

Swiss Re



# Impaired Life Annuities

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## My agenda

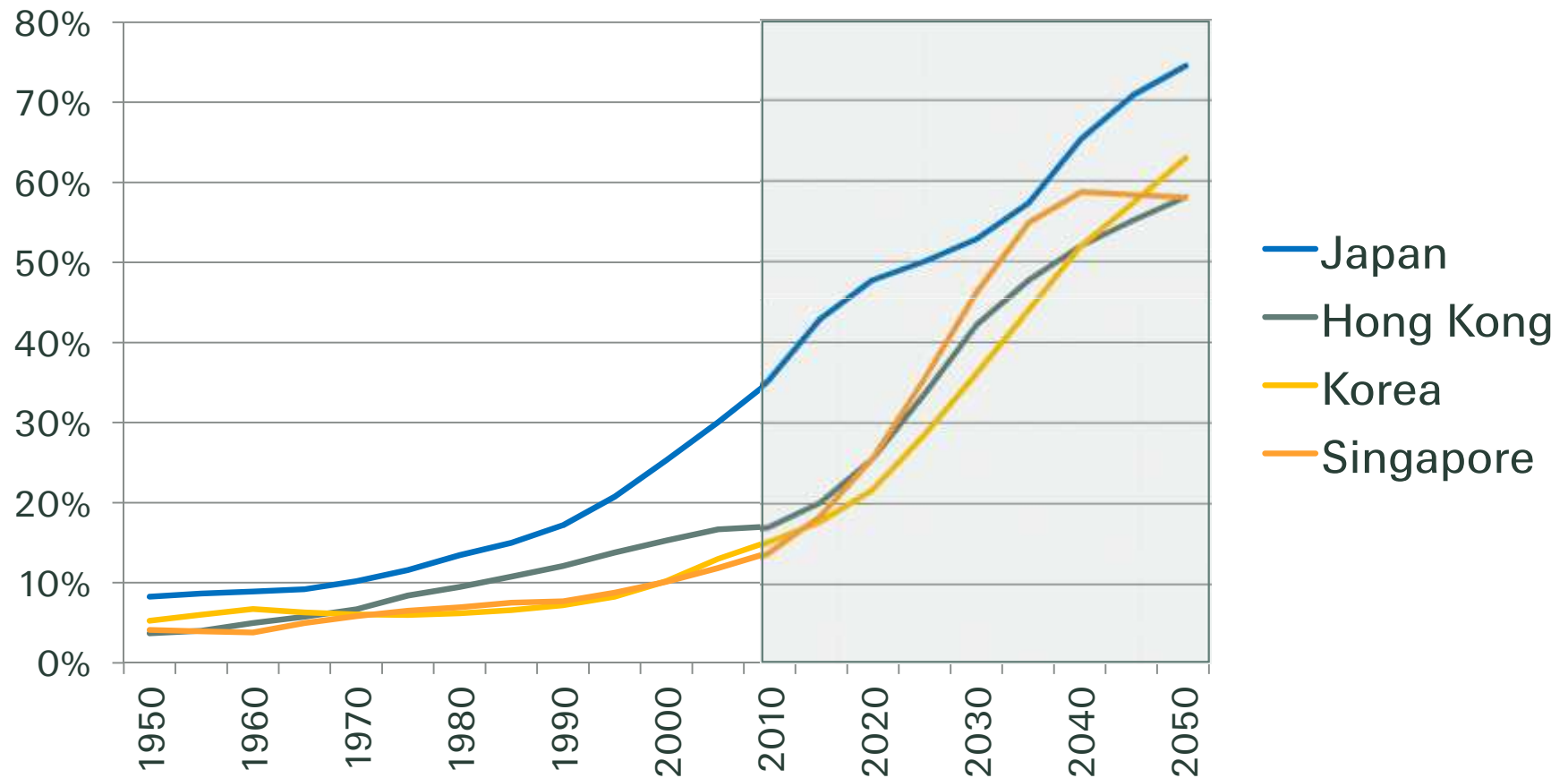
- Introduction to Annuities
- What are Impaired Life annuities and how do they work?
- Why are they relevant?
- Key challenges
- Critical success factors

*"The aging phenomena is affecting us all and we should be concerned at the general lack of appropriate insurance products for post-retirement. This presentation offers a look at how solutions can be tailored to reflect the individual needs of consumers and considers how those who suffer poor health can be treated fairly."*



## Introduction to Annuities - More older people...

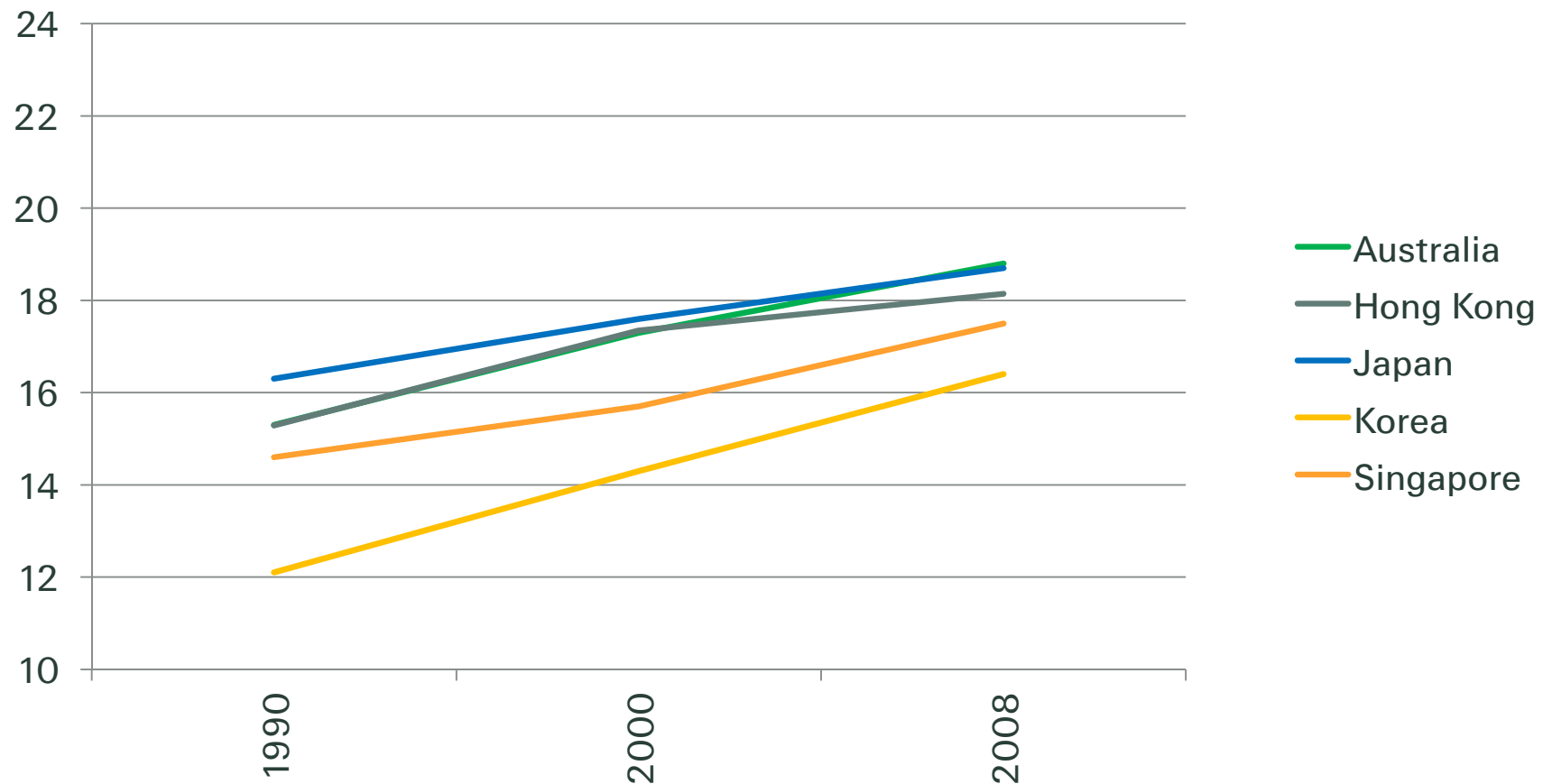
### Old-Age Dependency Ratio (65+ vs 15-64)



Source: UN - World Population Prospects: 2008 Revision

We're expecting to live longer and longer...

### Life Expectancy at Age 65 - Males



Source: UN – Life Tables for Member States 2010, HK Census & Statistics Dept

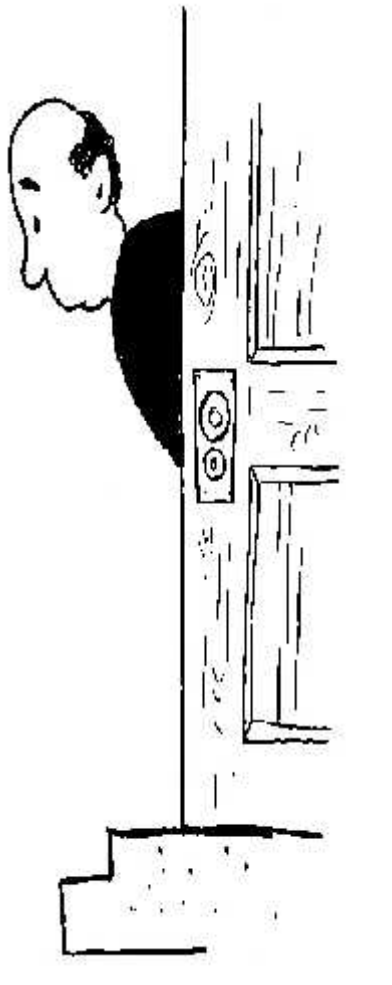


# ANNUITY

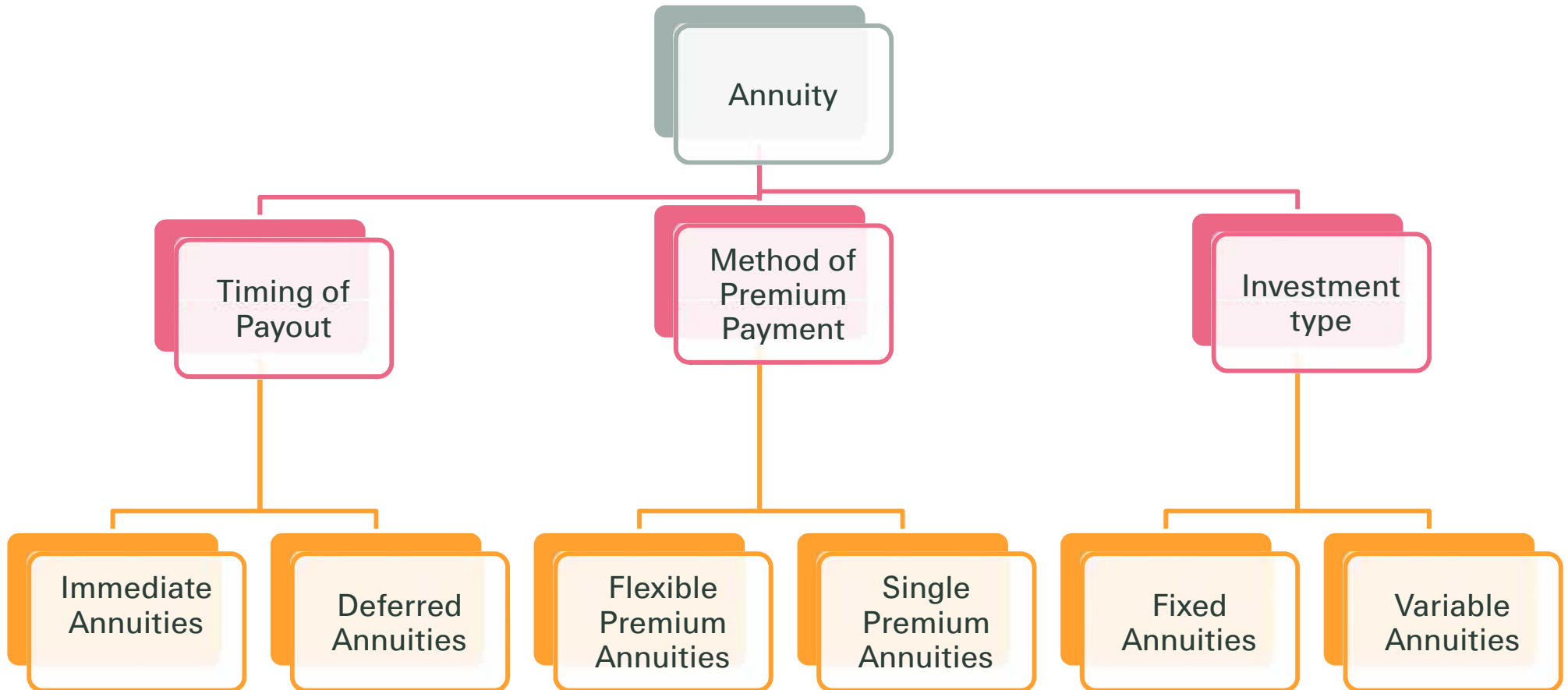
A FINANCIAL PRODUCT THAT IS DESIGNED TO PAYOUT A STEADY AMOUNT OF MONEY OVER TIME

ANNUITIES ARE GENERALLY USED AS A RETIREMENT VEHICLE TO INSURE REGULAR INCOME IN LATER YEARS

...AND IF YOU FUND A GIFT ANNUITY, I'LL BRING YOU COOKIES EVERY YEAR FOR THE REST OF YOUR LIFE.

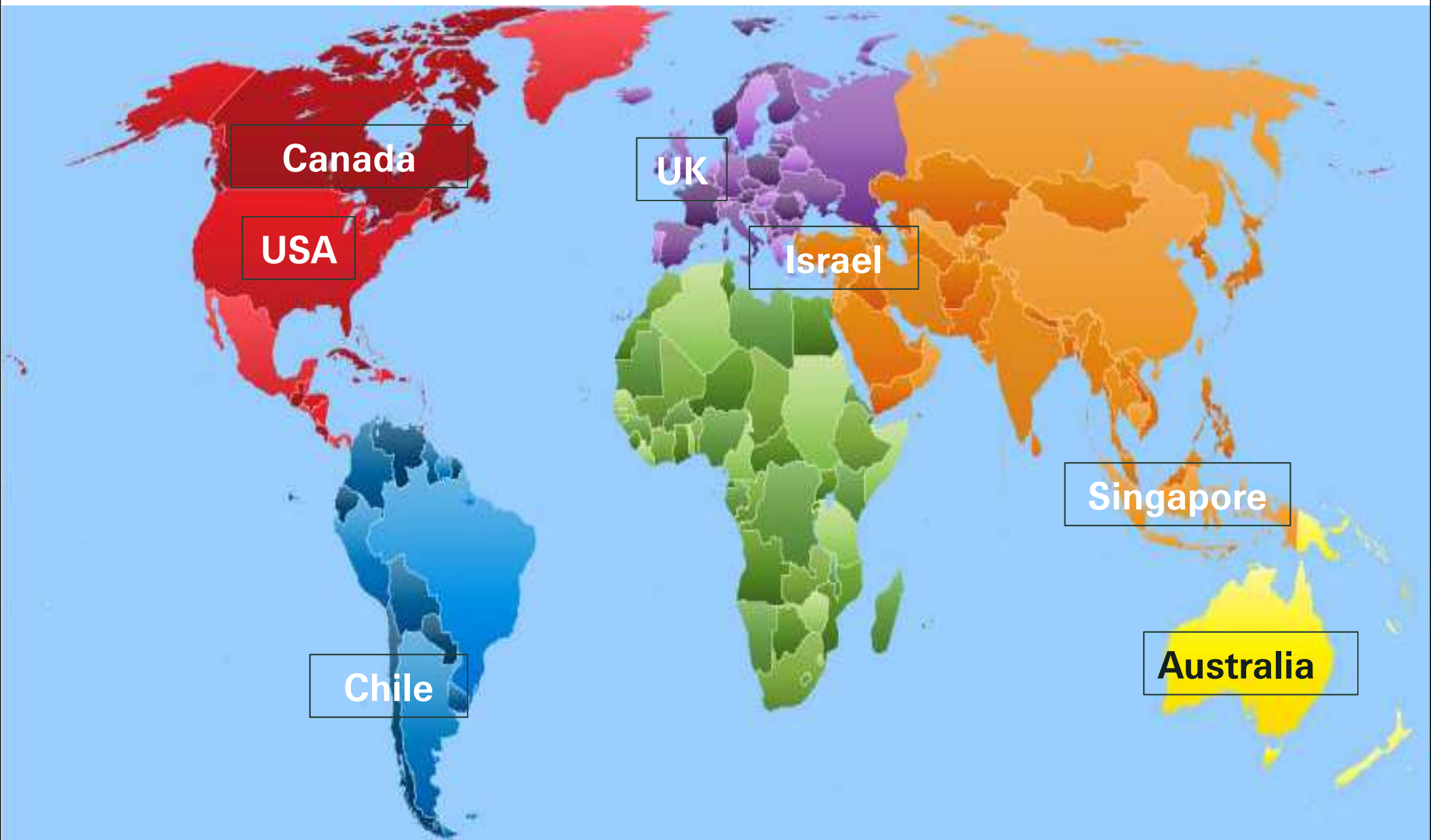


## All types of Annuity contracts are fairly simple





# Annuity Markets – a global overview





## Impaired Life Annuities – how do they work?

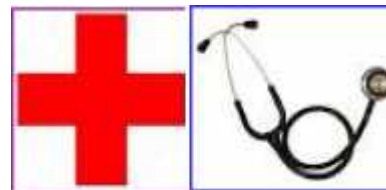
- The level of annuity payment is calculated based on the personal life expectancy of the applicant
  - age, gender, smoker status, socio-economic factors such as location / occupation **and health!**



Quote  
&  
Apply



Underwritten from  
disclosed evidence  
and terms offered



Medical evidence  
may be obtained to  
verify disclosures



## It's a funny old world.....

On 11 February 1995 a letter to the Times was published

"I will be 70 next birthday, am 6 ft 6 in, weigh 18 1/2 stone and have had high blood pressure for 15 years (I'm on the maximum daily dose of my drug). I have had malaria three times, cancer of the larynx five years ago and now have sleep apnoea, which surgery in 1993 has relieved but not cured. So, I am a low health prospect, according to life offices. I agree.

But let me seek an annuity – and hey presto! I am a normal life with an expectation in line with the standard tables. Nobody can – or wishes to – explain this paradox.

Can you? Is there a provider of annuities for impaired lives?"



## History of Impaired Life Annuities in the UK

- 1991 - The first 'care' annuity was launched in by Eagle Star
- 1995 - The first dedicated smoker annuity was launched by Stalwart Assurance, followed by the Pension Annuity Friendly Society (PAFS) offering enhanced rates to those with severe medical impairments
- 1996 - Others soon joined and added Diabetes, high blood pressure / cholesterol and obesity
- 2001- Mandatory for pension providers to advise of options before retirement and Open Market Option became more widely known and used. Traditional providers started to join the market as their vesting volumes reduced
- By 2011, there were 9 providers in the marketplace, and more are expected to follow
- Market size now £3.02 billion - circa 15% of total sales. It is estimated, however, that market share could reach 40%

# Impaired Life Annuities - a truly individual story

Own application form / Interactive underwriting



Auto underwritten



Manually underwritten

## Application form question examples

- ✓ Do you.....
  - ✓ regularly smoke cigarettes?
  - ✓ take regular medication ?
  - ✓ have high blood pressure and cholesterol ?
  - ✓ suffer from Diabetes
  - ✓ suffer from chronic asthma ?
  - ✓ suffer from or have you ever suffered from a serious illness such as cancer , stroke or multiple sclerosis
- ✓ Have you recently undergone major surgery ?

## Examples of Underwriting Uplift

Standard	Mild	Moderate	Severe
✓ Blindness	✓ Mild angina	✓ Recent stroke	✓ Most recent tumours
✓ IBS	✓ Controlled BP on treatment	✓ Dukes B colorectal cancers	✓ Kidney dialysis
✓ Joint replacements	✓ Non insulin Diabetes	✓ Advanced Hodgkins disease	✓ Muscular Dystrophy
✓ Sciatica	✓ Recurrent Bronchitis	✓ Severe asthma	
✓ Ulcers	✓ Severe Crohn's (smoker)		
✓ Possible MS			

A stated uplift will vary by the

- shape of the curve applied
- the point of convergence to normal mortality



# Simple messaging aimed at increasing consumer awareness.....



**Note:** If any of the items listed below apply to you, you may well qualify for an enhanced annuity rate - Do you ...



**Smoke Cigarettes?**



**Take Medication?**



**Have Diabetes?**



**Have a Medical Condition?**



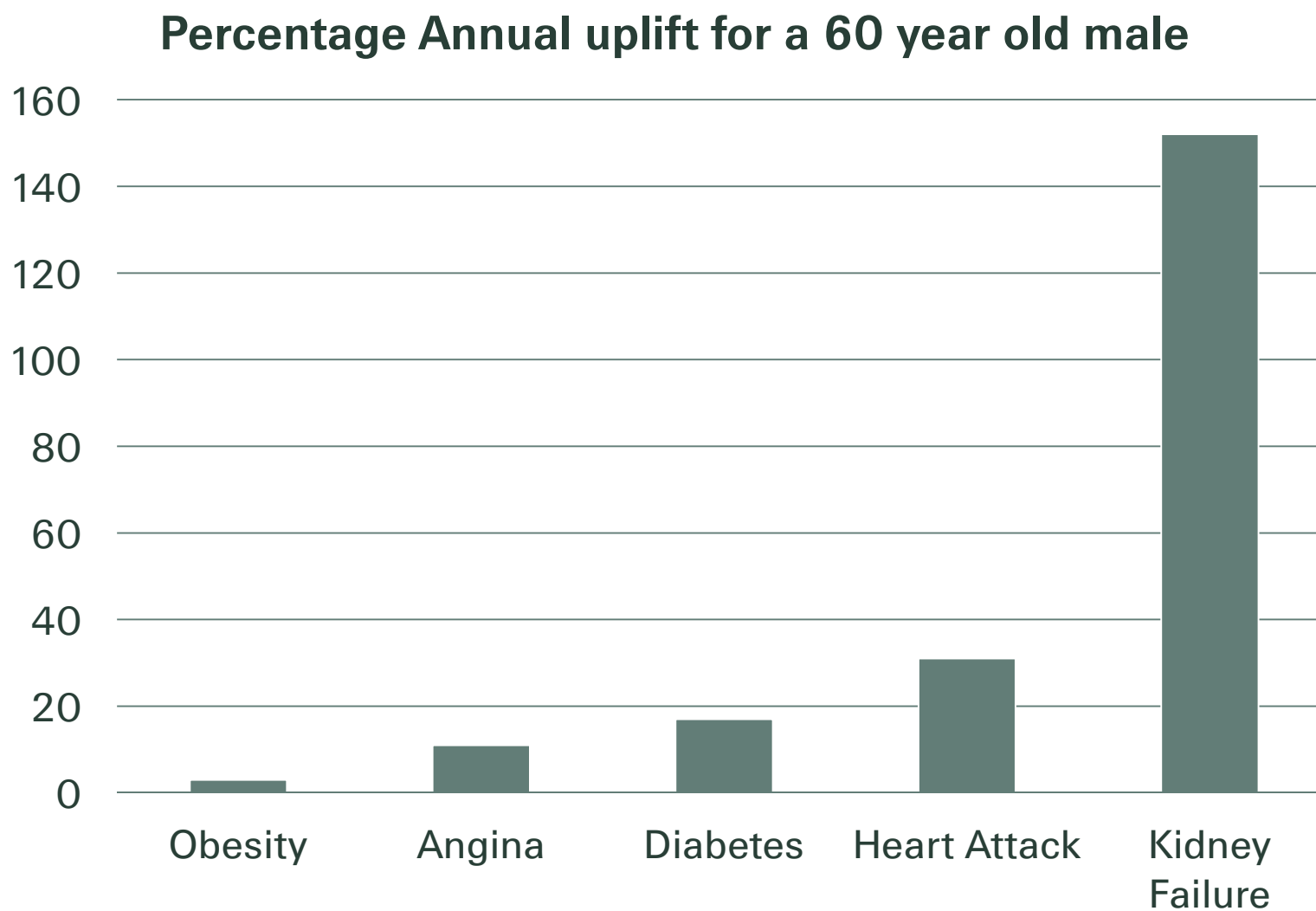
It pays to be in poor health....

LIFESTYLE FACTORS SUCH AS  
**SMOKING**  
AND  
**CHOLESTROL**  
LEVELS COULD ALSO QUALIFY YOU AND  
YOURSELF OR DEPENDANT FOR  
AN ENHANCED ANNUITY



increases annuity payments between 8% to 23%

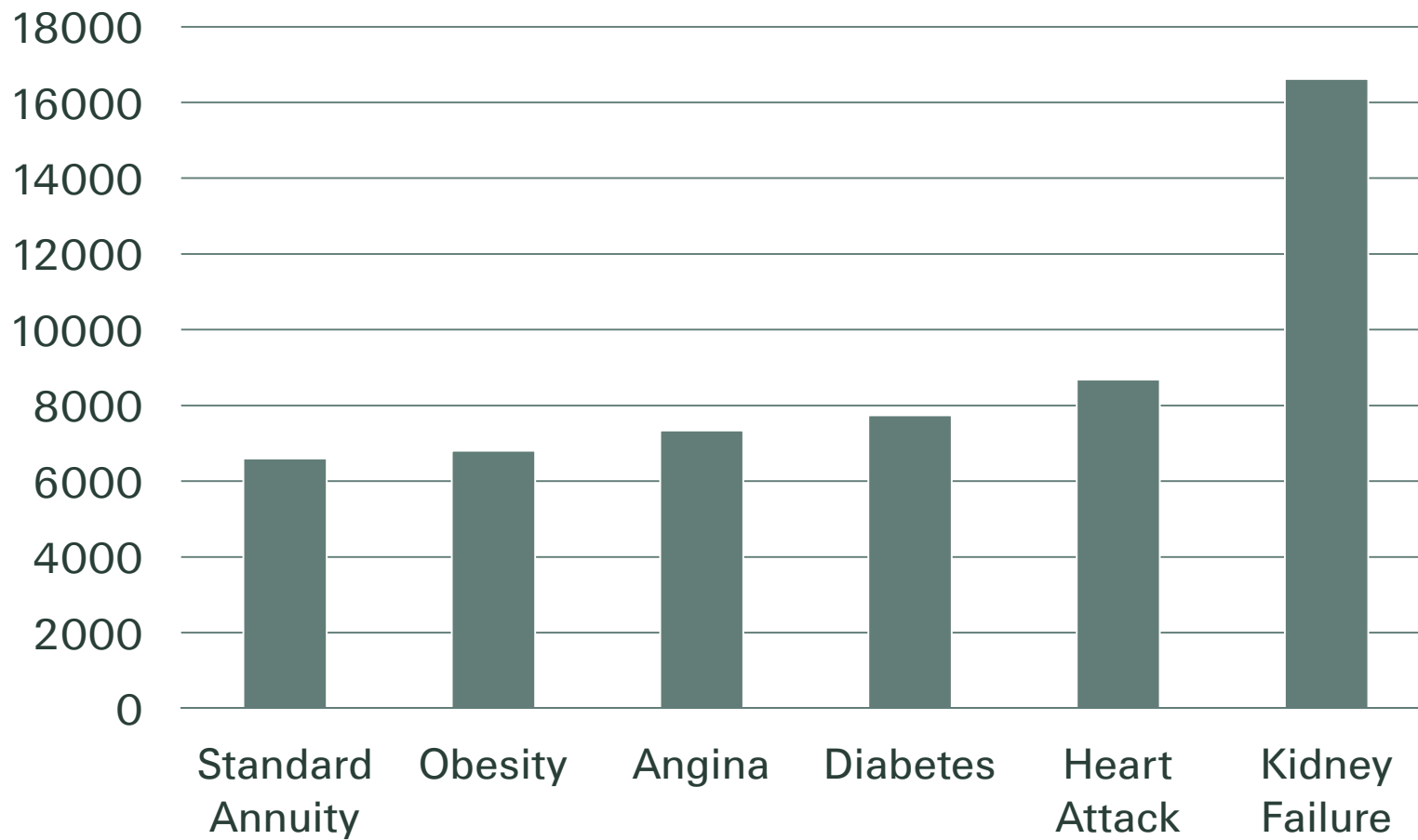
## Examples of underwriting impact





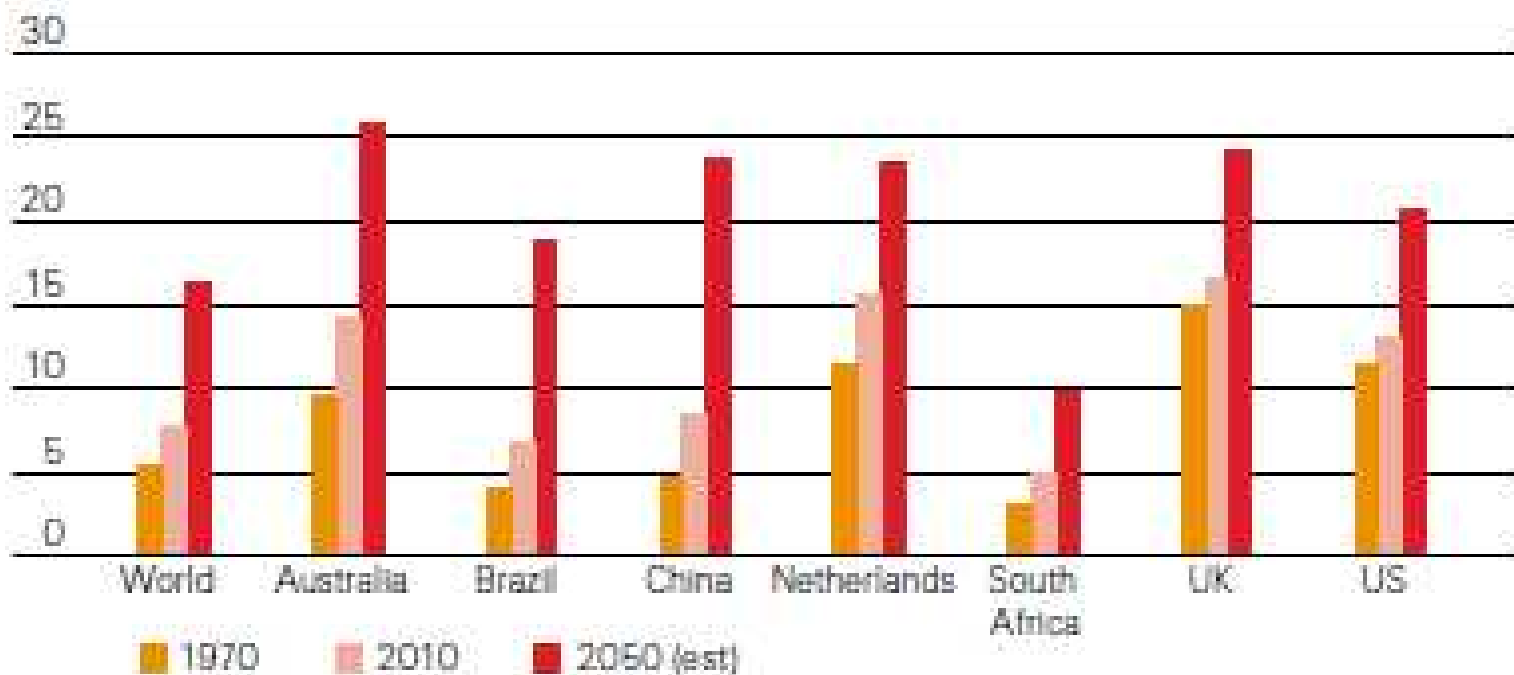
## Examples of underwriting impact

Annual payment based on 60 year old male with  
S\$100,000 investment pot



## Why it's relevant - everyone is getting older

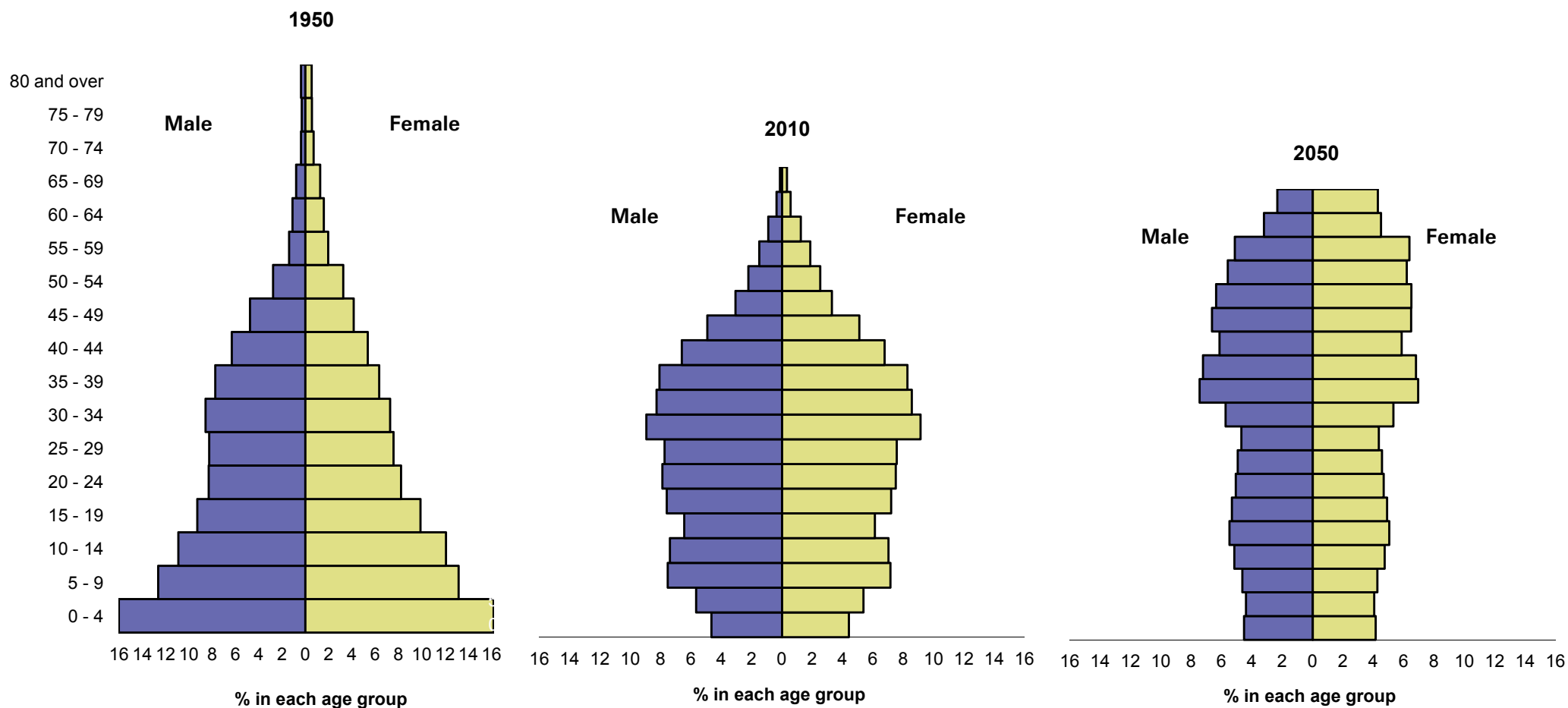
Figure 1: Percentage of people aged 65 and over



Source: OECD Factbook 2009. Economic, environmental and social statistics



# Why it's relevant - aging isn't just a Western phenomena



This technique was published in an excellent online article [Population Today](http://www.prb.org/Content/NavigationMenu/PRB/AboutPRB/Population_Today1/may99_pt.pdf) at [http://www.prb.org/Content/NavigationMenu/PRB/AboutPRB/Population\\_Today1/may99\\_pt.pdf](http://www.prb.org/Content/NavigationMenu/PRB/AboutPRB/Population_Today1/may99_pt.pdf)



Why it's relevant

- it's considered "Best Advice" to apply

DID YOU KNOW...

IT IS ESTIMATED THAT UP TO

40%

OF PEOPLE RETIRING QUALIFY  
FOR ENHANCED/IMPAIRED ANNUITY  
BUT ONLY FOR A TINY PROPORTION  
OF THESE PEOPLE APPLY FOR ONE!



## Challenges

### Market

- It doesn't exist yet
- Shopping for best terms

### Consumers

- Controlling over-disclosure behaviours
- Matching mortality & annuity decisions

### Profit

- The medical profession are working against us!
- Time taken before experience analysis becomes valid

## Key success factors

- Efficient process – this isn't ever going to be huge in Singapore alone
- Costing and Medical expertise – both current and future trends are vital
- Competitive terms – you've got to be in the game to learn about it!
- Portfolio analysis
  - what are you winning
  - are your clients / agents telling you the truth
  - and what does your early experience indicate
- You might even consider finding a Reinsurance partner

## And what about the future.....

- When clients live to 120 or even 150?
- More than half the population are aged 60+
- More than a quarter of people in Singapore are Diabetic
- Final salary pension schemes only exist in history lessons!
- Consumers demand a "fair deal"





## If you are serious about retirement security in Singapore.....what are you waiting for?

- ✓ The Ageing population is here
- ✓ It's an uncontested space
- ✓ The solution is highly consumer-friendly and fair!
- ✓ If you don't play in this segment how will you understand longevity in the healthy part of society







# Questions

