumour 17. Coma 19. Major Head Trauma 21. Multiple Sclerosis 23. Paralysis 25. Poliomyelitis	14. Bacterial Meningitis 16. Brain Surgery 18. Encephalitis 20. Motor Neurone Disease 22. Muscular Dystrophy 24. Parkinson’s Disease 26. Stroke
<b>Group 5: Other Major Illnesses</b>		
27. AIDS due to Blood Transfusion 29. Blindness 31. Elephantiasis 34. Major Burns 36. Occupationally Acquired HIV	28. Aplastic Anaemia 30. Deafness 32. Fulminant Viral Hepatitis 33. Loss of Speech 35. Medullary Cystic Disease 37. Severe Rheumatoid Arthritis	

# Multi-Pay + Early – AIA Singapore

Critical Illness Group	Critical Illness Category	Severity Level		
		Early Critical Illness	Major Critical Illness	Catastrophic Critical Illness
		Payable Up to 25% of Insured Amount	Payable Up to 100% of Insured Amount	Payable Up to 200% of Insured Amount
Group 1	Cancer <sup>1</sup>	✓	✓	✓
	HIV due to Blood Transfusion and Occupationally Acquired HIV		✓	
	Aplastic Anaemia		✓	
	Major Organ Transplant (Bone Marrow/Pancreas)		✓	
Group 2	Stroke	✓	✓	✓
	Heart Attack <sup>2</sup>	✓	✓	✓
	Coronary Artery Surgery <sup>2</sup>	✓	✓	
	Other Serious Coronary Artery Disease <sup>2</sup>	✓	✓	
	Kidney Failure	✓	✓	
	Heart Valve Surgery		✓	
	Surgery to Aorta		✓	
Group 3	Major Organ Transplant (Heart/Kidney)		✓	✓
	Pulmonary Hypertension		✓	
	Major Organ Transplant (Liver)		✓	
Group 4	Pulmonary Hypertension	✓	✓	
	Pulmonary Hypertension		✓	
	Major Organ Transplant (Lung)		✓	
Group 5	Multiple Sclerosis		✓	
	Muscular Dystrophy		✓	
	Alzheimer's Disease/Severe Dementia		✓	
	Major Nerve Disease		✓	
	Parkinson's Disease		✓	



# Hospital Cash & Surgical Cash - Japan

	Company A	Company B	Company C	Company D	Company E
Basic Benefits	Hospital Cash	√	√	√	√
	Surgical Cash	√	√	√	√
	Radiation Therapy	√		√	
Optional Benefits	Advanced Medical	√	√ 10 year renewable	√	√
	Female	√	√	√	√
	Cancer		√		√
	3 CI	√	√ 6 CI		√
	Long Term HC	√			
	Outpatient	√	√		
	Accident	√	√		
	Discharge		√		√
	Death	√	√		√
	No Claim Bonus		√		√
	DI			√	

# Longevity



## Annuities – the customer perspective

- Having a regular income for life is attractive and desirable
- Those who already have lifetime pensions are not complaining
- BUT opportunity costs are a major barrier
  - Significant loss of liquidity / flexibility
  - Bequest motive
  - Perceived as bad value for money due to low implied yield  
(a perception sometimes reinforced by the life insurance industry!)
- Living too long is perceived as a good problem to have

# Denial and procrastination

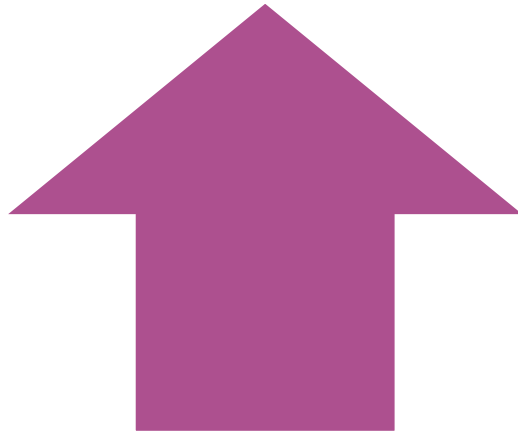
## Denial

- Personal expectations about longevity are shaped by experience
- Today's generation saw their grandparents die in their 70s and their parents die in their 80s
- Do people imagine living to 90 and beyond?

## Procrastination

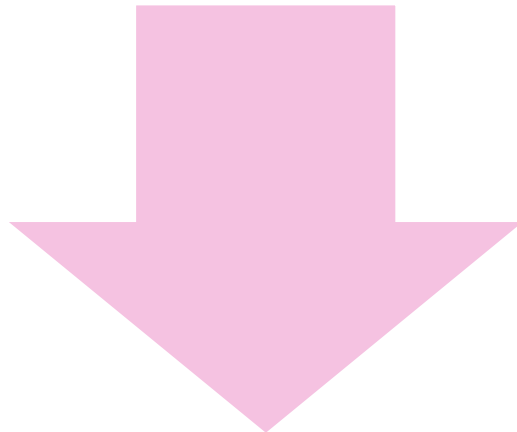
- Money won't run out for 10 or 20 years so why do anything now?
- If the money starts running out, people can sell off assets or downgrade their lifestyle
- Hopefully children and family will be able to provide support
- Maybe the government will help
- Think about it later

# Customer behaviour



## Annuities sell well where

- It is mandatory to take some retirement savings in the form of an income stream
- There are significant incentives or for annuity purchase
  - tax benefits
  - subsidies
  - unrealistic pricing assumptions
- Interest rates are high, making annuities look like good value for money
- Customers are not worried about insurer counterparty risk



## Annuities do not sell well

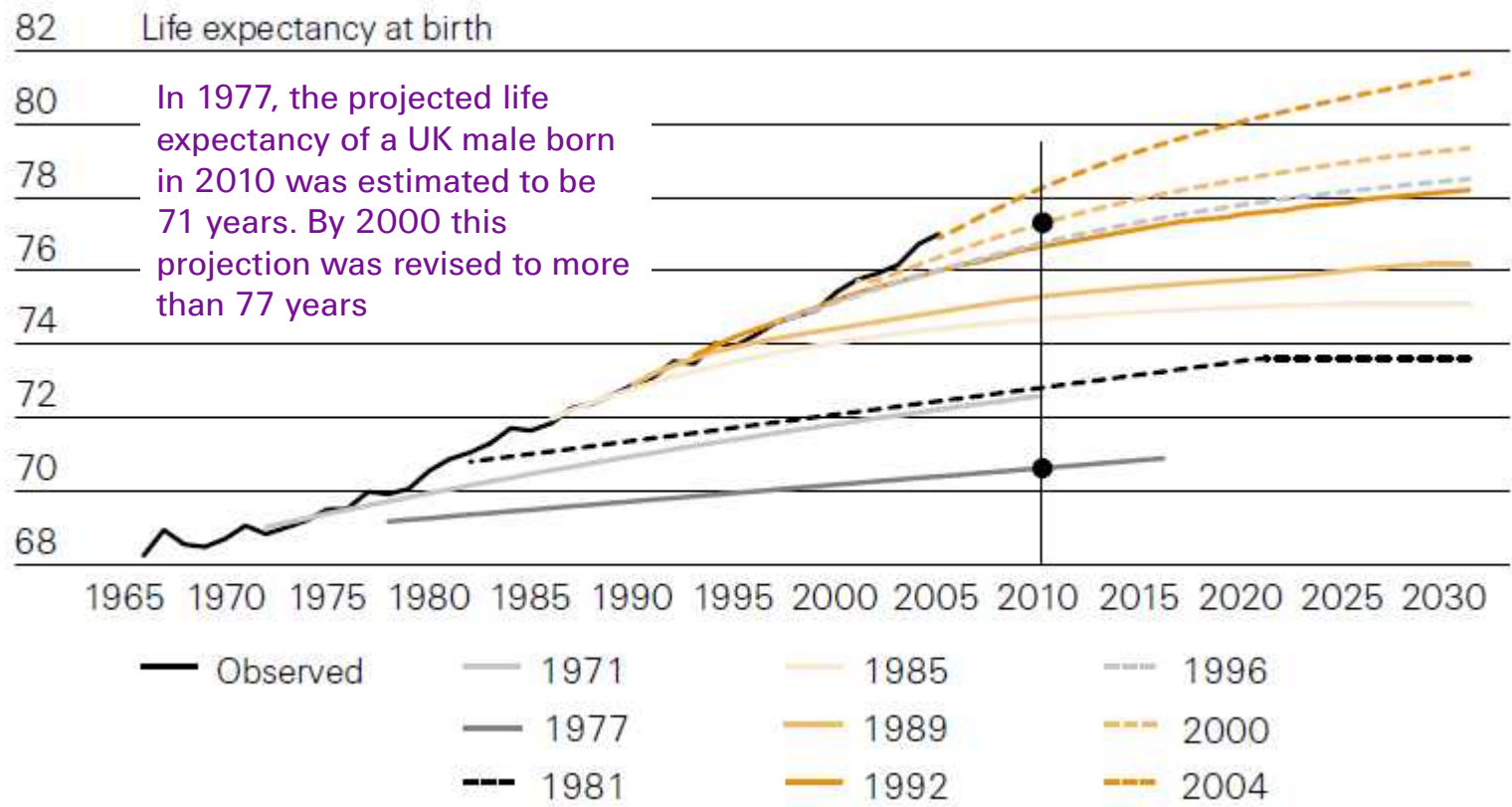
- Everywhere else

## Annuities – the (re)insurer perspective





# Life expectancy by experts



Source: Chris Shaw, "Fifty Years of United Kingdom National Population Projections: How Accurate have they been?", Population Trends, 128, Office for National Statistics, 2007

## Actuaries are always conservative... NOT

- Actuaries have consistently underestimated improvements in mortality
  - a(90) was based on UK 1967-70 experience projected to 1990, but a(90) mortality was reached in 1980
  - Actuaries use past experience to predict the future – past performance is no guarantee of future results
  - Long time for deviations in mortality improvement trends to be recognised
  - Annuity and pension portfolios experience sudden large changes in liability values when new industry experience studies and tables are released

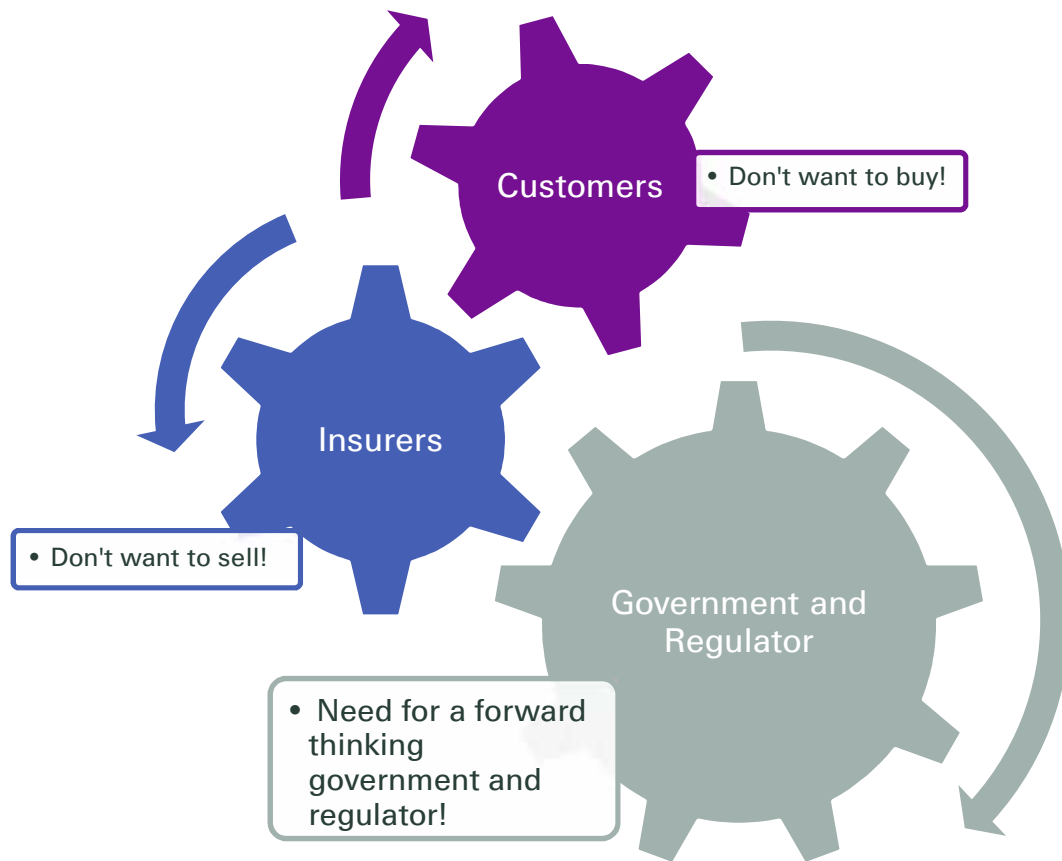
# Expectations Gap



- Price at which customers are willing to buy longevity products
  - Underestimate life expectancy
  - Expectation of returns in excess of risk-free interest rates
  - Reluctance to lose liquidity
  - Lack of urgency to address long-term longevity risk
  - Desire to leave bequest

- Price at which insurers are willing to sell longevity products
  - Cautious after historic underestimation of life expectancy
  - Concerns about self-selection in voluntary annuity markets
  - Difficulty of finding assets of matching duration and security
  - Market-consistent valuation implies significant cost of guaranteeing returns above risk-free

# Market failure



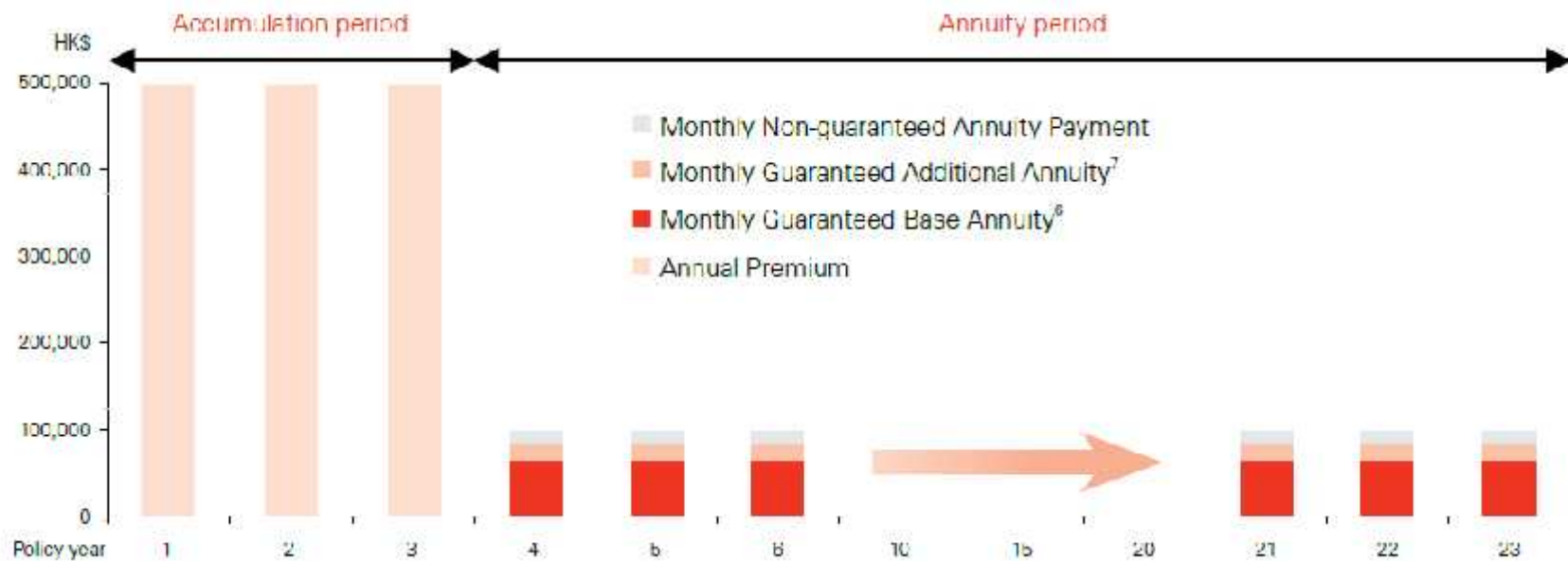
# Longevity Action in Asia - AIA Singapore

- Responding to mortality improvement and longevity risks
  - Singapore – AIA Gen3



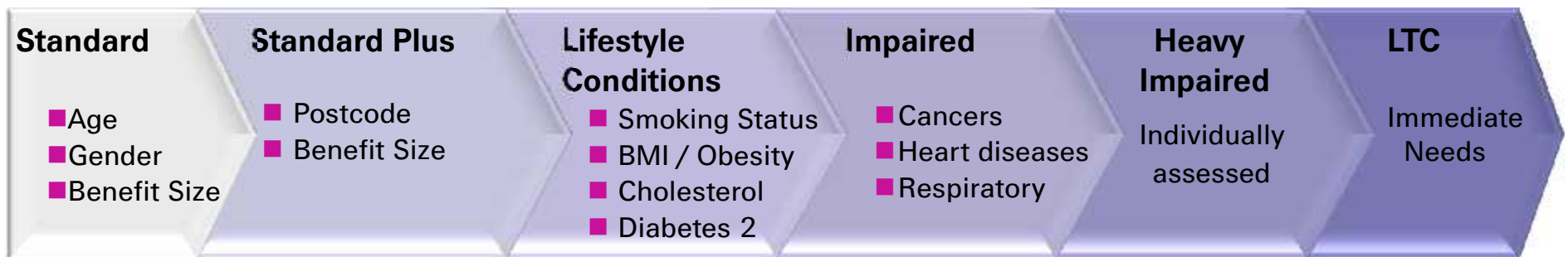
# Longevity Action in Asia - HSBC Hong Kong

- Responding to longevity risks
  - Hong Kong – HSBC EarlyIncome Annuity Plan
  - HSBC identified the opportunity with longevity risk back in 2009 strategy days



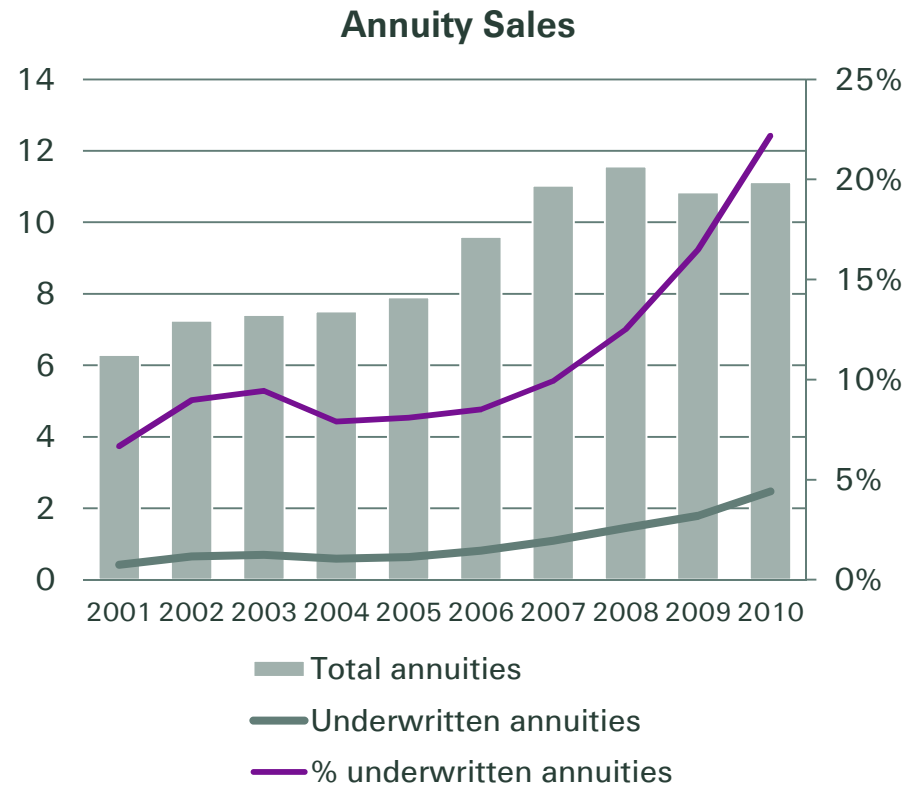
# Product Idea from the UK – Underwritten Annuities

- Provide higher annuity payments to customers with reduced life expectancies, assessed on a variety of lifestyle and medical conditions



# Product Idea from the UK – Underwritten Annuities

- 2010 sales of £2.5bn (22.5% of market)
- Projections suggest underwritten annuity can reach 40% of total annuity market





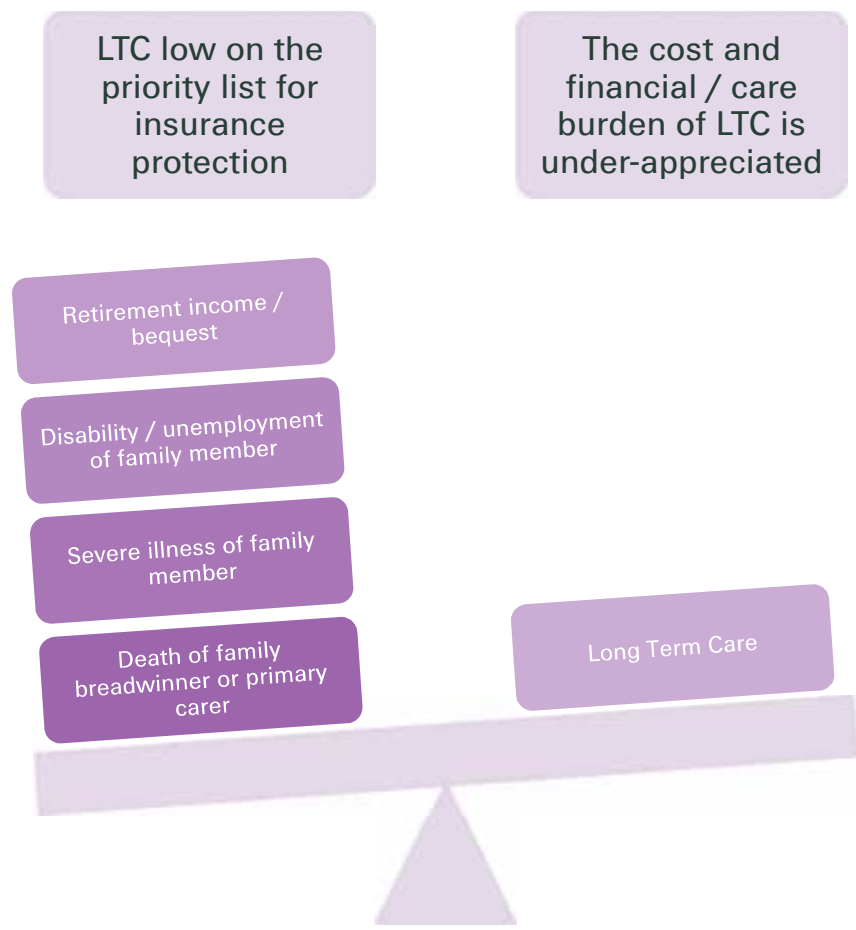


# Long-Term Care

## Does anyone buy LTC Insurance?

- In markets without government incentives or support, sales of LTC insurance are close to zero
- LTC sales are better in markets with government incentives or support
- Reinsurers have been trying to drum up interest in LTC since the 1990s with very limited success
- More effective growth strategy maybe to convince governments and stay aligned with government policy rather than marketing direct to consumers
- Alternative exposure to demographic drivers of LTC need via investments in nursing homes, assisted living facilities, etc

# Customer Need for Long-Term Care



# Long-Term Care Conundrums

No ideal time for purchase	Dependence on government action	Cultural barriers	Difficult to match claims trigger with expenditure pattern
<ul style="list-style-type: none"><li>• Do not see the need when they are young</li><li>• Cannot afford it and difficult to underwrite when they are old</li></ul>	<ul style="list-style-type: none"><li>• Do not see the need for LTC unless the government is providing encouragement (eg through the provision of government-funded LTC)</li><li>• If the government is providing LTC, difficult to see the need for purchasing additional LTC cover</li></ul>	<ul style="list-style-type: none"><li>• Tradition and obligation dictates that elderly parents are cared for by family, so LTC purchase is an admission that family and children will not provide care</li><li>• Issues relating to familial obligations need to be addressed with sensitivity</li></ul>	<ul style="list-style-type: none"><li>• For wealthy families who can afford insurance cover, major LTC financial outlay is the initial deposit required to get into a "good quality" nursing home</li><li>• But nursing home entry has a "voluntary" component that does not necessarily correlate with LTC/ ADL claim triggers</li><li>• Initial nursing care assistance may be required long before ADL failure, but difficult to identify sufficiently objective triggers for early LTC claim</li></ul>

# Potential LTC Products

## Supplemental to government LTC provision

- Japan, Korea, Singapore have government-sponsored LTC
- Supplemental LTC products in these markets viable from a sales perspective

## Death and LTC "Combo" products

- Markets where awareness of LTC is low
- LTC income benefit paid as acceleration of Death benefit
  - 2% per month for up to 50 months upon ADL failure / Cognitive Impairment
- Appeal to ageing population
- "Combo" structure to overcome concerns that benefits might never be needed

# Conclusion



# Products for Ageing Risk

? I am living longer than I expected!!

? I couldn't afford insurance when I was young, can I get some now?

? I am living longer than I expected – do I have enough savings?

Guaranteed Issue Whole Life / Funeral Plans

Multiple Pay Medical or Health Coverage

Up-selling Existing Policyholders with GI / SI

Limited Pay Whole Life / Long Term Rate Guarantee

Annuity, lump sum or regular payment

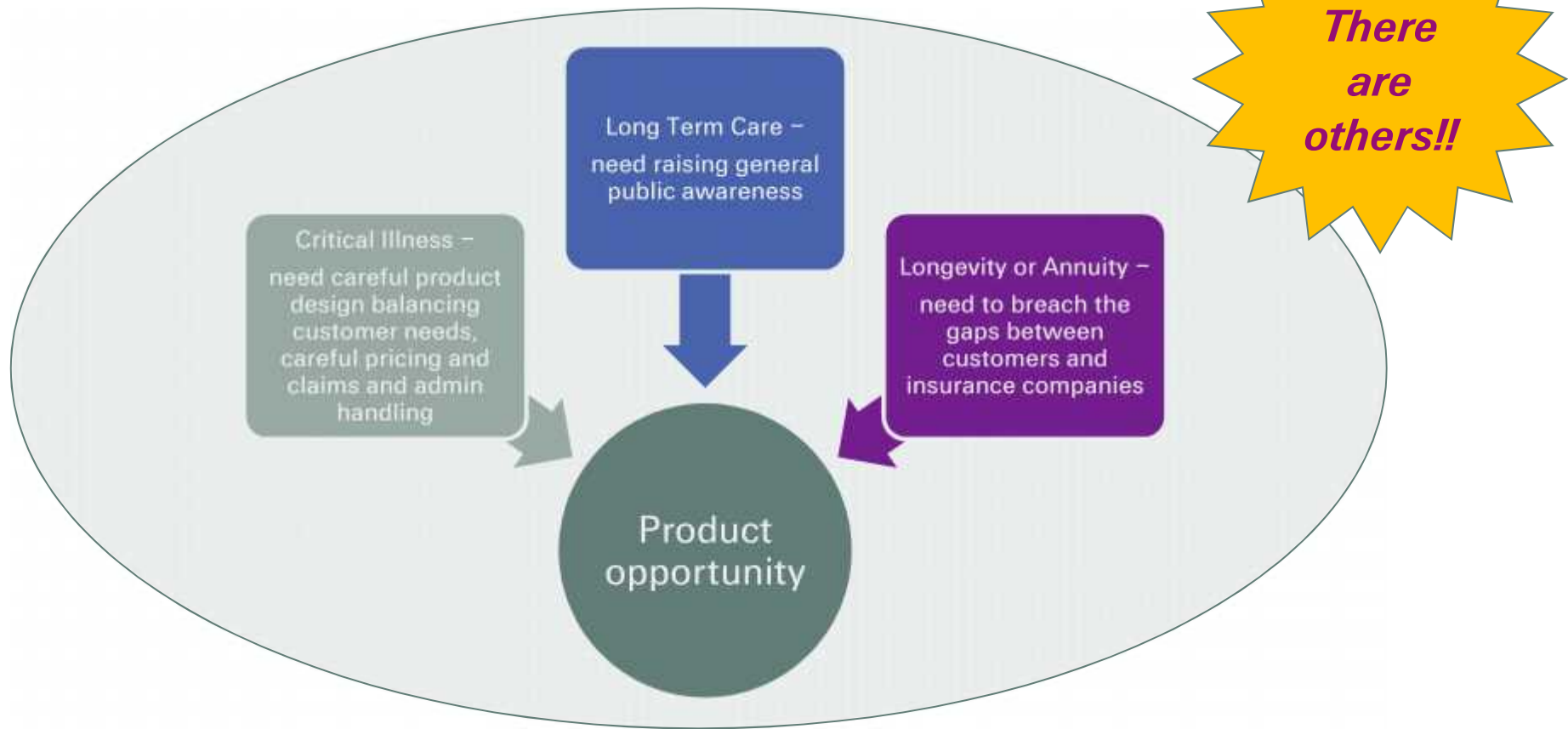
## What else?

### The post retirement conundrum

- Most people are better at saving than providing protection for their families
- Most people will have a pension pot or savings pot accumulating for their use at retirement
- Many people are unsure about how long they will live, what their costs of living will be as well as what their medical expenses bills will be (particularly if they will suffer from cancer or need long term assistance and families may not be willing or able to provide)
- There are some pre-retirement products which deliver some whole of life coverage, and there are limited products available at and after retirement
- Is there an opportunity for us to design **new** post retirement coverage products to access savings at retirement (or in the accumulation phase) which remove or reduce the **combined** uncertainties individuals face?



# Living too long...



*In all cases the support from a forward thinking government and regulator is vital in the success of these products.*



# Thank you

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