



**PACIFIC LIFE RE**

**THE LIFE REINSURANCE EVOLUTION**

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**Reinsurance as it is known today has expanded significantly from when the first contract was transacted back in the year 1370. Since then, the role of a life reinsurer has evolved in response to emerging new risks and more complex risk scenarios. In this article, we explore how reinsurers are increasing their value-add to the insurance value chain by taking advantage of their comprehensive understanding of risks, and adopting a positive attitude towards innovation.**

Previously, reinsurance was used mainly as a risk management tool to create financial stability, and was rarely considered to be a business enabler. Most reinsurance decisions revolved around capacity, price, underwriting support, and the relationship between the insurer and their reinsurer.

However, we are now seeing more emphasis on how life reinsurers can better support their clients through product development and their partnership mind-set. Beyond price competitiveness, the 2017 NMG report has shown these as the top two reinsurer selection factors in Asia.

### **Product development an important driver of new business growth**

Product development has been one of the most important drivers of new business growth for insurers in Asia. In order to continue staying relevant to the changing and emerging needs of their consumers, insurers need to constantly evolve their product and service offerings.

Life reinsurers have been playing a proactive role in bringing new ideas to insurers, enabling them to tap the untapped opportunities and taking on new risks. This is made possible due to their broad research capabilities and diverse global experience, which in turn allows them to experiment with creative ways to manage risks.

### **Holistic proposition**

In navigating today's changing industry and social landscape, insurers are actively looking out for fresh approaches to reach out to their target customers and engaging them through the policy lifetime.

Reinsurers can play an important role in helping insurers achieve this objective. They can do this by providing a

holistic proposition that combines product with tailored marketing messages, a well-defined customer journey and value-added services to make the customer proposition more tangible and relevant.

Automated underwriting technologies offered by life reinsurers enable insurers to design customer-friendly interfaces, thus making the underwriting process more efficient. Through the reinsurers' partnerships with various third-party providers (e.g. second medical opinion services, wellness rewards programmes, etc), insurers can save time in searching and selecting the best provider and at the same time, benefit from the economies of scale that will effectively be passed on to the consumers.

In short, life reinsurers who have a comprehensive understanding of the insurers' overall business objectives, their strategy, and work closely with them from the start will find themselves in a good position as a long-term strategic partner.

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## Redefining underwriting and distribution

Insurance underwriting and distribution were and still are separate functions for most insurers. With the recent introduction of automated underwriting technology, the industry has been able to make positive changes in the way customers are engaged and how insurance is bought.

Built upon the comprehensive underwriting rules created by reinsurers, the system allows multiple risks to be assessed at the same time in accordance to a customer's answers to a tailored set of health questions, saving insurance application time and increasing up-sell and/or cross-sell opportunities for the insurers.

Whilst a reinsurer's underwriting expertise and support remains important to insurers (this ranked number three in reinsurer selection factors beyond price, according to the 2017 Asia NMG report), the differentiation is in their capability to create a strategic value that impacts the insurers' business in the following areas:

- Simplifying the underwriting process
- Making use of non-traditional predictive factors in selecting risk
- Agility to tailor the product offer by customer segment and design differentiated customer journey to support various sales channels using the automated underwriting system

The recent InsurTech wave has expanded the horizon of ideas on how insurers can reach out and interact with the customers. We have seen some technologies such as the chatbot being adopted to service existing policyholders and agents. In China, insurance is sold via the WeChat messaging app. Selfie and social media underwriting are being tested and it is just a matter of time before all of these become the new norm.

Collaborating with InsurTech companies and incumbent insurers to form collective partnerships, reinsurers will play a big part in these value chains by providing their breadth and depth of understanding in risks, bridging the knowledge gaps and working with the relevant stakeholders to design solutions that make the most positive impact to the society and industry.

## Translating know-what/why to know-how

It is common for most insurers to perform regular claims investigations using a comparison against their own expected experience - the A/E (Actual versus Expected)

ratio. This traditional method involves a fact-based analysis that provides the "know-what" - for instance, claim experience by customer profile, product, distribution channel, etc. It is common for correlated risk factors to impact the experience and can potentially mislead the interpretation of the results and the real cause of adverse experience is not accurately identified.

Having access to aggregated industry data across various countries, reinsurers have built up the necessary know-how in processing and analyzing huge data sets for actuarial pricing, assumption development, benchmarking and trend setting.

In order to handle such massive amounts of data, they use powerful data analytics tools that allow them to appropriately dissect and interpret data to gain meaningful insights including emerging trends and behaviour.

Generalised linear modelling (GLM) is one of the advanced techniques that help to unbundle the correlation between risk factors to identify those that are truly influencing the experience ("know-why"). Through this analysis done by reinsurers, insurers will also benefit from anonymous benchmarking against others, allowing them to get the insights that they would not have obtained by conducting analysis on their own.

The value life reinsurers can bring to an insurer that goes above and beyond comprehensive data analysis lies in the "know-how" - the capability to translate these results into clear recommended actions.

Such knowledge could be used to optimise the product design to increase take-up rates, modifying the underwriting approach to minimise early claims, targeted marketing messages to improve the business mix, and enhancing the distribution management programme to motivate the right sales behaviour.

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One real example involves a critical illness business that has shown agency channel with markedly lighter experience than other channels. Through fitting the data into GLM, it was found that the lighter experience was driven by agency selling lower sum assured. Coupled with another observation that the sum assured was also increasing over time, this triggered the reversion of the insurer's decision to adjust the assumption down for agency channel. With the agreed set of actions or remedies, some reinsurers will be prepared to provide advanced credit from the expected improvement of the emerging experience in their reinsurance rates.

## Bringing it all together

The role of life reinsurers has indeed been evolving with the changing needs of the stakeholders within the insurance value chain, but there is a potential to evolve at a much faster pace.

It is predicted that InsurTech will displace some of the insurance jobs in the near future, but what about reinsurance jobs? Imagine a world where traditional reinsurance transactions and communications were done via a reinsurance aggregator supported by chatbots. Reinsurance rates and terms for standard risks were compared and transacted instantly without having to go through many rounds of negotiations. Reinsurance could be arranged and customised for an individual and on a usage-based rather than a long-term coverage on a treaty level.

It is a truth universally acknowledged that reinsurance exists because of insurance, which then exists because of the needs of the end consumers, and so on. Whichever wind of changes coming to the reinsurance industry will be as a result of the same order.

There have been calls for life reinsurers to break away from the notion of being perceived as just risk management experts, and to be more involved in the evolution and revolution of the industry as a whole, whether it be in areas such as product development, underwriting, distribution channels, or technologies.

What is important is the value each stakeholder brings to the table, and a shared vision towards a mutually beneficial relationship. Working together could potentially unlock new business growths that neither would possibly have achieved in isolation.

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**PACIFIC LIFE RE**

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Pacific Life Re works with clients in Europe, Asia, Australia, and North America to manage their mortality, longevity, and morbidity risk. We have built a strong, experienced team with a reputation for technical expertise, responsiveness, innovation, and excellence in service delivery to our clients.

Pacific Life Re is a wholly-owned subsidiary of Pacific LifeCorp, the parent company of Pacific Life Insurance Company.

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