



Re-imagining Group decline rates

Introduction

Azuria Partners have prepared a short note examining the Life Insurance industry claim decline rates¹ from June 2018² to June 2020 using biannual APRA Life Insurance Claims and Disputes statistics³. Our aim is to examine whether there has been any noticeable change in life insurer decline rates since the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry during 2018.

In summary, we have observed that DII and Death decline rates remained relatively stable across the time period, while TPD decline rates have materially reduced.

Group Insurance in Superannuation: Decline rates

The graph below shows a time series of the overall decline rate of Group Super products split by cover type. The results are summarised in Table 1.

Graph 1: Group Super decline rates

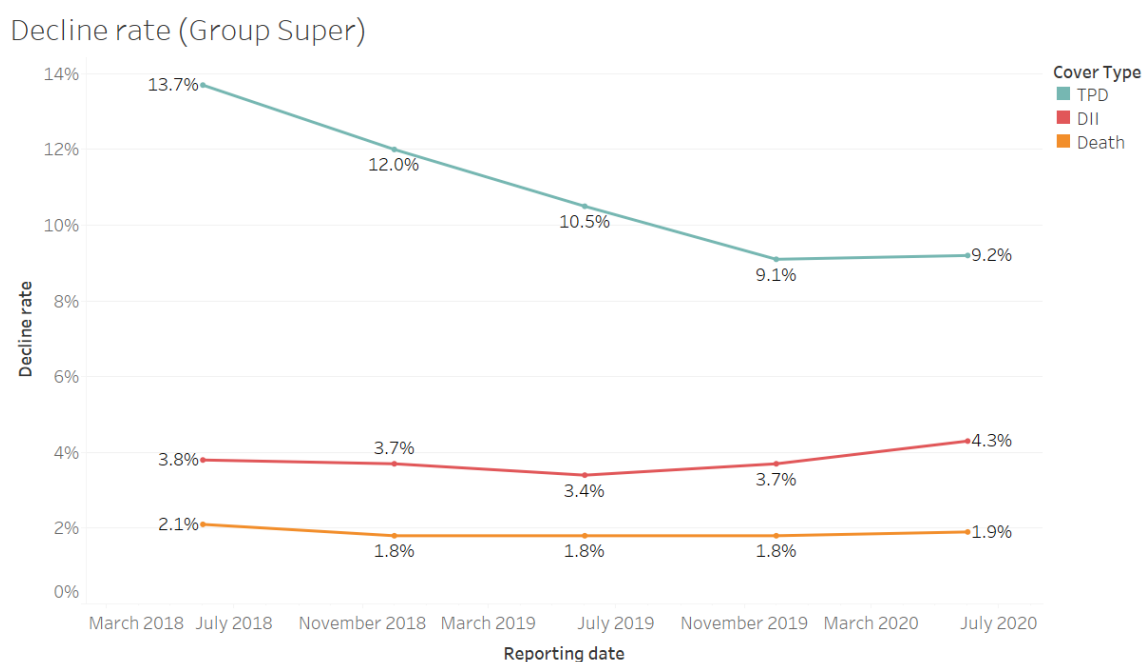


Table 1: Key Observations of decline rates across 2018-2020 period, Group Superannuation

	TPD	DII	Death
Average decline rate across full year period	10.9%	3.8%	1.9%
Trend	Material reduction from 13.7% (FY18) to 9.2% (FY20).	Flat / no trend	Flat / no trend

It is notable that there is a clear trend of reduction in TPD decline rates, with TPD decline rate dropping by 4.5% across the three-year period under investigation.

Group Insurance Ordinary: Decline rates

The following graph is as above except for Group Ordinary products. For lump sum products (Death and TPD), reported claims were not statistically credible and therefore analysis was omitted.

Graph 2: Group Ordinary decline rates

Decline rate (Group Ordinary)

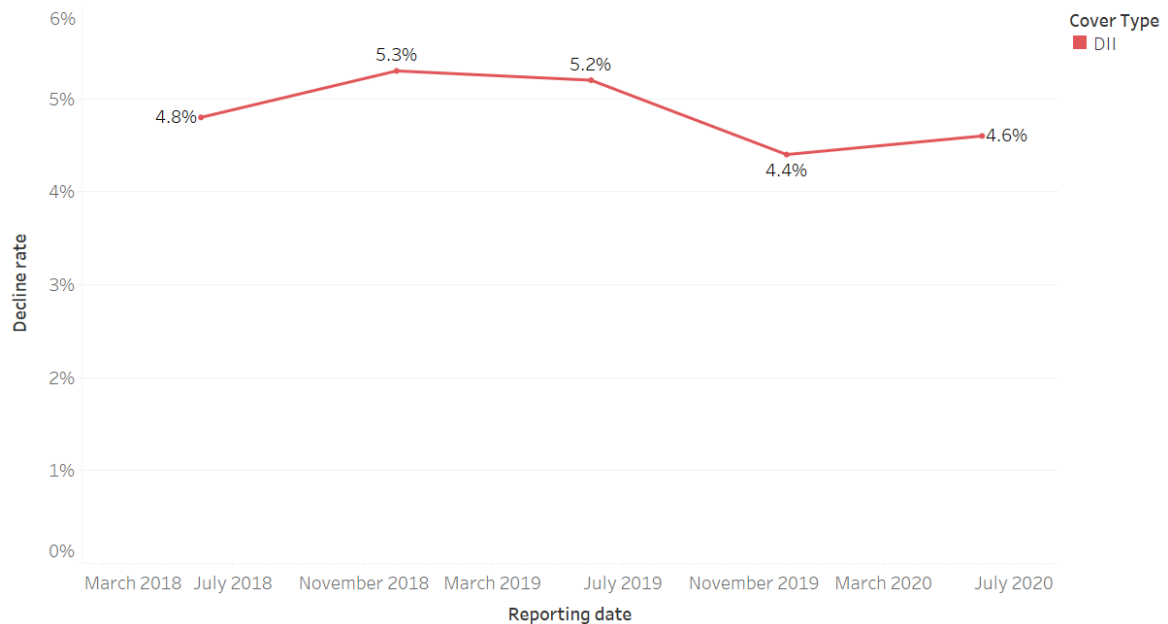


Table 2: Key Observations of decline rates across 2018-2020 period, Group Ordinary

	DII
Average decline rate across full year period	4.9%
Trend	Flat / no trend

Interestingly, the decline rate for Group DII (Ordinary) is 1% higher than the corresponding decline rate in the superannuation environment.

Key considerations

TPD Decline rate reduction – Group Super

The TPD decline rate has dropped materially by 4.5% from FY18, indicating material implications for life insurance pricing. It is important for Actuaries to consider the impact of the TPD decline rate - particularly when adjusting observed loss ratios and choosing assumptions. Over-reliance on historical data may incorrectly skew the historical reported claims estimate, by failing to capture up to date standards of decline rate.

The rescale factor for TPD decline rate needs to be carefully determined because as we have seen from the Industry statistics, there appears to be a solid underlying trend of reduction in decline rate. Additionally, it is noted that the change in TPD decline rates is not an impact that is connected to an incurred claims time period, but rather an impact that is connected to a reported claims time period.

The stylised chain ladder below shows how the decline rate would appear for each cell of the chain ladder, according to the decline rate observations that we can see from 2018-2020.

Table 2: Sample TPD chain ladder / decline rates.

Incurred Year (I)	Reported Year				
	I	I+1	I+2	I+3	I+4
2017	13.5%	13.5%	11%	9%	IBNR assumptions
2018	13.5%	11%	9%		
2019	11%	9%			
2020	9%				

Assuming that the IBNR assumption is derived correctly using the most recent decline rate (9%), the Reported claim loss ratios for earlier incurred years of TPD may need to be adjusted upwards, possibly by as much as 5% ($91\%/86.5\% = +5.2\%$), to capture what appears to reflect an industry sector shift in the standards of TPD claims assessment.

Conclusion

TPD decline rates for insurance in superannuation have materially reduced after FY18. This could suggest material implications for the pricing of group life & TPD insurance arrangements inside superannuation. Actuaries should be aware of this trend when performing pricing or financial management of the group insurance business. Overestimating the historical decline rate will lead to under-pricing and exposure to losses.

Footnotes

¹Calculated as a proportion of total reported claims

²The first reporting period from 2018 represents July-2017 up to June-2018 reported claims, so we now have three complete years of reporting of the claim decline rates.

³<https://www.apra.gov.au/life-insurance-claims-and-disputes-statistics/>