

Sustainability, affordability, simplicity: The Zurich IP re-set.

Industry income protection losses challenge profitability and may require increasingly higher premiums from customers.

The Zurich re-set provides an opportunity to engage 7 million Australians and provide advised solutions that are built for sustainability.

Zurich Remuneration Modeller

INPUTS - YELLOW CELLS

Enter new business written, current renewal income, and your last 12 months new business and expenses, as well as the commission options selected for your

Current book	Renewals \$	Composition of New Business (NB) %		Revenue \$	Expenses including Salary	EBIT \$	
NB last 12 months \$		Upfront	Hybrid	Level			
\$100,000	\$30,000	80	20	0	\$134,000	\$110,000	
						\$24,000	
Average future case size	2500						
Future State	Renewals \$	Composition		Revenue \$	Expenses including Salary	EBIT \$	
Expected NB Premiums Next 12mths		80	20	60			
\$100,000	\$30,000				\$110,000	\$9,000	
						\$9,000	
Year	NB Income	New Renewals	New Total Revenue	Expenses \$	New EBIT \$	Difference to Current State	Additional clients required
Year 1	\$80,000	\$30,000	\$110,000	\$110,000	\$0	-\$24,000	18
Year 2	\$70,000	\$50,000	\$120,000	\$115,500	\$4,500	-\$20,225	16
Year 3	\$60,000	\$70,000	\$130,000	\$121,275	\$8,725	-\$21,536	15
Year 4	\$60,000	\$90,000	\$150,000	\$127,339	\$22,661	-\$13,633	9
Year 5	\$60,000	\$110,000	\$170,000	\$133,706	\$36,294	-\$5,315	4
Year 6	\$60,000	\$130,000	\$190,000	\$140,391	\$49,609	\$3,020	-3
Year 7	\$60,000	\$150,000	\$210,000	\$147,411	\$62,589	\$11,371	-8
Year 8	\$60,000	\$170,000	\$230,000	\$154,781	\$75,219	\$19,739	-13
Year 9	\$60,000	\$190,000	\$250,000	\$162,520	\$87,480	\$28,126	-18
Year 10	\$60,000	\$210,000	\$270,000	\$170,646	\$99,354	\$36,532	-24

Post LIF

Zurich modelling demonstrates that advisers will need to engage and provide solutions to more clients in order to sustain income levels of those experienced in a full upfront commission environment. To engage more clients requires efficiency. A key area of efficiency is product simplicity.

Product Environment

Product complexity has escalated in an environment where the primary point of competition is product feature comparability on comparator software. The reliance on a product score has exacerbated the product "arms race".

- KPMG Life Tables**
- Updated for the first time in twenty years.
 - New trends indicated, including a large increase in mental health claims and accident claims.
 - A resultant spike in premiums could eventuate.

The core of income protection

Income protection was developed to:

- Replace 75% of pre-disability income,
- Provide that proportion of replacement income for the required period,
- Meet basic needs such as everyday living.

Escalating features

Features no longer align to the core needs and benefits payable can now exceed replacement ratios up to the order of 130%.

This has created two issues: pricing has not kept up with claims experience and some Australians have been priced out of an advised solution.



Insurers and advisers have focussed on the seemingly lucrative market of the white collar professional. This market makes up less than 20% of Australian workers.

Occupation	Numbers	5 year %	Female	Median Age	Income
White Collar	2,365,200	+16.4%	44%	40	High
Clerical	3,937,500	+3.7%	53%	40	Medium
Blue Collar	2,967,400	+9.9%	48%	40	Medium
Heavy Blue	2,607,700	-1.1%	17%	40	Low-Medium

Cover that meets core need	Terms that are less susceptible to indirect drivers of claims and selection behaviours. Limit benefits to a percentage of actual financial loss.
Simpler definitions	Terms that can be applied with greater clarity and certainty and thus produce a more predictable experience.
Limited ancillary benefits	Inclusion of features that only support recovery, return to work and replacement of actual loss
Lower premium with more stability over time	Stronger price differential between a foundation level of cover and one providing more generous terms. Greater stability over time due to the more predictable experience.

Zurich Income Protector and Zurich Income Protector Plus

- The Zurich solution has been designed with the adviser and client in mind.
- It was developed with a research agnostic mindset.
- Zurich Income Protector seeks to be a sustainable re-set for the advised income protection market.

Zurich Income Protector and Zurich Income Protector Plus

These two offers replace the Zurich Income Replacement range, with Zurich Income Protector a simplified solution designed to be positioned towards customers who want a basic, easy to understand solution via an adviser.

The change in series

Current (series 1)	NEW (series 2)
Zurich Income Replacement – premier	
Zurich Income Replacement – comprehensive	Zurich Income Protector Plus
Zurich Income Replacement - standard	Zurich Income Protector

Zurich Income Protector has therefore been developed to be positioned with a wider audience and assist advisers have meaningful and relevant conversations.

We believe that this product is a vital step in changing the income protection landscape by still offering an advised, yet simplified product and providing advisers with a foil against inferior direct products.

Reinsurer Commentary

Munich Re have suggested that the future profitability for income protection looks challenged.

The Opportunity

Is to respond and develop a new disability proposition. The insurer (and adviser) that moves first will have a unique competitive position.



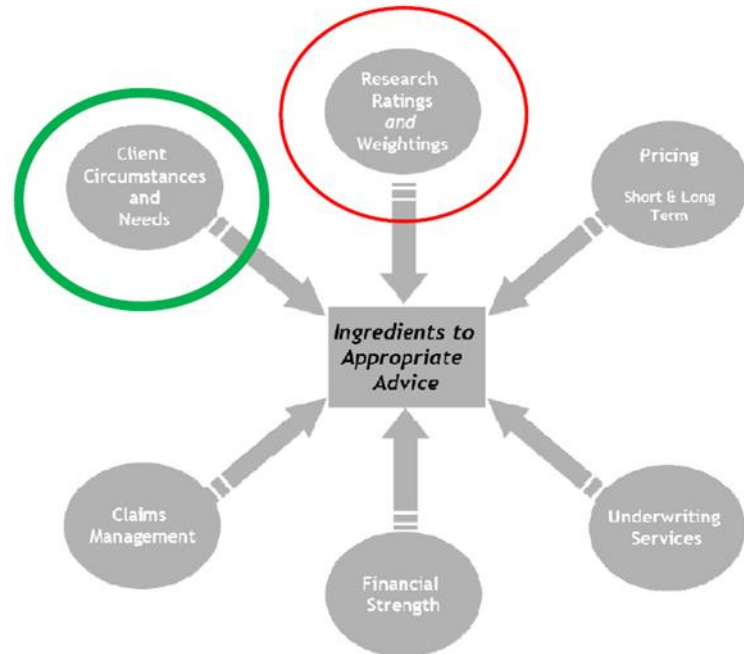
Deliverables possible according to Munich Re

- attract and retain an expanded market of advice seeking customers
- products designed to deliver superior characteristics of profitability

Critical to any advice solution is that it meets the best interests of the client. Research ratings are but one factor in this process. The misalignment between research and product recommendations is partly to blame for the escalation in product features. The Zurich re-set places emphasis on the other components of appropriate advice.

Existing Customers

- Of utmost importance is the integrity of the current IP offer for our existing customers.
- Our current IP book is predominantly represented by our Comprehensive and Standard contracts with only 8% in Premier indicating less demand for this contract. Overall our current IP inforce represents a significant portion of our total inforce book.
- Our philosophy has always been, one product series and passing back benefits and pass backs will continue to be the case.
- We don't want current customers adversely impacted by either better pricing offers or better product. It is not our philosophy to design a structure that forces clients out of a series.
- To maintain the integrity of inforce policies it would be unfair to apply new pricing methods e.g. new life tables to these current policies.
- By separating the series we can ensure existing clients continue to have leading policies and any pricing impact is representative of the experience of that book. Pricing and product for the new series will be based on a return to basics, albeit that our top level offer will be one of the highest rated products in the market.
- Existing IP customers retain access to a well rated, flexible and highly featured product.
- The re-set for income protection in the incarnation of Zurich Income Protector and Zurich Income Protector Plus, provides a slightly less featured product, therefore existing customers are actually advantaged by remaining in their current policies not only with feature advantages but price advantages as well. Policies can be increased and altered and as such operate with an "open PDS" to support the product going forward.
- In the future we will continue to support current series IP customers and advisers to maintain their policies by a combination of service, pricing, admin and claims support.



Research Still Matters

Canstar

We expect: (albeit competitor price movements do change the scores)

- Zurich Income Protector to rank 5th out of a universe of 15 for "standard" style products (Our current standard offer ranks 3rd).
- Presently our Comprehensive Income Replacement ranks 4th in a similar peer group with the marginal difference less than 4 points between 1st and 4th.
- Zurich Income Protector Plus appears in a field of competitors where the gap between 4th and 10th is less than 2 points.

IRESS

Zurich Income Protector Plus

A core score of 98 and a supplementary score of 71 look likely.

Note that the above takes into consideration the upcoming re-rating of the capability clause across the market (which is live at 23rd November).

Zurich Income Protector

Changes the landscape for IP and as such indicative scores are 78 core and 60 ancillary.

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