



Product innovation of classical life insurance caused by the financial crisis

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Agenda

The economic framework

- Key driver interest environment

Cornerstones of a life strategy under actual economic conditions

- In-force business
- New business

New concepts in life insurance

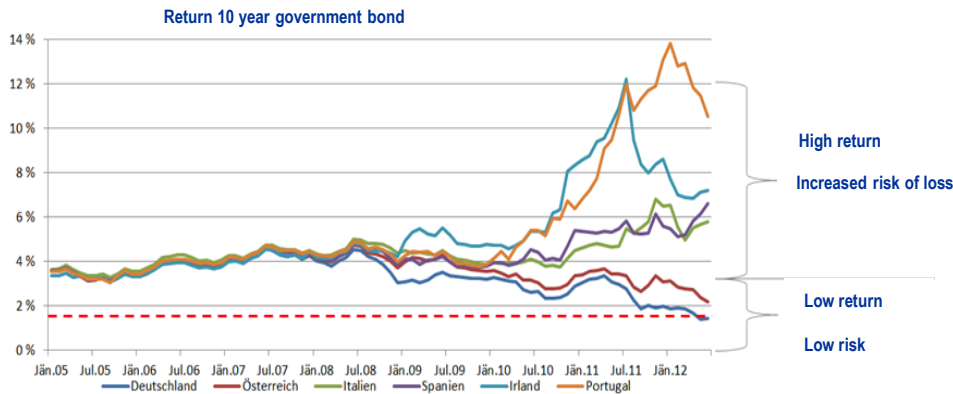
Agenda

The economic framework

The economic framework

Interest and inflation are volatile key figures

Can interest guarantees be generated with justifiable risk?

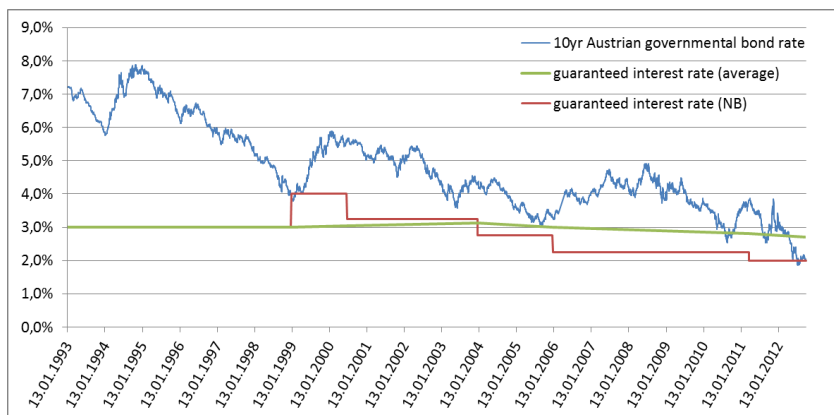


- Decreasing interest levels and rising spread lead to a reduction of profits due to saving products with guaranteed interest rates.
- Biometric products deliver stable profits

Measures

- Adaptation of new products
- Securing of business in-force

How to define guarantees to allow for low interest rate environment?



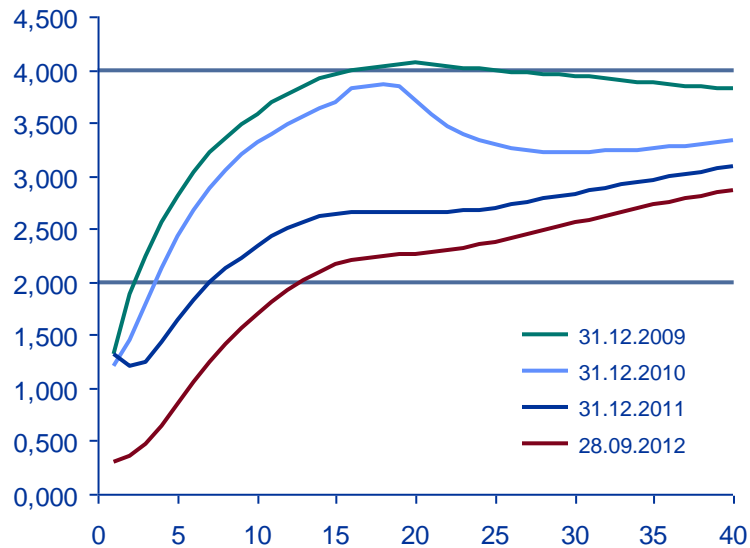
- Guarantees in new business follow only slowly fast changing market conditions.
- Problem of reinvestment risk
- Awareness of value of options & guarantees started quite late on the Austrian market.
- Further decrease of new business interest rates to 1.75%

The economic framework

Interest rate development

- volatility is based on implicit volatility on capital market
- higher variation around low interest rates strongly increases the value of options and guarantees

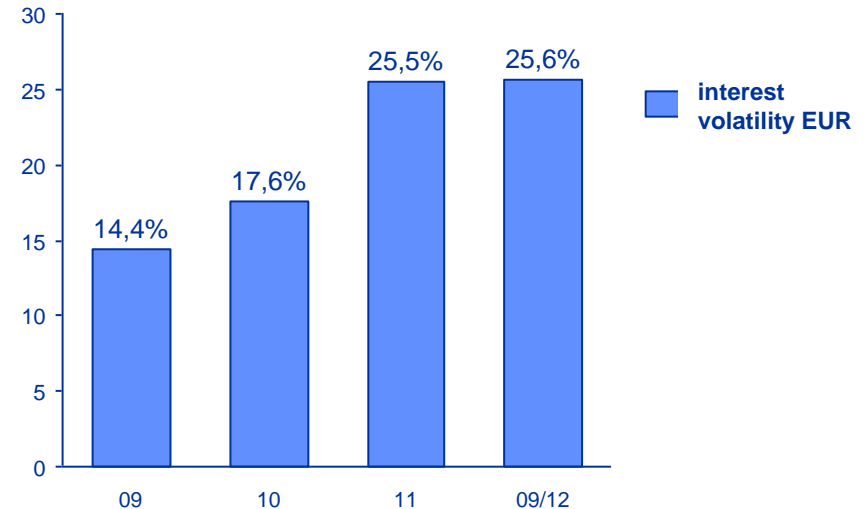
development 31.12.2009 – 30.09.2012



Comments:

- Further drop in interest rates in 1-9/2012
- In short-term period guaranteed rates are not reachable

interest volatility (EUR)



Comments:

- Increased interest volatility already in 2009
- Returns and risk situation with a strong negative impact in classical life insurance

Agenda

Cornerstones of a life strategy

Cornerstones of a life strategy

In-force business & new business – different measures

In force business

New business

Management-guidelines

In-force business

- Development and usage of risk puffer possibilities
- Definition of restrained profit share policy

Adaptation of product strategy

no fixed, long-term guarantees!

- New classical products
 - guarantee of interest adjustable
 - New principles for annuity payment
- Strengthening Unit Linked/Index Linked
- New biometric-products

Strategy of capital investment

- ALM sets priorities of asset allocation
- Reduction of duration mismatch due to Cash Flow/ Duration Matching

Management-guideline

new business

- Crucial investigation of product initiatives
- Product development due to fulfillment of conditions
 - minimum rate of return
 - risk bearing ability
- Value Management by objectives/incentives

Portfolio development

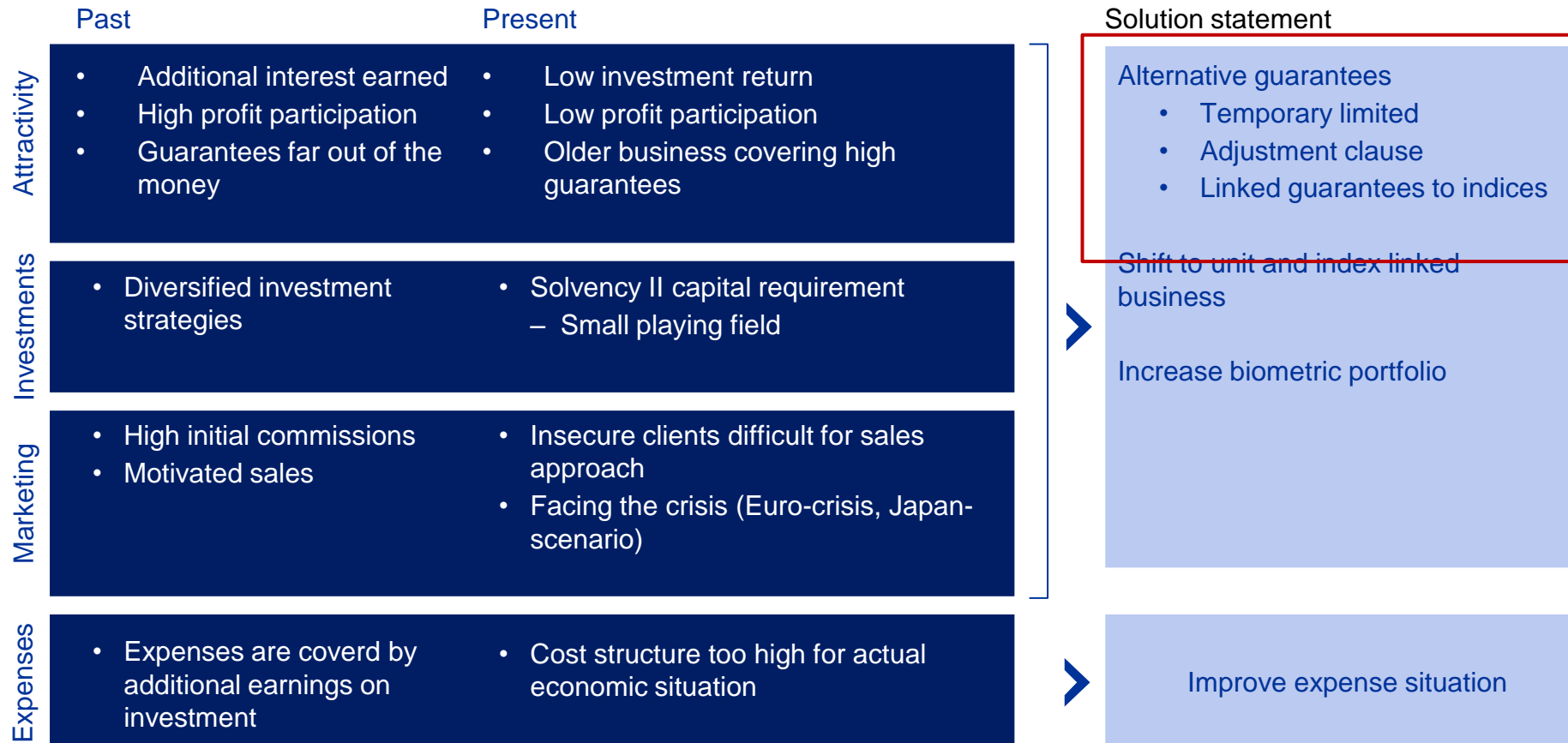
- Active management of contract conversions based on current conditions
- Shift to profitable business

Agenda

New concepts in life insurance

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Companies selling traditional life business forced to think about alternatives



New concepts in life insurance

Markets are in preparation – who will be first?

*“New guarantee concepts as alternative:
Some insurance groups will go the way, to give
guarantees for a limited period only.”¹*

*“Traditional life insurance policies will disappear out of
the portfolio of german life insurance companies after
reducing the guaranteed interest rate to 1.75%.”³*

*“It does make sense to
implement adjustment
clauses in long term
guarantee contracts.”²*

*“Some concepts propose, not to fix the interest rate for the whole life time of
an annuity policy (...), but creating guarantees more flexible . E.g. fix it for a
limited period and do some adjustments linked to the future economic
environment.”⁴*

It is a question of time until insurance companies will enter the market with new guarantee concepts – one should be prepared!

1. Zeitschrift für Versicherungswesen 05 | 2012

2. Dr. Johannes Lörper, Vorsitzender der DAV und Vorstandsmittglied Ergo. Lebensversicherungen, in der Zeitschrift für Versicherungswesen 13 | 2011

3. Zeitschrift für Versicherungswesen 11 | 2011

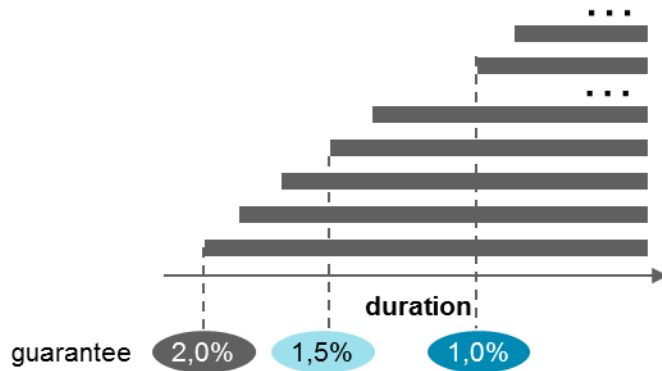
4. Handelsblatt 10.04.2012

New concepts in life insurance

Example 1 – Austrian / German market

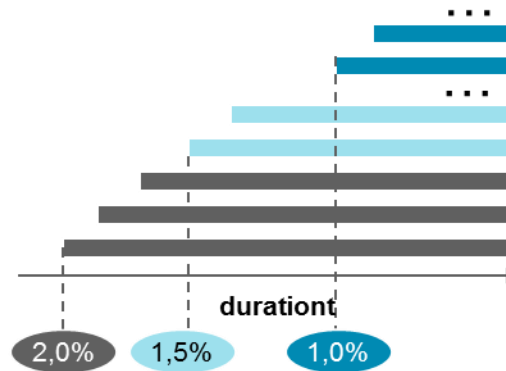
Flexible interest rate guarantee

Traditional Product



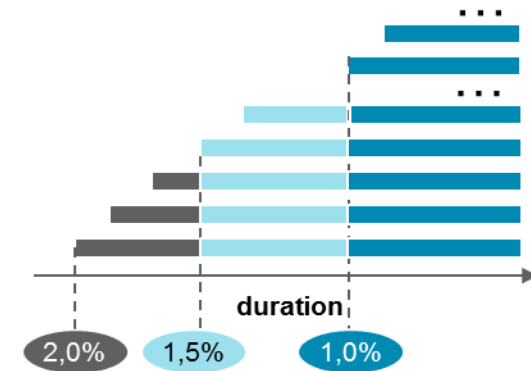
- Guaranteed interest rate fixed for all premiums for the whole duration
- Guaranteed rate only linked to the issuance of the contract

„Line by Line“ Product



- Flexible guaranteed rate but fixed for each „line“ of the contract
- Guaranteed rate linked to actual maximum guaranteed interest allowed

Floating Product



- Guaranteed rate can change for the whole contract
- Guaranteed rate linked to actual maximum guaranteed interest allowed

New concepts in life insurance

Example 2 – Italian market

Limitations of guarantees

Major impacts on the Italian market

- Reduction of offered guarantees (reduced guarantees, guarantees at maturity)
- Review of portfolio mix (transferring risk to clients)
- New attention and metrics in product valuation (Solvency II)

UNIQA Italy – changes since 2011

- Agent channel – MGR set to 2% for 5years, afterwards 0% (single premium)
- Bank channel – MGR reduced to 1.5%, revisable for additional payments (single premium)
- Bank channel – MGR reduced to 1.25% (annual premium)

New concepts in life insurance

Example 3 – Czech market

Complete change of product strategy

Some basics about the Czech market

- Business is generally quite profitable
- Riders are very common in the market and bring additional profits to the companies
- Unit linked business is well developed

UNIQA Czech Republic – changes since 2011

- Complete change of product approach:
 - First insurance cover sold is always a death cover
 - After death additional covers (disability, dread disease, accident) are sold
 - If client can offer add. capital for savings, it is brought to unit linked business
- The impact:
 - low risk capital needed, high profits can be made
 - New business margins are above 10,0% (European average ~2,5%)

Summary

Building awareness

- Trad. life business is long term business and has to be treated this way
- Guarantees are in many cases not priced and not managed on the asset side
- Fast changing economic environment – is your company prepared?

Setting measures

- Different measures for the in-force and the new business
- Implementing first ALM approaches, at least to measure duration mismatch
- Clear definition of a new business product strategy

Active management of guarantees

- Steering the portfolio mix
- Transferring guarantees to external partners
- Reducing or more flexible approaches to guarantees