



The 26th Institute Fellowship Seminar

Institute of Actuaries of India

Key Value Drivers of the Unit-Linked business and how to improve it?

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Mumbai

Agenda

- ❑ Value, Value Drivers and Key Stakeholders
- ❑ Value and its drivers – Policyholder perspective
- ❑ Value and its drivers – Shareholder perspective
- ❑ How to improve?

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- Value, Value Drivers and Key Stakeholders
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 - How to improve?

What is Value?

Value can be interpreted as:

“the merit of the benefits of ownership”

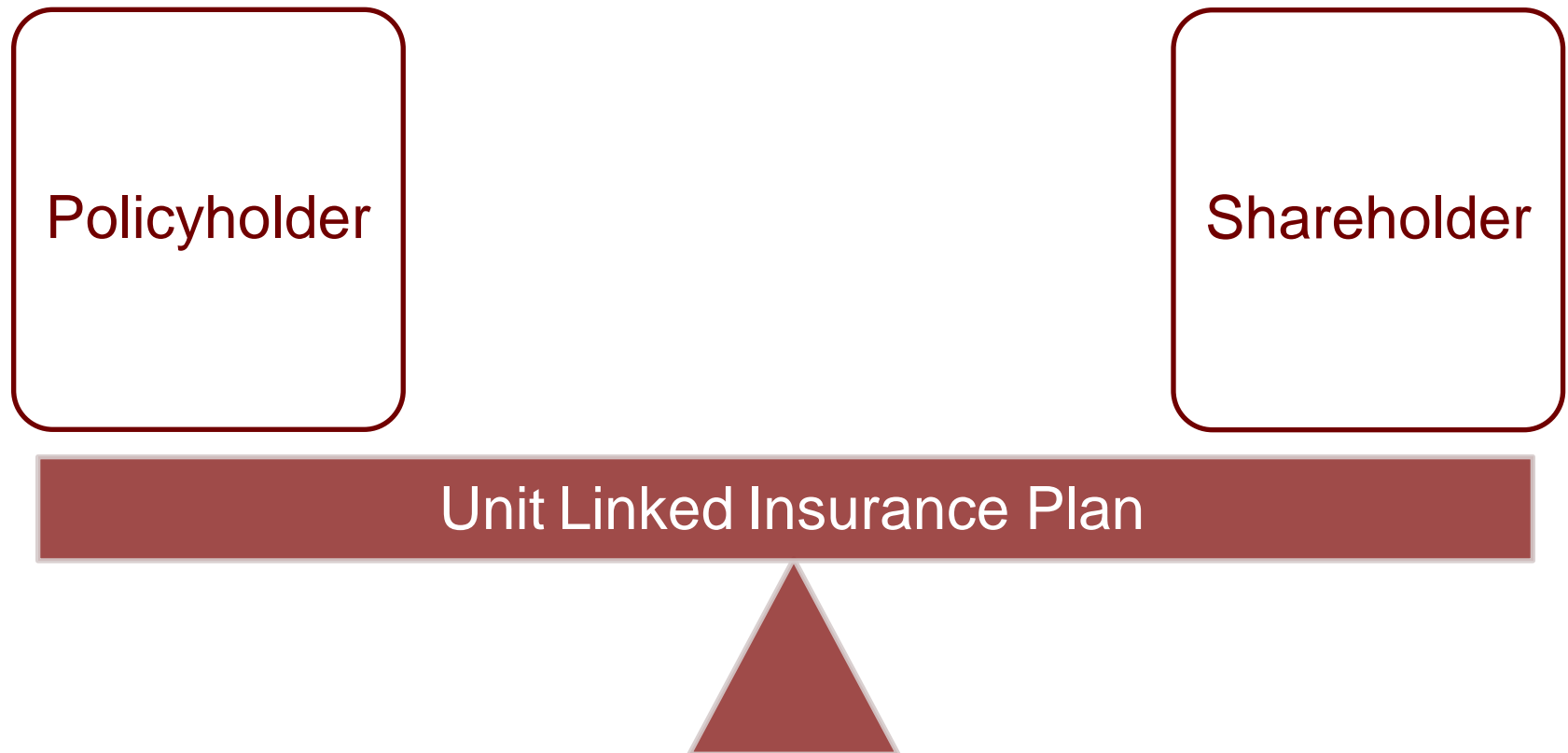
The benefits of ownership may include:

- Power and ability of a good and service to be exchanged for other goods, services or money
- Utility
- Satisfaction gained by consumption

What are Value Drivers?

- Increase value of a product or service to Stakeholders
- Help differentiate a product or a service from similar competitive products or services
- Make the product or service more appealing to the stakeholders

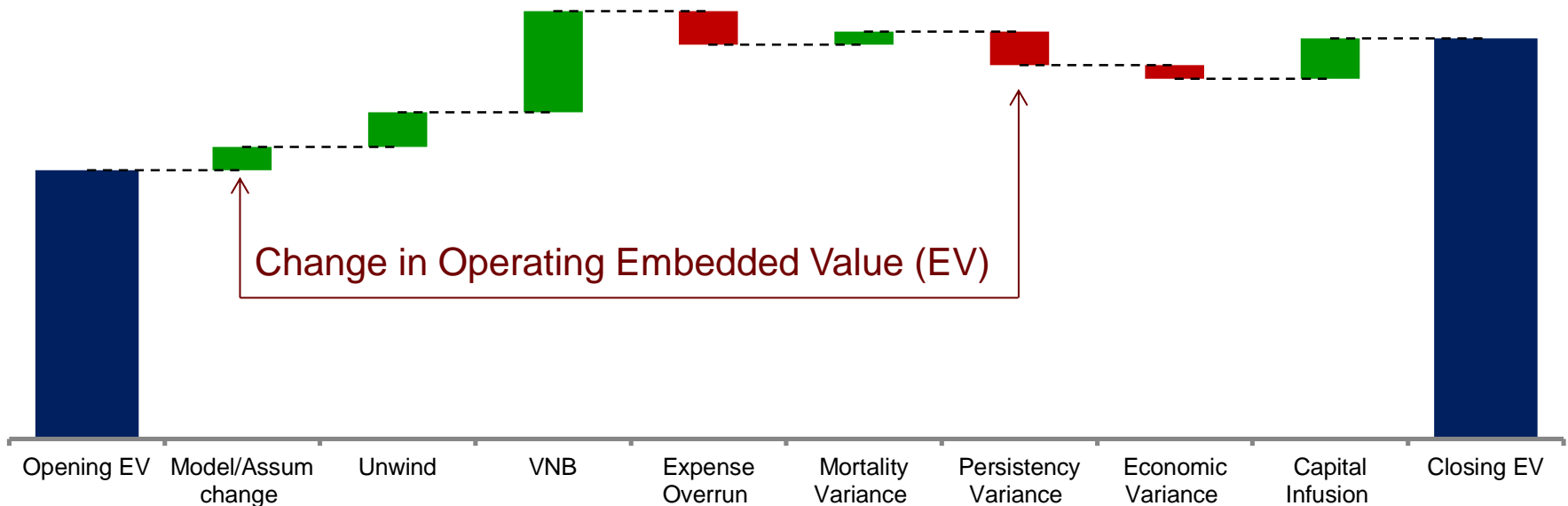
Who are the key stakeholders?



Our interpretation of Value to Policyholder

- ❑ IRR – net return to the Policyholder
- ❑ Perceived utility value to the Policyholder

Our interpretation of Value to Shareholder

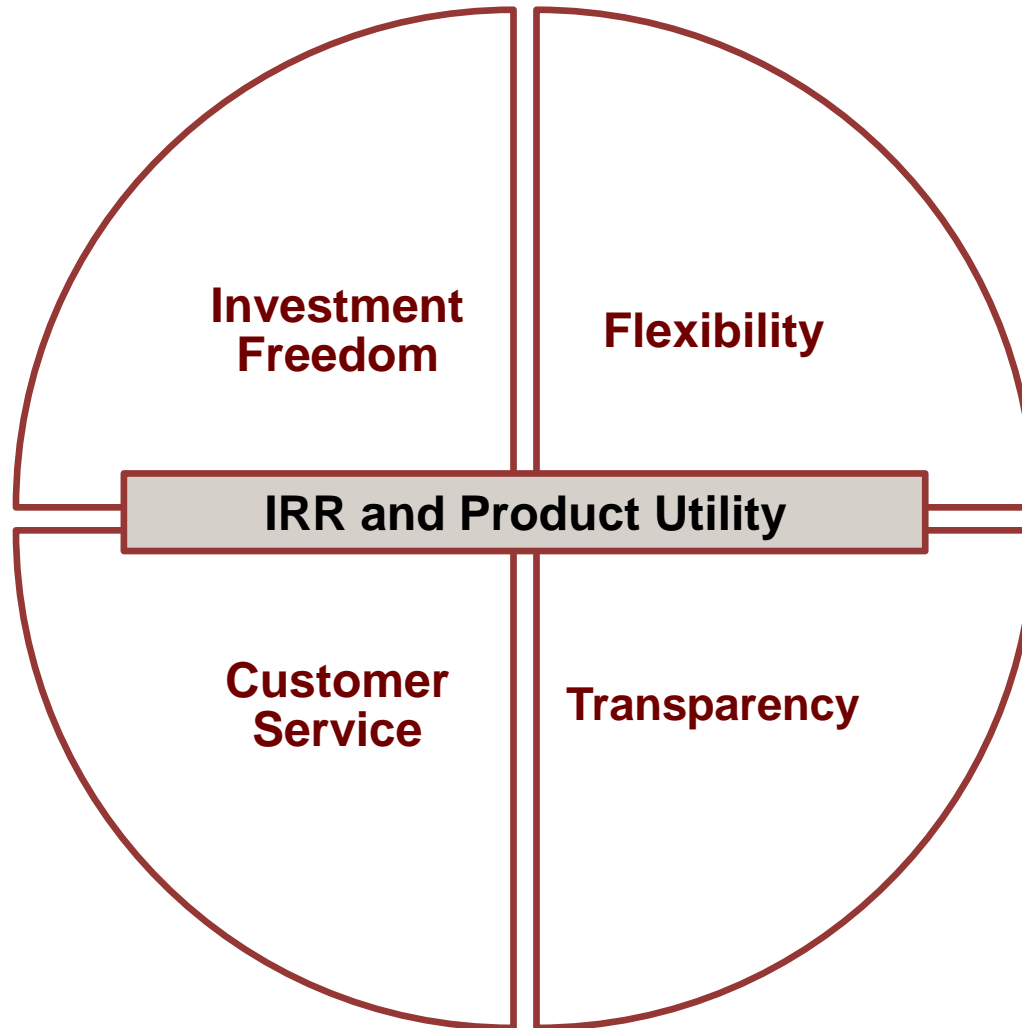


$$\text{Return on Operating EV (ROEV)} = \frac{\text{Change in Operating EV}}{\text{Opening EV}}$$

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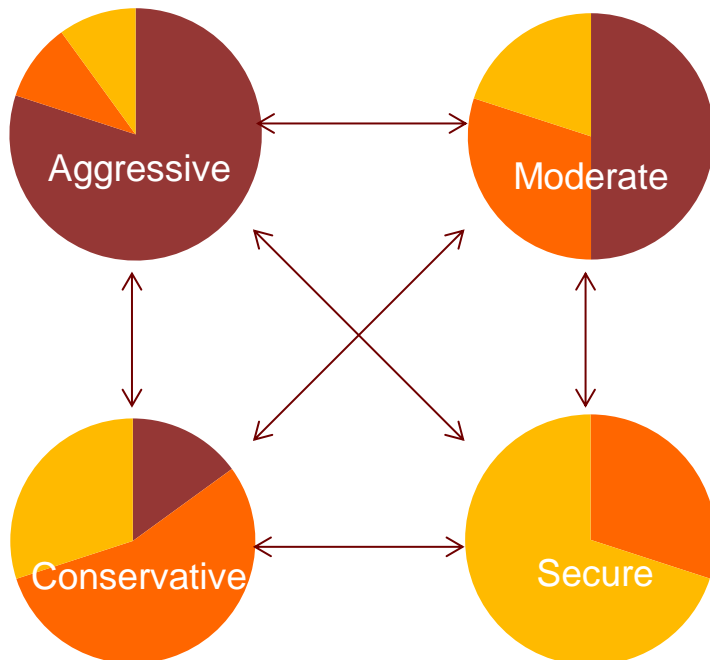
Value Drivers - Policyholder Perspective



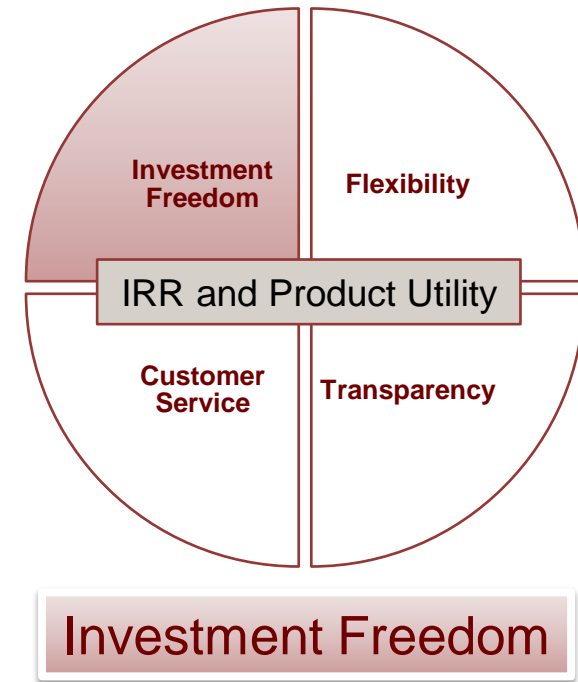
Value Drivers - Policyholder Perspective

Choice of investment strategy

- To suit varying risk appetites
- Switch between asset classes without any tax implication



- Equity
- Debt
- Money Market



Value Drivers - Policyholder Perspective

Dynamic formula-based switching of received premiums from Secure fund to Aggressive fund

Half-yearly premiums



Over 6 months

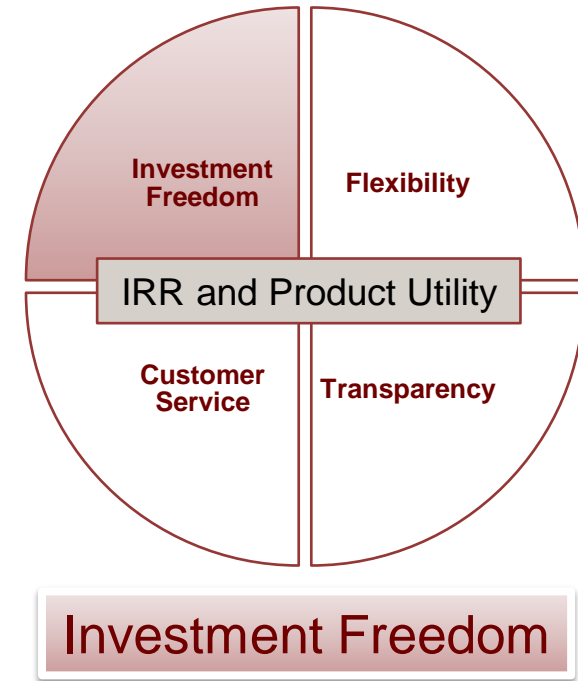


Shift expected maturity proceeds to Secure fund before maturity to avoid short-term market fluctuations

Expected maturity proceeds

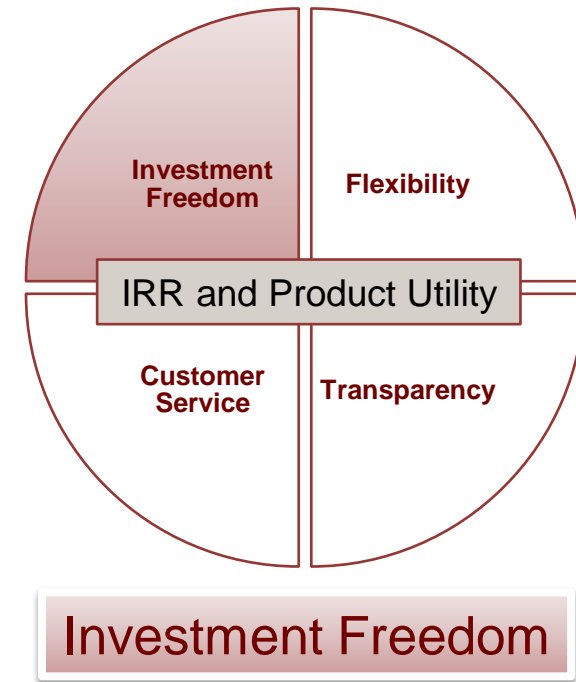
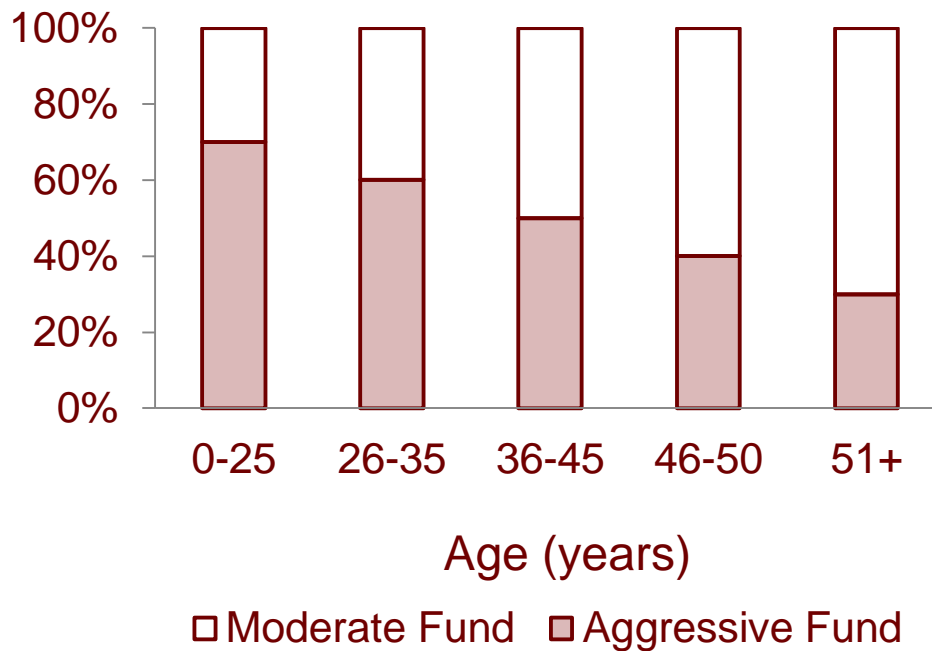


Over last 12 months



Value Drivers - Policyholder Perspective

Age based switching strategy: Automatic transfer to less risky funds as age progresses



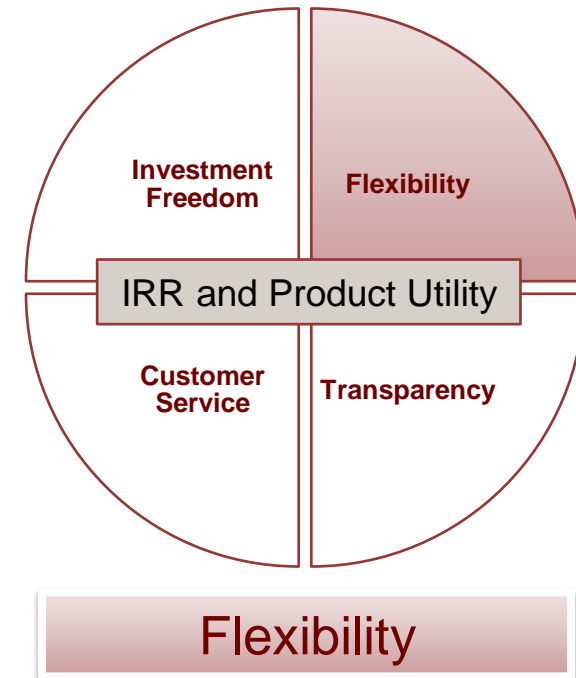
Value Drivers - Policyholder Perspective

Provides liquidity: Facility for partial withdrawal of funds and surrender after 5 years

Investment of surplus funds/windfall gains: Single premium top-up option

Cover continues during the revival period of two years post the lock-in period

Option to add on a rider without having to explicitly pay additional premium



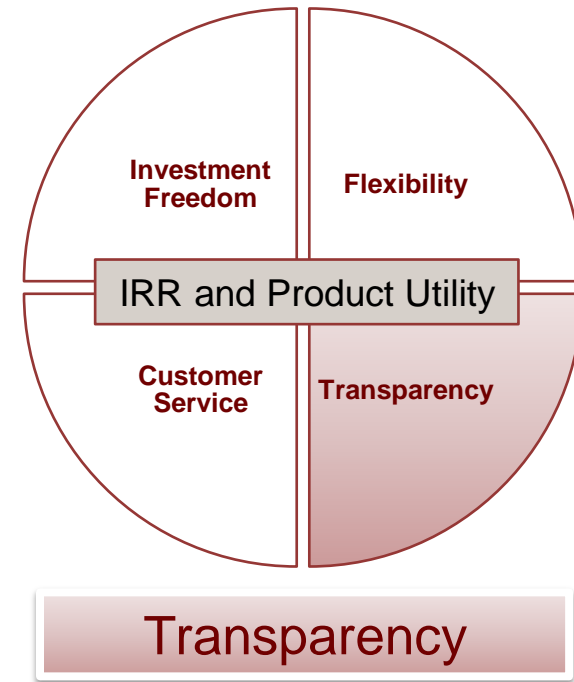
Value Drivers - Policyholder Perspective

Charges to be explicitly disclosed in benefit illustrations of products

Regulatory caps on reduction in yields (RIYs)

Caps on surrender charges before year 4 and zero surrender charges post year 4

Simple and intuitive product structure



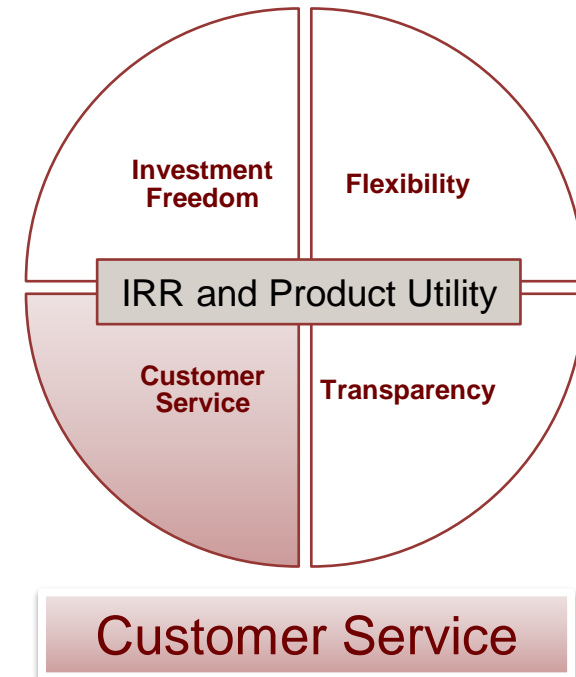
Value Drivers - Policyholder Perspective

Annual fund value updates available real-time on websites as well through SMS, email alerts, etc.

Regular investment newsletters providing information on fund performance, fund managers, etc.

Historical fund returns and comparison with benchmark return available on websites

Customer education campaigns to increase awareness of insurance and UL plans



Value Drivers - Policyholder Perspective

Investment Freedom

- Choice of investment strategy to suit varying risk appetite
- Dynamic formula-based switching strategy
- Age-based switching strategy

Flexibility

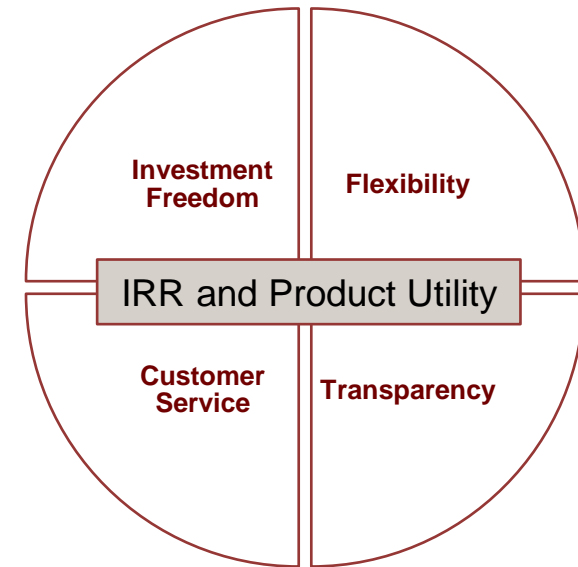
- Provides liquidity: Facility for partial withdrawal of funds and surrender options
- Single premium top-ups available
- Premium holiday option

Customer Service

- Regular fund value updates
- Investment newsletters
- Historical fund returns and benchmark return
- Customer education campaigns

Transparency

- Charges explicitly disclosed in benefit illustrations
- Cap on RIYs and surrender charges
- Simple and intuitive product structure



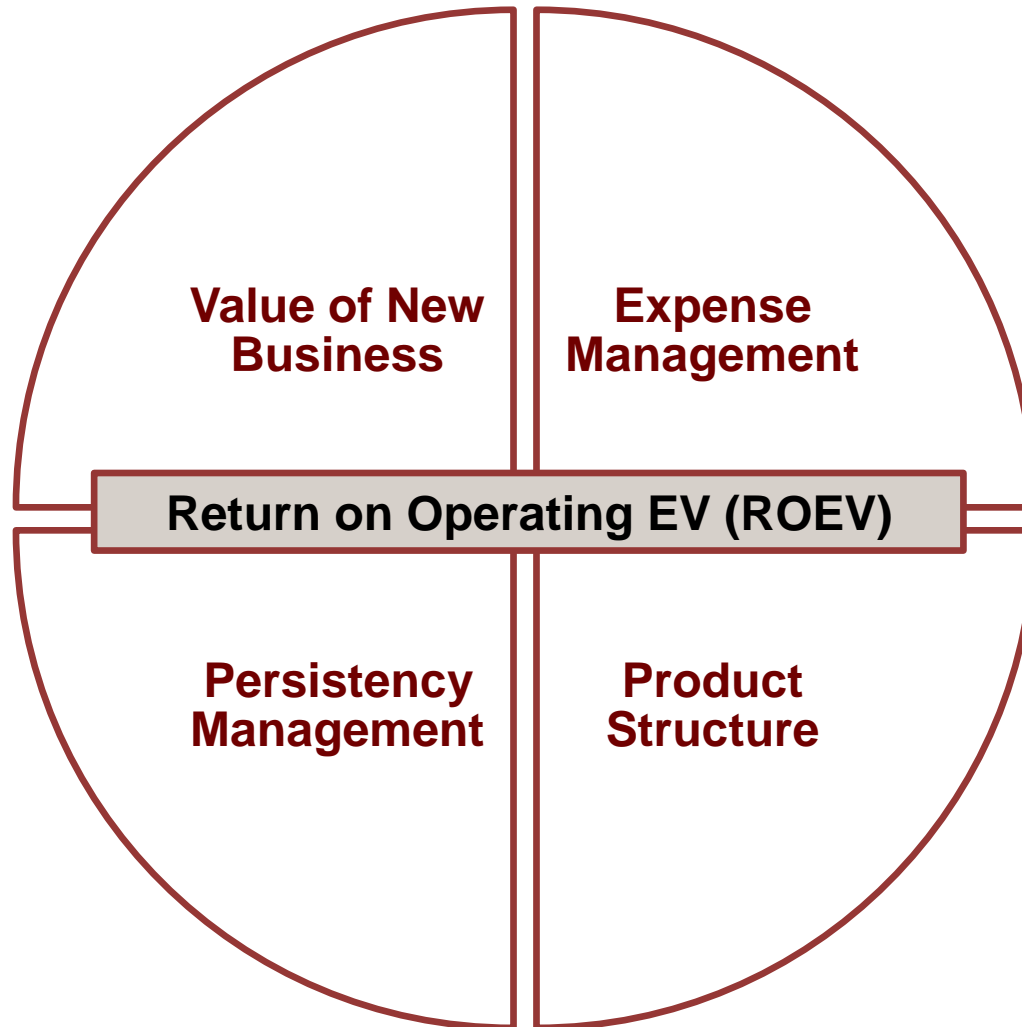
To Summarise



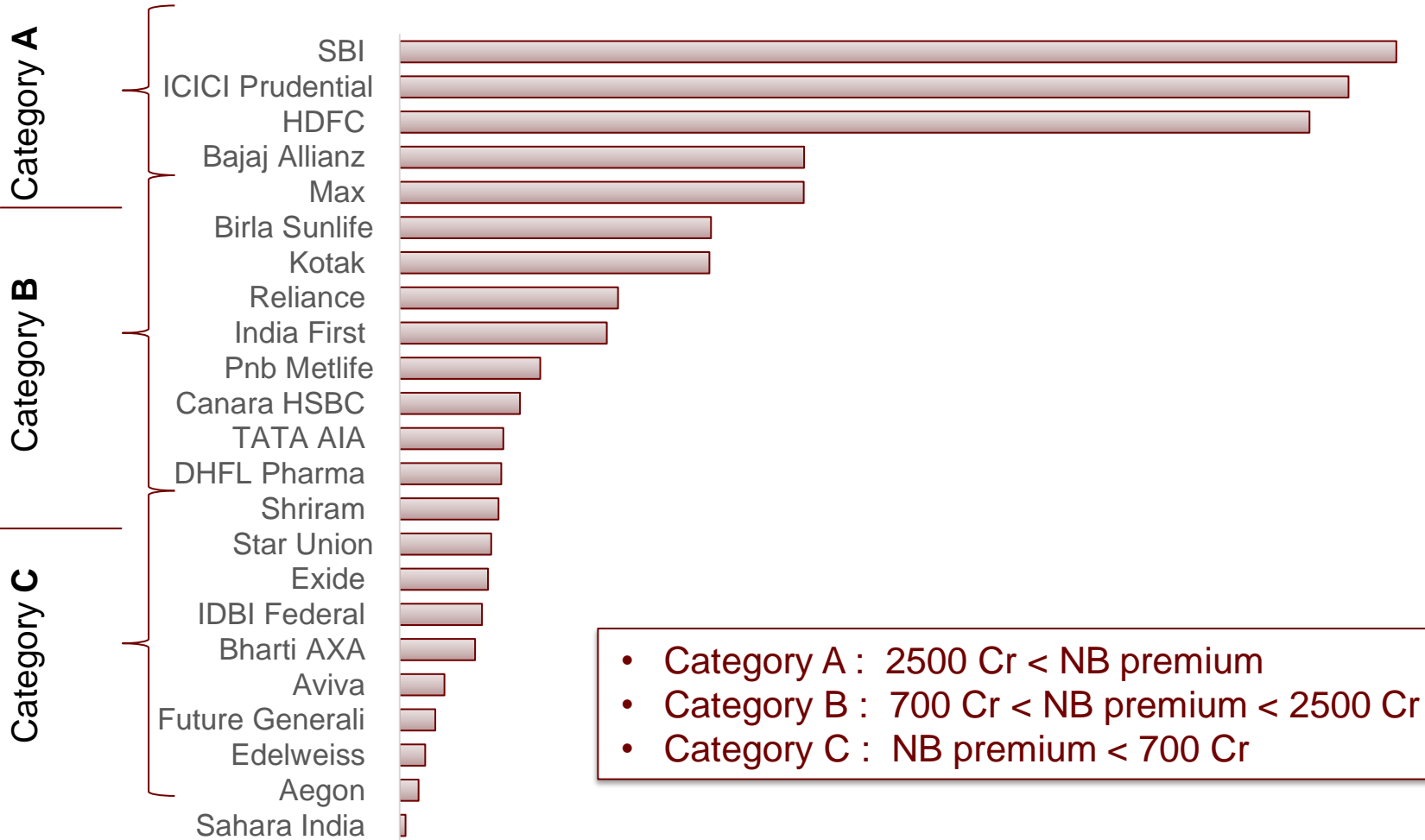
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- Value Drivers – Shareholder perspective
- How to improve?

Value Drivers – Shareholder Perspective



Value Drivers – Shareholder Perspective



- Category A : 2500 Cr < NB premium
- Category B : 700 Cr < NB premium < 2500 Cr
- Category C : NB premium < 700 Cr

■ **New Business Premium Collection for Private Life Insurers for FY2015-16 (in INR crores)**

Value Drivers – Shareholder Perspective

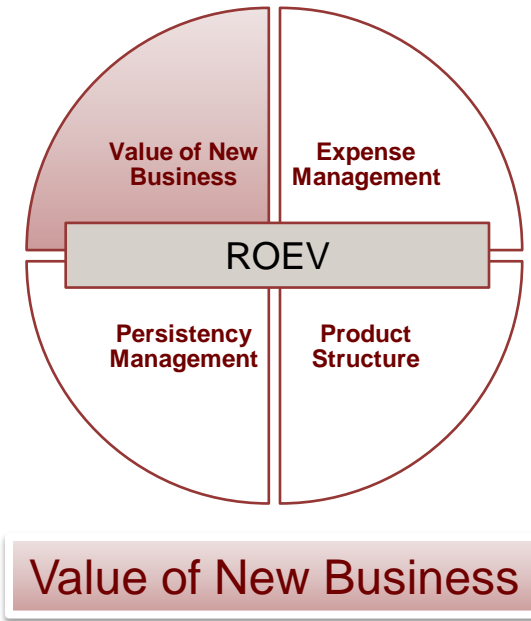
Easy to sell

Volume of new business depends on the investment strategy and past fund performance

Higher new business will help to maintain overall unit cost at lower level

Lower reserving strain and cost of solvency

RSM First Factor (Applicable on reserves)	Life	Pension	Group
Unit Linked	0.8% - 1.8%		
Conventional	3.0%	3.0%	1.0%
RSM Second Factor (Applicable on Sum at Risk)	Life	Pension	Group
Unit Linked	0.20%		
Conventional	0.3%	0.3%	0.10%

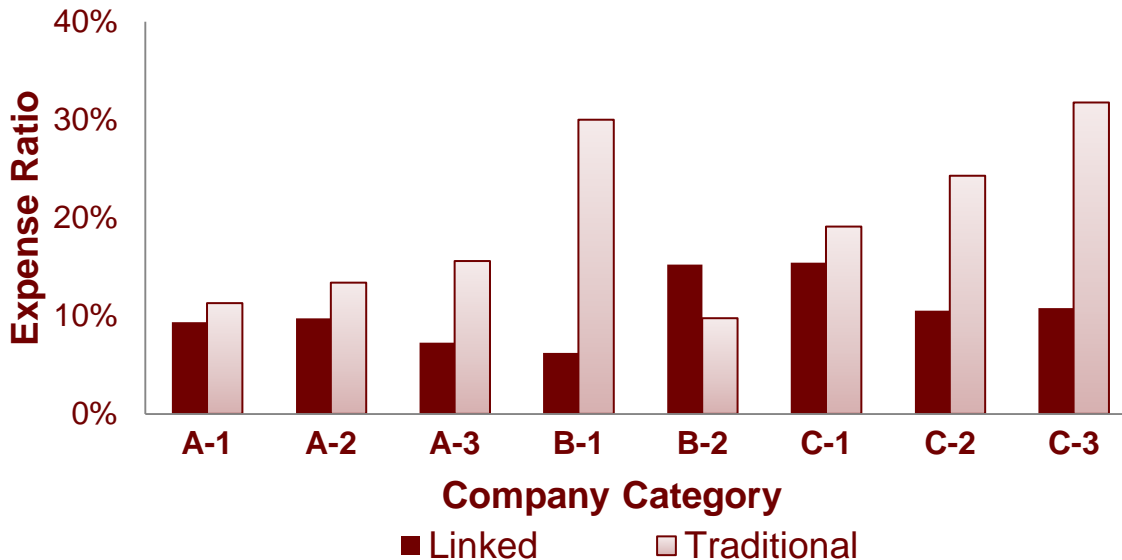


Value Drivers – Shareholder Perspective

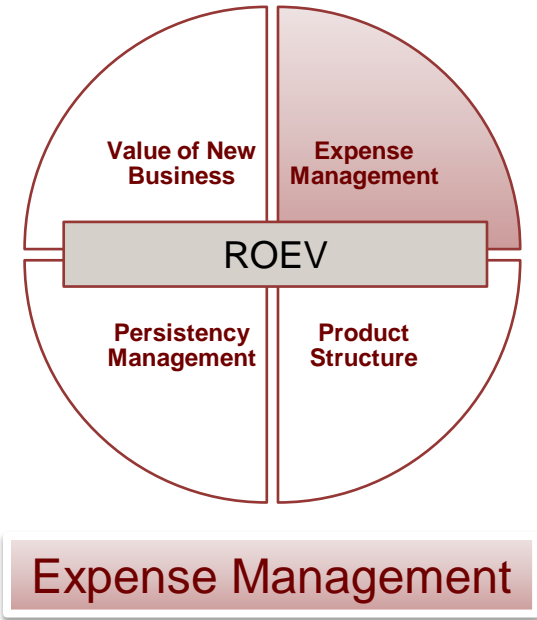
Higher initial expenses recouped over a period from a flat charging structure

FMC is well matched with inflating expenses

Expense Ratio – Industry Study FY 2015–16



Expense Ratio = Operating Expenses/ Gross Collected Premium



Source: Public Disclosures

Value Drivers – Shareholder Perspective

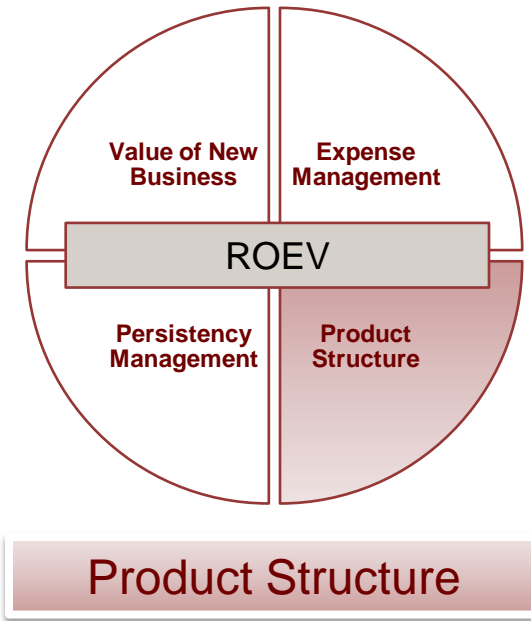
Charging structure: More predictable income stream through defined charges

Investment risk borne by the Policyholder

100% of surplus allocation to Shareholder

Regulatory controls:

- Flat charging structure
- Limits on overall charges through RIY
- Caps on commission
- Lock in period of 5 years
- Unit as well as non-unit reserves floored at zero
- Minimum protection cover

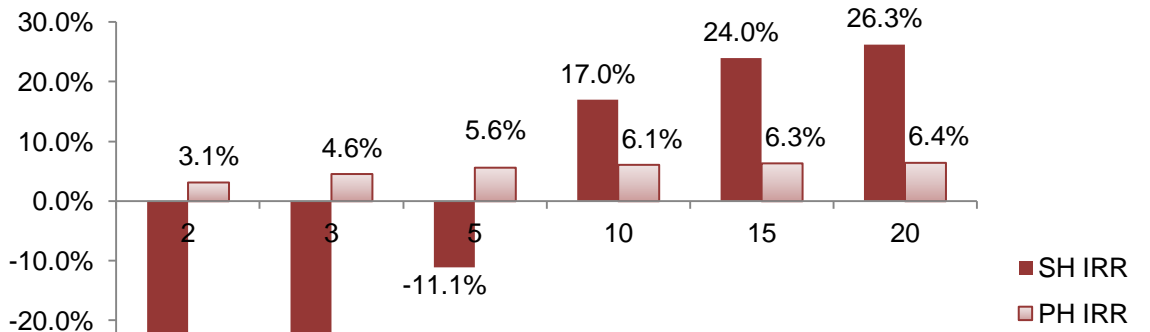


Value Drivers – Shareholder Perspective

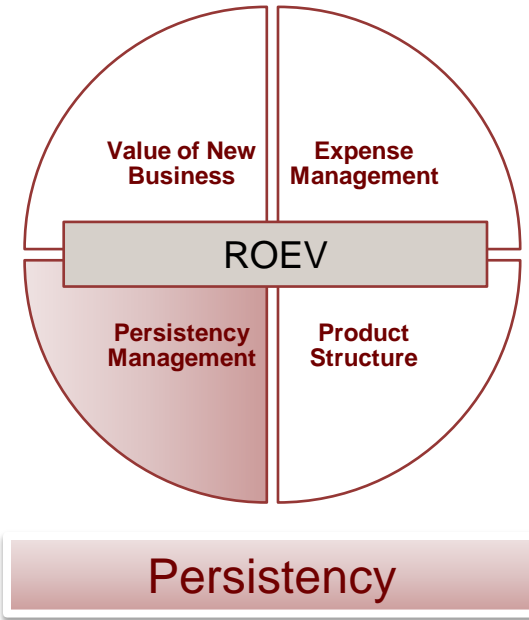
Long term business with gains from future charges

High persistency → Higher AUM → More freedom for tactical security choices for fund manager

Improved IRR for both the stakeholders



IRR by policy year



Note: IRRs calculated for a typical ULIP, for various policy years

Value Drivers – Shareholder Perspective

Value of New Business

- Easy to sell
- Higher the new business lower the per unit cost
- Investment Management
- Lower Reserving Strain and Cost of Solvency

Expense Management

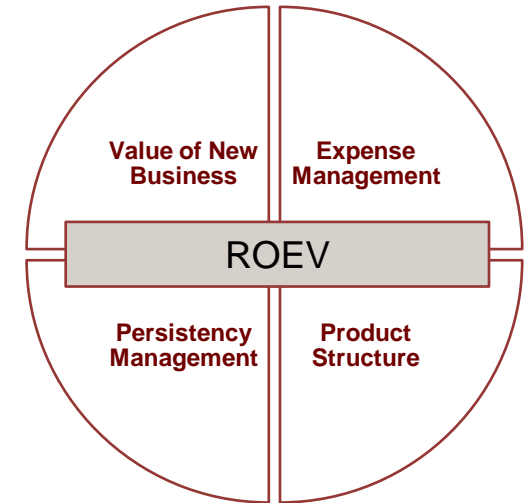
- Higher initial expenses recouped from a flat charging structure
- FMC is well matched with inflating expenses
- Lower expense ratio for UL versus Traditional

Product Structure

- Defined charging structure
- Investment risk borne by the policyholder and 100% surplus allocation to shareholder
- Regulatory Controls

Persistency Management

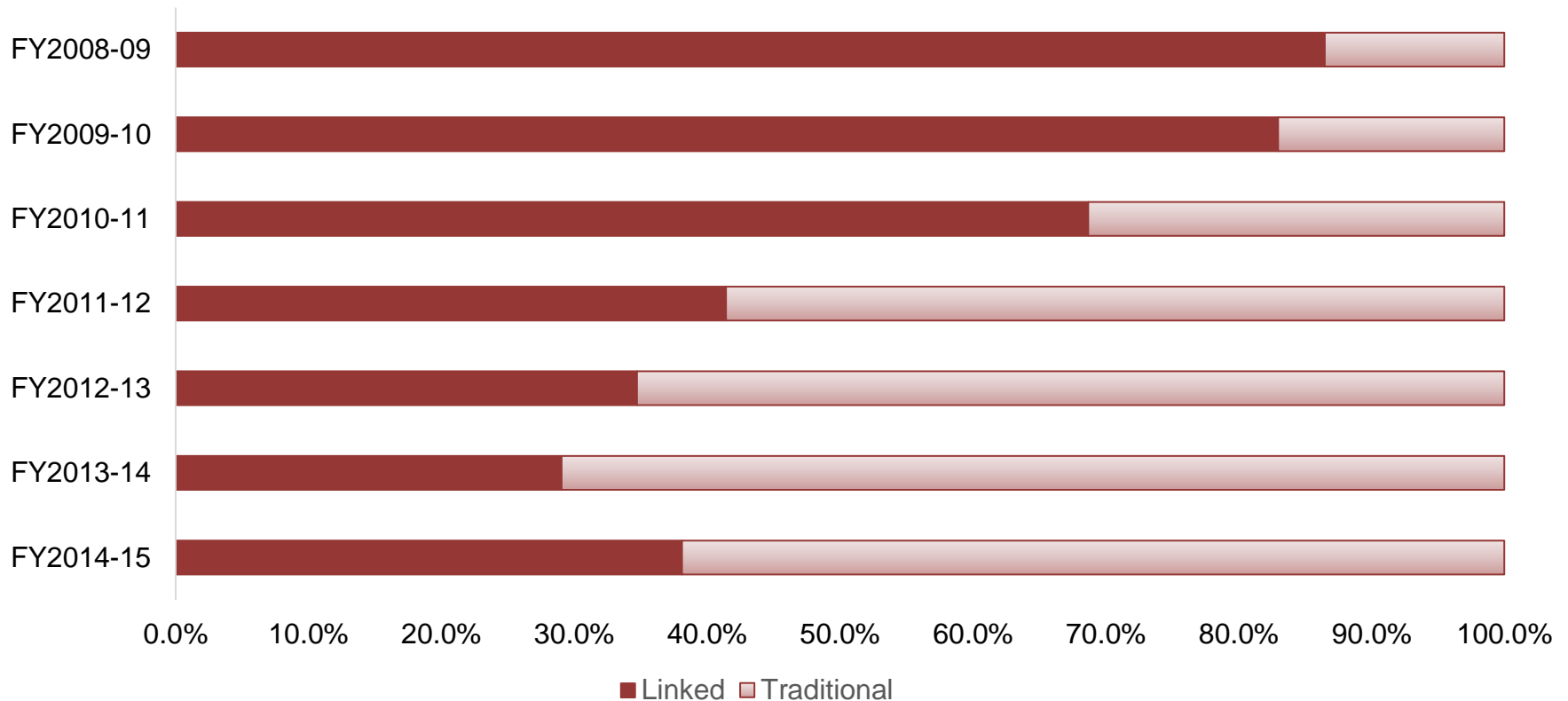
- Long term business with gains from future changes
- Investment freedom for fund managers
- Improved IRR



To Summarise

Value Drivers – Shareholder Perspective

First Year Premium Collection of Private Life Insurers

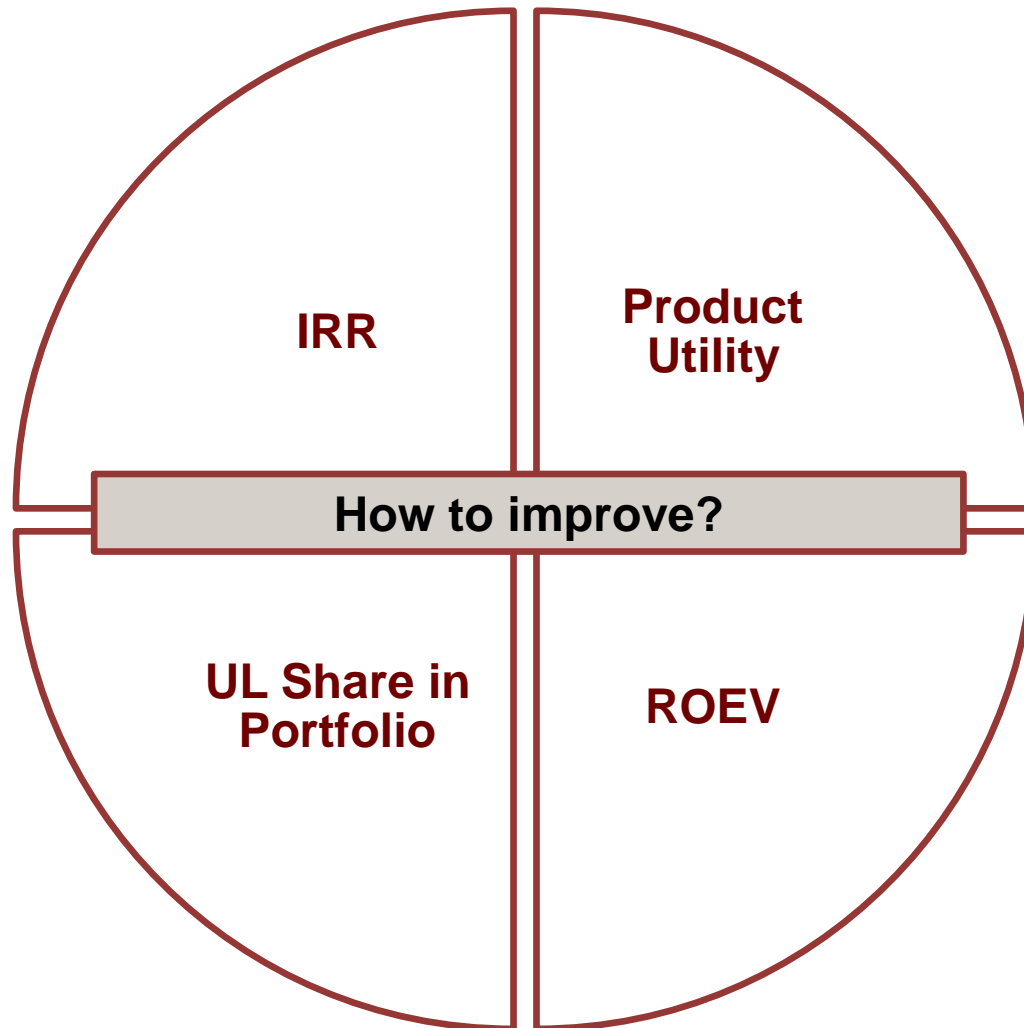


Source: IRDAI Annual Report

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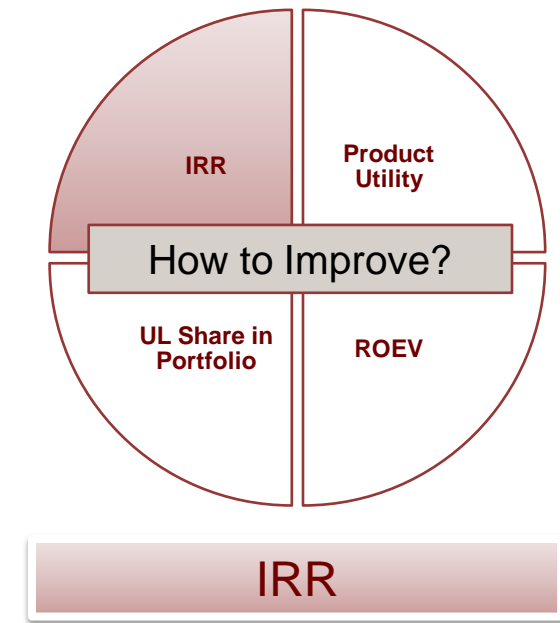
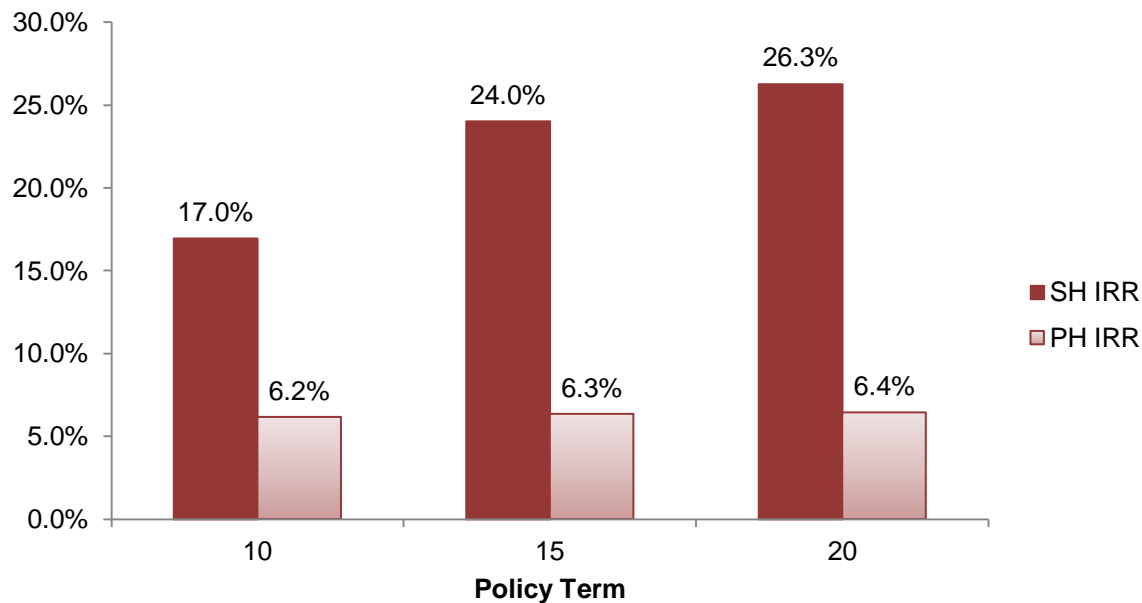
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How to improve?



How to improve?

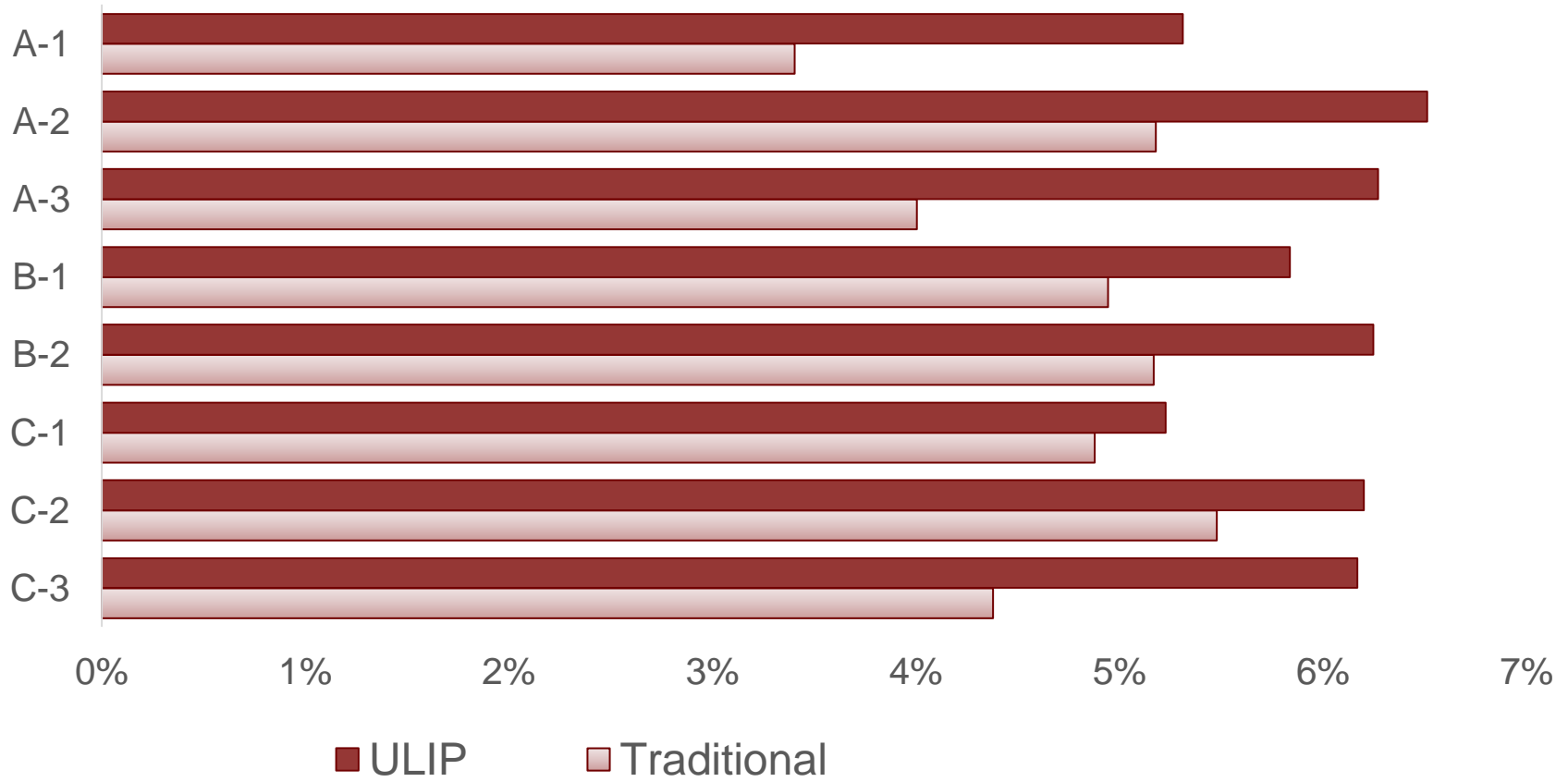
Encourage policyholder to stay invested for longer duration



- IRRs for a typical ULIP increases with term, for both policyholder and shareholder
- IRR is lower in the initial years due to the high initial charges and distribution expenses

How to improve?

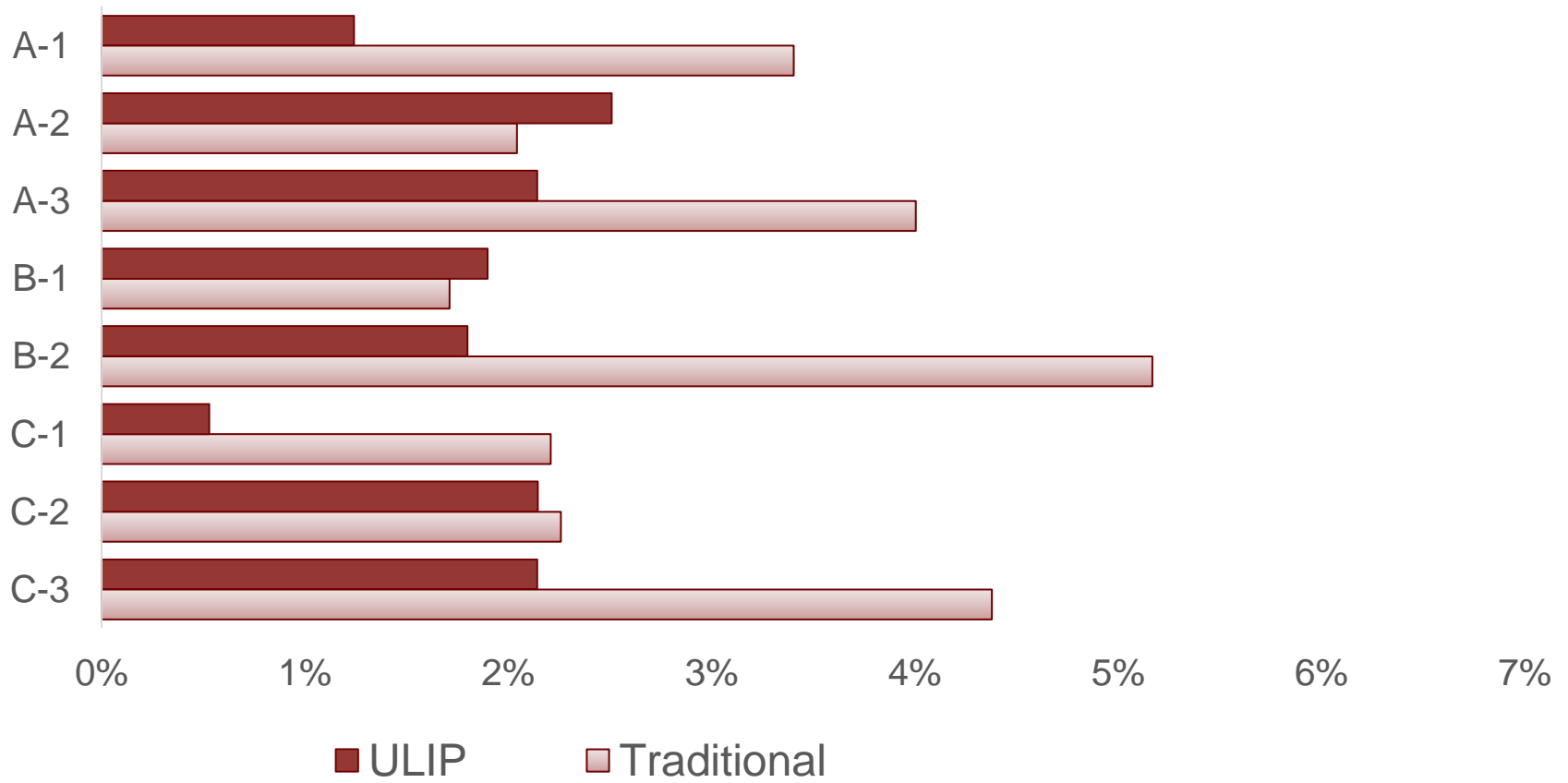
Policyholder IRR Comparison at 8%



Source: Company Websites

How to improve?

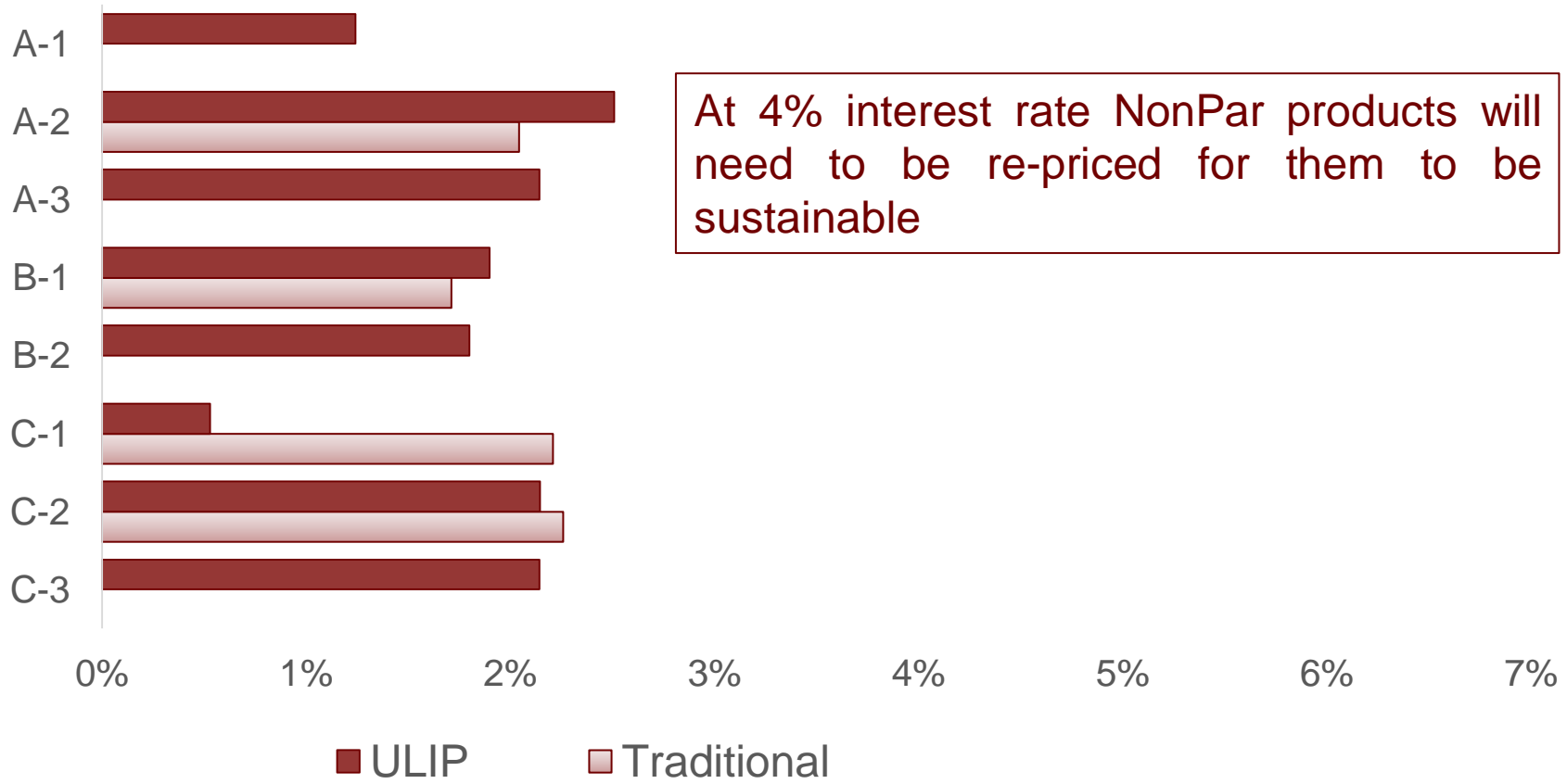
Policyholder IRR Comparison at 4%



Source: Company Websites

How to improve?

Policyholder IRR Comparison at 4%



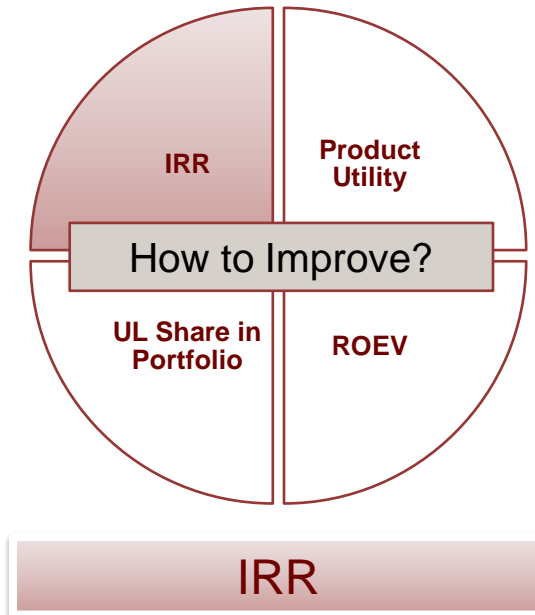
At 4% interest rate NonPar products will need to be re-priced for them to be sustainable

How to improve?

Offer reduction in fund management charges and RIYs as term progresses

Provide loyalty additions for staying invested

Competitive pricing within the insurance industry as well as compared to mutual funds



How to improve?

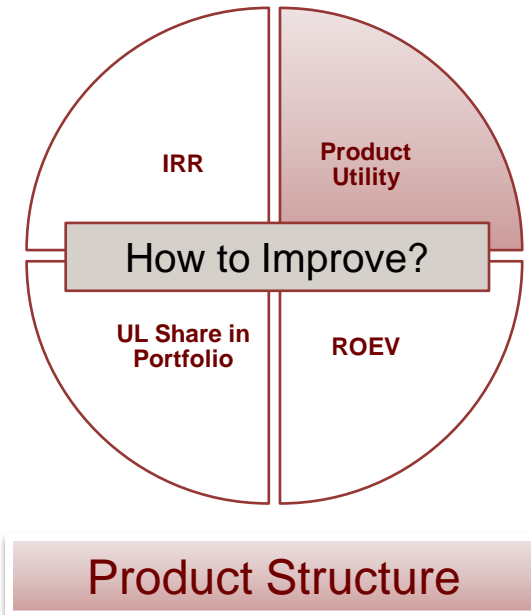
Provide life cycle stage investment option

Ensure easy access to benefit illustration and product feature comparison

Increase customer education initiatives

Launch mobile application for fund switching and policy updates

Give an option to attach riders to the base plan, thus increasing protection at a lower cost



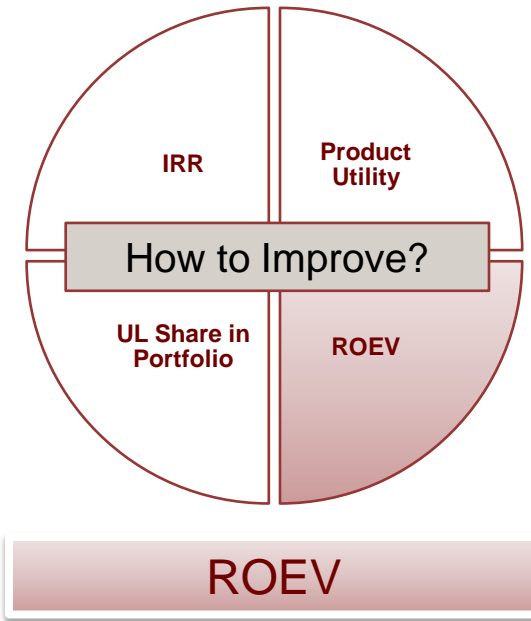
How to improve?

Expense Management:

- Efficient business operations – synergies across business units, automation of processes, outsourcing where profitable, subject to regulatory approval
- Increase in-force policy base: higher persistency and new business
... and hence optimise the use of capital

Persistency Management:

- ‘Carrot’ approach – loyalty additions
- ‘Stick’ approach – impose penalties, subject to regulatory constraints
- Competitive fund management
- Customer education
- Good Customer service
- Maintain good reputation
... which will also help attract more new business



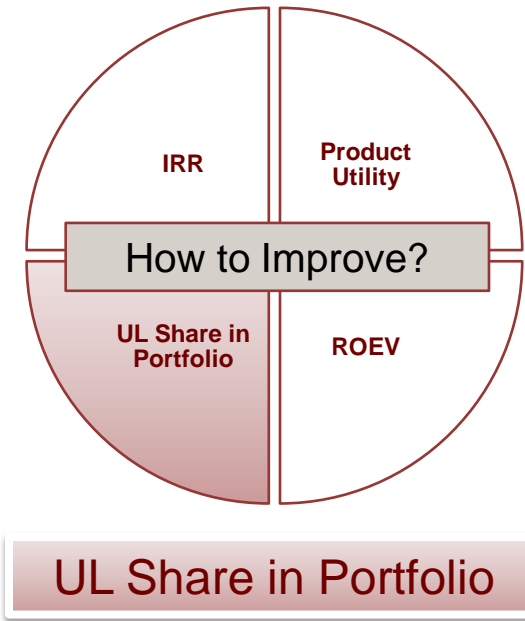
How to improve?

Promote online sales by providing:

- User friendly online platform for buying
- Comparison of UL products as well as comparison between Trad and UL product easily available

Add features on website such as 'how many policyholders bought this product' to make the product more attractive to potential customers

Highlight on benefits of UL products compared to fixed deposits in falling interest rate scenarios – highlighting protection against inflation and tax benefits



Thank You