



Free Cover Limits & Underwriting in Group Risk Business

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The Business of Change: 2010 and Beyond



Agenda

1. Disclaimers
2. FCLs & Volatility
3. SA market
 1. FCL
 2. UW
4. Conclusion

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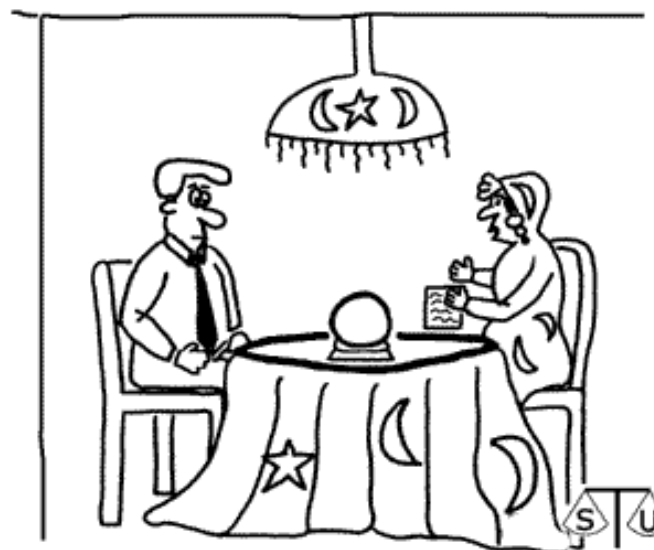


Disclaimers

- Very little written on FCLs or group UW
- International markets
- SA market
- Our opinions
- Purpose of FCLs and modelling
- Presentation content

Stu's Views

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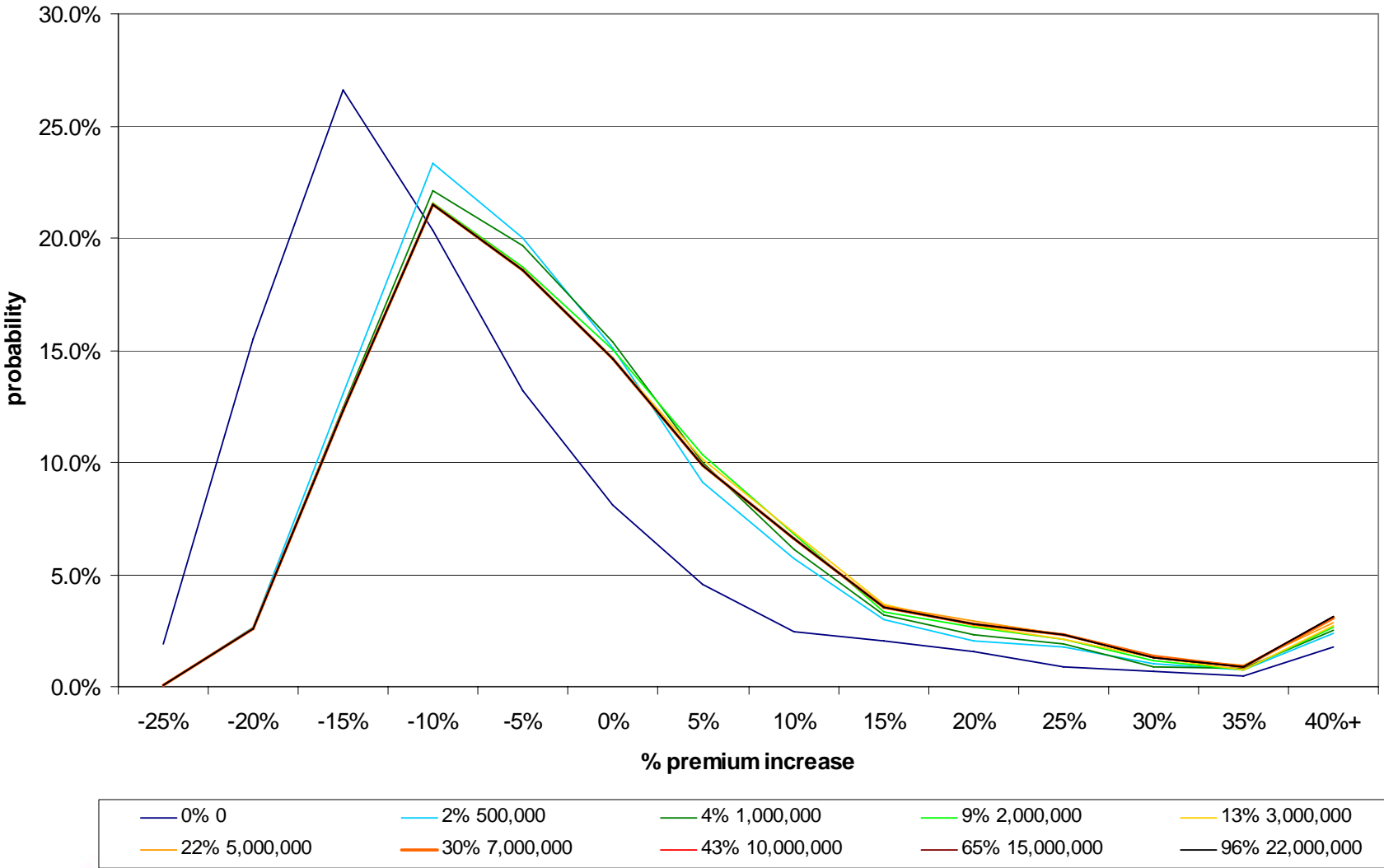
"I see you signing this liability waiver,
just in case you act on my advice."

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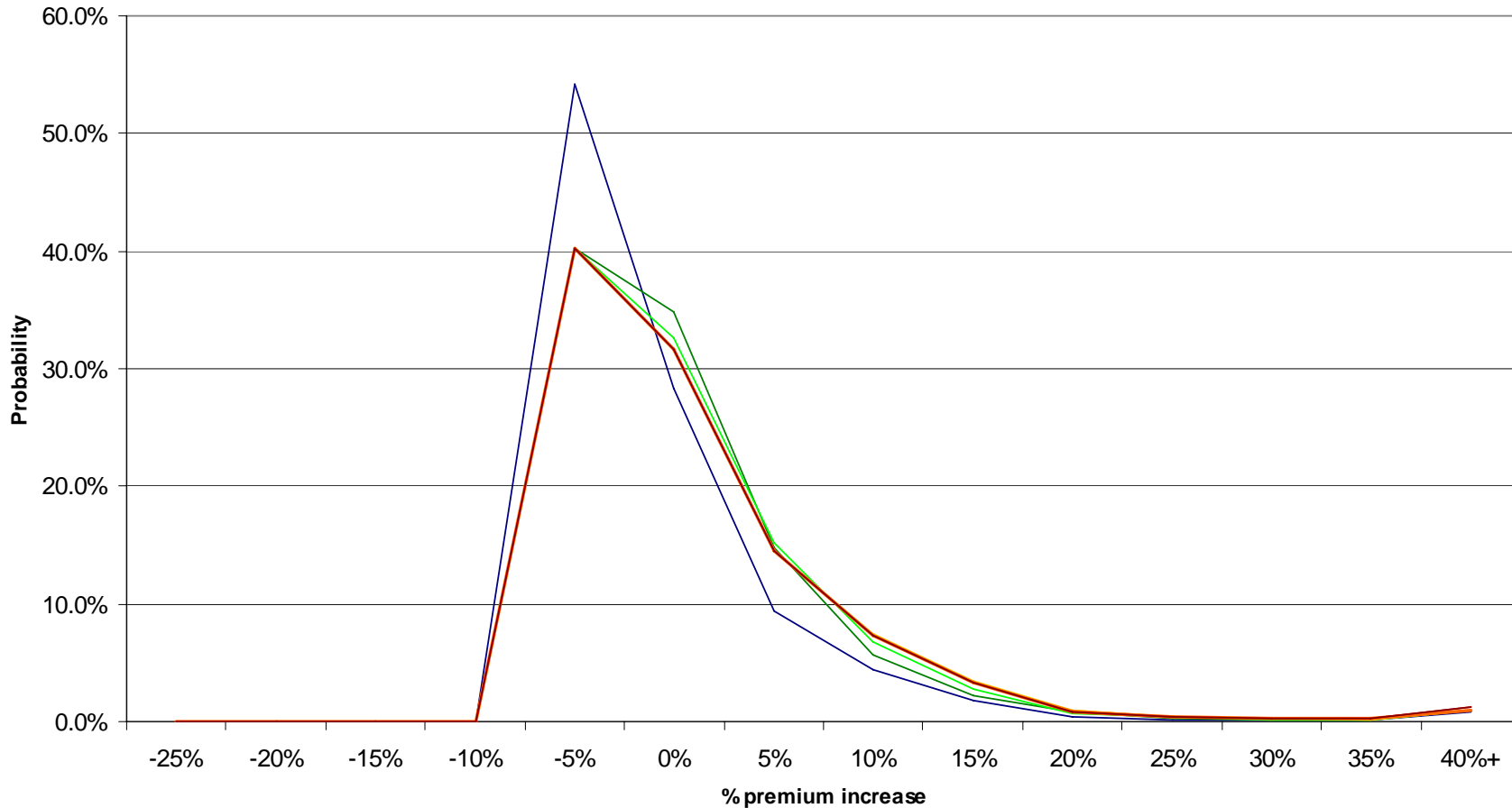


Volatility – 5000 members

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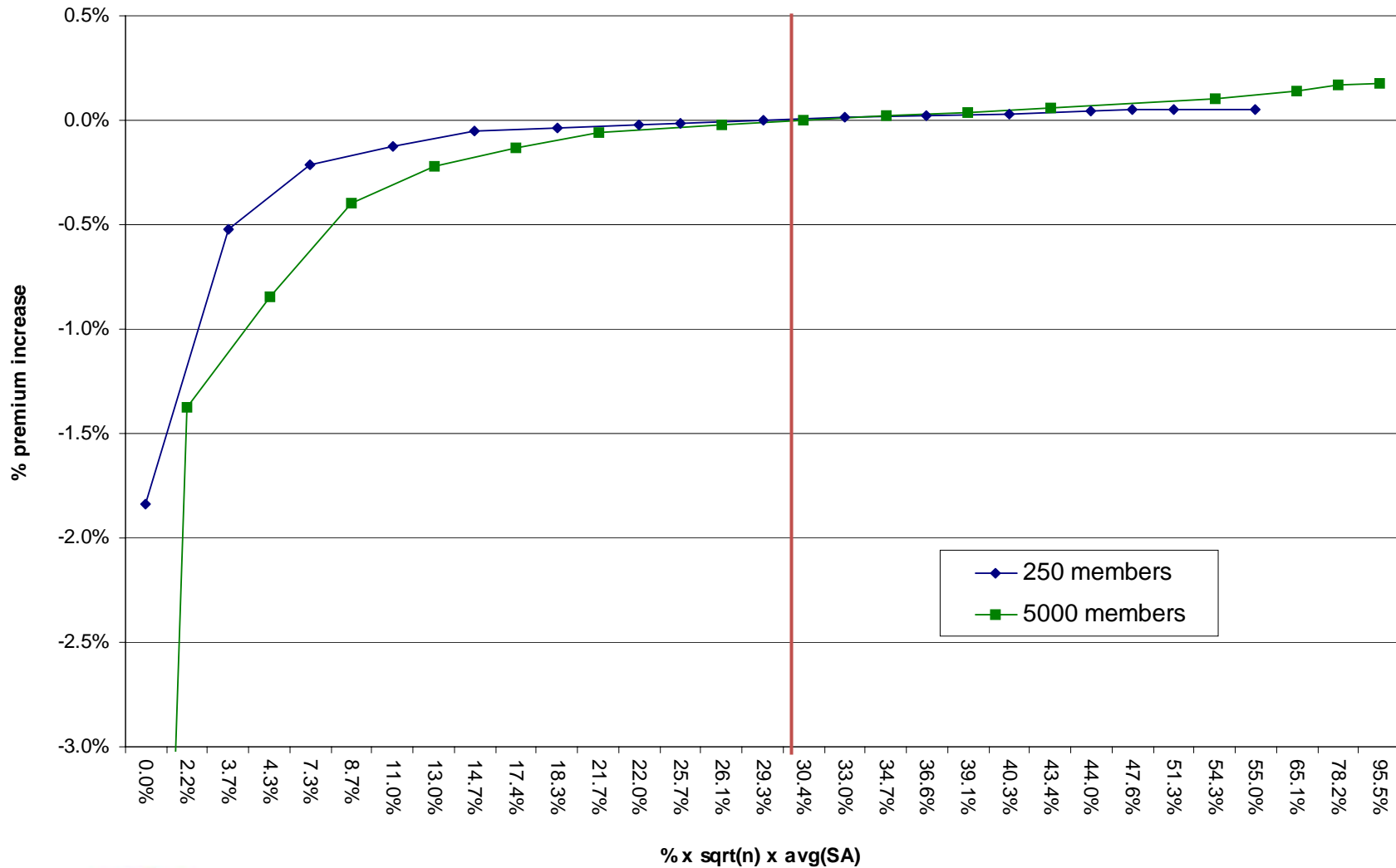
Volatility – 250 members



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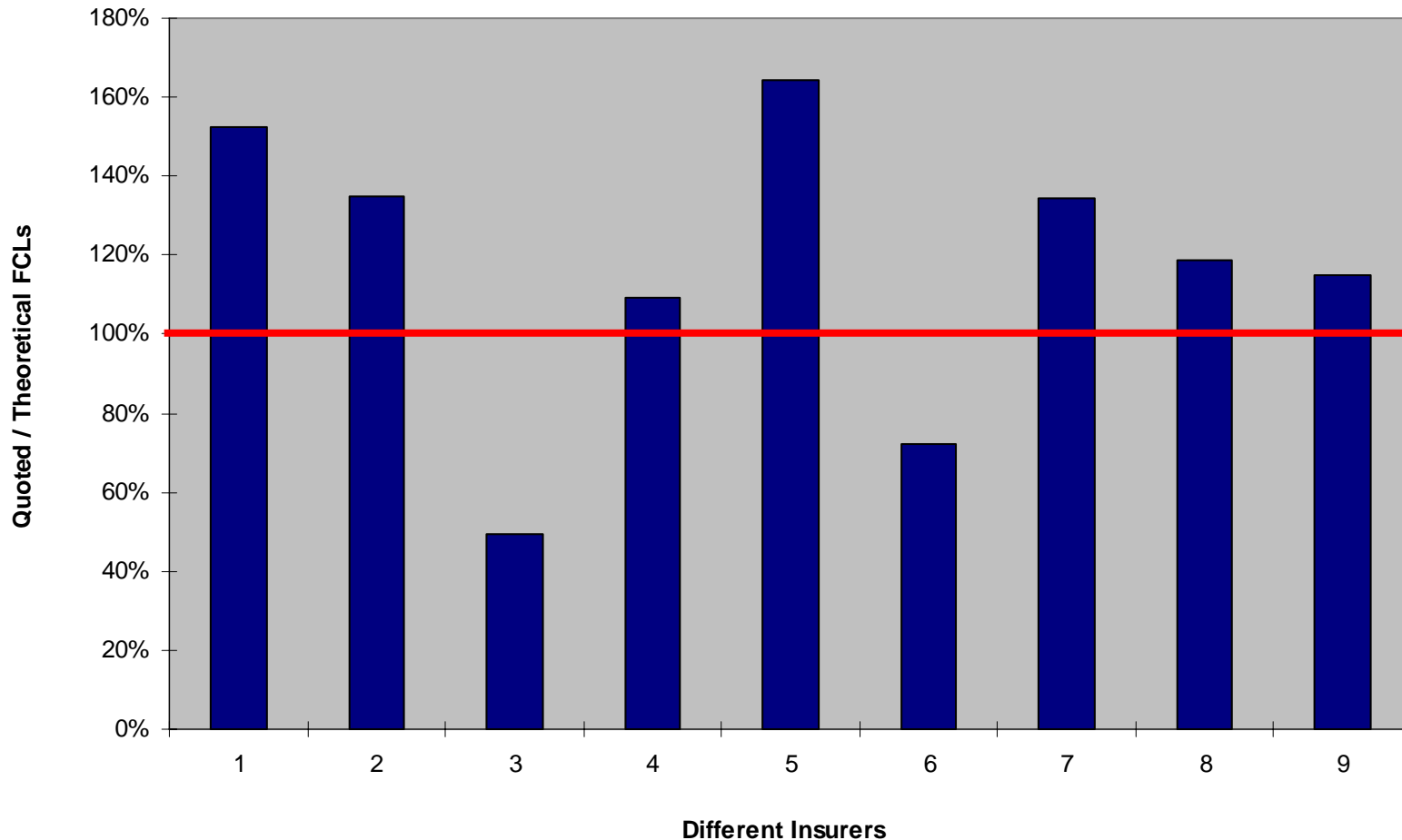
FCL vs expected premium change



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Theoretical vs Quoted FCLs



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Quoted FCLs in South Africa

	Min FCL	Max FCL	Ratio	Min # mems uw	Max # mems uw	Min % cover uw	Max % cover uw
Scheme 1	R4.5m	R10.0m	222%	1	23	7%	33%
Scheme 2	R7.5m	R12.0m	160%	3	13	0%	1%
Scheme 3	R6.5m	R10.0m	154%	0	3	0%	0%
Scheme 4	R0.3m	R1.0m	333%	0	5	0%	10%
Scheme 5	R0.4m	R1.2m	300%	0	4	0%	27%
Scheme 6	R1.7m	R2.5m	147%	3	9	3%	15%
Scheme 7	R0.2m	R0.2m	139%	0	6	0%	0%
Scheme 8	R2.0m	R8.5m	425%	0	46	0%	57%
Scheme 9	R8.5m	R12.5m	147%	17	61	3%	7%
Scheme 10	R3.5m	R8.0m	229%	0	29	0%	2%

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Quoted FCLs in South Africa (continued)

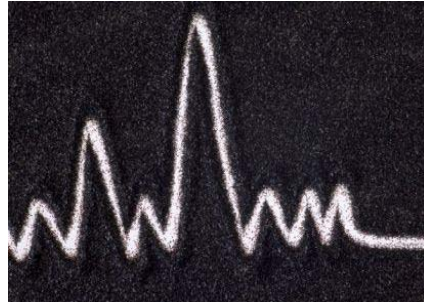
	Co A	Co B	Co C	Co D	Co E	Co F	Co G	Co H	Co I
Scheme 1	R7.2m	R7.2m	R7.0m	R7.2m	R7.2m	R7.2m	R7.2m	R4.5m	R10.0m
Scheme 2	R7.5m	R7.5m	R10.0m	R7.5m	R7.5m	R7.5m	R7.5m	R8.5m	R12.0m
Scheme 3	R6.5m	R6.5m	R7.0m	R6.5m	R6.5m	R6.5m	R6.5m	R8.5m	R10.0m
Scheme 4	R0.3m	R0.6m	R1.0m	R0.6m	R0.3m	R1.0m	R0.3m	R0.5m	R0.4m
Scheme 5	R0.9m	R0.6m	R1.2m	R0.6m	R0.4m	R0.6m	R0.6m	R0.7m	R0.5m
Scheme 6	R2.4m	R2.0m	R2.0m	R2.5m	R2.0m	R2.5m	R2.0m	R1.7m	R2.0m
Scheme 7	R0.2m	R0.2m	R0.2m	R0.2m	R0.2m	R0.2m	R0.2m	R0.2m	R0.2m
Scheme 8	R6.6m	R2.0m	R4.0m	R5.5m	R3.5m	R5.5m	R5.5m	R6.5m	R8.5m
Scheme 9	R12.5m	R12.5m	R12.5m	R12.5m	R12.5m	R12.5m	R12.5m	R8.5m	R12.0m
Scheme 10	R4.9m	R5.5m	R6.0m	R6.0m	R3.5m	R6.0m	R6.0m	R8.0m	R8.0m

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Group Underwriting in South Africa

- Approaches are not consistent
- Underwriting requirements vary significantly



$$\text{Testing Threshold} = \frac{\text{Cost of the Test}}{\text{Present Value Mortality Savings} \times \text{Prevalence} \times \text{Attributable Information}}$$

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Conclusion

- Further research
 - Understanding and targeting anti-selection better in the group risk market
- Findings
 - Local variation suggests some less than optimal underwriting practices
 - Underwriting matrices and amounts & 20% rule application
 - Stakeholder considerations
 - Trustee involvement
 - Pricing impacts
 - Changing premium when changing FCL & Experience analysis using FCL





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