



1st Quarter 2008

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## Up coming events

### AFA FNQ Roadshow, Cairns and Townsville

**Date:** Cairns 5<sup>th</sup> & Townsville 6<sup>th</sup> March,

**Time:** 7.15pm – 12.30pm

**Venues:** Cairns International Hotel

Jupiters Hotel and Casino Townsville

**RSVP:** by Thursday 28<sup>th</sup> February

### AFA Brisbane Chapter Lunch

**Date:** Friday 7<sup>th</sup> March

**Time:** 11.45am – 3.30pm

**Venue:** Heritage Room, Storey Bridge Hotel

**RSVP:** by Wednesday 5<sup>th</sup> March.

## The benefits of reinsurance

While some advisers question the value of reinsurers, it's important to recognise they play a pivotal role in helping insurers deliver better and more importantly, sustainable products for your clients.

While advisers sometimes view reinsurance as one of the biggest constraints on their ability to do business, this financial arrangement plays a very important role in the provision of sustainable Life Risk products in the Australian and international market.

Most insurers don't have the risk appetite or scale to go it alone. This is why they find it necessary to spread the risk and gain the support and protection that reinsurance provides.

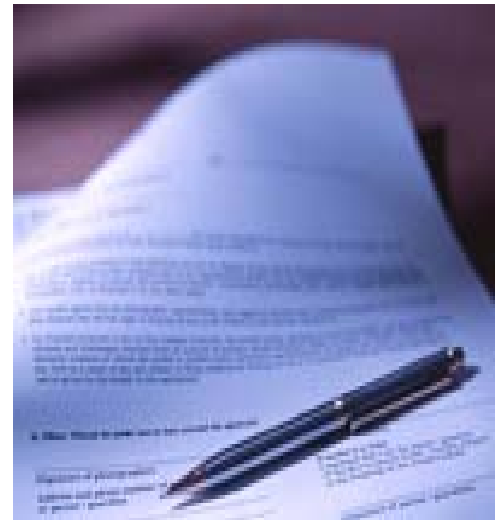
Moreover, reinsurers provide a range of valuable tools and services to insurers to assist them with developing and more accurately pricing products.

### Transferring risk

Reinsurance broadly involves transferring some of the financial risk from the life insurance company to the reinsurer. It's the insurer's insurance policy. Benefits for insurers include:

- risk transfer, which allows them to take on more risk than their size would otherwise allow. Without reinsurance, smaller life companies would very quickly reach their full underwriting capacity;
- release of capital, allowing companies the freedom to use money to promote growth;

- smoothing of results, which reduces volatility and fluctuations in unpredictable situations; and
- increased capacity, which enables companies to write large sums-insured that may not otherwise be possible.



### Underwriting value-adds

Reinsurers recruit experts in various specialist fields - such as product design, actuarial, underwriting and claims and offer their services to client life companies to help develop and better manage their businesses.

Reinsurers add value to the underwriting process by offering a wealth of information, local and international experience, and training giving insurers the tools to make appropriate decisions. These tools include:

- international underwriting manuals with global and local ratings;
- expertise in underwriting difficult and complex risks;
- financial underwriting expertise;
- assistance in defending discrimination/litigation cases based on their underwriting manual and supporting empirical information; and
- education/skill and development programs.



## Product development

Because each reinsurer provides services to multiple insurers, they can provide analysis for different products based on the collective experience of local market treaty portfolios. This is useful information for product development, helping insurers price their policies more keenly.

Courtesy of their reinsurer relationships, insurers gain access to global experience.

Many of the statistics quoted in marketing material are sourced from reinsurer studies – sometimes combining the experience of entire international regions. Trends addressed in product development are often identified via reinsurer research.

Reinsurers contribute to product development by:

- sharing global information about new ideas;
- reviewing proposed policy wordings;
- giving feedback on new products; and
- providing pricing expertise on product features.

Source: Zurich

## Covering all critical bases



Total and Permanent Disablement and Trauma Insurance each still has their place in a client's portfolio, regardless of the fact there may be some crossovers in cover (for paraplegia, blindness etc). The following will explain why.

## TPD advantages and disadvantages

**Why customers buy it:** TPD is a worst case scenario insurance that's offered as a traditional rider to stand-alone Term Life policies and also through super. TPD provides a long-term income in the event a person has to retire prematurely due to ill health.

TPD premiums are tax deductible when paid within the super environment. In comparison to Trauma, higher levels of cover can be obtained for TPD.



**Advantages:** TPD cover is relatively less expensive than other Trauma products, especially for older age groups. Moreover, the cover isn't restricted to specified events. TPD is also flexible, with clients having the option of taking it out as a stand-alone policy or linked to Death Cover, inside or outside the super environment.

**Disadvantages:** Since prognosis is more important than diagnosis, the TPD claims assessment process is more subjective and as a result slower in many cases. Quite often, the intent of TPD insurance is not all that well understood. This no doubt helps to explain why there's a perception in advisory circles that TPD claims have a high rejection rate.

Another complicating factor for the payment of benefits held in the super environment is that the Superannuation Industry (Supervision) Act disability definition is for 'any' occupation while the better benefit offered by most life companies is 'own'. So even if the benefit is paid out, your client may have problems accessing the funds before retirement age, unless they meet another condition of release. Likewise, there could also be tax implications in benefit payment.

## Trauma advantages and disadvantages

**Why customers buy it:** Trauma cover can best be described as a just-in-case insurance. Paid as a lump sum, the client can do what they want to with the benefit to satisfy their particular needs. The funds can be used to pay medical expenses, lifestyle adjustments, discharge a mortgage, other debts or take more time off to recuperate.

In the event a client doesn't have disability insurance, Trauma can deliver the capital to provide short-term income and also the means to change occupations or reduce working hours.

**Advantages:** For people not in the paid workforce, in particular stay at home mums, Trauma cover can be used in place of Income Protection Insurance, given there are no employment status requirements to be met. As another plus, premiums don't vary according to your client's occupation. What's more, the claim assessment process is relatively straightforward given the trigger for the benefit payment is the policyholder's diagnosis of any one of a defined list of medical conditions.



As a result, less ongoing evidence is required, and payments are made closer to the event. Clients generally also find it easier to comprehend the risks covered (eg malignant cancer, heart attack etc).

**Disadvantages:** Trauma insurance premiums are significantly higher for older people. Another negative is that if your client is diagnosed with a debilitating disease that's not on the list of specified events, no benefit is payable. An important point to note though is that the 'big four' events covered by all Trauma policies represent over 80% of all claims paid.

Source: Zurich