

Review of 2005



What a year 2005 turned out to be! The reality more than justified all the early hype – and that was just the Ashes! This summer's dramatic test series against Australia caught the whole country's imagination, giving us a new cast of national heroes and villains, winners and losers. But, looking back at our own industry over the past year, who have been the Freddie Flintoffs of the life industry, and who the Ricky Pontings?

This time last year I wondered how our industry would cope with the impact of a declining mortgage market on protection business sales. I expressed the hope then that with intermediaries more focused on protection our industry could reduce its dependence on mortgage business by boosting non-mortgage related sales.

Sadly, this hasn't happened. If anything, non-mortgage sales have also tailed off.

Just as the market was turning, a number of new providers decided to enter or re-enter the protection business. For any commodity business, the combination of increased supply and falling demand inevitably puts pressure on prices and profit margins. The sad fact is that most protection products – and term assurances in particular – are currently seen as commodity products. As a result we have seen both prices and profits driven downwards during a 'soft market' through 2005.

Ironically, the fresh wave of companies tempted into the protection market by what appeared to be healthy margins,

coincided with the market just going into decline. Finding their competitors cutting prices on a weekly basis, they had little choice but to join in if they hoped to achieve any kind of market share.

So it is probably fair to say this hasn't been the greatest year for the protection business – perhaps we need a Jason Gillespie category here! But, more seriously, how can we transform the humble term product into a winner?

How can we free it from the dreaded commodity tag? Sadly, I suspect that for pure term business, the answer is going to be: with some difficulty! We can streamline our underwriting practices and make the process more attractive for distributors, but ultimately price is likely to remain the most significant factor.



2006 will see the long-awaited A Day, and many people have been considering whether pension term business will provide an opportunity to increase their penetration of the protection market. Pension term has been with us for many years, but the new legislation frees us from many restrictions we currently experience, and tax relief on term premiums conjures up prospects of something temptingly holy-grail-like.

As with many such opportunities, however, there is of course a potential downside.

The cloud enshrouding this particular silver lining is the question of what happens to in-force portfolios – all carefully costed, with expected lapse rates allowed for, and no massive churning operation anticipated. Opinions differ on whether we will indeed see a major wave of churn. Much will depend on how pension term prices compare with those for current products.

Pre-tax-relief prices will actually be higher, but higher-rate taxpayers will undoubtedly see reduced outgoings once tax relief is factored in. Will companies see their current policyholders' lapse en masse and purchase replacement pensions policies? This is possible and many companies are already looking at defensive measures to help with this problem, but issues such as underwriting could put a damper on the process. If we begin selling pension term policies in huge numbers, how are the tax authorities likely to react? I very much doubt the new pensions legislation was brought in with such an outcome in mind.

So how do we create a Marcus Trescothick type product, something different and exciting? Perhaps we should look to the world of critical illness to find the answer.

At first sight the critical illness market doesn't look too healthy either. Growing worries among providers and reinsurers over the product's inherent risks have sent premium levels for the guaranteed product soaring. An ABI consultation paper issued in late summer has tried to address this issue, looking at future proofing existing definitions against medical advances and introducing more descriptive definition headings. This should ensure the product is sustainable for the future without too many changes going forward, allowing the product to continue to meet the needs for which it was originally designed. Hostile initial reactions from the press and the IFA community brought suggestions that the industry was attempting to wriggle out of its claims paying obligations. How many times have we heard that before?! We were also accused in certain quarters of trying to alter the terms of policies already in force. Emphatic denials naturally followed. A more reasoned body of feedback on the consultation document was received at the end of November, and we must hope a way forward can be found.

I believe critical illness could be the arena in which we can create a non-commodity product. Satisfying the ever-present requirements of the FOS and FSA,

and ensuring that we Treat Customers Fairly, will of course require that such a product is carefully designed. But there is surely scope here for devising new products that offer valuable benefits to the customer and generate healthy profits for distributors and manufacturers alike – not to mention your friendly neighbourhood reinsurer!

On the subject of Treating Customers Fairly, I believe our industry must embrace the principles the FSA is laying down. I have long hoped our reputation as an industry can be revived, and the TCF initiative must surely be a step in the right direction. Any successful industry needs satisfied customers; and we are no different. Treating customers fairly, and judging that fairness with specific reference to the customers' point of view, must surely improve the image of our industry. It took a long time to get the Ashes back, and there's no point pretending we can regain the public's trust overnight either. But won't it be great when we do!

The underwriting process has changed significantly during 2005. A growing emphasis on risk management has meant ever longer paper-based application forms. Some have blamed reinsurers for this. Others have pointed out that increasingly competitive rates inevitably require a closer focus on risk selection. Arguably we have shifted unannounced to a 'preferred' product, with our growing list of questions leaving ever fewer cases accepted at standard rates.

Underwriting costs have always been a key concern for senior management. In this specific context and at first sight, the trend towards longer more complex forms is unlikely to be earning underwriters too many brownie points. However, underwriters will rightly point to the improvement in claims experience that will result from the improved underwriting process.

For some time now, our industry has been making significant strides in the quest for efficiency – if only as a strategy for survival in this increasingly competitive and highly regulated market. As part of this process, however, greater use of technology has well and truly arrived now in the world of underwriting.

Many of the specialist protection offices are now adopting a tele-underwriting approach to collect medical information from customers over the phone. The theory is that a telephone call can actually yield more accurate and more relevant information than traditional methods, with questions tailored to the age and personal circumstances of the applicant. Tele-underwriting may also reduce the need to gather additional medical information from the GP. All of this should speed the underwriting process and reduce its costs.

Will these hopes be borne out in practice? Can we look forward to an underwriting process as effortless as an Andrew Strauss century? The jury remains out, but the early signs are encouraging. Once again, we must take care over the audit trail, not only for the sake of good market practice but to ensure fewer problems arise from non-disclosure.

Hannover Life Re (UK) has had another very positive year in 2005. Our premium income has continued to increase, and should reach around £130m by the year-end. As ever, our thanks and appreciation go to all our clients. Some have been with us for many years, and we greatly value their participation in our own philosophy of long-term profitable partnerships. We have also been pleased to see a number of new clients come on board this year. We warmly welcome them and hope they too will be with us for many years to come.

It has been another very busy year for everyone who works at Hannover Life Re (UK). I firmly believe we have a really great team here. Their cricketing skills may not quite equal those of Michael Vaughan's men,

but in UK life reinsurance I see none better. My personal thanks go to everyone who has helped us respond so positively and dynamically to all the challenges of the market in which we operate.

Our industry has certainly had an exciting year in 2005, perhaps not quite as thrilling as the Ashes series – but interesting enough! I look forward to another eventful and productive year in 2006. Finally, I would like to take this opportunity to wish all our readers a very happy Christmas and a healthy and prosperous New Year.

David Brand
Managing Director

New Developments for Hannover Life Re (UK)

We like to think that one of the things that distinguishes Hannover Life Re (UK) from other life reinsurers is our strong emphasis on customer relationship management. We aim to treat each and every client on an individual basis, always matching the services we provide to that client's specific needs. To ensure we live up to this commitment we have decided to introduce a number of changes to our management structure.

We have an excellent team of people here at Hannover Life Re (UK). Their contributions have helped us achieve strong growth which, of course, brings challenges of its own. As we grow, our management structure must evolve and develop to ensure we can continue to deliver the quality of service our clients have come to expect.

With this in mind, we have now set up a dedicated Client Relationship Management team to make us more responsive than ever to changing client requirements. Ronnie Bowes, Head of Marketing and Caroline Bright, Head of Actuarial Marketing will now share responsibility for heading up our client liaison function alongside Stuart Hill, General Manager, Business Development.

Julie Hopkins' role as Head of Underwriting & Claims Strategy is also newly created. With her extensive industry experience, Julie will play a key role in the strategic development of our underwriting and claims philosophy and in maintaining our ability to innovate in this rapidly evolving area of our business. Meanwhile Joanne Wells takes over responsibility for the development of our product pricing and research functions as Head of Actuarial Pricing and Pauline Wilson

becomes Head of Customer Services, responsible for all aspects of reassurance administration and technical accounting.

We have also made two promotions, Caroline Froude to Chief Underwriter and Mark Crawley to Head of Systems Development.

Caroline's role will encompass responsibility for our Underwriting & Claims department, acting as the main point of contact for our clients' chief underwriters and managing a full client audit programme. Mark meanwhile takes over full responsibility for our systems development.

Caroline and Mark both now join our senior management team - henceforth known as the Management Committee. The committee is led by David Brand, Managing Director and includes Finance Director Alan Stockbridge, Head of Actuarial Finance Neil Cheetham as well as the other team members mentioned above. The whole team is strongly focused on shaping the future of the life assurance and healthcare market. Many of them serve on industry committees and working groups and regularly speak and deliver training sessions at events across the UK.

We believe these changes will significantly enhance our ability to anticipate and respond to clients' needs, both now and in the future. The new structure should enable us to deploy the considerable talents of our management team in the most logical and efficient manner possible, without compromising on the ability that we have always valued to work closely together to view each client relationship as a coherent whole. We hope you will appreciate the difference!

Changes to our office hours over the holiday period

Friday 23rd December 2005	Closed from 1pm
Monday 26th December 2005	Closed
Tuesday 27th December 2005	Closed
Wednesday 28th December 2005	9 am – 4pm
Thursday 29th December 2005	9 am – 4pm
Friday 30th December 2005	9 am – 4pm
Monday 2nd January 2006	Closed
Tuesday 3rd January 2006	Normal office hours

From all at Hannover Life Re (UK) we wish you a Merry Christmas and a successful New Year.

somewhat
different



Life Convention and Exhibition 2005

Cardiff International Arena

Hannover Life Re (UK) participated in the successful Institute of Actuaries Life Convention and Exhibition in Cardiff which was attended by over 800 delegates.

Delegates visited our stand and tested their speed and skill in the 'Battlerz Challenge'. Using a remote control, drivers had to try and knock their opponent's car out of the Nitrodome to become king of the ring. Those with the highest knock out times entered into a dizzying duel in our Battlerz Final – Andy Pennington, Aegon won the challenge and took home a luxury Harrods Hamper and a Nitro Battlerz game, second place went to David Farrer, Scottish Widows who won champagne and flutes plus a Battlerz game and third place went to Zahra Scott, Legal & General who also took home a Battlerz game.

We look forward to seeing everyone at next year's Life Convention.

From top to bottom our challenger's receiving their prizes from David Brand.

Andy Pennington, Aegon and David Brand
David Brand and David Farrer, Scottish Widows
Zahra Scott, Legal & General and David Brand



We hope you enjoy **In Focus** and we welcome your feedback, please forward any comments to Kirsteen Grant. If you wish to be added to our mailing list contact Kirsteen on 01344 846833 or email uk.marketing@hannover-re.com.

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CONTACT

For your chance to win a thrilling Nitro Battlerz game of speed and skill in time for Christmas please answer the question below and email it to uk.marketing@hannover-re.com by 14th December 2005 to be entered into the prize draw.

Question: Which year was Hannover Life Re (UK) founded? Good luck