

Media Release

Experience matters: IFSA and KPMG complete the first life insurance experience investigation for ten years

Almost four million life insurance policies and 6500 claims (representing \$877m in industry payouts) have been assessed by KPMG as part of an industry wide experience investigation sponsored by IFSA and its life insurance members.

The experience investigation, which looked at the 2007 records from 15 companies, assessed the claims experience of individual insurance policies for Death, Total Permanent Disability and Trauma insurance across the entire life insurance industry in Australia.

“At an individual company level and through reinsurers, the industry constantly analyses the link between underwriting and claims experience. This helps them design products and set prices” said Richard Gilbert, CEO of IFSA.

“The last industry-wide study was carried out in 2004 by the Institute of Actuaries Australia and covered the 1998-1999 claims experience of nine life companies. The industry and APRA felt it was time to update the study and to develop processes that would ensure the study continued on a regular basis in the future, as is the case in the UK Continuous Mortality study.

“Having access to the same data for the whole industry allows us to learn a lot about the health, wellbeing and longevity of ordinary Australians. It also gives companies greater comfort in their internal analysis and plays a critical role in the development of an ‘Insured Life Table’. The Insured Life table that evolves from an industry wide experience investigation is used by APRA as the basis for the solvency and capital adequacy requirements for life insurance companies.”

Commenting on the investigation, APRA’s John Trowbridge said, “This work is a milestone for the industry and we can only encourage its continuation. The scope and the quality of both the data and the investigation are first class. “

Speaking about their role as analysis partner, KPMG Actuaries Director Hoa Bui said, “We are delighted to have produced the first study for ten years, but this is only the first step in a continuing investigation. We are already collecting historic data from life insurance companies that will allow us to produce a new Insured Life Table early in 2010.”

Mr Gilbert concluded, “The more we know about the industry’s experience, the better the industry will be able to develop new products and price those products in the future. This will be of major assistance to the industry in making life insurance products more accessible to Australians.”

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Notes to Editors

Investigation insights:

1. The study covered lump sum risk experience offered by the insurance industry to individuals (as opposed to corporate or industry funds). IFSA and KPMG engaged with 17 companies and assessed 3,979,209 policies and 6,420 claims from 2007. This represented \$877m worth of claims, with an average payout of \$136,000 per claim. The study was limited to individual Death, Trauma and Total and Permanent Disability insurances.
2. Key findings for Death cover include the following:
 - Consistent with population trends, the mortality of the insured population has continued to improve over the last 10 years.
 - Men and older people experienced higher rates of improvement than females.
 - The death rates for women continued to be significantly lower than men, but the gap is narrowing.
 - Smokers continue to experience significantly higher rates of death than non smoker of the same age and sex.
 - There is wide variation in mortality experience between policy types and between companies
3. Key findings for Trauma cover include
 - Trauma incidence rate has fallen significantly compared to 10 years ago
 - Cancer continues to be the dominating cause of claims, especially for women.
4. KPMG have already started collecting data from companies for policies and claims from 2004-2006. The data from the 2008 year will be collected from companies later in 2009.
5. These reports will be available to the industry early in 2010 at which point the industry will be in a position to update the Insured Life table for mortality. The last Insured Life table (IA95-97) was produced in respect of claims experience covering the three years 1995 to 1997. More importantly, the 2004-200 study may collect sufficient information for the production of an inaugural Insured "Total and Permanent Disability" Table for insured individual business and a Insured Trauma Table.

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Lifewise:

- On 1st May 2009, the life insurance industry will be launching its Lifewise campaign, designed to help reduce the protection gap by encourage Australians to take appropriate steps to protect themselves from the financial hardship that can result from accident, sickness or death.
- Lifewise is being coordinated by IFSA and has first year funding via special contributions made by IFSA's life insurance and reinsurance members.
- To find out more about Lifewise, please visit www.ifsa.com.au or contact IFSA on 02 9299 3022.

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