BENCHMARK INTELLIGENCE ON THE LIFE, HEALTH AND PENSIONS INDUSTRY

Life Insurance INTERNATIONAL

June 2015 Issue 308

www.lifeinsuranceinternational.com

Northern lights

Nordic life markets embrace the e-commerce channel

- Country focus: Turkey
- Product focus: International private medical insurance
- Regulation focus: Solvency II
- IIC league table: Distribution channel forecasts

timetric

CONTENTS

Time for a national life insurance day

Week after week the life insurance industry is deluged with statistics proclaiming the protection gap.

But isn't it time something more creative was done to address that gap, instead of regularly releasing a stream of figures warning that consumers have insufficient life or protection cover if the worst should happen?

One answer could be a national life insurance day. This would help raise consumer awareness of the importance of protection, as well as dispelling some of the common myths associated with it.

UK online life insurer, Beagle Street, has already joined with consumer champion Jasmine Birtles in calling for Thursday 18 June to be a national 'Life Insurance Day'.

Beagle Street is calling for 18 June to be a national 'Life Insurance Day' in the UK as it marks the anniversary of the first life insurance policy in the UK, taken out over 400 years ago by William Gybbon in London on 18 June 1583. See **page 3.**

At a time when auto-enrolment and pensions freedom has dominated much of the financial media coverage in the UK, life insurance and protection are still topics too easy to ignore or avoid for many consumers.

But having a national life insurance day would certainly help to put such an important topic centre stage and provoke discussion. It would provide a platform for insurers to be creative in their marketing and consumer engagement.

Given that Aviva's upcoming Family Finances Report reveal that more UK families have pet insurance than income protection or critical illness cover combined, it's time for the life insurance industry to get radical and start putting life insurance day on the national agenda.

Ahead of the 1 January 2016 implementation date, this month's issue also focuses on Solvency II, **see pages 13 and 14.** Research by *Life Insurance International (LII)* finds there still appears to be degree of uncertainty about the precise requirements and standards regulators are expecting firms to adhere to.

Christopher Critchlow, director of professional services at OAC Actuaries and Consultants, says his worry is that there remains a fair degree of uncertainty of the precise requirements and of the standards that regulators are expecting firms to adhere to.

Meanwhile, Gabriel Bernardino, chairman of the European Insurance and Occupational Pensions Authority (EIOPA), says overall in Europe there is a good level of preparation for the new regulatory regime.

What is certain, however, as Critchlow explains is that Solvency II will encourage firms to look much more closely at their underlying risk profile and think about ways of managing their capital better.

Ronan McCaughey
ronanmccaughey@uk.timetric.com

Vitality launches mobile-enabled virtual GP service

The UK's VitalityHealth, the business formerly known as PruHealth, has launched Vitality GP, a mobile-enabled service offering 24-hour access to a medical professional via telephone, as well as video appointments within 48 hours.

By integrating into Vitality's partner network, VitalityHealth said Vitality GP will co-ordinate treatment that includes on the clinical side, home-based services such as blood samples taken by medical professionals, and delivery of prescriptions through the LloydsPharmacy network.

On the wellness side, the insurer said the ability to confidentially and securely access a member's Vitality wellness data will also allow the Vitality GP to consult with patients broadly around their lifestyle choices, and the effect that these choices could have on their long-term health.

According to VitalityHealth, the availability of this data means the Vitality GP not only performs the traditional role of the GP in managing illness, but also serves as a lifestyle coach for members; consulting appropriately on interventions such as nutrition, exercise and stress that in turn can prevent the early onset of disease caused by poor lifestyle choices.

Members can also make choices including the gender of their Vitality GP and take advantage of special devices such as smart-phone camera lenses to enable more accurate assessments of complaints e.g. skin conditions.

Neville Koopowitz, CEO of VitalityHealth, said Vitality GP heralds a major change in the way people seek and consume healthcare.

Koopowitz said: "Private healthcare has often fallen down by its reliance of needing an NHS referral; Vitality GP represents the launch a new category of insurance where our network of private GPs can co-ordinate members' care when and where they want or need it."

Dr Doniert Macfarlane, telemedicine expert, said: "It's my view that the private sector - health insurers and private healthcare - provides choice and removes a population from the NHS, thereby reducing waiting lists and taking pressure off services. It's about time we recognised the positive impact this has."

AIG Life explores partnership opportunities for distribution

AIG Life, previously known as Ageas Protect, is looking beyond its intermediated distribution model and is examining partnership opportunities, according to Steve Casey, head of marketing and propositions at AIG Life.

Speaking to *Life Insurance International*, Casey said approximately 98% of AIG Life's business is conducted through intermediaries, but the provider is now keen to "expand that footprint".

In Casey's view, the direct to consumer route will become more and more important going forward since consumers live in a data rich environment.

He said: "As there is increased knowledge, and understanding and awareness, there will be a segment of the market that wishes to go directly to the consumer."

Asked how he expects the UK life insurance market to change over the next 2-3 years, Casey said he definitely thinks the market will grow and new players will enter.

He said: "I see increasing use of new technology and technologies coming to the fore. I also see the direct to consumer channel as a growth area."

Casey's comments come after AIG Life recently launched a whole of life insurance product in the UK that comes with access to Best Doctors, a second opinion medical service.

The whole of life insurance policy is the last product to be unveiled as part of AIG Life's core range of financial protection, alongside term assurance, critical illness cover, income protection, relevant life insurance and business protection.

In Brief

Insurer LV= has confirmed it is to join the UnderwriteMe comparison service.

UnderwriteMe is a UK-based protection technology business, which enables intermediaries to obtain Underwritten "buy now" or estimated prices and benefits using one application process.

UnderwriteMe said the comparison service pilot starts next month with four fully integrated insurers and a select number of protection distributors, and will be on general release to directly authorised intermediaries later this year.

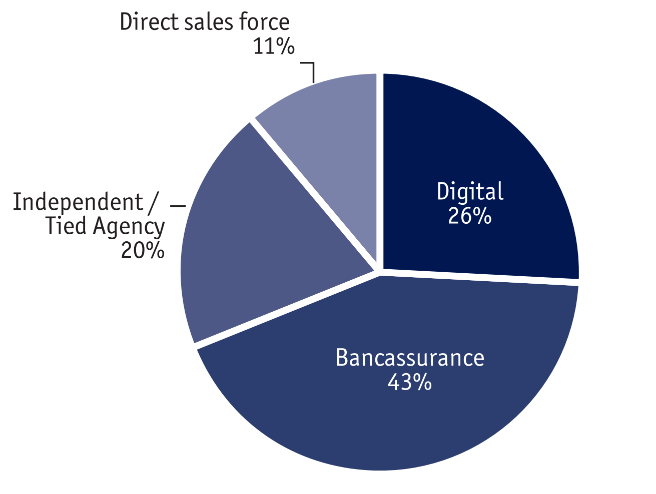
Generali has launched a strategic business repositioning in Germany,.

This will involve reshaping its life business model.

The insurer will redesign its life retail product portfolio, reducing the sale of pure traditional savings products - where in particular Generali Leben is focused - and further enhancing its offer on unit linked, hybrid savings and term life.

Generali will continue to selectively operate in corporate traditional life and wants to increase new business and cross-selling , in for example, term life

WHICH DISTRIBUTION CHANNEL DO YOU THINK IS THE MOST ATTRACTIVE FOR ACQUISITIONS? - DATA REFERS TO LIFE INSURERS



Source: (Towers Watson/Mergermarket) October 2014

Wearable-hearable device targeted at health insurers

US health entrepreneur Richard Maertz believes a wearable-hearable technology device he invented - that is mounted in a user's ear - offers opportunities and benefits for health insurers and providers.

Maertz owns the US patent to BioPod, which is a wearable sensor and two-way direct communication system.

Maertz told *Life insurance International* the BioPod's ear sensors, along with other associated sensors enable it to remotely monitor biometric vital signs including heart rate, temperature, oxygen saturation and End Tidal CO2. Feedback can be accessed continuously or intermittently.

Maertz said BioPod Ventures is currently exploring how existing and pending proprietary BioPod technology may add value to insurance providers' future programming; or to be offered to an industry cooperative entity, which could standardise systems for the collection of secure biometric consumer data for the life and health insurance industry.

Commenting on the significance of his wearable-hearable device for insurers, Maertz said: "The 24/7/365 monitoring capabilities of BioPod Technology provides instantaneous data. That data provides the most up to date information which may be used for early detection and in turn can be used by insurance providers to help prevent healthcare issues from escalating to more severe and costly medical problems, reducing bottom-line costs to insurance providers and potentially reducing premium costs."

He added that the device would enable a "win-win situation" for both the insurers and the insured and would set the standard for insurance coverage worldwide. ■

Canada Life Group Insurance launches simple group life assurance product

Canada Life Group Insurance has launched a group life assurance product using the Canada Life Automated Self Service System (CLASS) platform, which is open to registered financial advisers.

The product is called 'Simply Class' Group Life Assurance and is available from 1 June.

Canada Life said the cover has been designed to maximise the opportunity presented by the 1.1m new-to-pensions discussions as a result of the automatic pensions enrolment of sub-50 employee organisations from 1 June.

The product aims to grow the group life assurance market by 1% on the back of pension automatic enrolment, said Canada Life.

Using basic pensions data (name, sex, date of birth and optional salary), Simply Class automatically provides quotations for 1x and 2x salary and fixed benefits of £25,000 ($39,248) and £50,000 in just a minute.

Canada Life said each of the four quotation options provide clear 'reasons to buy' information to address what employers need to know before purchasing group life assurance.

This includes an explanation of the costs, taxation of premiums and benefits. It also illustrates all benefits are free from medical underwriting with full cover, regardless of pre-existing health conditions, as long as the employee is not absent from work when the policy starts.

These four quotes are provided in just a minute, while the full quotation and 'on risk' process will take under five minutes.

Simply Class Group Life Assurance is available for businesses with two to 50 employees and has a minimum premium of £480 a year, with flexible commission of up to 30% available every year that the contract remains in force.

It is written under a master trust arrangement for new-to-market schemes, and it also includes a bereavement counselling and probate helpline.

Commenting on the product launch, Paul Avis, marketing director, Canada Life Group Insurance, said: "On June 1st 2015 we have a once in a business lifetime opportunity to grow the group life assurance market as 1.1m new-to-benefits discussions start to happen.

As the war for talent begins to rage, and with every employer now offering a pension, staff retention and attraction is becoming ever more important. Group life assurance could therefore be the most important benefit an employer buys going forwards." ■

Beagle Street calls for a national Life Insurance Day in the UK

Online life insurer Beagle Street has joined with consumer champion Jasmine Birtles in calling for Thursday 18 June 2015, to be a national 'Life Insurance Day' in the UK.

Beagle Street is calling for 18 June to be a national 'Life Insurance Day' as it marks the anniversary of the first life insurance policy in the UK, taken out over 400 years ago by William Gybbon in London on 18 June 1583.

The drive for 18 June to be national 'Life Insurance Day' comes as Beagle Street said new research has revealed that less than one in two UK households (48%) currently has protection for their own and their family's futures, even though the average parent could survive less than three years without their spouse's income.

The study from Beagle Street also shows that Britain is a nation of procrastinators, spending 11 hours a week putting things off. For example, financial planning was found to be the most common thing that Brits delay, at12 per cent.

Commenting on the need for a life insurance day, Matthew Gledhill, managing director of Beagle Street, said: "Having an annual 'Life Insurance Day' is a good way of putting an important topic on the national agenda." ■

People Moves

Friends Provident International Limited (FPI), which is part of the Aviva group, has appointed Chris Wei as chairman and Khor Hock Seng as CEO effective from 1 July 2015.

FPI said the appointments are an extension of Wei and Seng's current responsibilities at Aviva, and follow the announcement in April that John Van Der Wielen, currently executive chairman of FPI, will step down on 30 June 2015. Van Der Wielen will remain on the board of FPI as non-executive director.

Real-time life pricing: coming, ready or not

When getting new prices quickly to market, the European life insurance industry plays second fiddle to non-life insurers, many of whom now quote individually prepared prices which are delivered in real-time. But the life market is starting to catch up says, **Russell Beaumont**, a director in Towers Watson's life insurance advisory practice

Life insurance pricing teams are often highly frustrated individuals. It's not unusual to need three to six months just to load new prices onto systems due to the IT resources needed. And product overhauls take even longer.

Many can only stop and wonder at the capabilities of their sister non-life companies that have been using advanced pricing techniques for the past 10 years.

These techniques deliver prices based on the characteristics of the individual customer, the sales channel and the nature of the competition, calculated in real time, and which can be updated daily.

If the gains seen in the motor business were reproduced in the life markets, then using similar solutions could produce increases of perhaps 25% in new business value that would be available to share between customers, distributors and the providers themselves.

Some life insurers are already taking steps in this direction. The use of predictive modelling techniques to improve risk assessment in areas such as mortality and retention analysis are fairly widespread.

At the same time, newer life companies, unburdened by complex legacy systems, are using these more granular risk assessments in their pricing.

Playing catch-up

Among the main drivers is the evolving change in consumer preferences. A recent Towers Watson survey showed that over half of consumers in the major European markets expect to buy life cover direct from an insurer or through a price comparison website in future.

Consequently, digital distribution capability and technology platforms are recognised as of utmost importance.

A quarter of life insurers said that enhancing their digital footprint is the primary focus of their merger and acquisition (M&A) activity over the next few years in the latest Towers Watson/Mergermarket EMEA M&A Report.

Equally, more sophisticated data use across the industry, the need to manage across multiple distribution channels simultaneously, a

regulatory push for greater pricing transparency, and a fear of not being left behind all increase the pressure.

Agile response

The need for greater agility increases the strain on pricing processes and already-stretched IT resources, out of which some common challenges [including pricing processes and customer focus] are emerging.

Pricing processes: Alongside more sophisticated risk and behaviour models, how can companies get prices into the market quickly and monitor the results? Managing more complex processes in a robust and auditable framework is likely to require new tools for quick and effective decision making.

Customer focus: Companies are moving their business towards customer-centric models.

So they need to manage and deliver prices consistently across multi-channel access points and legacy systems, integrate customer value-for-money price constraints, and produce enhanced business metrics for performance forecasting.

Tools used by non-life insurers can provide an effective market-facing front end to support all of these requirements for life companies too.

Market impacts

The potential for new pricing approaches to disrupt the status quo in Western European markets is apparent if responses of senior executives at a recent Towers Watson life insurance event are anything to go by:

- Following the financial crisis, Spain has seen a big drop in mortgage lending and the associated life covers. Consumers are now more price sensitive and insurers are competing harder for their business
- In Holland and the UK, price comparison websites still represent a relatively small part of the life market, but companies expect them to become more popular and are readying themselves
- In Germany, there is the potential for one company, possibly a new entrant, to substantially shift its pricing approach and it would force ripples through the whole market
- In France, Italy and the Nordic countries, increasing agility to overcome IT constraints and a much more granular understanding of which customers and distributors are producing profits are the key attractions

Changes are coming - ready or not. ■

WHO TO GO TO FOR DIFFERENT TYPES OF INSURANCE - ALL AGES

	Agent / broker	Insurer	Bank	Price comparison website
Life	13.40%	47.10%	25.30%	9.40%
Health	8.20%	61.70%	6.90%	9.90%
Motor	9.80%	60%	5.20%	17.40%
Home / contents	11.60%	53.90%	13.80%	15.10%
Car breakdown	6.20%	53%	7.70%	22.50%
Travel	13.20%	43.60%	15.60%	19.20%

Source: Towers Watson, March 2015

Nordic life markets embrace e-commerce

In an era when insurers are being encouraged to embrace digital strategies, strong internet connectivity is playing a vital role in boosting e-commerce as a distribution channel in the Nordic life markets of Norway, Sweden and Finland

Economic growth and new business generated through e-commerce are expected to power the expansion of the Nordic life insurance markets of Norway, Sweden and Finland to 2018, according to research from Timetric's Insurance Intelligence Center (IIC).

Norway overview

Norway's life insurance market has expanded strongly in recent years and economic growth will further support the sector to 2018, according to the Timetric report, *Life Insurance in Norway, Key Trends and Opportunities to 2018*.

The gross written premium of the Norwegian life market rose from NOK62.8bn ($8bn) in 2009 to NOK81.5bn in 2013.

This growth can be attributed to robust growth in the endowment and group superannuation categories.

Looking ahead, the gross written premium of the Norwegian life insurance market is expected to increase from NOK81.5bn in 2013 to NOK99.2bn in 2018.

The key factors expected to drive growth in the Norwegian life market to 2018 include:

- An increase in investment income
- GDP growth

An increase in investment income: The investment income of the Norwegian life insurance segment increased from NOK676.4bn in 2009 to NOK989.8bn in 2013, primarily due to the country's soaring stock markets.

GDP growth: GDP at constant prices increased from NOK1.8trn in 2009 to NOK1.9trn in 2013. According to the IMF, Norwegian GDP at constant prices is projected to post a CAGR of 2.5% and will favour the country's economic growth.

The Norwegian life market also faces some challenges including Solvency II and low interest rates.

***The implementation of Solvency II*:** The implementation of Solvency II in January 2016 will increase the minimum capital requirement, and it will be determined by the line of business. The huge amount of capital restricts the entry of small and small-scale insurers into the industry.

***Low interest rates*:** The current interest rate in Norway is 1.25% as of 9 June 2015. The low benchmark interest rate influences the insurance industry and will affect the earnings of life insurers over the forecast period.

Distribution

Emerging competition in the Norwegian life segment has forced insurers to look up alternative methods to drive sales and customer convenience, while keeping costs low and maintaining profitability. These factors have led to the emergence of other distribution channels such as call centres, mobile and ecommerce.

Bancassurance was the most popular and widely used distribution channel in the life insurance segment in 2013.

The number of policies sold through bancassurance increased during from 312,540 in 2009 to 342,686 in 2013.

Meanwhile, the policies sold by the agencies channel grew from 140,001 in 2009 to 164,661 in 2013. This number is expected to reach 213,375 in 2018.

E-commerce was the fastest-growing distribution channel during 2009-2013. The number of policies sold online increased from 15,528 in 2009 to 19,818 in 2013.

This was made possible by the country's internet connectivity. Over 95% of the population owns a mobile phone, enabling insurers to reach potential consumers through e-commerce. The number of policies sold online is expected to reach 27,025 in 2018.

In terms of distribution, Jørund Vandvik, head of Nordea Life & Pensions Norway, says bancassurance will be the main trend in the Norwegian life insurance market.

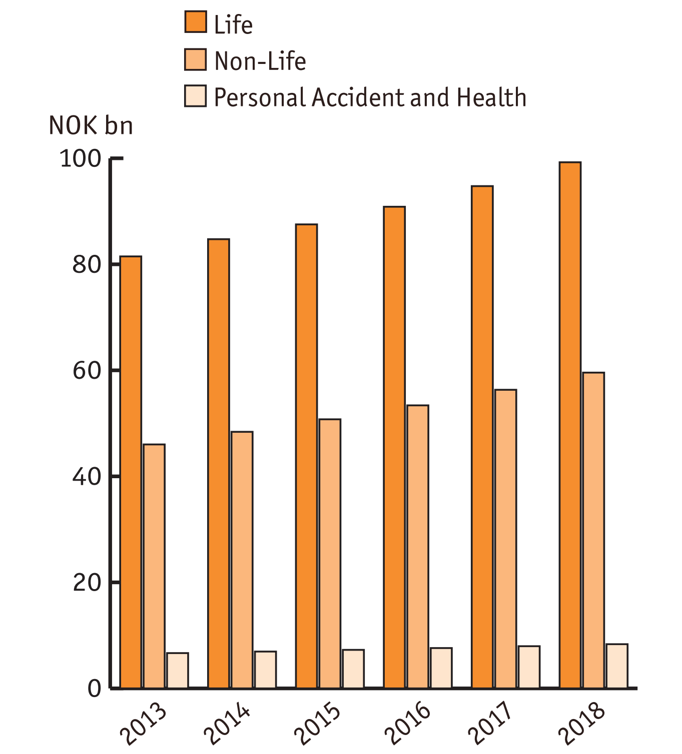
Vandvik says the distribution of banking products is changing in itself, so bancssurance models need to change in parallel with these changes.

He adds that digital channels including mobile solutions already have a high penetration in Norway. "This trend will continue. Straight through processing and automated service processes will continue to be developed for all products," says Vandvik.

Asked what new products and services Nordea Life & Pensions Norway is working on for the Norwegian life insurance market, Vandvik says Nordea Life and Pension Norway has been highly successful

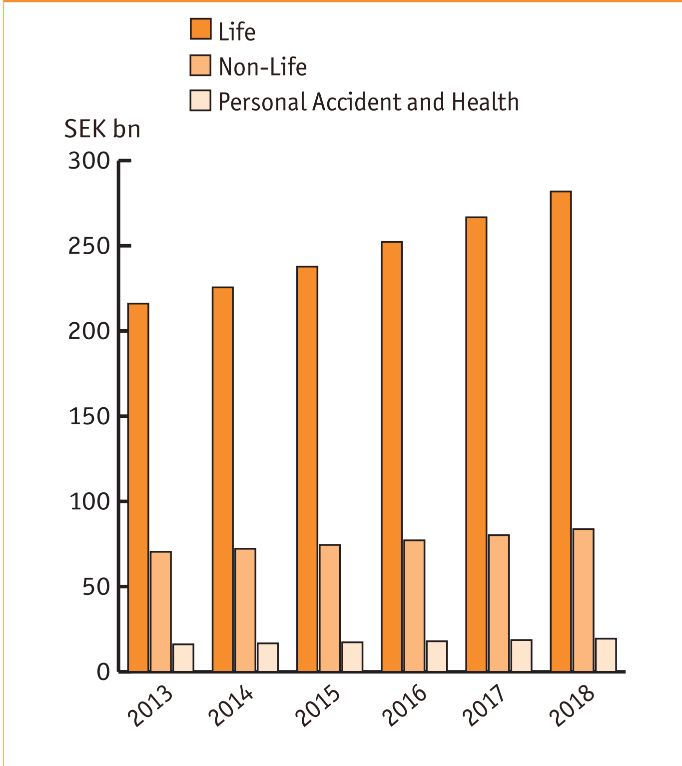
Jørund Vandvik, Nordea Life & Pensions Norway

NORWAY: GROSS WRITTEN PREMIUM BY SEGMENT 2013–2018



Source: Timetric

SWEDEN: GROSS WRITTEN PREMIUM BY SEGMENT, 2013–2018



Source: Timetric

in bancssurance and simplified straight through processing, and is now the leading provider of unit linked products.

Vandvik says Nordea Life and Pensions Norway will also continue to develop wrappers around new investment offerings based on a unit linked endowment platform.

In terms of the main challenges facing the Norwegian life insurance sector over the next two to three years, Oliver Siem, director of finance at KLP, says: "The main focus has been to adopt our operations to Solvency II. The company is well prepared for the new reporting. For other Norwegian life insurance companies we assume operating in a low interest rate environment poses a significant challenge."

On the topic of Solvency II, Bengt Olav Lund, vice president, pensions at DNB Bank, says the largest Norwegian life insurance companies have sizeable portfolios of products with guaranteed rates of return and life-long payments.

Lund explains that once Solvency II is introduced in 2016, these products will require more capital, based on the current interest rate level, than under the current Solvency rules.

"Just like other market participants offering guaranteed-rate products, Norwegian life insurance companies will have to adjust its asset allocation to reduce the duration gap between investments and liabilities. This is challenging in a market with low interest rates and limited access to long-duration fixed-income securities," says Lund.

Sweden overview

With economic improvements anticipated over the forecast period, the Swedish life segment's gross written premium is expected to increase from SEK216.1bn ($25.97bn) in 2013 to SEK281.9bn in 2018, according to *Life Insurance in Sweden, Key Trends and Opportunities to 2018,* which is available at the IIC.

Based on the IIC report, looking ahead to 2018, the key drivers for the Swedish life insurance market include:

- Economic growth
- Changing demographics
- Rising number of internet subscribers

Economic growth: Sweden's national disposable income rose from SEK3.1trn in 2009 to SEK3.7trn in 2013.

This was primarily due to rising employment opportunities, as the unemployment rate fell from 8.4% in 2009 to 8% in 2013. Higher disposable incomes will also increase the size of Sweden's middle classes.

Changing demographics: Sweden's aging population was a significant driver of the life segment during the review period, a trend that is expected to continue over the forecast period.

In 2013, there were 1.87m people over the age of 65 in Sweden, comprising 20.5% of the population and an important customer base for life insurers in the country.

This figure is expected to reach 2.01 million in 2018, representing 21.9% of the overall population.

Rising number of internet subscribers: Internet penetration in Sweden stood at 94.8% by the end of 2013, and according to the IIC report, Sweden had the highest rate of internet penetration in the EU, followed by Denmark, the Netherlands and Luxembourg.

Most Swedish life insurers therefore use e-commerce aggressively. In June 2014, for example, Lansforsakringar Fondliv Forsakringsaktiebolag developed an app to enable smartphone users to manage banking, pension and insurance.

Similarly, in November 2013, KPA Pension AB invested SEK30m in two interactive websites related to pension information: kpa.se and My pages.

Like Norway, a major challenge for Sweden's life market is Solvency II as the enhanced capital requirements will pose a challenge for Swedish life insurers between 2013 and 2018, forcing financially weak and small insurers to merge with large insurers to meet new capital requirement standards.

Distribution

Brokers are the main distribution channel for Swedish life insurers and the new business gross written premium generated through this channel increased from SEK12.8bn in 2009 to SEK13.4bn in 2013. It is expected to grow at CAGR of 6.1% over the forecast period to reach a value of SEK18bn by 2018.

Brokers accounted for 28.5% of new business gross written premium in 2013, which is expected to decrease marginally to 27.4% by 2018 due to competition from other distribution channels such as e-commerce and direct marketing.

Brokers were followed by the e-commerce channel, which accounted for 28.3% of the new business gross written premium in 2013.

The channel's success was primarily due to high internet penetration, which stood at 94.8% of the population in 2013. Sales through e-commerce were mainly generated on insurer websites, while online aggregators such as price comparison websites accounted for a relatively smaller share.

When purchasing life products, Swedes value the trust placed in specific life insurers and their existing relationships with them.

This, coupled with relatively low associated costs, helped the direct marketing channel record an 18.1% share of the segment's gross written premium from new business in 2013, increasing from SEK6.6bn in 2009 to SEK8.5bn in 2013.

Staffan Ström, head of information at Alecta, a mutual life insurer in Sweden, tells *Life Insurance International* the low interest rate environment is challenging for the industry and lower returns can be expected in the future.

Looking ahead, Ström says the development of easy-to-use self-service functionality will continue and Alecta expects to see a continued increased use of Minpension.se, a website where the insured can get an overview of their pension savings and also make projections using different assumptions.

Finland overview

Finland's life segment is well developed, and its penetration rate stood at 9.3% in 2013, according to *Life Insurance in Finland, Key Trends and Opportunities to 2018,* which is available at the Insurance Intelligence Center (IIC).

The IIC report explains that the Finnish life segment's gross written premium is expected to increase from EUR18bn ($20.2bn) in 2013 to EUR24.3bn in 2018, at a projected CAGR of 6.2%.

Looking ahead to 2018, the main factors expected to drive the growth of the Finnish life insurance market include:

- Growth of unit-linked insurance products
- High internet penetration
- Mandatory insurance policies in the country

Growth of unit-linked insurance products: Finnish life insurers are heavily dependent on equity investments, and insurers are investing in the equity markets as a result of subdued interest rates on government bonds.

Customers are also able to obtain high returns on unit-linked insurance policies, which is encouraging insurers to sell unit-linked products: the number of unit-linked insurance policies grew from 0.7m in 2009 to 1m in 2013.

High internet penetration: Finland had a high internet penetration rate of 92.6% in 2013. E-commerce provides consumers with easy access products and comparison tools, which has led to an increase in competition among insurers with in terms of services and pricing

SHARES OF KEY INSURERS, NORWEGIAN LIFE INSURANCE SEGMENT (%), 2013

KLP	30.60%
DNB Livsforsikring	24.20%
Storebrand Livsforsikring	19.10%
Nordea Livsforsikring	9%
Oslo Pensjonsforsikring	4.50%
Sparebank 1 Livsforsikring AS	4%
Gjensidige Pensjon	2%
Danica Pensjonsforsikring	1.80%
Gjensidige Forsikring	1.70%
Tryg Forsikring	0.70%
Others	2%

Source: Timetric

Mandatory insurance policies in the country: As a part of social security measures, the Finnish government has made various life policies mandatory.

Earnings-related pensions (TYEL) are for private employees, with funds contributed by both employers and employees. Group life insurance is also be contributed to by employers. These mandatory policies are expected to drive the life segment over2 013 and 2018.

Distribution

The distribution network for life insurance products in Finland primarily comprises bancassurance, direct marketing, insurance brokers and agencies.

With its strong network, bancassurance was the dominant channel in the life segment: bancassurance accounted for 51.3% of new business gross written premium in 2013. The value of new business gross written premium increased from EUR629.9m in 2009 to EUR728.5m in 2013.

Bancassurance was followed by the direct marketing channel in terms of new business gross written premium in 2013.

Companies sold life insurance products by increasing the number of direct marketing distributors: the number of direct marketing channels in Finland rose from 5,869 in 2009 to 6,336 in 2013.

Direct marketing's new business gross written premium rose from €410.2m in 2009 to €454m in 2013.

Brokers accounted for 8% of the segment's new business gross written premium in 2013.

Over 2013 and 2018, the new business gross written premium through brokers is expected to register a CAGR of 4.8%, maintaining its share at 8% in 2018. Between 2013 and 2018, the new business gross written premium generated through e-commerce is expected to record a compound annual growth rate (CAGR) of 4.6%, the strongest growth among all distribution channels, maintaining its share of 1.5% in 2018. Commenting on the Finnish life insurance market, Jarmo Kuisma, CEO at OP Life, says: "In Finland our key products are unit link-saving (endowment) and risk-insurance for death and for loans."He adds: "We wish that the new government will support private pension savings by increasing possibilities for new ways of savings."Asked what digital innovations he expects to see in the Finnish life insurance market, Kuisma says: "We are very sure that the digitalization will reform the whole financial business in Finland including the life insurance business."

In Kuisma's view, digitalization offers a big opportunity to grow business, but it is also a challenge for a traditional life insurer because it involves succeeding in a new business area. ■

Thinking Beyond Borders

Andy Seale, regional general manager, UK, Middle East, Italy and Scandinavia at Allianz Worldwide Care, discusses the factors to consider for international employers, intermediaries and staff when entering overseas markets, as well as the importance of choosing a trusted insurance provider

It comes as no surprise that the international insurance sector is being largely driven by the increase in global mobility, as more companies enter overseas markets for the first time, with others increasing the size of their workforces operating in foreign and sometimes hazardous climes e.g. oil drilling or mining.

As an international employer, there are many things you need to consider when it comes to your staff, including ensuring they have appropriate and robust levels of insurance cover whilst working abroad, and recognising the benefits you need to offer in order to attract and retain the best staff.

For intermediaries, there are many other factors to take into account when selecting an international insurance provider, but let's start by taking a look at what the organisations with employees overseas need to consider, when it comes to staff mobilisation.

Firstly, what are the healthcare regulations of the region in question? Bear in mind that in many countries medical insurance is a legal requirement and domestic cover may not offer as comprehensive a level of cover as international private medical insurance (IPMI).

What is the political and social landscape like in the region; is it safe or are there risks against which you need to mitigate, by including employee benefits such as evacuation or repatriation cover?

Expectations

Your staff will have certain expectations when being sent to work on overseas assignments – and rightly so. In an unfamiliar environment they will at least want to feel confident that they will have easy access to medical care, specialist advice and treatment, if needed. So as an employer or HR director, you need to consider what you can do to alleviate any concerns that staff may have.

When it comes to choosing your insurance company, it helps to know those that can provide a full suite of products to alleviate the administrative burden of otherwise dealing with multiple providers throughout the year.

The optimum international insurance solution is one global provider with whom you can build a strong relationship and who will provide excellent levels of service to you and your staff.

Trust

For intermediaries, the factors of trust, global cover and experience are equally important when it comes to selecting insurance partners, but the broker has to think about a whole lot more besides, as choosing the right international insurance partners is crucial for their own reputation and long-term success in the industry.

As well as providing training and advising intermediaries about the most appropriate products for their clients, a good insurance partner will also provide on-going support such as accompanying the intermediary on any important client visits. Intermediaries should identify a panel of providers with which they wish to work based on criteria such as; can they provide a range of products or bespoke solutions that are suitable for my client's needs? What is their track record in international health, life and disability insurance? Is there an added advantage to taking more that one type of cover with the same provider? What is the experience of my peers with the insurance provider?

In addition, it can be helpful to arrange a head office site visit with the selected insurer so that intermediaries and clients can meet key staff, see the operational set up and get a better feel for the company and its culture.

Having agreed a select number of partnerships, it's by working closely with your insurance providers that you can then provide the best solutions to your clients, while maximising your own opportunities in the industry.

Disability insurance

One of the questions that is sometimes asked of us at Allianz Worldwide Care is why should I take out disability insurance for my staff. Having international health insurance, and having enough in the bank for a rainy day is often perceived as sufficient cover by expats. However our experience demonstrates just why a comprehensive benefits package can be so important – to both the employer and the employee.

Take Michael Swan* for example, an engineer who was working for a UK company in Egypt and who had international health, life and disability cover as part of a corporate group scheme with Allianz Worldwide Care. Earlier this year, Mr Swan suffered a heart attack while at work and was rushed to hospital, where his medical and treatment needs were covered by his health policy.

However, due to his medical condition, it was determined that Mr Swan would need to attend a cardiologist once a month and that he would not be fit for work for a period of nine months. As with all claims, our medical team undertook a review of Mr Swan's case and his request for short-term disability cover was approved.

Allianz Worldwide Care was provided with monthly medical updates on Mr Swan and in turn, his disability policy ensured that he continued to receive a portion of his salary, every month. After six months, he was well enough to return to work on a part-time basis and remuneration continued at 50%. These payments continued for a further three months until it was determined that Michael had made a full recovery and was fit to return to work.

Opportunities

For companies taking the plunge in terms of international business activities, a world of opportunity has opened up across the globe and more organisations than ever before are taking advantage of free trade economies, international tax incentives and new openings in emerging markets.

Entering unchartered territory for the first time can be a cause of major concern and in some cases, is a risky business.

But, by taking the requisite steps that start with the fundamentals of looking after your staff with an international insurance policy, it's one less thing to worry about. That's got to be a good thing for employers.

Note: * case name and details have been changed to protect the identity of the client

Andrew Seale, Allianz Worldwide Care

IPMI: how worldwide trends are affecting this global market

David Healy, general manager of Aetna International in Europe, explores some of the key developments and trends that are affecting how the international health insurance market is supporting both expatriates and local nationals globally

The international private medical insurance (IPMI) market operates globally and is affected by a wide variety of continually changing trends. Most recently we have seen a number of important developments, but three stand out as having significance: the impact of technology, changing market dynamics and health demographic trends in key expatriate locations.

Technology—bringing health care closer to expatriates

Technology is changing the way people live their lives in almost every way and expatriates are no exception. Expatriates are a globally disparate group and technology provides the means to overcome barriers to both healthier living and accessing the right health care quickly when the need arises.

Insurer websites now provide a wide range of functionality, offering convenience to busy expatriates. Contact information, policy documentation, find a doctor search facilities, drug translation services and the ability to submit and track claims online are all part and parcel of today's digital offerings.

Mobile applications are progressing rapidly, allowing users to perform a range of tasks whilst on the move. Individuals can submit claims via mobile phones and identify a local healthcare facility in a matter of minutes. The example scenario below demonstrates the potential that apps have for improving member experience:

Technology is also playing an important role in the way that busy expatriates access health care. A great example is virtual health care consultations, in which expatriates can book an appointment with their physicians via an app. Imagine the benefit to an expatriate working in a remote location. No time-consuming travel to and from an appointment is necessary. All that's needed is a computer or smartphone and Internet access. Even for expatriates in well-populated areas, logging on for a consultation, which is also recorded for future reference, can be much more attractive than travelling to an appointment.

Market dynamics

Market conditions for IPMI providers and advisers are constantly changing. Maintaining products that are both regulated and compliant in multiple jurisdictions is challenging and some regions are experiencing more change than others. In the Middle East, for example, a number of countries are making it mandatory for non-nationals to hold a valid health insurance plan. This trend creates business uncertainty while each nation works through the implications of its decision.

Local nationals have always been potential buyers of international private medical insurance. In some parts of the world, wealth is increasing, but health care infrastructures are still relatively underdeveloped.

In China, for example, there were estimated to be 2.7 million high net worth individuals in 2014.

Africa is experiencing rapid economic growth, as is India. With increasing wealth, local nationals are seeking to improve their standard of living.

Access to first-class health care is often high on the list of priorities and IPMI is often an ideal solution.

Example Scenario

John, an expat employee, has been assigned to work in Beijing. During his assignment, John sets out to visit the Great Wall of China on the weekend. Whilst hiking, he trips and sprains his ankle.

John is able to easily launch his international medical insurer's app from his phone. He navigates to the map section that pinpoints where he is and identifies the nearest medical facility. He finds a medical centre that is a few miles away and is able to instantly call and schedule an appointment. John also downloads driving directions from the app that he can share with his taxi driver.

Following his appointment, John is able to snap a picture of his invoice and claim form, and submit both documents directly to his insurer within the app.

Changing health demographics

Shifts in health demographics—often driven by increasing wealth and the influence of Western lifestyles—can have a dramatic effect on a region's population.

A study published by The Lancet found that in 2013 China had the second-largest number of obese people in the world, behind the United States. The claim of 62 million obese people living in China is more than 9 percent of the world's total population.

In the Middle East, the burden of chronic disease in all Gulf Cooperation Council countries is rising rapidly, but the population is not ageing. Diabetes and obesity are well-known and troubling health issues in the region. Changing diets and the lack of opportunity to exercise due to climate conditions are having a significant detrimental effect and treatment costs for cardiovascular disease and diabetes were forecast to increase by about 420 percent and 320 percent respectively between 2006 and 2026 (Mourshed, Hediger and Lambert, 2006).

An increased frequency of chronic conditions in these regions is adding further pressure to health care systems, with implications for insurers and expatriates. High levels of demand have impacted treatment and influenced medical insurance costs. Collaboration between insurers and their provider networks, as well as investment in data analytics, holds the key to controlling costs over the longer term.

IPMI is affected by trends and developments worldwide. Technology has made health care information and treatment more accessible to busy expatriates. Rising wealth and changing lifestyles are creating both opportunity and challenges. The industry needs to understand and embrace change to ensure that health care delivery to its members continually improves. ■

David Healy, Aetna International.

Turkish delight

Turkey's life insurance market is set to expand strongly driven by economic growth, favourable demographics, urbanisation and a rising middle class. The Turkish insurance sector has also been impacted by several regulatory changes. **Ronan McCaughey** explains

The outlook for the Turkish life insurance sector is positive, according to the Timetric report, *Life Insurance in Turkey, Key Trends and Opportunities to 2018,* which is available at the Insurance Intelligence Center (IIC).

Led by sustained economic growth and favourable demographics, the Turkish life insurance market's gross written premiums expanded from TRY2bn ($743.1m) in 2009 to TRY3.8 bn in 2013. The segment's penetration rate also increased from 0.20% of GDP in 2009 to 0.24% in 2013, though it still remains the lowest in the Europe.

The gross written premium of the Turkish life insurance segment is expected to increase from TRY3.8bn in 2013 to TRY6.6 billion (US$3.3 billion) in 2018.

Looking ahead to 2018, the key growth drivers for the IIC include:

- Sustained economic growth
- Increase in life expectancy
- Expansion of bancassurance
- Private pension law amendment
- Low penetration rate

Sustained economic growth: The Turkish economy more than tripled in terms of value in 2012 – from TRY348.8bn in 2002 to TRY1.4trn – and was the fastest-growing in the European region during 2002–2012.

According to the IMF, the country's GDP at constant prices is expected to expand by 2.3% and 3.1% in 2014 and 2015 respectively, which will continue to support the segment's growth over the forecast period.

Increase in life expectancy: According to statistics from the World Bank, the average Turkish life expectancy increased from 72 years in 2004 to 74.9 years in 2012. Turkey had a population of 79.7m in 2012, with the working age population (aged between 15–64 years), representing 67.4% of the total, while 6.3% were over the age of 65.

The majority of the country's population is in its productive phase, implying there is a large number of potential buyers for life products.

Expansion of bancassurance: Bancassurance was the Turkish life insurance segment's largest distribution channel in 2013, accounting for 81.2% of the gross written premium new business of the segment.

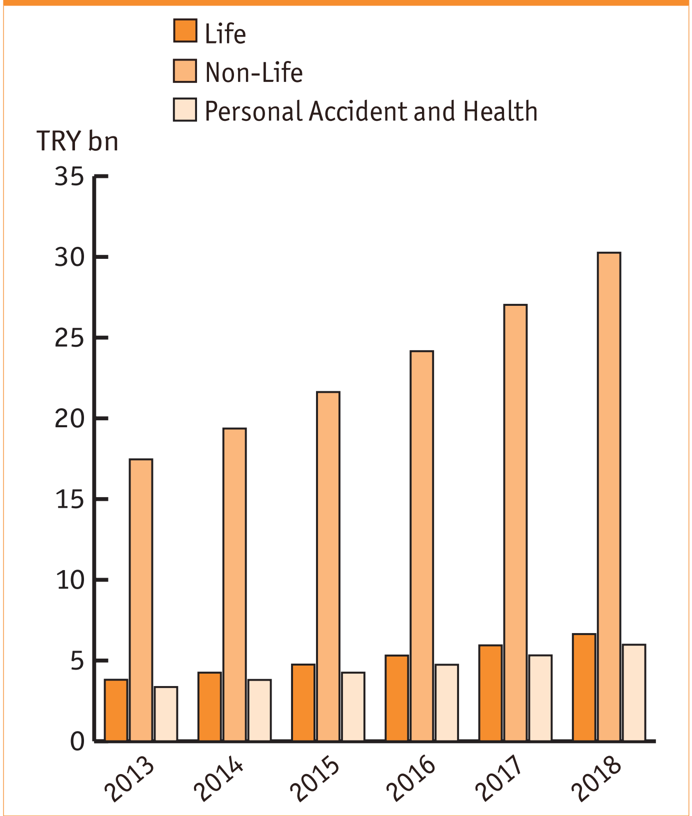
During 2009-2013, banks expanded their branch networks in semi-urban areas across the country, leading to a greater customer reach.

Between 2013 and 2018, the channel's share in terms of new gross written premium business generation is expected to rise to 87.7% in order to cater to the segment's fast-changing consumer needs.

Private pension law amendment: The Turkish government made an amendment to the private pension and investment law on June 28, 2012, which has been implemented in the country since the beginning of 2013.

According to the new regulations, the government will pay 25% of an individual's pension contribution for all pension contributors, and this will be capped at the country's minimum wage rate is applicable during the year.

TURKEY: GROSS WRITTEN PREMIUM BY SEGMENT, 2013–2018



Source: Timetric

These reforms are expected to increase retirement and pension saving by the Turkish population.

Low penetration rate: According to the Insurance Europe Statistics of 2013, the Turkish insurance industry had a low penetration rate of 1.4% in 2012, when compared to the European average of 7.6% in the same year. This low penetration rate signifies an attractive opportunity for growth.

Segmentation

The individual whole life insurance category dominated the Turkish life segment in 2013, accounting for 80% of its gross written premiums.

This was followed by: individual pension products, with 11.%; group life cover products, with 6.6%; and individual general annuity products, with the remaining 2.4% share of the segment.

Pensions registered the fastest growth at a CAGR of 27.2% during 2009-2013 due to the introduction of new pension regulations implemented in 2012.

With Turkey being an Islamic country, families are generally led by one earning head. This high dependency of a family's income on one person puts families at high risk.

Insurers such as Groupama, BNP Paribas and Garanti have therefore been focusing to minimize these risks, and have designed new products to prevent financial damage towards families, such as education insurance.

For example, in November 2012, Groupama launched education insurance, which guarantees child's education in case of death or permanent disability of the family heads. The maximum cover period is of 20 years, with a maximum guarantee of TRY56,732.1 per year.

Distribution trends

Bancassurance was the largest distribution channel in 2013. A developed bank network means it is easier for banks to cross-sell products to a large proportion of the population. Insurance companies also favoured using bancassurance over channels such as brokers in order to reduce their distribution costs.

Leading life insurers such as Ziraat and Garanti had parent banks that sold their products through their bank branches. However, other companies such as Anadolu, Allianz and Aviva have extensive bancassurance agreements with the country's leading banks.

The channel's share of total gross written premium through new business for distributing life products increased from 56.4% in 2009 to 81.2% in 2013.

Between 2013 and 2018, bancassurance is projected to remain the primary distribution channel for the Turkish life insurance segment, followed by agencies.

Turkish banks will focus on increasing fee-based income by promoting the sale of financial products such as life policies as a platform for long-term savings and investment.

Authorised agencies have also played an important role in the expansion of the Turkish life segment.

Agencies generated 10.1% of the segment's gross written premiums through new business in 2013, due to their geographical reach and agent network, making it the second-most efficient and affordable channel for product distribution.

The channel also offers insurers a client base, strong brand reputation and an existing sales force to increase penetration of insurance products in the country.

Direct marketing was the third-largest distribution channel, with 8.1% of gross written premium through new business in 2013.

The rise in direct marketing for distributing life insurance products can be attributed to the growing popularity of web-based services, and spending by insurers to distribute products online.

In February 2013, for example, Aegon Turkey became the first company to launch an online platform for the sale of products through tablets and mobile phones. The channel's popularity is due to cost savings in the form of reduced commissions, a part of which can also be passed on to the end policyholder in the form of reduced premium prices, in order to facilitate customer retention.

SHARES OF KEY INSURERS IN THE TURKISH LIFE SEGMENT (%), 2013

Ziraat Hayat ve Emeklilik	23.40%
Anadolu Hayat Emeklilik	11.60%
Garanti Emeklilik	8.80%
Halk Hayat ve Emeklilik	8.20%
Allianz Ya am ve Emeklilik	7.10%
Vakıf Emeklilik	6%
Aviva SA	5.90%
Cigna Finans Emeklilik ve Hayat	5.90%
Metlife Emeklilik ve Hayat	5%
Axa Hayat ve Emeklilik	2.90%
Others	15.20%

Source: Timetric

Regulatory Fast Facts

- The Turkish insurance industry is regulated by the Undersecretariat of Treasury
- The Insurance Association of Turkey is a specialist, non-governmental institution established by law.
- All local and foreign insurance, reinsurance and pension companies operating in Turkey must be a member of the association.
- The Turkish insurance industry permits 100% foreign direct investment

Source: Timetric and Kolcuoglu Demirkan Koçaklı

Competitive landscape

Turkey is one of the largest economies in Central and Eastern Europe, and a lucrative market for both domestic and foreign life insurers. As of 2013, there were 27 companies licensed to operate in the Turkish life insurance segment.

The life segment is highly concentrated, with the 10 leading insurers accounting for an 84.8% of the segment's total written premiums in 2013.

Ziraat Hayat ve Emeklilik was the leading life insurer, with a share of 23.4% of the segment's gross written premiums in the same year. Anadolu Hayat Emeklilik and Garanti Emeklilik rank second and third, with segment shares of 11.6% and 8.8% respectively.

Regulation

Maral Anna Minasyan who is a senior associate and Cisem Altundemir, an associate at Istanbul-based law firm, Kolcuoglu Demirkan Koçaklı, explain that the Turkish insurance sector is still in a steady growth phase and offers opportunities to foreign investors.

In a report released in March 2015, Minasyan and Altundemir said: "Three-quarters of Turkish insurance companies are now either foreign-owned or partnered. This shows that the Turkish insurance sector is a profitable target for investment by foreign companies."

Arpat Senocak, partner (Istanbul) at international law firm Gide, says the Turkish insurance sector has been recently impacted by several regulatory changes in line with the implementation of the Strategic Plan of the Undersecretariat of Treasury of the Turkish Prime Ministry for 2014 - 2018.

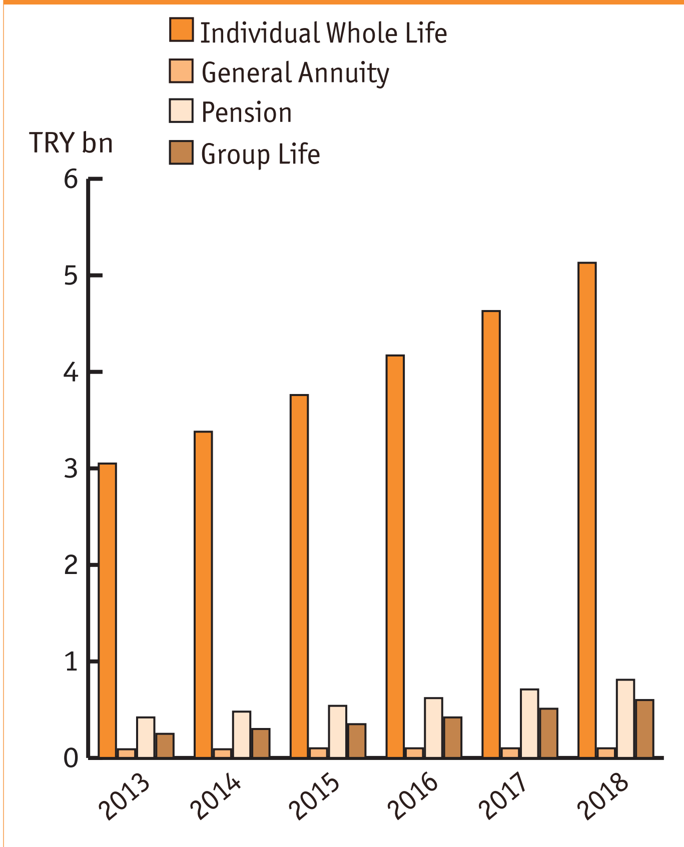
Senocak says: "As far as life insurance products are concerned, this strategic plan is mainly focused on: (i) development and diversification of long term insurance products and (ii) increase of customer awareness on financial products."

He adds that the enactment of new pieces of consumer legislation over the past 12-18 months have helped insurers improve their processes in terms of the sale of insurance products, with a specific focus on distance sales, such as mobile digital services and call centres.

Arpat adds that in the short term, several new regulations are expected to enter into force into the fall of 2015, especially governing life annuity insurance (clarifying information liability tariffs, deductibles, technical profit,) and personal credit-related insurance (focusing on information liabilities and limitations applicable to insurance companies).

In his view: "Even though this strengthened regulatory framework may seem as possibly impacting the short-term development growth of insurance companies, we believe that this should result in an increase of customer confidence in the market, thus positively impacting penetration and sales targets [for] the life insurance sector in the mid-term.

TURKEY: GROSS WRITTEN PREMIUM BY CATEGORY, 2013–2018



Source: Timetric

Industry view

Evrim Koksal Arkut, risk consulting and insurance director, Turkey, at Towers Watson, says bancassurrance is the main distribution channel in the Turkish life market.

Arkut explains that for private pension business, which is sold by specially licensed life insurers, most of the business is written through a mixture of bancassurance and direct sales teams employed by life insurers are used.

She says: "We see that purer bancassurance channels have a cost advantage in the Turkish market. Given the regulatory pressure on charge levels, there is a significant need to manage costs and build scale. We think the companies with a purer model of bancassurance will have a significant advantage.

"On the other hand, alternative sales channels such as telemarketing, direct sales teams targeting high net worth clients and agency management will continue to be important areas for the players who would like to diversify their dependency on the bancassurance channel."

Evrim Köksal Arkut, Towers Watson

Discussing the challenges facing the Turkish market, Arkut says on the life side, credit linked products are dominant and the life insurance industry is very dependent on the bank's loan books.

In Arkut's view, "There is a lack of product variety, for example private pension products fill in the gap of medium term savings and endowment products. There is little demand for protection business sold on a standalone basis and [the] annuity market does not take off."

She says pension providers need to penetrate different socio economic segments and lower income groups. "The regulator tested auto-enrolment recently, and there is an increasing expectation regarding the development of a second pillar system. On the other hand, the life and pension providers face pressure on pension charge levels."

According to a Fitch Ratings report published in April 2014, demographic changes are also set to drive growth in Turkey's insurance market.

Its report notes that more than half the population is under 30 and the population is growing and expected to become larger than Germany's by the end of 2020.

The report says: "Urbanisation is increasing and by 2020 it is predicted that the affluent and upper medium class group will account for 45% of the population compared with only 27% in 2010.

"This means an increasingly large pool of people with a need and the financial resource to buy insurance for cars, homes and other protection. They will also be looking to save for retirement as the tradition of family support continues to decline."

The Fitch report says spending on health insurance is likely to increase in Turkey. It explains that most employees who have the means choose to take out private health insurance, as state provision is rudimentary.

Only 2% of healthcare in Turkey is estimated to be private and Fitch says this could rise to as much as 10% in the next decade. ■

Getting to grips with Solvency II

With the European Union's Solvency II directive set to be implemented on 1 January 2016, research by Life Insurance International (LII) finds there still appears to be a degree of uncertainty about the precise requirements and standards regulators are expecting firms to adhere to.

Christopher Critchlow, director of professional services at OAC Actuaries and Consultants, tells LII that although Solvency II has involved a lot of specifications and guidance, some firms are only now beginning to fully understand the precise computational requirements Solvency II requires of insurers.

Critchlow says: "In some cases that is forcing a few firms to revisit how they should be modelling their insurance business."

Asked how well prepared life insurers in the UK are for Solvency II, Critchlow says generally, UK insurers are reasonably well prepared or "as prepared as they could be" given the very tight timescales regulators have imposed.

My worry is that there remains a fair degree of uncertainty of the precise requirements and of the standards that regulators are expecting firms to adhere to.

"It is that uncertainty that is problematic for insurers because they don't know whether they should be going belt and braces or whether they should be adopting a more pragmatic approach," says Critchlow.

He adds that it will take 3-4 years for Solvency II to bed down, for people to really understand what the long term impact will be of the rules for their businesses.

Critchlow explains Solvency II means insurers will focus more carefully on the nature of the risks they write and will likely look to diversify the nature of their businesses rather than writing one particular line of business.

"Solvency II will encourage firms to look much more closely at their underlying risk profile and think about ways of managing their capital better."

In Critchlow's view, Solvency II is going to force a small number of players to merge or be acquired, but he does not believe it will precipitate a whole mass of consolidation in the industry.

"It really comes down to whether organisations have viable businesses. If there is a viable business, then in many respects it does not matter what the regulatory regime is, as they should do well."

EIOPA view

While Critchlow argues that firms are only now 'fully getting to grips' with Solvency II, Gabriel Bernardino, chairman of the European Insurance and Occupational Pensions Authority (EIOPA), says overall in Europe there is a good level of preparation for the new regulatory regime.

Bernardino tells LII: "Of course, in different areas, there are different levels of preparedness, but overall there is a good level of preparedness."

He explains that the Solvency II regulatory regime is based on three basic levels of regulation. This involves the level 1 directives of the EU, level 2 delegated acts by the European Commission and technical standards and guidelines worked out by EIOPA.

Bernardino says: "There are still some elements that are being decided by the national supervisors in terms of the implementation of the regime.

"For example, we will allow the use of internal models for the calculation of the solvency capital requirement, and that is a process, which has started now, with applications from the companies towards the national supervisors, who will make a decision before the end of this year.

"That is the kind of, you can call it uncertainty, because of course this is part of a supervisory process and part of a judgement by the side of the supervisors."

He adds: "But all the basic materials in terms of the regulatory framework are going to be there."

Commenting on the impact of Solvency II on the EU life insurance industry, Bernardino says Solvency II is going in the direction of a better assessment of risk and commensurated at a better pricing of options and guarantees.

He says there will also be a much bigger incentive to do proper risk management.

Steven Findlay, the Association of British Insurers' policy adviser on prudential regulation, explains that the introduction of harmonised Europe-wide regulation presents UK insurers with opportunities.

Findlay says: "Operating across different member states should have a lower regulatory burden as a result of there being a 'level playing field'.

Aegon UK perspective

From an insurer's perspective, Clare Bousfield, chief financial officer at Aegon UK, says Solvency II has involved the provider spending in excess of £10m ($15.8m) over a 5-year period in additional resources.

Bousfield says: "Having done a lot of the legwork up front, we have largely spent the last 18 months dealing with big ticket issues, such as the matching adjustment."

She concludes by saying the biggest challenge about Solvency II is the uncertainty that the industry has had to deal with and getting numerous European regulators to agree on a methodology. ■

Solvency II timeline

1 April 2015 onwards – Phasing-in of Solvency II for supervisory approval processes and decisions related to group supervision (article 308a of the Solvency II Directive);

30 June 2015 – Submission by EIOPA to the European Commission of the (final) Set 2 of Implementing Technical Standards (ITS);

3rd quarter of 2015 – Release of the XBRL taxonomy based on Set 2 of the Implementing Technical Standards (ITS);

3rd quarter of 2015 - Update of the XBRL Tool for Undertakings for the application of the "full" Solvency II taxonomy;

3rd quarter of 2015 – Publication of Set 2 of the Solvency II Guidelines in all EU languages followed by the comply-or-explain exercise by Member States;

1 January 2016 – Application of the Solvency II regime;

Mid-April 2016 – First prudential reporting by undertakings under Solvency II with reference to the first day of application (for undertakings with financial year end on 31 December).

Source: EIOPA

Solvency II and third-country equivalence: the mist is clearing

Those who follow these things will be familiar with the concept of "Solvency II third-country equivalence". The basic premise is this: insurers and reinsurers ((re)insurers) domiciled in the European Economic Area (EEA) must comply with the whole of Solvency II from 1 January 2016, unless they can rely on an exemption or transitional provision. **Chris Finney**, a partner at law firm Cooley (UK) LLP, explains

The same principle applies to (re)insurance groups. This means that almost every (re)insurer in the EEA is required to calculate its "solo" Solvency Capital Requirement (SCR), and make sure it has enough capital to meet it, at all times.

And the parent of a (re)insurance group is required to calculate the group's SCR, and make sure there is enough capital available in the group to meet that SCR at all times, as well.

This seems straight forward. But what happens if the group has a parent or subsidiary outside the EEA? And what happens if an EEA (re)insurer wants to buy reinsurance from a risk carrier outside the EEA? Do these third-country (re)insurers have to comply with some or all of Solvency II as well? The answer depends on Solvency II's "third-country equivalence" rules.

If the parent of a group calculates the group SCR and the value of the group's assets using consolidated accounting, it is entitled to calculate the non-EEA subsidiary's contribution to each of these things using the subsidiary's "local rules".

However, if the calculation is done using deduction and aggregation, the parent is required to calculate the subsidiary's contribution to the SCR and assets using Solvency II's rules - unless the subsidiary is in a Solvency II equivalent jurisdiction.

If it is, the subsidiary's local rules will still apply. This matters because, more often than not, if Solvency II is used, the SCR will be higher and/or the value of the group's assets will be lower, than if the subsidiary's local rules were used.

Decision time

If the parent of a (re)insurance group is outside the EEA, the supervisory authorities inside the EEA has a decision to make: should they regulate the part of the group that is inside the EEA, with little or no regard to, or control over, the rest of the group?

Should they attempt to regulate the whole group through the highest EEA (re)insurer in the group, even if that (re)insurer will find it difficult or impossible to calculate the group's SCR and make sure there are enough assets available in the group to meet it?

Or should they do what they would have done if the ultimate parent was in the EEA? In other words, form a supervisory college, which is led by the parent's regulator, with contributions from, and the assistance of, those who regulate the individual (re)insurers in the group.

The answer: if the parent is in a country that is Solvency II equivalent, the EEA regulators will be required to form a college with the parent's regulator, and to rely on that regulator to lead it.

If an EEA (re)insurer buys its reinsurance from an EEA reinsurer, it will be entitled to take regulatory capital credit for the value of that reinsurance, up to a rule-prescribed amount.

If it buys its reinsurance from a reinsurer outside the EEA, it will be entitled to regulatory capital credit up to the same amount if the reinsurer is in a Solvency II equivalent jurisdiction.

If it is not, the (re)insurer may only be able to take the same amount of regulatory capital credit, if (for example) the (re)insurer posts collateral to protect the EEA (re)insurer against the risk that the reinsurer will default.

Solvency II equivalence

The European Commission has recently decided that Switzerland is Solvency II equivalent for group capital, group supervision and reinsurance purposes. The Commission's decisions will be considered by the European Parliament and Council; and, if the Parliament and Council are content, which seems likely, the Swiss equivalence decisions will become final before the end of 2015.

The Commission has also decided that Australia, Bermuda, Brazil, Canada, Mexico and the United States of America are Solvency II equivalent for group capital purposes (only); on a 10 year renewable basis (only). These decisions are also subject to review by the European Parliament and the Council; and they are equally likely to be endorsed.

It is not yet clear, but it appears that the Commission is still considering whether Bermuda should be regarded as Solvency II equivalent for group supervisory purposes; and/or Bermuda and Japan should be regarded as Solvency II equivalent for reinsurance.

These assertions will surprise some. For example, many commentators were expecting the Commission to announce all of its equivalence decisions at once. They were also expecting to hear that Bermuda was equivalent on all three bases, not just one. Perhaps the biggest surprise is that the USA is to be regarded as Solvency II equivalent for group capital purposes, when it did not apply and, at times, it had seemed determined to stay out of the process.

The answer to this lies in the identity of the "winners" and "losers", when a country's equivalence of group capital purposes is determined.

This is because, at least arguably, group capital equivalence only matters if an EEA (re)insurance group has a third-country subsidiary. In these circumstances, if the third-country is Solvency II equivalent, the subsidiary's contribution to the group SCR and assets will be calculated using local rules.

Whereas, if the third-country is not equivalent, each of these things will be calculated using Solvency II instead. And, in most cases, the European group will need more capital if Solvency II is used than it would need if local rules applied.

So, if the US is Solvency II equivalent for group capital purposes, the "winners" are likely to be EEA (re)insurance groups. All of which might suggest that the US is to be given group capital equivalence, whether it likes it or not.

So what about group supervision and reinsurance? In practice, some European groups with US parents are benefitting, or are expecting to benefit, from Solvency II group supervisory equivalence, whatever the Commission decides. ■

What consumers really want from life insurance

Consumers have long seen insurers as difficult to deal with; they don't interact with customers effectively or frequently enough, and they score low on trustworthiness. But what is the insurance customer experience really like today? **Vinay Nagwekar**, director of product development at insurance software provider, Majesco.com, looks at what insurers are doing right – and where there is room for improvement

From a processing standpoint, the good news is that insurers are getting the fundamentals right. They are very good at delivering their basic business model: delivering policy documentation, taking payments, paying claims, remaining compliant, and so on.

As for what they are doing less well, there is substantial room for improvement around embracing the digital age; interacting with customers; improving marketing; and honing the overall claims experience. Tackling these issues will help insurers to build customer loyalty and trust.

Embracing the digital age

Insurers have a reputation for being somewhat slow and old-fashioned in the way they interact with their customers. For example, the overwhelming majority still rely on the post for policy documentation and the like.

In the context of the modern world – where consumers love using sites like eBay, Expedia and Amazon and doing their banking online – this is no longer good enough. Consumers are starting to wonder: I do everything else online, so why can't I manage my insurance online?

The obvious answer would be to allow consumers to manage their life insurance via a customer-friendly online interactive portal or mobile app. That would also eliminate the need for unnecessary administration fees, as customers could make changes themselves.

However, take up of electronic portals is low so far in the industry. Most insurers are keenly aware of the need to go fully digital, but are being held back by antiquated legacy systems that don't allow it. (Interestingly, some of the smaller insurers are better placed as they are not being held back by the systems of the past).

That's why insurers need to be more radical. They need to stop tinkering with their current systems which are unable to embrace the new digital age due to their antiquated technology.

If they are going to give the enhanced level of customer experience that consumers expect, then they will have to refresh their strategy and embrace approaches that have rethought the process from the ground up, and which are totally at home in this new era of consumer self-service.

Interacting with your customers

Another area where insurers need to make progress is 'getting to know' their customers – and using that knowledge to interact more effectively with them.

Like many large companies, insurers collect a lot of customer data, but they aren't using it to maximum effect.

Companies like Amazon, eBay and Google are already doing this really well – they collect lots of information about their customers, which they use to provide closely targeted content and offers.

Imagine an insurer taking the same approach: the scope for interacting more positively with customers, understanding their habits, cross-selling products and targeting offers would be enormous.

For example, customer data could enable insurers to offer accurate binding quotes to customers – instead of the 'indicative' initial quotes that many customers still receive.

In the health sector, Vitality is a good example of an insurer using customer data effectively. The company has created a business ecosystem that provides benefits to its customers, while at the same time giving the company a real insight into their lifestyles and healthy habits.

As well as making communications more personal and targeted, insurers need to engage with their customers more frequently. Most insurance companies only have contact with their customers once a year, at renewal, which does nothing to build strong, loyal relationships (and results in a multitude of missed opportunities).

Approach to marketing

Marketing is an interesting area because – perhaps as insurance is seen as 'dry' – it has become increasingly popular for companies to look to gimmicks to attract customers, such as funny adverts or offering a cuddly toy.

However, while this has been a relatively successful approach, it only appeals to a limited group of consumers.

Essentially, most people choose an insurer because they are comfortable that they will give them a good experience and pay out if they have a claim; they would rather have reduced prices and an improved service than any sort of gimmick.

Claims experience

Claims is an area that has let many insurers down in the past, with the industry gaining a reputation for taking a long time to process claims – and seemingly refusing to pay some claims on a technicality.

And understandably enough, customers who have a bad claims experience will not go back to an insurer.

Therefore, this an area where insurers can improve their customer experience enormously: for example just as consumers are able to track their orders from Amazon and eBay, they would like to understand the exact status of their claim throughout the settlement process.

Looking ahead

Only those insurers that address all of these challenges will be well placed to compete in today's ever-more challenging market. If they do, the rewards will be significant: increased consumer satisfaction and loyalty; the ability to understand customer behaviours and target marketing and cross-selling accordingly; and significantly reduced administration and processing costs, to name but a few. ■

Australian life market
New business written premium by distribution channel (%) share 2013 and 2018

	2013	2018
Bancassurance	42.98%	42.96%
Brokers	23.43%	23.40%
Direct marketing	20.16%	20.23%
Agencies	5.68%	5.66%
E-commerce	3.17%	3.18%
Other distribution channels	4.57%	4.58%

Source: Timetric

- Bancassurance is the largest distribution channel for life insurance in Australia and accounted for 43% of the overall new business gross written premium in 2013. The number of policies increased from 5.8m in 2009 to 6.1m in 2013, as most Australian insurers are owned by banks. The number of policies is expected to reach 6.4m in 2018
- The number of policies sold through brokers increased from 3.1m in 2009 to 3.3m in 2013
- The number of policies sold through direct marketing increased from 2.7m in 2009 to 2.9m in 2013. However, many direct marketing ventures could not deliver the anticipated business volumes, and some even closed due to the rise in lapse rates in 2012 as policyholders reduced or cancelled their insurance cover
- Agencies accounted for 5.7% of the overall new business gross written premium in 2013, and the number of agencies rose from 1,921 in 2009 to 2,026 in 2013, at a CAGR of 1.3%. This is a result of Australia's large geographical area and rising population. The number of agencies is expected to reach 2,211 in 2018
- E-commerce was the fastest-growing distribution channel in the Australian life segment during the review period, as the number of internet users rose from 15.8bn in 2009 to 18.9bn in 2013. Internet penetration was 84.9% in 2013 and is expected to reach 95% in 2018, which will increase the number of policies sold online

New Zealand life market
New business written premium by distribution channel (%) share 2013 and 2018

	2013	2018
Agencies	36.50%	37.50%
Bancassurance	32.50%	31.80%
Brokers	11.70%	11.60%
Direct marketing	11.70%	11.30%
E-commerce	1.80%	1.80%
Other distribution channels	5.90%	6.00%

Source: Timetric

- Overall, the gross written premium new business generated through agencies stood at NZD65.4m in 2013 and is expected to increase to NZD90.7m in 2018
- The growth of bancassurance can be attributed to banks' large client bases, which has made it easier for banks to sell insurance products. Bancassurance has established itself as a popular distribution channel across the Asia-Pacific region, especially in developed countries such as New Zealand, Australia, Japan, South Korea, Singapore and Taiwan
- Brokers were the third-largest distribution channel and generated 11.69% of their total gross written premium new business in 2013. The number of life products sold through brokers increased from 65,850 in 2009 to 70,551 in 2013
- Direct marketing has been one of the most prominent distribution channels for distributing life insurance policies in New Zealand, accounting for 11.65% of the total new written premiums. The rising sales of life insurance products by direct marketing can be attributed to the increasing popularity of online services. Of the direct marketing channels, telemarketing has emerged as one of the most widely used
- Due to the rapid rise in internet and mobile phone users across the Asia-Pacific regions, e-commerce has emerged as the fastest growing distribution channel in New Zealand. The advantage of online distribution is that it can be quickly accessed by customers, involves low barriers to entry and the costs are comparatively lower than other channels

BENCHMARK INTELLIGENCE ON THE LIFE, HEALTH AND PENSIONS INDUSTRY
Life Insurance INTERNATIONAL

Editor: Ronan McCaughey
Tel: +44 (0)20 7406 6540
Email: ronanmccaughey@uk.timetric.com

Group Publisher: Ameet Phadnis
Tel: +44 (0)20 7406 6561
Email: ameet.phadnis@timetric.com

Sub-editors: Kev Walsh, Nick Midgley

Subscription Enquiries: Alex Aubrey
Tel: +44 (0)203 096 2603
Email: alex.aubrey@timetric.com

Director of Events: Ray Giddings
Tel: +44 (0) 203 096 2585
Email: ray.giddings@timetric.com

Customer Services
Tel: 020 3096 2636 or 020 3096 2622
Email: customer.services@uk.timetric.com

For more information on Timetric, visit our website at www.timetric.com
London Office
5th floor,
Farringdon Place,
20 Farringdon Road
London, EC1M 3AP
Asia Office
1 Finlayson Green
#09-01
Singapore. 049246
Email: asiapacific@vrlfinancialnews.com.sg

Financial News Publishing Ltd, 2015
Registered in the UK No 6931627