RGA

EMEA Quarterly

Welcome

Welcome to our third quarter issue of *EMEA Quarterly*. In this edition, we bring you recent and relevant information that has a bearing on your markets in our region. To begin with, I was honored to be asked again by SoMe magazine to share my thoughts on the most important trends shaping our industry, and to publish them here with SoMe's kind permission, as described in Don't Just Follow Trends, Anchor Them in Your Business Model.

Responding to these trends does not mean brainstorming new ideas; the "brainstorming" model is ineffective for true and timely innovation. We don't need new ideas, we need new hypotheses that can be conceived, tested, validated and implemented quickly to create new opportunities. In Life Design Sprints: Beat the Brainstorming Blues, Jonathan Hughes of RGAX EMEA describes a fast, effective way to leverage expertise in a powerful way.

While technology is helping us in reaching new customers, we're not just advancing in our understanding of technology, but also in our understanding of human thought processes, as shared in Talk to Me: How Personalized Persuasion Could Enhance Protection Offerings and Reduce Underinsurance, by Matt Battersby, Chief Behavioral Scientist in RGA's U.K. office.

An idea or product doesn't have to be new in order to represent a fresh opportunity; sometimes it's a matter of the time being right. In Middle East Update: Credit Life Market, Tamer Saher, Director of Business Development in RGA's Middle East office, describes the emerging role this fundamental product is playing in the region's expanding markets.

Similarly, the Spanish economy and regulations are changing, and providing an opportunity for properly structured life annuities. Juan de Ipiña, Director of Business Development for EMEA Global Financial Services (GFS) in RGA's Spain and Portugal office, offers his thoughts on how this may be accomplished in How Can Insurers Build Demand for Life Annuities…and What About the Offer?

Our focus shouldn't just be on new customers, of course. We also need to make the most of how we serve those customers. In Who Has Your Back?, RGA's Chief Pricing Actuary in South Africa, Neil Parkin, explains how case management is the most important benefit of disability income insurance.

As always, we are grateful for your continued support and business. Our EMEA region is on track for another successful year, and we know this is possible because of the trust you place in us. We are eager to continue to earn that trust and to do our part in helping you to succeed.

Olav Cuiper
Executive Vice President, Head of EMEA
RGA International Reinsurance Company dac

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Don’t Just Follow Trends, Anchor Them in Your Business Model

Olav Cuiper
Executive Vice President, Head of EMEA
RGA International Reinsurance Company dac

Smart data. Technological advances. Partnerships. These three trends are vitally important for insurers. Tomorrow’s winners have already anchored these trends in their business model.

The speed of change in the insurance industry gives us plenty to discuss. We could, for example, focus on robotisation or blockchain, but I think it’s more interesting to examine trends in our field from a broader perspective. At the micro level, every insurer is very busy just keeping up. WhatsApp has emerged as the new communication standard and has been integrated into almost every facet of customer service, while video advice has become the rule rather than the exception. These are all smart moves that make the insurance journey easier for consumers, but do they also help you reach new customer groups? Let’s take a step back here. At the macro level, I see three trends that will shape the future of our industry. Tomorrow’s winners have already anchored these trends in their business model.

1. Data changes the way you insure yourself

For years we’ve all been talking about Big Data, but personally it’s a term I prefer to avoid. Data is data. As an insurer you’ve always had data at your disposal, but nowadays there’s just more of it. Today’s data is also much better and, when used properly, technology has made it much easier to exploit. In itself, there’s nothing that special about Big Data. Smart data, however, is a different story. That’s where the challenges will lie during the coming years: developing new services, based on smart data, that will make life easier for customers.

But how does that work? Nowadays, every insurer wants to ask fewer questions during the customer journey because the less information the customer is asked to provide, the quicker you can sell the policy. The problem is that if you don't complement this shorter application and acceptance process with other data, it results in data asymmetry. This can lead to anti-selection, the undesirable situation in which a customer takes out a life insurance policy with far more coverage than would normally be approved because the customer has knowledge that you as an insurer don't have.

Clearly, the desired departure point is that the same information is available to both parties. If you want to simplify the application and acceptance process, you must include smart data sources. In the U.S., for example, we as RGA have developed data-supported underwriting tools which enable our clients to get a better and quicker understanding of mortality, longevity and persistence of the life policy. Therefore we use multiple data points to map the "risks".

> "Agreeing to jointly share data with your customer means a fair deal for both parties."

The privacy debate has demonstrated that transparency is important to the consumer, and you can capitalise on this by explicitly asking for insights into certain data. This can include health data from running apps such as Strava or Runkeeper, for example. Agreeing to jointly share data with your customer means a fair deal for both parties. The customer then has a choice: either complete a questionnaire, possibly including a medical examination, or answer just a few questions and share data sources under certain conditions. In this way you'll build mutual trust and collate better information. It's a good thing too, because so much more is possible. Consider how consumers apply for car insurance in the U.K. It's really high-tech, thanks to a black box that knows exactly how you drive. And everyone already carries tomorrow's black box around with them: the iPhone!

Another smart way of dealing with data is to create communities that positively influence behaviour. Take the Vitality programme from health- and life-insurance company Discovery, which is available in South Africa and the U.K. People who participate in sports and eat healthily qualify for discounts at gyms, medical check-ups, and train and air travel. It's all made possible by partners. And it works: consumers seem prepared to trade in some of their privacy for financial gain.

Programmes like these help you learn more about your customers, allowing you to make the necessary adjustments to your products. Used wisely, data can not only change your process, it can also change the products in your life cycle. Consumers get more than just the same standard insurance policy for life; they get one that automatically adjusts to the phases of their life. It makes insurance much more personal. In the future, insurers will offer millions of individual solutions for just as many individuals, each with his or her own behavioural and health characteristics. The trend is shifting from N = many to N = 1, as we see in the healthcare sector with targeted medicine.

2. Technology changes what and how you insure

Technological advances make new things possible in our society; that's just a fact of life. Thanks to medical technology, for example, we now live longer and healthier lives. That's fantastic, of course. The smarter medical science becomes, the more manageable and affordable it makes healthcare.

It's a win-win situation all around. Technology is making risks more manageable in more insurance domains. But the point is, what are we doing with it? People's reasons for insuring themselves remain largely the same. In its basic form, insurance won't change. It's what you insure, and how, that changes.

Volvo, for example, is developing a safety system that can avoid obstacles and implement autonomous evasion manoeuvres to save a car from dangerous situations. This represents Volvo's last step towards its mission of ensuring that by 2020 no one who buys a new Volvo will be killed or seriously injured. The only thing you'll still have to insure against is causing damage to others. Suddenly, it makes insuring a car very straightforward. Just imagine these cars rolling off the production line with standard insurance. We could go from "Intel Inside" to "Insurance Inside". A threat, or an opportunity? You decide. And if you extrapolate this example to other insurance policies, what do you see happening?

> "Nobody knows exactly what the future will look like. But if you look carefully enough you can see the outline"

Imagine the benefits that technology could bring to your own insurance domain. In an ideal world technology makes life better. It's up to us to capitalise on its benefits. In Germany and France there are several medical technology startups that make specific conditions such as diabetes more manageable, with healthier patients as a result. Meanwhile, in the U.K. and the U.S. we, as RGA, are investing in connected homes for senior citizens. The connected technology in these smart households will allow seniors to live independently for longer, with medical diagnoses received in the comfort of their own armchairs. I'm often asked why RGA invests in initiatives like these. My answer is that it's because we know we are getting progressively older; I want to invest in initiatives that contribute to people's well-being later in life.

Nobody knows exactly what the future will look like. But if you look carefully enough you can see the outline.

3. Partnerships change the way you operate as an insurer

I don't believe that Apple or Google want to be insurers. A few years ago, Google ran a comparison site for car insurance in the U.K., but eventually they refocused solely on their core business of generating advertising income. Being good at what you do doesn't necessarily make you good at what you don't yet do. You don't have to be able to do everything. This also applies to insurers. Rather than chasing every innovation, it makes more sense to go back to your core business and decide from there how you can best serve your customers.

> "For a long time we've stressed that you have to **innovate or die**, but that doesn't mean that you have to do everything yourself"

What exactly is an insurer's core business? Covering the financial risks that exceed an individual's or a family's capabilities, and making sure that all peripheral aspects are adequately taken care of, from administration to legislation. That's not something Google can easily emulate. As an insurer I'd opt to excel in your legacy, aiming for very satisfied customers. I'd also invest in partnerships so you are not setting up initiatives yourself, but embracing them by taking a share in them. In this way you'll create value ecosystems centred around the insurance needs of your customers.

For a long time in the industry we've stressed that you have to innovate or die, but that doesn't mean that you have to do everything yourself. For many insurers innovation has proved to be difficult and costly, in terms of time, energy and money. Insurtech, for example, could be perceived as a threat to traditional insurers, but startups and tech companies also represent opportunities. Sometimes it's simply better to forge a partnership with a specialist that has exactly the right expertise and experience.

Here too, don't try to control everything. Instead, focus on your own insurance domain, be it providing care for later in life or insuring material property. Gather smart innovations associated with that insurance domain, then reconcile them so they optimally serve your customers. Such an ecosystem needs to be continuously tweaked to fit the prevailing time and needs. That won't be a problem either. Given that you won't be doing everything yourself, it'll be easier to shed what you no longer need and take up what you still miss.

As an insurer you'll become a director of ecosystems. In the meantime, you'll still have to offer your customers excellent service, in a modern and efficient way, and according to the latest legislation.

Fortunately, as an insurer, that's exactly what you're good at – today and tomorrow!

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Life Design Sprints: Beat the Brainstorming Blues

Jonathan Hughes
Vice President, Strategic Development
RGAX EMEA

To keep pace with the ever-changing insurance landscape and customer expectations, chances are that your organization has used (and been disappointed with) brainstorming tools. We've developed a better way to co-create solutions that is repeatable, reliable and efficient.

Brainstorming as a business tool has been around since at least the 1950s, and its core concept is simple: we're smarter together than any one of us is on our own. But while these sessions can leave participants feeling energized, research shows that they often don't have the lasting, positive impact we hoped for. For example, a study of over 800 teams published in the *Journal of Basic and Applied Social Psychology* found that brainstorming groups were significantly less productive in terms of both quantity and quality than individuals working on their own.

We've probably all experienced some of the more obvious pitfalls of brainstorming:

- The loudest voice often dominates the room, making quieter, more reflective participants reluctant to offer their ideas.
- Looking for a "quick win", the group may focus on the "low hanging fruit," ignoring the more complex – and more important – topics.
- One naysayer in the group can spoil the whole dynamic, while conversely, a group made up entirely of optimists can come up with a wide range of exciting but unworkable ideas.
- Having a variety of participants from different backgrounds can help the group understand the challenge holistically, but when these participants don't speak the same language, e.g., the CFO and the Director of Customer Experience, communication breaks down.
- An imbalance of power can also lead to undue weight being given to the opinions of the highest ranking person in the room. This is especially a problem when this individual is a "hit and run" contributor, popping their head in to give an opinion and then disappearing again.
- In this age of smartphones and tablets, getting any group of people to stay focused for long is an uphill battle.
- Most brainstorming sessions/groups last only long enough to come up with ideas, not long enough to flesh them out. When these ideas get handed off to working groups, they can easily morph back into something that more closely resembles business as usual.

To be sure, brainstorming can work for smaller decisions such as coming up with a name for a new product, creating a list of potential speakers for your next conference or deciding where to go for lunch. But when it comes to transforming your business, it can fall short.

A better way: life design sprints

If we're going to shoot holes in an approach that industry has been using for years, we need to come up with a better way. That's exactly what we've developed with Life Design Sprints:

- "Sprints" because we borrow heavily from the short, focused few days of sprinting used heavily in the tech industries, such as the Sprints concept developed at Google Ventures
- "Design" because we employ the iterative processes of design thinking to develop and test solutions
- "Life" because all these techniques need adapting and refining to work effectively in our specific industries of Life & Health insurance

Life Design Sprints are focused sessions, often lasting around five days, where we not only come up with ideas, but also choose the ones most likely to work, build prototypes and designs to test our ideas, and learn from the results with real customers.

The problems and the process

When we first mention the idea of a Life Design Sprint to an RGAX client or partner, we usually get two questions: What kinds of problems does this help with, and what's the process?

The problems – The Life Design Sprints tools can be used for all sorts of challenges: improving processes, designing products, "moonshots" – basically anywhere where there is an opportunity for improvement, plus a team which is sufficiently motivated to find a viable solution. A really important area to avoid is falling in love with a solution too early. As Einstein once said, "If I had an hour to solve a problem, I'd spend 55 minutes thinking about the problem and 5 minutes thinking about solutions." Ensuring everyone sees the same issue and it's collectively well-defined, needs to be done before even thinking about potential solutions.

The process - While every problem is unique and we tailor our process each time, the overall framework is the same:

- 3-5 days of dedicated time
- with a co-located team made up of 3-5 people from each business
- entirely focused on solving a problem relevant to each business
- facilitated by expert RGA and RGAX "sprint masters"

This final point, facilitation by a dedicated third-party sprint master, is an important part of the mix. That facilitator keeps everyone on track, tells participants (even the CEO) when it's time to move on from a topic, and enforces the "rules of the game" that make Life Design Sprints work so well. In our experience, all this can't be done "part-time" by one of the participants also in the sprint.

During the 3-5 days, we follow our Life Design Sprints process to:

- Clarify the problem we are aiming to solve
- Combine individual work with group collaboration exercises to develop multiple novel, thought-through solutions
- Condense these down into one or two testable prototypes
- Test these prototypes with potential customers to get instant feedback

This means we finish the Life Design Sprint with concrete, tested output to a clear, well-defined customer problem – all in days rather than the weeks or months typical of product testing.

Take the next step

Given the complexities of our industry and the pace of change, there is no shortage of problems to tackle. Here are a four things to remember when looking at a particular challenge:

- DON’T jump straight to solutions
- DO test and explore the problem properly first
- DON’T default to brainstorming (it probably won’t work)
- DO get in touch with us to find out more about Life Design Sprints

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Talk to Me: How Personalized Persuasion Could Enhance Protection Offerings and Reduce Underinsurance

Matt Battersby
Vice President and Chief Behavioral Scientist
RGA U.K. Services, Limited

Many years ago, a preacher from a small village found himself asking a rather peculiar question: How do you get a horse down the stairs?

The preacher had made a wager with a friend that he could get a horse to climb up the stairs of his house. The horse made it up quite easily and the bet was won.

But that is when the problems began—once at the top of the stairs, the horse would not come back down. Neither carrot nor stick made a difference. The animal was spooked and refused to budge. With an increasingly panicked horse stuck upstairs in his house, what could the preacher do?

After much trial and error, the preacher persuaded the horse to go back down by partially covering its eyes, thus blocking out the strange new environment. This calmed the animal and it could take steps downwards gingerly, until reaching the safety of solid ground. This, supposedly, is how horse blinkers were first invented … and they have been widely used ever since.

The story itself may be apocryphal—it is commonly referenced, but poorly sourced. However, the lesson of the story is uncontested: blinkers reduce an animal's peripheral vision, often to as little as 30 degrees, keeping it focused on the path ahead. In this way, it can move forward, untroubled by any potential distractions.

I am not sharing this story in case you ever find yourself having made an unwise bet involving animals. I am doing so because I believe it has important parallels for understanding human behavior and communication—parallels which can be applied to our industry.

Just like a horse, human attention, and therefore behavior, is heavily influenced by our surroundings. Most of our actions are triggered by environmental cues which we process unconsciously. It is estimated that the human brain receives around 11,000,000 bits of information per second through all our senses, but the conscious brain can only process about 40 bits per second. This means we are continually being influenced in ways of which we are not consciously aware.

For example, experiments have shown that a person's honest and truthful disclosure can be influenced by environmental factors, such as light lux levels. In one experiment, participants were asked to score their own math tests. They would receive a cash payment for each right answer. Participants, it turned out, were about 37 percent less likely to be dishonest in their scoring when completing the exercise in a well-lit room as opposed to a dimly lit room. There are good and honest people, but there are also good and honest contexts, and too often we ignore the influence of these.

Understanding the true drivers of human behavior is essential if we are to capitalize on opportunities offered in a new era of personalized persuasion—opportunities that will enable us to reduce underinsurance, help our customers live healthier and longer lives, and deliver better risk results for our businesses. Developments in personalized communications and real-time decision prompts are enabling simple solutions that, when carefully applied, can deliver very meaningful results.

Personalized persuasion

“Personalization” has become a buzzword throughout retail financial services, not just insurance. Research from Accenture suggests that 80 percent of insurance customers are looking for more personalized offers, policies and recommendations from their auto, home or life insurance providers.

In reinsurance, the focus of personalization has often been on the use of demographic and behavioral data to improve underwriting. This has already had clear benefits: for example, using credit-based scores to predict mortality or lapse likelihood may provide a more sophisticated picture of each applicant’s risk profile. Such personalized propositions are demonstrably favored by customers: the same Accenture research shows that 77 percent are willing to provide usage and behavior data in exchange for lower premiums, quicker claims settlement and insurance coverage recommendations.

To date, however, less attention has been paid to another very important aspect of personalization: direct communications with customers. The importance of this should not be overlooked, because persuasive communication is core to the success of the insurance industry—from selling protection to the need for honest declarations and encouragement of risk-reducing behavior.

Personalization involves tailoring communications to both the individual making a decision and the context in which their decision is made. It therefore applies to both the content and the timing of communications.

Communications tailored to the individual

It has long been known that a message or piece of information can be more persuasive if it matches a person’s psychological traits. The trait-based approach most commonly used by academics is the Five-Factor Model of Personality. The five factors which define human personality and account for individual differences are: Openness, Conscientiousness, Extraversion, Agreeableness and Neuroticism (often referred to as OCEAN).

Numerous studies have shown that a message is more persuasive when framed to be congruent with the recipient’s personality profile. For example, Facebook adverts that match the content of persuasive appeals to an individual’s psychological characteristics result in up to 50 percent more purchases than to their mismatching or non-personalized counterparts. A message appealing to extraverts, for example, may focus on the excitement and unlimited creative opportunities of a new product, whereas one appealing to those with the greater need for stability associated with higher neuroticism index scores might focus on its safety and security.

People also perceive risks and rewards in line with their cultural values, a characteristic known as “culturally-motivated cognition.” For example, those fitting the definition of “hierarchical individualists” believe in personal freedom and traditional family values. They may dismiss the existence of threats that would imply greater outside regulation of personal activities is needed—the threat of climate change, for example. As such, they are less likely to protect themselves or insure against these hazards. Conversely, when something seems to threaten someone’s way of life or personal values, they will believe it is objectively dangerous even in the face of contradictory statistical information.

For insurers, the link between psychological traits, cultural values and behavior is not new. We have long-known that high levels of conscientiousness, for example, negatively correlate with risk appetite, increasing demand among individuals with high conscientiousness for insurance and reducing the risk of insuring them. The challenge has often been in identifying these psychological characteristics.

New technology and big data enables us both to better understand our audience and to communicate with them on a more personal level. Today, we can quite accurately infer much about people's psychological characteristics from their digital footprints, such as their Tweets or Facebook likes. For example, individuals who express concern for the environment, and are engaged with health and fitness issues tend to score highly on the conscientiousness scale.

Attempts have been made to use social media data such as these to screen potential customers and set the price of their insurance. But there are regulatory and, for some, ethical barriers to doing this: In 2016 Facebook blocked the plans of Admiral, a U.K.-based car insurance company, to enable customers to voluntarily share with it some of their social data to "secure a faster, simpler and discounted quote."

If we want to reduce underinsurance then we cannot just sell to the conscientious. We need to make insurance appeal to a wider audience and encourage this audience to behave in ways that reduce their premiums while increasing their sense of well-being. We need to personalize not just the product, but also the rationale for wanting it. But there are regulatory, ethical and reputational issues to consider here, too. Obtaining informed consent from individuals as to how their personality profiles are being used is going to be key.

One likely opportunity to use this approach with individuals is at the other end of the value-chain: in encouraging healthier behaviors amongst the insured. For example, research suggests that when creating and communicating interventions aimed at those who have been diagnosed as pre-diabetic or at risk of becoming pre-diabetic, tailoring the approaches to personality types can increase the effectiveness of the intervention.

These groups are apt to be more highly motivated to change their behaviors and so receptive to a more personalized and effective approach.

Communications tailored to the moment

In addition to understanding the psychological characteristics of individuals making their insurance-buying decisions, we need to understand the context in which those decisions are made. Often it is context, rather than character, that is the main determinant of behavior.

Most of the decisions we make are quick, intuitive and unconscious; our brains take mental shortcuts when making them to stop us from getting bogged down in endless detail. This "fast and frugal" cognitive processing style, while speedy and efficient, can create many biases and errors in our decision making.

> Often it is context, rather than character, that is the main determinant of behavior.

For example, our brains often rely on information that is most easily available, rather than searching for information that is most valuable. This is known as the “availability heuristic”—a cognitive processing error that mistakenly equates ease of recall with truthfulness and importance. As such, people tend to heavily weigh their judgments toward more recent information, making new opinions biased toward that latest news.

Another common bias is our tendency to use the first piece of information we receive as the benchmark against which we evaluate all subsequent information. This is known as the “anchoring effect.” Once an “anchor” is set, other judgments are made by adjusting away from that anchor, and the value of each subsequent judgement is often determined relative to the original anchor. This is a bias you see in the real world all the time. For example, people are often willing to pay more for a house, a car or even goods at a supermarket, if it has a high initial list price.

Biases such as these are very powerful and they can be difficult to override. Education and constant repetition of messages can have an impact, but they are expensive to provide and often yield disappointing results. It is much more effective to acknowledge these subconscious decision-making biases and account for them in our communications.

One of the most powerful approaches we can take is to communicate “in the moment”—that is, when a person’s attention is already focused on the decision or behavior, not before.

Communicating important information at the exact point of decision making is the holy grail of persuasive communications, and this is being enabled by digital technologies.

For example, the U.K.’s National Health Service (NHS) has been trying to reduce the number of patients sent for unnecessary lab tests. In a randomized and controlled behavioral science trial, two hospitals in England programmed their IT system to show doctors the price of a discretionary lab test right at the moment they were ordering the test. The cost of a lab test should already form part of a doctor’s decision-making process and information about the costs of each test are provided in books to which doctors can refer. These books, however, are rarely consulted. This simple act of reminding doctors of the cost to the NHS reduced the number of lab tests booked by one-third.

Similarly, the Reword campaign in Australia is looking at how providing information at the right time can reduce offensive and bullying online behavior by children. Reword is a simple tool that makes children aware when their online behavior starts to take on bullying characteristics. The app detects insults in a person’s typing, and when one is found, the user is alerted with a red strikethrough of the offending text, instantly interrupting behavior, highlighting that these words might cause offense and prompting them to reconsider their words.

In both of these examples, the approach is not to force the person to behave in a certain way but to ensure an important piece of information is prominent at the point they are making a decision.

There is clear potential to apply some of these techniques to the insurance industry, especially as so much of the application and claims processes has moved online. Smart use of prompts, questions and key information could positively influence a decision. The focus should therefore be on designing online and mobile sites that allow this level of functionality rather than simply replicating a physical form online.

The loudest sound is a whisper

Levels of protection are less than ideal for both individuals and society at large. Industry professionals know we need to do a better job persuading people to insure appropriately, and then to behave in ways that reduce their risks and premiums.

> When communicating about insurance, we need to create messages that reflect how people really do think and behave rather than how we believe they should think and behave.

If someone is not paying attention to something we think is important, our instinct is often to shout louder than everyone else. However, this is an ineffective approach in a world where attention is at a premium. When communicating about insurance, we need to create messages that reflect how people really do think and behave rather than how we believe they should think and behave.

Technology can improve the timeliness and salience of our communications. Persuasion, just as products, should be personalized.

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Middle East Update: Credit Life Market

Tamer Saher
Director, Business Development
RGA Reinsurance Company Middle East Limited

Several Middle Eastern countries are currently experiencing rising credit life insurance needs. Unexpected? Not really. The massive population growth in the region's nations over the past 15 years, including the ongoing influx of expatriates to the Gulf region, has sparked a real estate boom and prompted many fundamental regulatory changes in these countries.

Today, for example, expatriates in several Middle East countries can acquire long-term property leases and even own property in some countries. In addition, many countries have decriminalized debt, making for more welcoming startup and SME environments.

These changes have increased asset ownership across the board among both citizens and expatriates, and invigorated business environments. Both men and women can now own cars and credit cards, and the easing of regulations governing debt are enabling a more supportive and vigorous business culture. These trends are translating into more personal and business loans and greater availability of credit. Ultimately, they are also creating more risk for the region's individuals and the financial institutions that serve them.

> Both men and women can now own cars and credit cards, and the easing of regulations governing debt are enabling a more supportive and vigorous business culture

All of these trends are positively reshaping the market environment in the region for credit life insurance. Credit life, which includes mortgage life, is a relatively recent product in the Middle East – less than 20 years – and as in most countries around the world, life insurers offer it through banks.

Product structures differ from country to country. In most Middle East countries, both group credit life schemes on monthly outstanding and individual single premium credit life products are available. Group credit life schemes cover relatively smaller loans such as personal, auto and credit card loans, whereas single premium products are intended for higher-value mortgage and business loans.

Group credit life comprises much of the market, which itself has a healthy share of the region's overall life insurance market. Group credit life products help banks cover risk connected with credit portfolios of all types of loans for both citizens and expatriates. Currently, CL supports five types of loans: mortgage loans; credit card loans; personal loans; automobile loans; and business loans for both well-established companies and startups.

The growth engines for credit life products also differ by country. In the UAE, for example, credit life growth is coming from all types of loans, whereas in Saudi Arabia, the mortgage market is the primary driver. Indeed, mortgage portfolios at leading Saudi banks are quite sizable today, with some portfolios reaching billions of dollars. In Egypt, meanwhile, credit life market growth is coming from a vigorous and burgeoning demand for business loans.

Credit life is also emerging for takaful business. Group and individual credit takaful products are made available across the region to Islamic banks and other Sharia-compliant financial institutions to cover personal loans, credit cards, and mortgages.

Although the Middle East's credit life market is stable and growing, it is not a market without its challenges. Current free cover limits under group schemes are comparatively generous, which can leave insurers open to fraud and abuse, and also the high non-medical limits are an issue, as they can expose insurers to nondisclosure, which can be challenging to investigate at the claim stage.

On the positive side, the steps being taken by Middle East countries in recent years to strengthen and enhance their financial and insurance regulations in ways that can spur growth and development should ultimately help the region's credit life industry to grow in a healthy way.

What is most important when working in this market is to understand the risks and know how to deal with them. It is not just numbers: insurers need to dive deeply into the details of each scheme. Each credit life scheme has its own dynamics depending on the target market, underwriting practices, claims reporting patterns, claims investigation procedures, and most importantly, the exclusions agreed to under the scheme.

All these items are examples of check points that must be clearly understood. Having a financially strong reinsurance partner with a solid understanding of the region and the products will definitely help to ensure a sizable and profitable credit life portfolio.

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How Can Insurers Build Demand for Life Annuities…And What About the Offer?

Juan de Ipiña, FIA
Director, Business Development, EMEA Global Financial Solutions
RGA International Reinsurance Company dac, Spain and Portugal

It should come as no surprise that increasing longevity poses challenges in countries with strong public pension systems. Spain, my native country, provides an excellent case study: streamlining the Spanish public pension system will be critical to safeguard its sustainability – and to provide much-needed supplemental income.

Life annuities present one answer, yet demand for annuities in Spain is lagging. In fact, the majority of insurers are unwilling to generate sufficient life annuity supply, both due to the challenges of longevity risk management and the high capital requirements under the Solvency II framework.

The traditional sales model also contributes to this stagnation. Put simply, to succeed, the process for selling life annuities must change in countries such as Spain. Life annuities should be offered only within a broader advisory process and as part of package of solutions. Instead, too many insurers present life annuities alone and push the sale of a product that, in itself, is difficult to market.

Success also requires greater education. Insurance customers must recognize that saving for retirement is a long-term commitment. It is necessary to diversify income sources, combining the public pension with private capitalization products, to generate replacement income when we are no longer active in the economy.

Meeting the regulatory challenge

The market for annuities has become more hospitable as state-sponsored measures seek to make public pension systems more sustainable in an aging world. Consider recent reforms to the Spanish public pension system, including the introduction of a sustainability factor (SF), the initial consequences of which will be visible starting in 2019. The SF adds two new variables to the calculation of the public pension – the intergenerational equity factor and the annual revaluation factor – to current considerations (retirement age, years of paying dues, and dues base).

These reforms acknowledge an unfortunate reality: the public pensions today's Spanish wage-earners can expect to receive will be lower than those of our parents. Therefore, if we want to maintain our standard of living, it will be necessary to save more during our working years to increase income in retirement.

The state has provided a favorable tax system to encourage purchase of life annuities. For example, starting at age 70, annuitants can expect a tax bonus of 92% in IRPF (individual income tax); the taxable base to be consolidated is 8% of the annuity received, reducing the actual tax rate to very low levels. The Spanish public pension system also offers a tax benefit on accumulated capital gains in the pension plans, with an exclusion of up to €240,000 for taxpayers over 65 as long as they reinvest those capital gains in a life annuity.

Classifications of permitted life annuities can be very extensive and flexible, and depend on payment frequency, beginning date of the annuity (deferred or immediate), and the number of people covered. Enhanced annuities are also possible; to qualify, the purchaser's state of health or medical history must be such that their life expectancy is lower than that of other annuity purchasers.

Meeting the demand challenge

So, why then isn't there higher demand for life annuities in Spain? There are three causes: lack of a savings culture; lack of an advisory process that emphasizes educating the consumer as well as selling the product; and lack of competitive offers from the insurance companies themselves.

The objective of this article is not to study, in depth, the absence of a savings culture in my native country. I do, however, want to highlight the need to develop a basic understanding of finance and a culture of preventative savings. From my point of view, companies should place the sale of life annuities within a process of advice to the customer. It is necessary to sell life annuities as an answer to a need, complementing the income of a future public pension. It also will be vital to understand if the client is close to accessing funds saved throughout his or her working life.

The advisor must understand each client's financial situation and goals. Does he or she expect an immediate predetermined future income Or does the client plan to build savings in order to receive that additional income in the future, either through a deferred annuity or the combination of savings products with an immediate life annuity on the retirement date? In any case, it is always important to ask the client what level of net income he or she expects to enjoy in the future.

Additionally, there is a general perception that life annuities are purely actuarial, a financial strategy that cannot enable an earner to leave capital to heirs as inheritance. Nothing could be further from the truth. It is important to dispel this myth by asking insureds about funds they wish to leave to their heirs, and then to select the recommended annuity accordingly.

Such advice also should be based on an investment advisory service protocol (published by the CNMV in 2010) or a MIFID advisory protocol for investment funds. This way, the client will perceive the insurer as an adviser and financial partner, helping secure a strong financial future. Many institutions do not operate within this process.

Meeting the economic capital challenge

Another very important consideration is the lack of annuities available in the Spanish market. Very few direct insurers in Spain are really active in the sale of life annuities. In fact, existing offers have very high amounts of capital to be inherited by the insured's family. Additionally, Solvency II imposes through the standard formula a shock that generates a lot of economic capital and raises the risk margin (which reduces the own funds of the S-II economic balance sheet). Spanish law requires specific assets backing specific liabilities, in such a way that these assets also generate economic capital due to market risk. This makes life annuities, from the viewpoint of economic capital and of the return on risk-adjusted capital (RORAC), less attractive.

How can we optimize this economic capital? There are several alternatives, among which reinsurance has an important role:

- Design the product so that the income is similar to a financial income instead of an actuarial one.
- Develop a highly diversified risk portfolio, so that the impact of correlation reduces the capital charge as much as possible.
- Execute a **longevity swap** with a reinsurer, which reduces the longevity risk SCR to a maximum and has a positive impact, reducing the risk margin.
- **Utilize asset-intensive reinsurance** in such a way that it is possible to eliminate a material part of the longevity and market S-II required capital.
- Turn to another reinsurance product, in the form of **stop loss**, which is centered on the exclusive elimination of the S-II required capital derived from the longevity risk. In this solution, there is no total transference of the longevity risk (full risk); only a material part of the remote longevity risk inherent in the Solvency II shock is transferred. It has a much lower cost than a longevity swap, and is effective from the viewpoint of cost and capital reduction.

It is important to note that, in Spain, given the different perception of longevity assumptions between direct insurance and reinsurance, the viability of the reinsurance solutions for life annuities is not the best when we speak of inforce portfolios. However, reinsurance can help design an efficient new business income product that helps cedants to reduce volatility in the future income statement and optimizes the impact of the Solvency II required capital – all without any negative impact on the calculation of technical provisions, which in turn would affect the profit and loss account. From my point of view there is space for new business as there is high elasticity price in the annuity products in Spain as there are no insurance aggregators or any other type of tool to compare annuity prices for policyholders.

In conclusion, given the reforms in Spanish public pensions, it is necessary to increase long-term savings in a diversified manner if we want to maintain at least the same purchasing power as our parents. One of the most effective ways is to encourage payment in the form of a life annuity as a protection against longevity risk.

However, the life annuities offer has to be improved and expanded in Spain, emphasizing the process of advising the insured and optimizing the capital requirement of Solvency II. Adequate information and risk coverage instruments must be developed to facilitate the treatment of longevity risk. Many solutions exist to improve life annuities, with the development of new business via reinsurance being one of the best.

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Who Has Your Back? (or Brain, or Heart, or Whatever is Ailing You)

Neil Parkin
Chief Pricing Actuary
RGA Reinsurance Company of South Africa Limited

You're the manager of a company's employee benefits programme and want staff to be protected if they become disabled. So, you check the key product features of your group disability income insurance – the level of benefit, deferred period, benefit escalation and, most importantly, the price.

In doing so, you may have missed one of the most fundamental features of a group disability product. The unsung hero, and arguably one of the most valuable parts of disability income insurance: case management.

Every day, teams of highly skilled medical staff coordinate rehabilitation and help claimants return to work. This has multiple benefits. For the insurer and the employer, it reduces the cost of a claim, and thus the cost of providing the cover to staff. The employer realises further gains by retaining the skills and knowledge of the employee. Most importantly, the employee can work productively, which has significant social benefits beyond the monthly salary.

There are disabled employees who cannot work again. For them, the long-term financial protection of disability insurance is critical. But for those who can work, the case managers are a lifeline. The following examples help illustrate this. These are based on real cases, but details have been withheld for confidentiality.

Case 1: Mr B

Claimant Details	A man in his late 20s
Occupation	Financial advisor (with university degree)

Scenario	Following seizures, Mr B was diagnosed with epilepsy. He also had a history of depression. Initially he was unable to drive to visit clients, and was despondent. He remained housebound with minimal activity and missed treatment sessions.
Medical Team	Psychiatrist; psychologist; neurologist
Case Manager	The case manager coordinated the medical team to develop treatment goals. An OT was appointed to help with the patient's functional recovery. The primary aim was to improve his baseline health, ensure his compliance with treatment, and reduce his social isolation. A Work Conditioning Programme was created: over ten weeks the OT worked with Mr B to build endurance and confidence with clear goals. In addition, cognitive behavioural therapy was needed with a separate psychologist. Finally, to overcome his anxiety related to driving, the case manager (with the psychologist) organised driving lessons.
Workplace Accommodation	Mr B was slowly reintegrated into the workplace, increasing the number of clients he saw each week. His disability benefit tapered down as his ability to work increased.
Time off work	Two years
Outcome	Mr B returned to work in full capacity.

Case 2: Mr C

Claimant Details	A man in his early 50s
Occupation	Goods receiver (with Grade 12)
Scenario	Motorcycle accident with multiple severe fractures; sight in one eye compromised; doctor booked Mr C off work for four months.
Medical Team	Hospital; physiotherapist; ophthalmologist; company's occupational health practitioner
Case Manager	Mr C's rehabilitation was monitored; given concern about returning to a physical job, the payment period was extended. An independent OT was appointed. Despite the severity of his injuries, Mr C was determined to return to work. This was challenging, as Mr C did not have experience beyond physical occupations, and his extensive injuries threatened his ability to perform his

	current job. A plan was put in place to slowly integrate him back into the workplace. The case manager worked closely with the employer and set up regular check-ins between Mr C and the occupational health practitioner.
Workplace Accommodation	Return to work in a partial capacity; building up to full time over a two-month period, with OT visits at work. The disability benefit continued to be paid during this period.
Time off work	14 months
Outcome	Mr C returned to his own occupation.

These cases highlight that disability insurance is not just about financial benefits. Without the support and coordination from case managers, these employees might not have returned to work. Although not every case requires intervention as intense as illustrated here, less-severe cases also benefit from support and rehabilitation.

So, when evaluating the value of disability insurance, consider more than the product and the price. Consider the team waiting to support employees in the event of a health crisis – a team that has their back; a team that could even help them work again.

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