



# PROTECTION AND ANNUITIES. INSURANCE RISK

**INVESTOR BREAKFAST**

**3 MAY 2013**

EVERY  
DAY  
MATTERS



# FORWARD LOOKING STATEMENTS.

This document may contain certain forward-looking statements relating to Legal & General Group, its plans and its current goals and expectations relating to future financial condition, performance and results. By their nature, forward-looking statements involve uncertainty because they relate to future events and circumstances which are beyond Legal & General's control, including, among others, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory and Governmental authorities, the impact of competition, the timing impact of these events and other uncertainties of future acquisition or combinations within relevant industries. As a result, Legal & General Group's actual future condition, performance and results may differ materially from the plans, goals and expectations set out in these forward-looking statements and persons reading this announcement should not place reliance on forward-looking statements. These forward-looking statements are made only as at the date on which such statements are made and Legal & General Group Plc does not undertake to update forward-looking statements contained in this document or any other forward-looking statement it may make.

# ▶ RETAIL PROTECTION.

Duncan Finch  
Managing Director of Retail Protection

Stuart Welch  
Actuarial Director, Retail Protection

# RETAIL PROTECTION.

## 1) Market

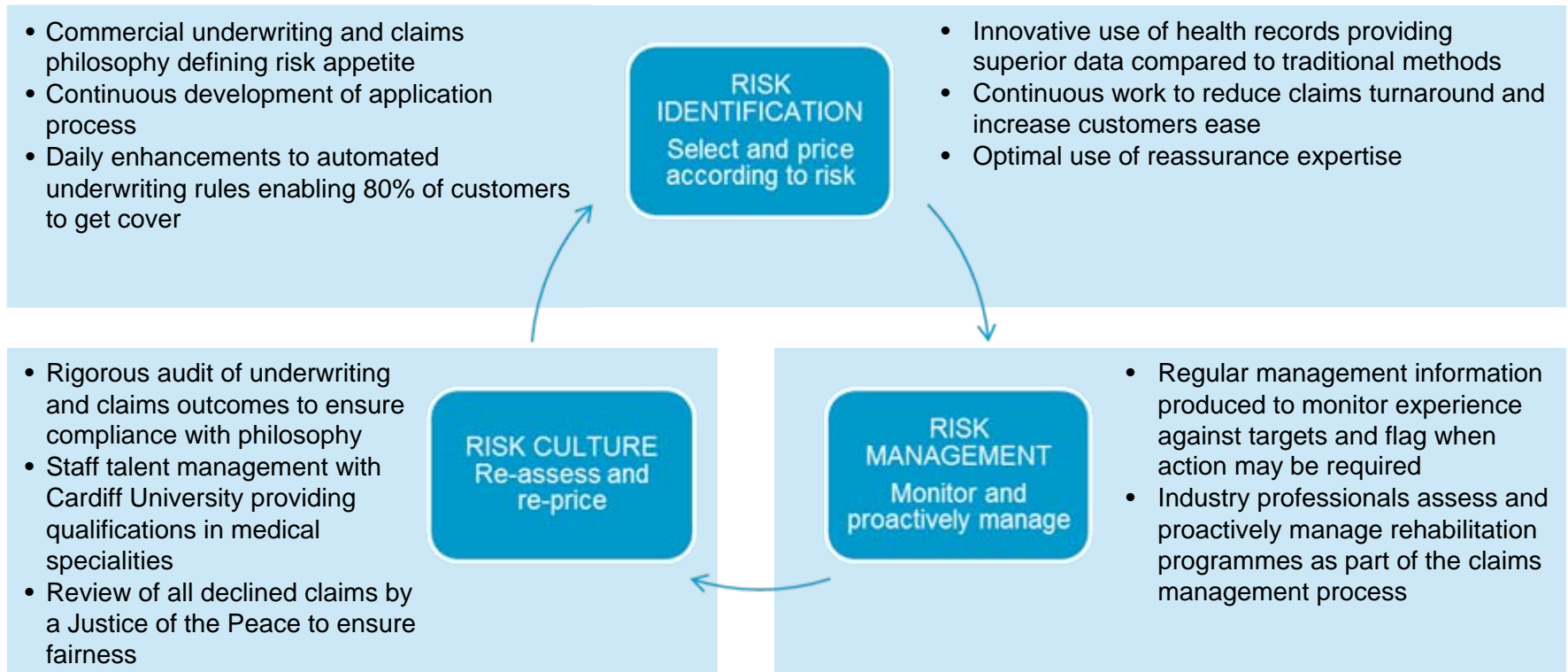
- Key Products for individuals: Term, Critical Illness, Income Protection and Whole of Life cover
- Market has circa £765m APE<sup>1</sup> written each year
- Key players are Legal & General, Aviva, Scottish Widows, Friends Life and Royal London Group

## 2) Legal & General:

- Providing benefits since 1836 and now largest provider of Protection (20% market share in 2012)
- Protection Provider of the Decade (Lifeseach Awards 2013)
- “Value of a Parent” campaign running for 30 years
- Paid £483m in claims in 2012; 98% of Term, 93% of Critical Illness and 91% of Income Protection claims paid in 2012
- New business in 2012 up 15% on prior year to £151m
- Gross written premiums of £947m at end of 2012

<sup>1</sup>Source: ABI Market Exchange statistics (2012)

# RISK MANAGEMENT.



# PROFIT MANAGEMENT.



## Lapse

- Our largest risk is that the policies do not stay on risk long enough for us to recoup our costs
- We have a number of procedures in place to mitigate this risk:
  - 1) Retention Strategy Group
  - 2) Early warning lapse system flags when premiums have been missed and allows us and agents to take action to try and save the policy
  - 3) Selling practices of distributors are investigated and can lead to termination of accounts
- Our lapse experience improved during 2012
- Tax changes at the start of 2013 have pushed up premiums for new policies. Therefore we expect better persistency in 2013 as fewer policies will be replaced due to cheaper premiums

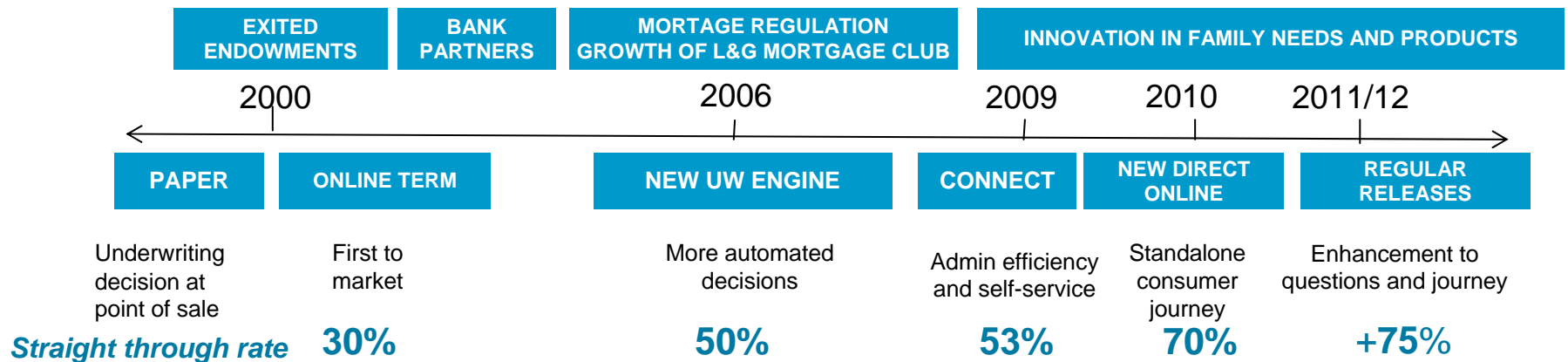
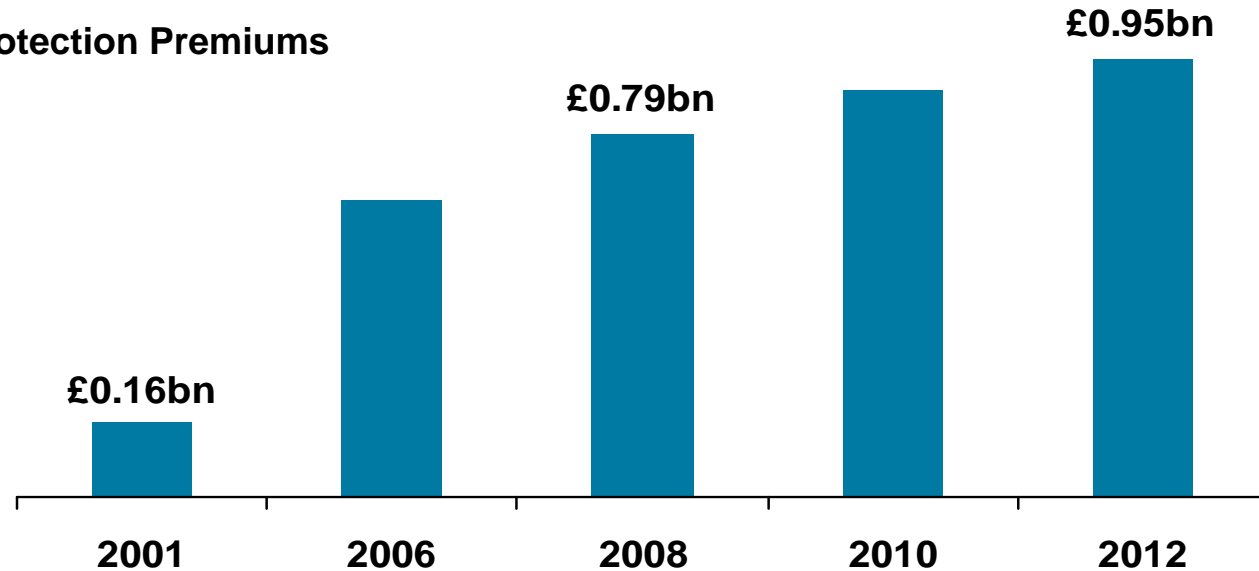
## Adverse Claims Experience/Reinsurer Credit Risk

- A large amount of time and money is spent on ensuring we take on good quality risks at the application stage
- Our second largest risk is our mortality/morbidity risk
- A significant portion of this risk is mitigated by the use of reinsurance
- Improved underwriting decisions are feeding through to better mortality/morbidity experience in the future
- Using reinsurance creates a counterparty risk due to potential reinsurer default risk
- We spread our risk across a number of reinsurers
- A minimum credit rating is set before we will place business with a reinsurer
- If the credit rating falls below an acceptable threshold further action can be taken such as holding back of premiums, seeking parental guarantees and ultimately placing the risk elsewhere

# COMPETITIVE ADVANTAGE.

## ADAPTATION + SCALE + INDUSTRIAL PROCESSES.

### UK Retail Protection Premiums



# INTERACTIVE UNDERWRITING DEVELOPMENT CYCLE.

Apart from anything you have already told us about, during the **last 2 years** have you seen a doctor, nurse or other health professional for any condition affecting your lungs or breathing, for example asthma, emphysema, sleep apnoea, sarcoidosis?  
 Yes  No  
Please ignore hay fever

Because of your answer to the above question, you must provide the following information.  
 If you answered incorrectly, please use the BACK button at the bottom of the screen and change the original answer.

Please select from this list. Only select other when you cannot find a match. \*

Asthma

How long ago did you last have symptoms of asthma? \*

0 Years 2 Months

Symptoms may include wheezing, shortness of breath or tightness in your chest.

How often do you have symptoms of asthma? \*

Less than daily  
 Daily  
 More or less continuously

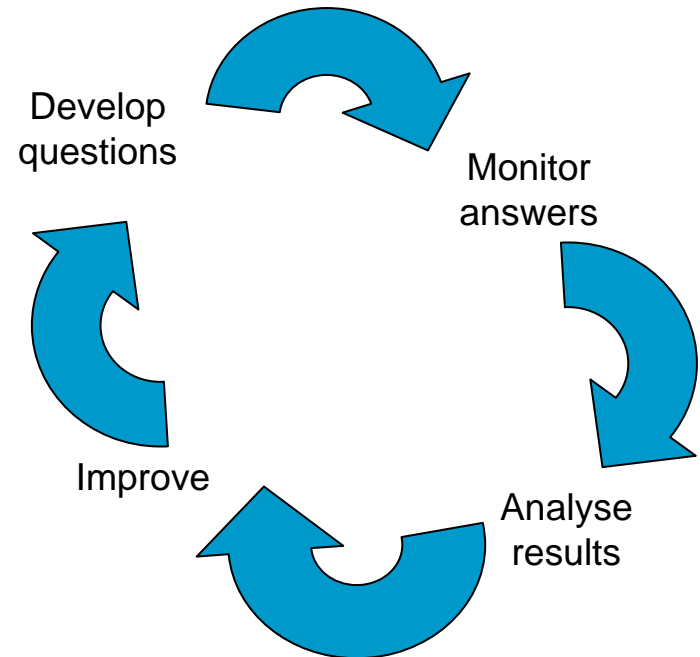
In the last year, how many times have you been admitted (for one night or more) to hospital due to an asthma attack? \*

0

In a typical week, how often do you have an asthma attack? \*

1

This is when you have asthma symptoms which last for several hours and are sufficient to make you stop what you are doing.



- **Higher quality underwriting**
- **More immediate decisions**
- **Reduced business cost**





# GROUP PROTECTION.

Jim Islam  
Managing Director of Group Protection

# GROUP PROTECTION.

## 1) Market

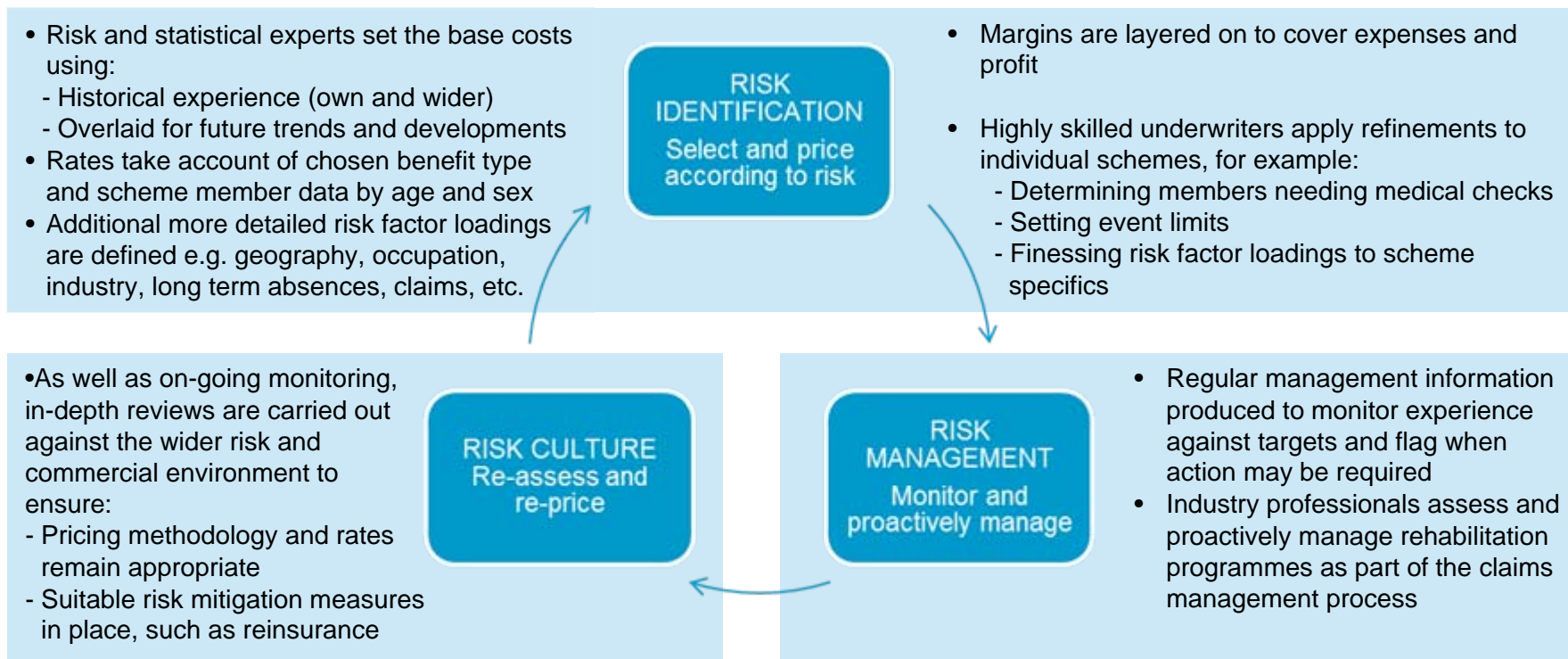
- Products: Group Life Assurance, Dependants' Pension, Group Income Protection and Group Critical Illness cover
- 28% of working age population covered for group death benefits
- 6% of working age population covered under group income protection
- £1.7bn annual gross written premium for group benefits
- Key players are Legal & General, Canada Life, Unum and Aviva

## 2) Legal & General:

- Providing benefits for over 80 years. Second largest provider of Group Life and third overall for gross written premium<sup>1</sup>; GWP 2012 +12% to £321m
- Winner of Group Life and Group Income Protection at the 2012 Cover Excellence awards.
- Leading the way in early intervention and rehabilitation as part of Group Income Protection
- Strong performance: FY2012 +52% to £70m APE, Q1 2013 +67% to £20m APE

<sup>1</sup>Source: Swiss Re Report 2012

# RISK CONTROL CYCLE.



Scheme rates are typically guaranteed for two years  
=> regular opportunity to re-price to reflect changing  
experience and environment

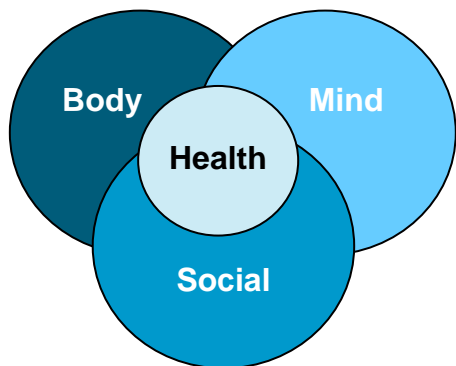
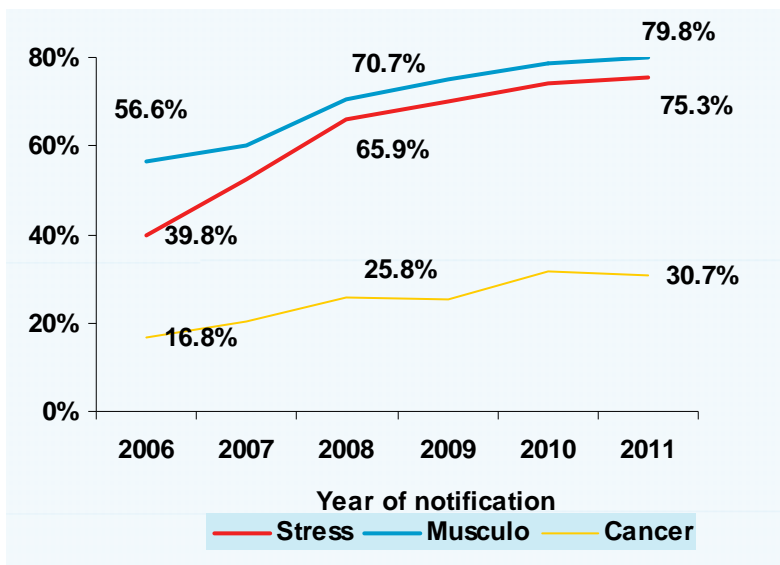
# PROACTIVE REHABILITATION.

74% long term absentees are able to return to work before end of the deferred period (typically six months):



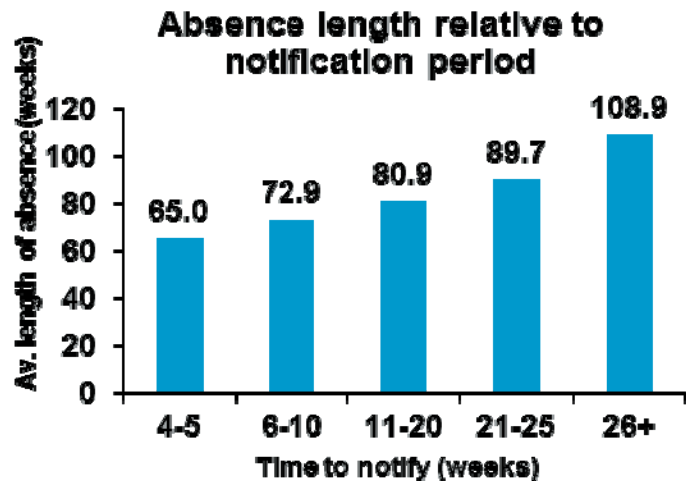
## Fewer and shorter Group Income Protection (GIP) claims when we're notified early:

- First to introduce early notification bonus. Helped to drive down notifications from 19 weeks to less than 8 weeks in 2012
- 70% of claims are for stress, musculoskeletal and cancer conditions
- Provide fast access to rehabilitation treatment from market leading specialists
- Utilise best practice biopsychosocial model to help claimants return to work quickly

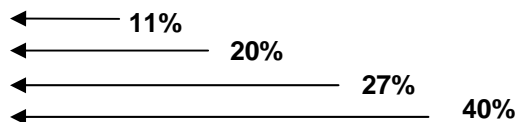


# COMPETITIVE ADVANTAGE.

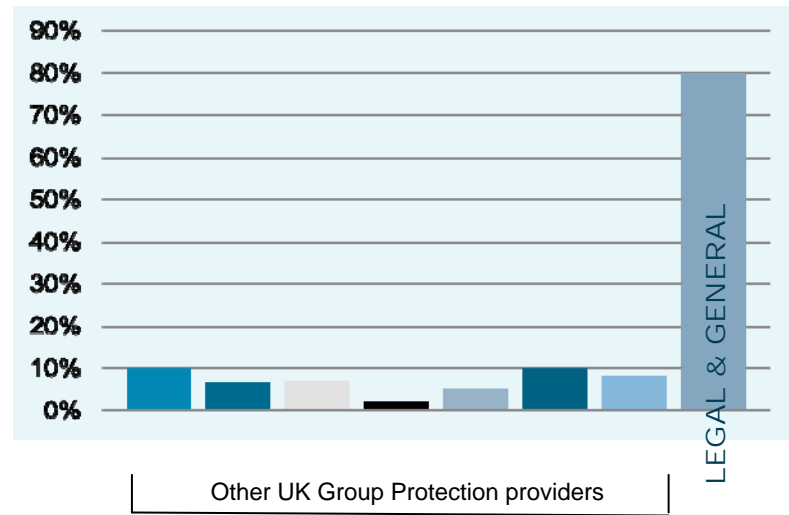
Our early notification means we use rehabilitation where appropriate to help employees return quickly to work and shorten the length of the claim



## Reduction in absence



## Swiss Re Claims Watch 2012, proportion of claimants receiving rehabilitation in 2011



## Absence prevention

**Employee assistance programme** – telephone, face to face and online support for employees with emotional, health, financial or work related issues

**Healthy Living** – tools for both employees and employers to assess, monitor and improve their health



# ANNUITIES.

Kerrigan Procter  
Managing Director of Annuities

Joseph Lu  
Head of Longevity Risk Team



# ANNUITIES.

## 1) Market:

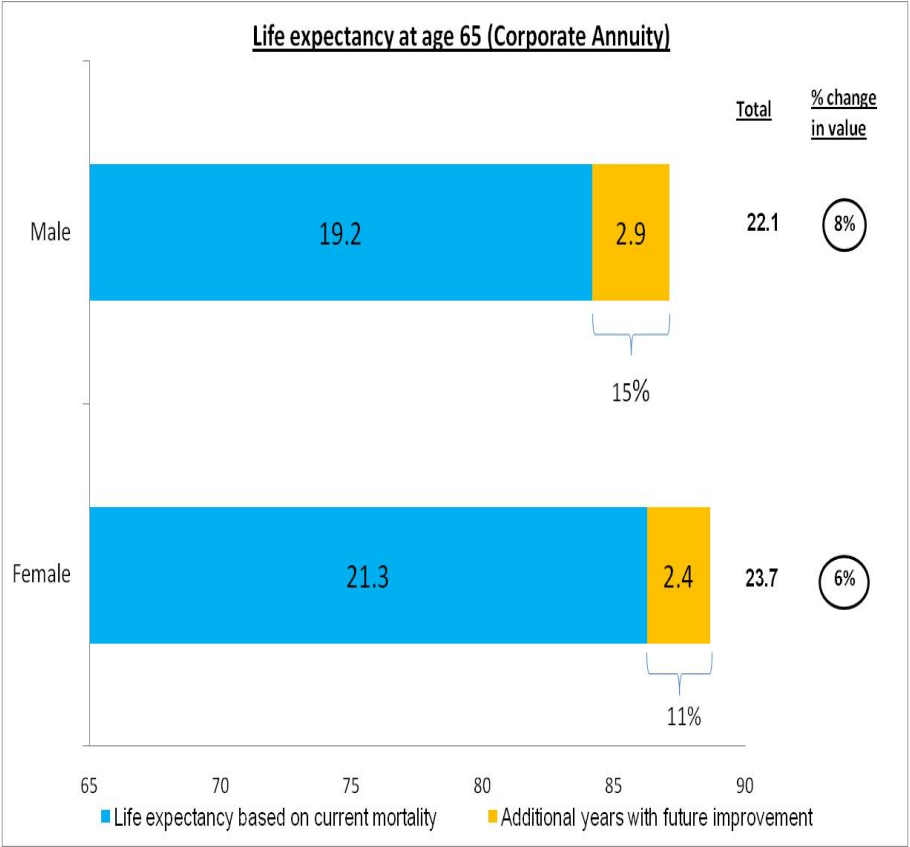
- Bulk Purchase Annuity market c£4.5bn<sup>1</sup>/year, key players; Legal & General, Rothesay Life (Goldman Sachs) and PIC
- Individual Annuity market c£1.4bn<sup>2</sup>/year, key players are Legal & General, Aviva, Pru, Just Retirement, Partnership
- Few longevity insurance transactions to date (14 since 2009)
- Large deficits outside the UK: Netherlands combined deficits for the largest 35 multinationals increased from €7bn to €30bn at end of 2012, in US aggregate S&P 1500 deficits rose by \$73bn to \$557bn at end of 2012

## 2) Legal & General:

- More than 25 years experience, manage portfolio of £33bn, 700,000 annuitants; 3,500 pension plans
- FY 2012, premiums of £2.3bn and Q1 2013 of £763m
- Enhanced Annuities in Q1 19% of Legal & General's Individual Annuities
- Transacted UK's largest longevity scheme covering £3.2bn liabilities for BAE Systems.
- Flexible de-risking options for trustees and benefit across LGIM and Annuities
- Investment disciplines; risk analysis and mitigation

<sup>1</sup>Source:Hymans Robertson Report Q4 2013; <sup>2</sup>ABI Market Exchange statistics (2012)

# LIFE EXPECTANCY: CURRENT VS FUTURE.

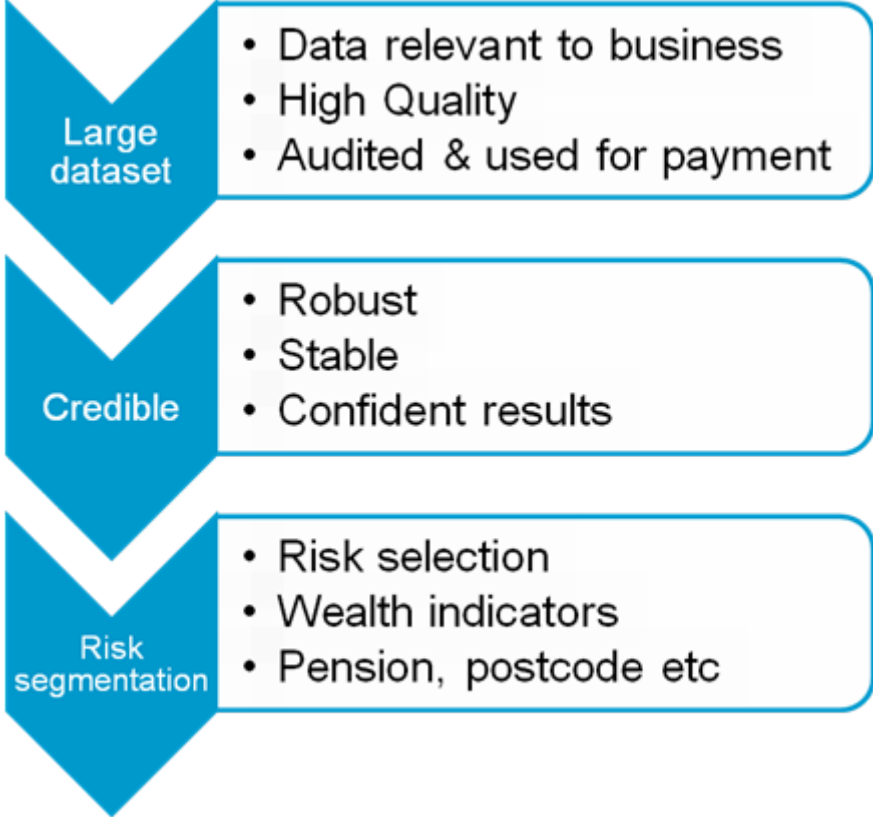
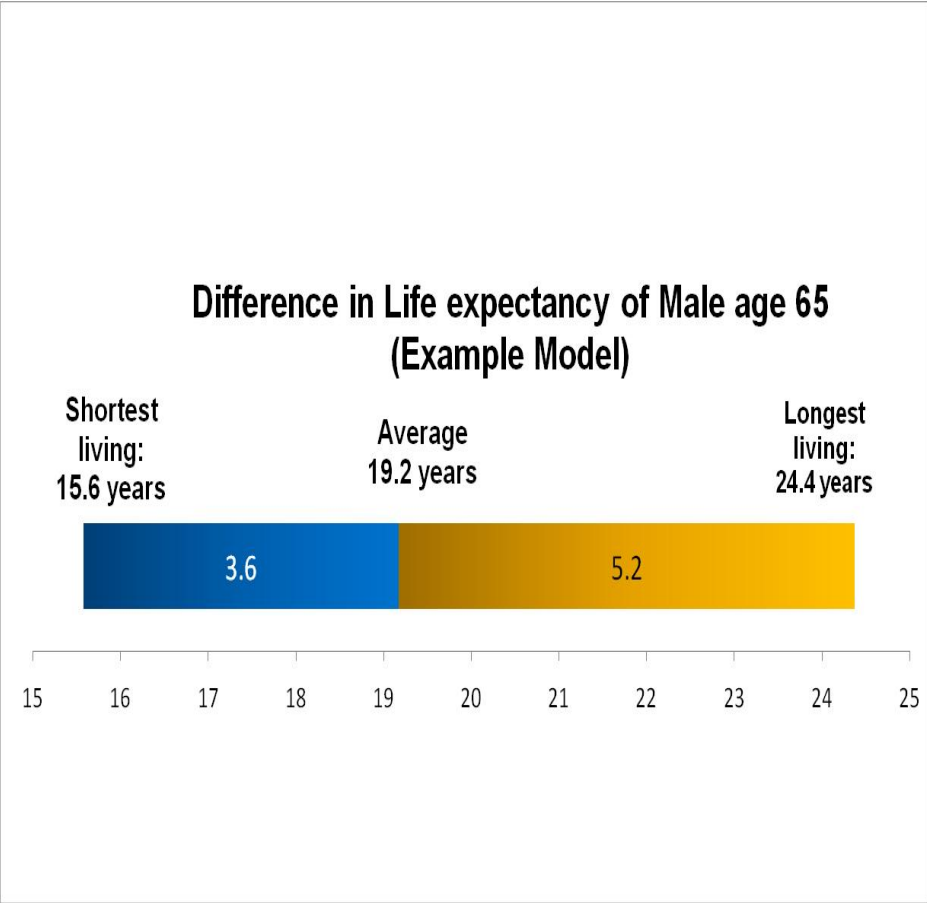


MORTALITY ASSUMPTION		
	CURRENT	FUTURE
	Use L&G data	Greater part of life expectancy & more certain.
		More uncertain but modest part of life expectancy.

Source: Human Mortality Database

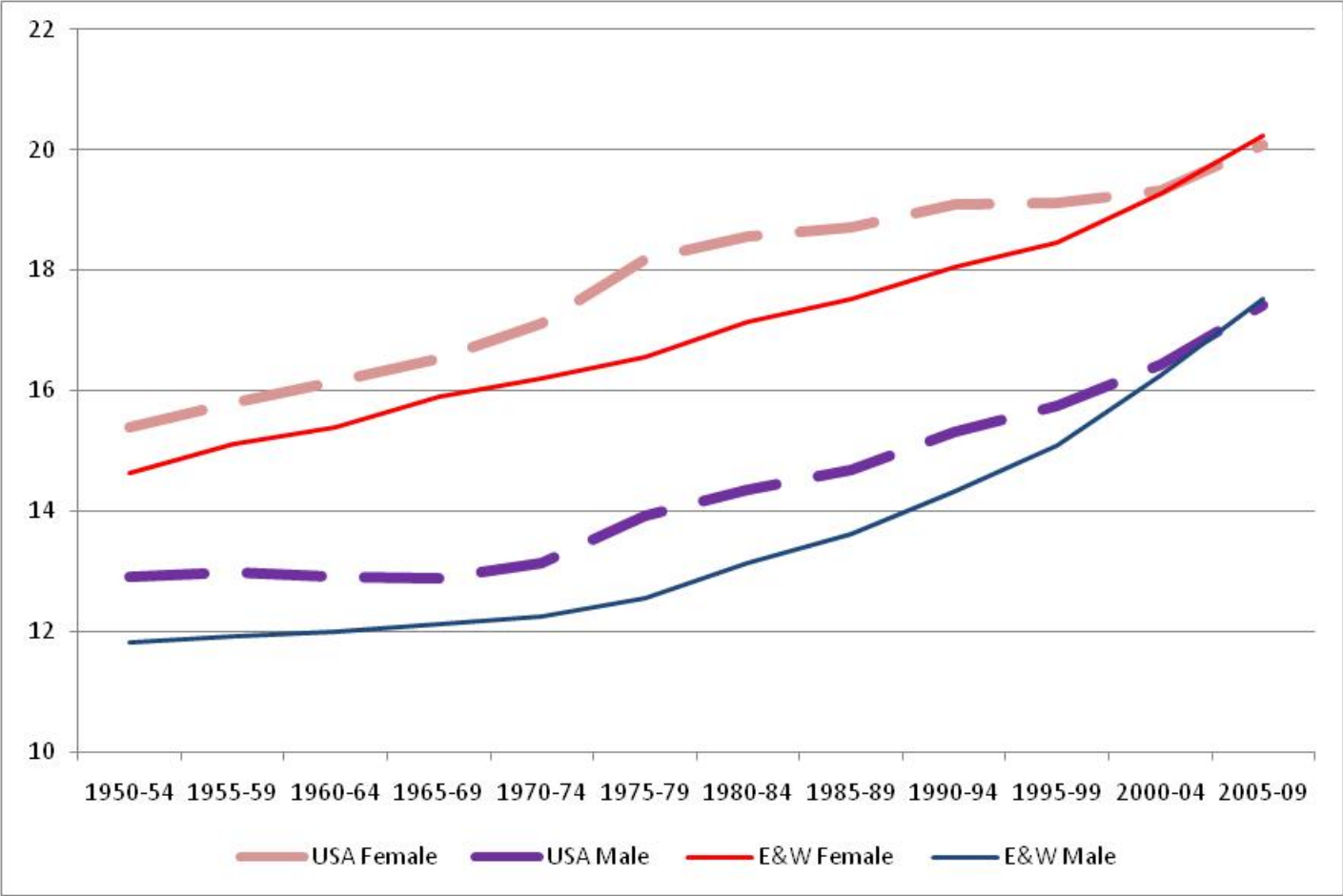


# CURRENT MORTALITY SEGMENTATION.

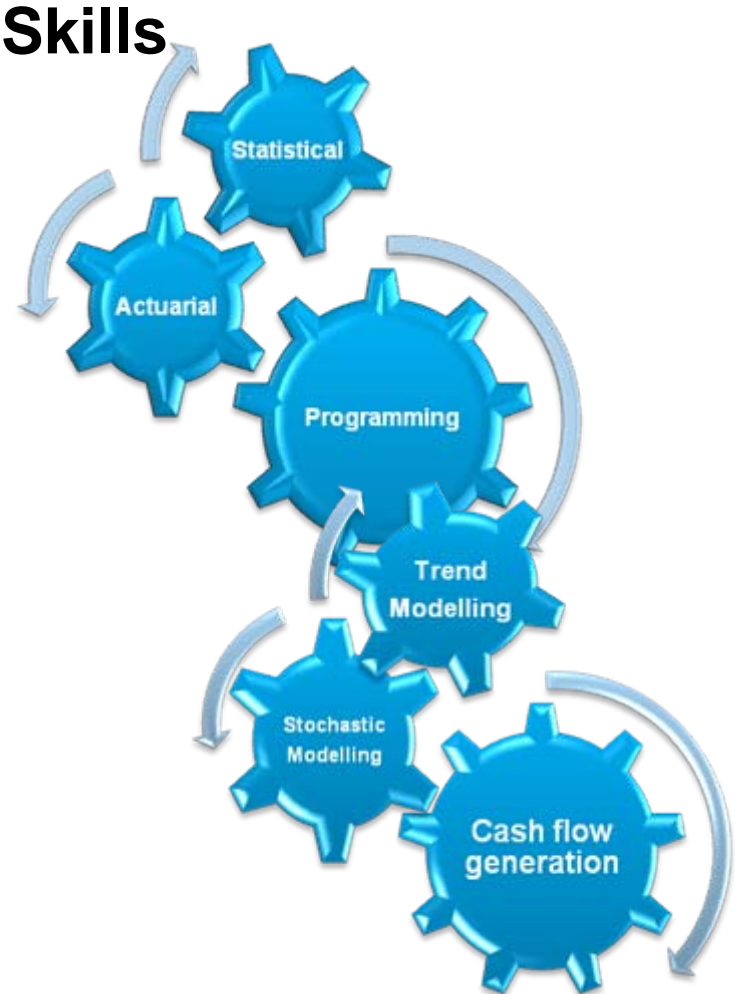


Source: Human Mortality Database

# FUTURE LIFE EXPECTANCY?

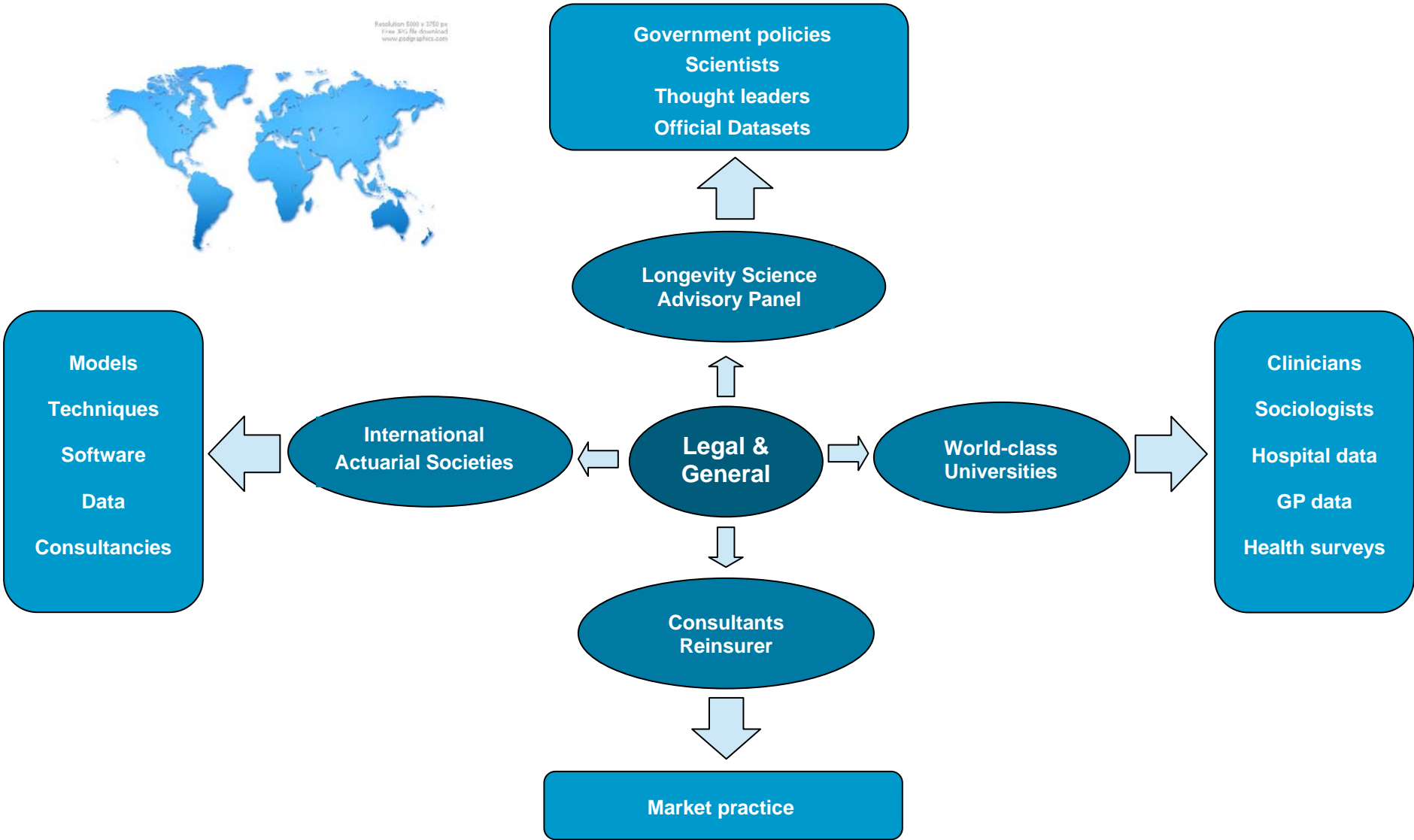


# CAPABILITY: EXPERTISE, KNOWLEDGE AND SKILLS.



# NETWORK AND PARTNERSHIP.

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# LONGEVITY SCIENCE ADVISORY PANEL (LSAP).



Dame Karen Dunnell  
Former UK National Statistician



Sir John Pattison  
Former Department of Health's R&D Head



Professor Steve Haberman  
Cass Business School's Dean



Professor Klim McPherson  
National Heart Forum's Chair



Professor Colin Blakemore  
Former Medical Research Council's CEO

## GUESTS:

**Sir John Bell**

*Clinical Scientist*

**Sir Rory Collins**

*Head of UK Biobank*

**Professor Rosalind Raine**

*Clinical Epidemiologist*

**Professor Tom Kirkwood**

*Biologist on ageing*

**Professor Simon Capewell**

*Clinical Cardiologist*

# ROBUST AND RESPECTABLE SCIENTIFIC RESEARCH WITH UNIVERSITIES.

**Bajekal, M., Scholes S\*, Love H.,** Hawkins N., O'Flaherty M., Raine R., Capewell S. (2012). [Analysing recent socioeconomic trends in coronary heart disease mortality in England, 2000–2007: A population modelling study](#). PLoS Medicine, 2012.

Hawkins, N., **Scholes, S., Bajekal, M., Love, H.,** O'Flaherty, M., Raine, R., & Capewell, S. (2012). [Community care in England: reducing socioeconomic inequalities in heart failure](#). Circulation, 126 (9), 1050-1057.

**Scholes, S., Bajekal, M., Love, H.,** Hawkins, N., Raine, R., O'Flaherty, M., & Capewell, S. (2012). [Persistent socioeconomic inequalities in cardiovascular risk factors in England over 1994-2008: A time-trend analysis of repeated cross-sectional data](#). BMC Public Health,

Pearson-Stuttard, J., **Bajekal, M., Scholes, S.,** O'Flaherty, M., Hawkins, N. M., Raine, R., & Capewell, S. (2012). [Recent UK trends in the unequal burden of coronary heart disease](#). Heart, 98 (21), 1573-1582.

**Bajekal, M., Scholes, S., Love, H.,** Hawkins, N., O'Flaherty, M., Raine, R., & Capewell, S. (2011). [Cardiovascular disease and mortality: Explaining recent coronary heart disease mortality trends in England by socioeconomic circumstances, 2000-2007](#). J Epidemiol Commun H, 65:A10.

Hawkins, N. M., **Scholes, S., Bajekal, M., Love, H.,** O'Flaherty, M., Raine, R., & Capewell, S. (2011). [Reducing socioeconomic inequality in coronary disease treatments: the NHS finally triumphs?](#) J Epidemiol Commun H, 65.

Ashton, C., **Bajekal, M.,** & Raine, R. (2010). [Quantifying the contribution of leading causes of death to mortality decline among older people in England, 1991-2005](#). Health Stat Q (45), 100-127.

**Bajekal, M., Scholes, S.,** O'Flaherty, M., Raine, R., Norman, P., & Capewell, S. (2010). [Trends in coronary heart disease mortality in England by socio-economic circumstances, 1982-2006](#). J Epidemiol Commun H, 64, A2.

Raine R., **Wong W.,** Ambler G., Hardoon S., Petersen I., Morris R., Bartley M., Blane D. (2009). [Sociodemographic variations in the contribution of secondary drug prevention to stroke survival at middle and older ages: cohort study](#). BMJ.

\*L&G employees in bold

# INDUSTRY-LEADING PAPERS.

Life expectancy: Past and future variations by gender in England & Wales. Publication of the Longevity Science Advisory Panel.  
(<http://www.longevitypanel.co.uk/docs/life-expectancy-by-gender.pdf>). 2013.

*Featured in The Economist.*

Life expectancy: Past and future variations by socio-economic group in England & Wales. Publication of the Longevity Science Advisory Panel. 2012.

*Media coverage.*

Mortality improvement by socio-economic circumstances in England (1982 to 2006). British Actuarial Journal. 2012.

*Cited by The Economist.*

Developments in the management of annuity business. British Actuarial Journal. 2010/2011.

*Actuarial Profession's Recommended Article.*

Mortality improvement in the USA: analysis, projections and extreme scenarios. 2011 Living to 100 Monograph. Society of Actuaries. 2011.

*Informed US practice.*

Two dimensional mortality data: patterns and projections. British Actuarial Journal. Presented in 2007.

*Institute & Faculty of Actuaries' Best Sessional Paper 2007.*

Longevity in the 21<sup>st</sup> century. British Actuarial Journal. Presented in 2004.

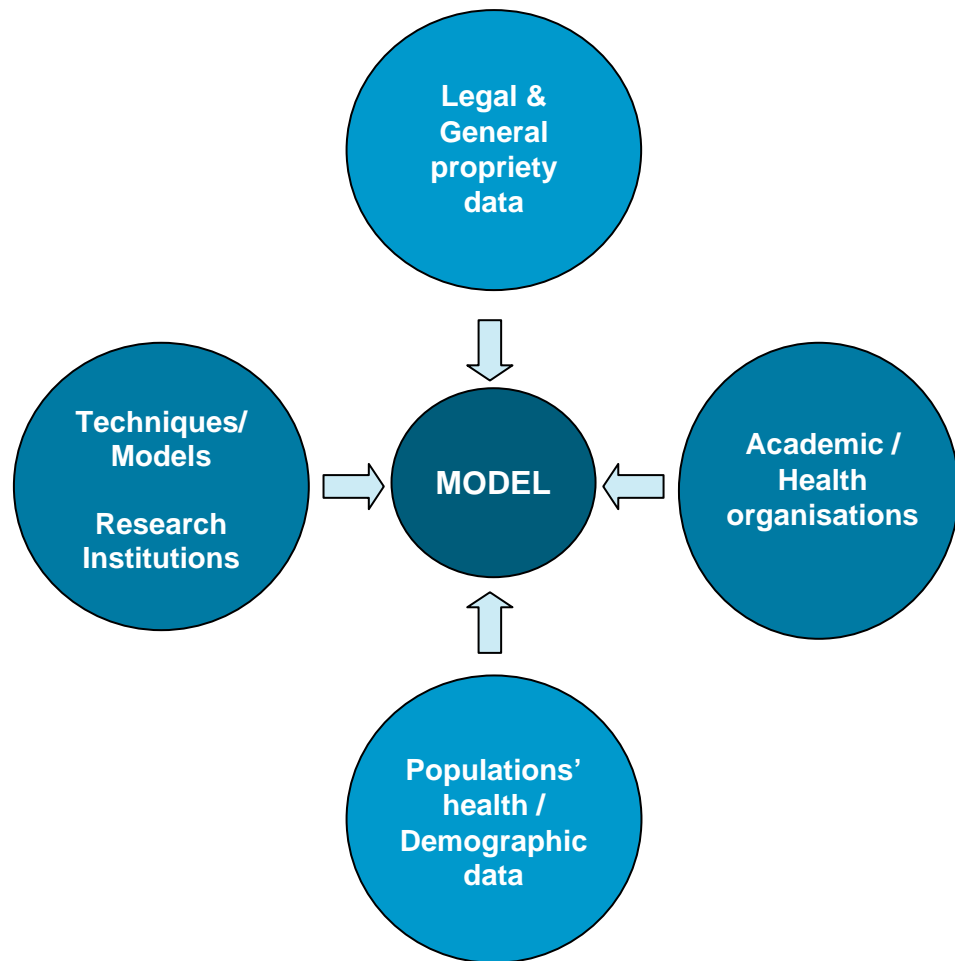
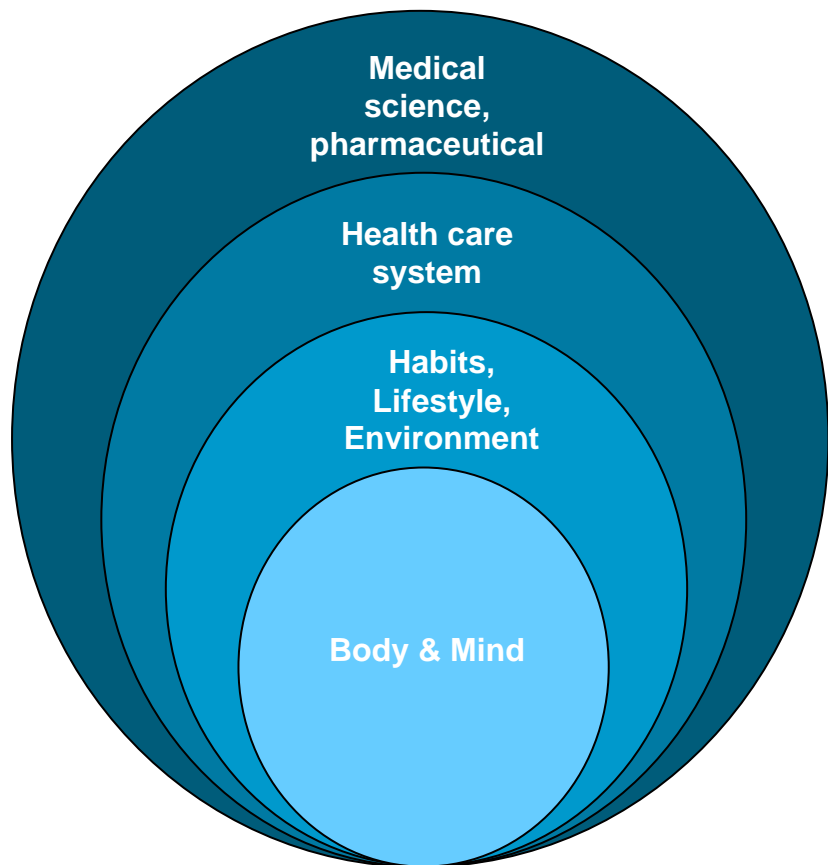
*Institute & Faculty of Actuaries' Best Sessional Paper 2004.*

CMI Working Paper 38 & 39 on Mortality Improvement Projection Model.

*Current UK industry standard.*

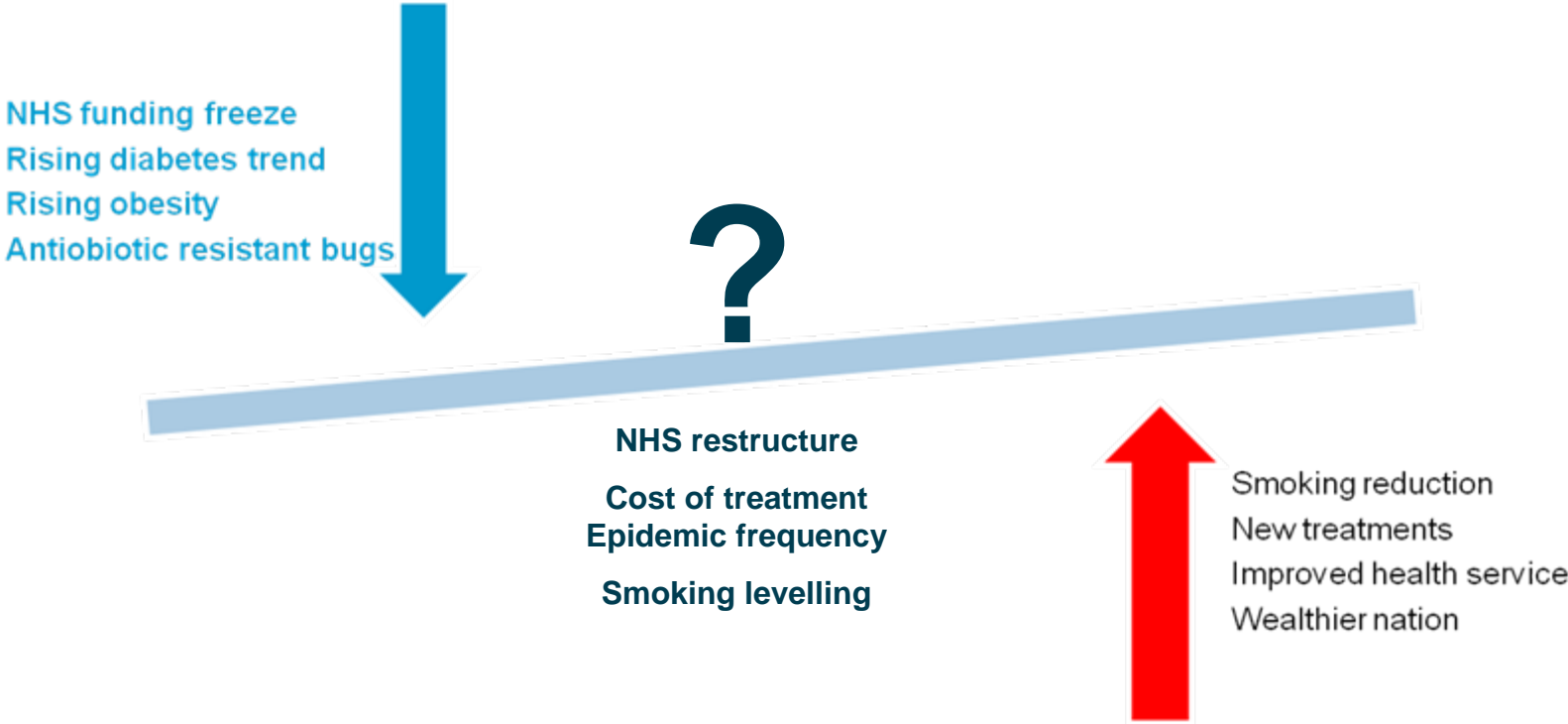
Joseph Lu  
Head of Longevity Risk's  
Publications with industry leaders

# ACCESS TO EVIDENCE, DATA, INFORMATION.

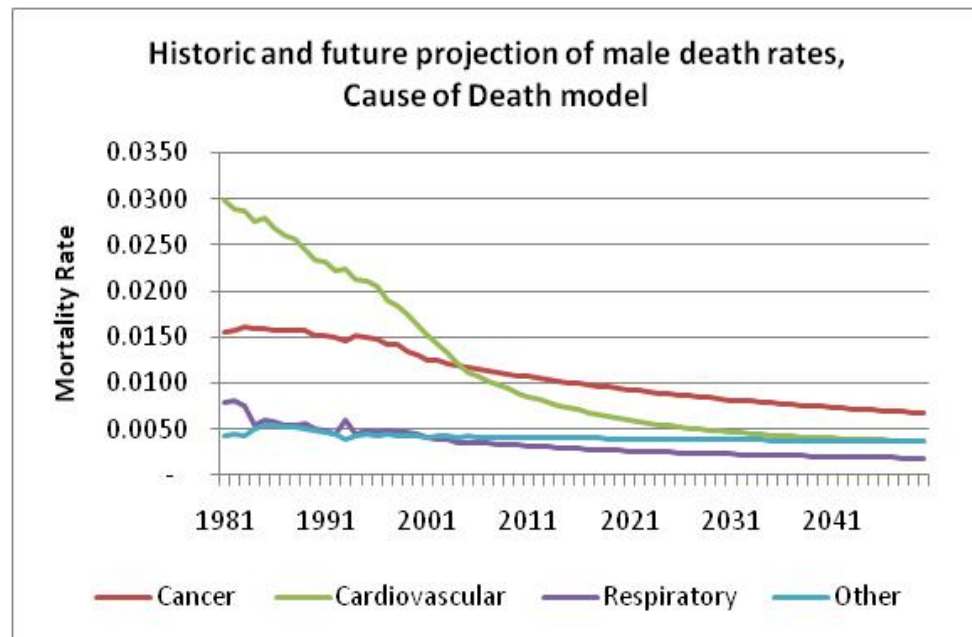
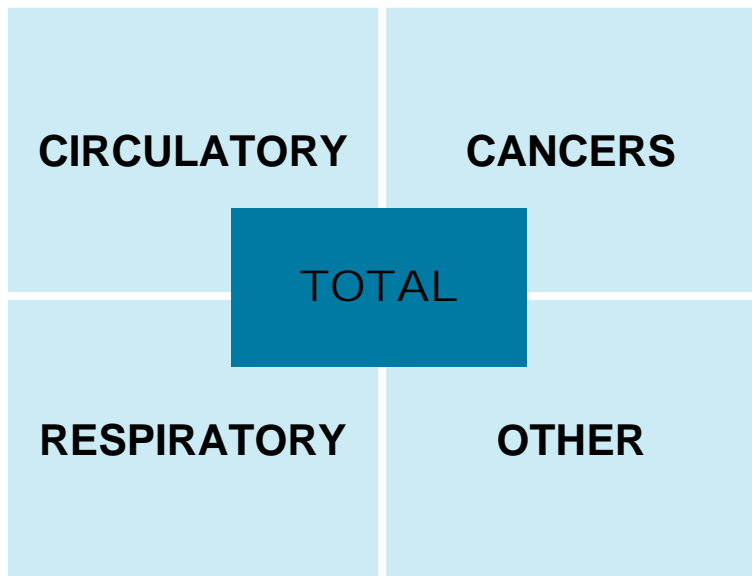




# FACTORS AFFECTING FUTURE LIFE EXPECTANCY.

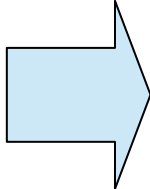
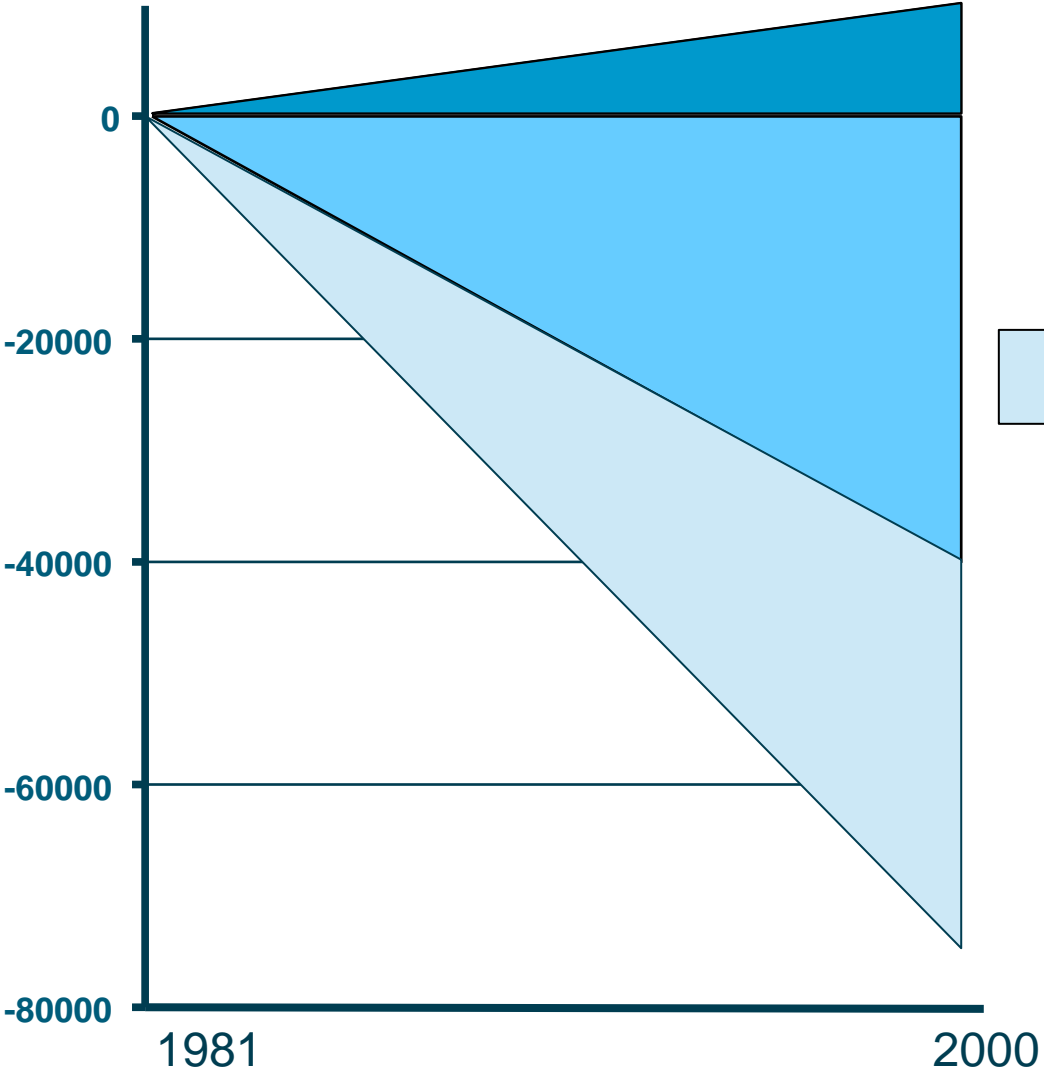


# OUR APPROACH.



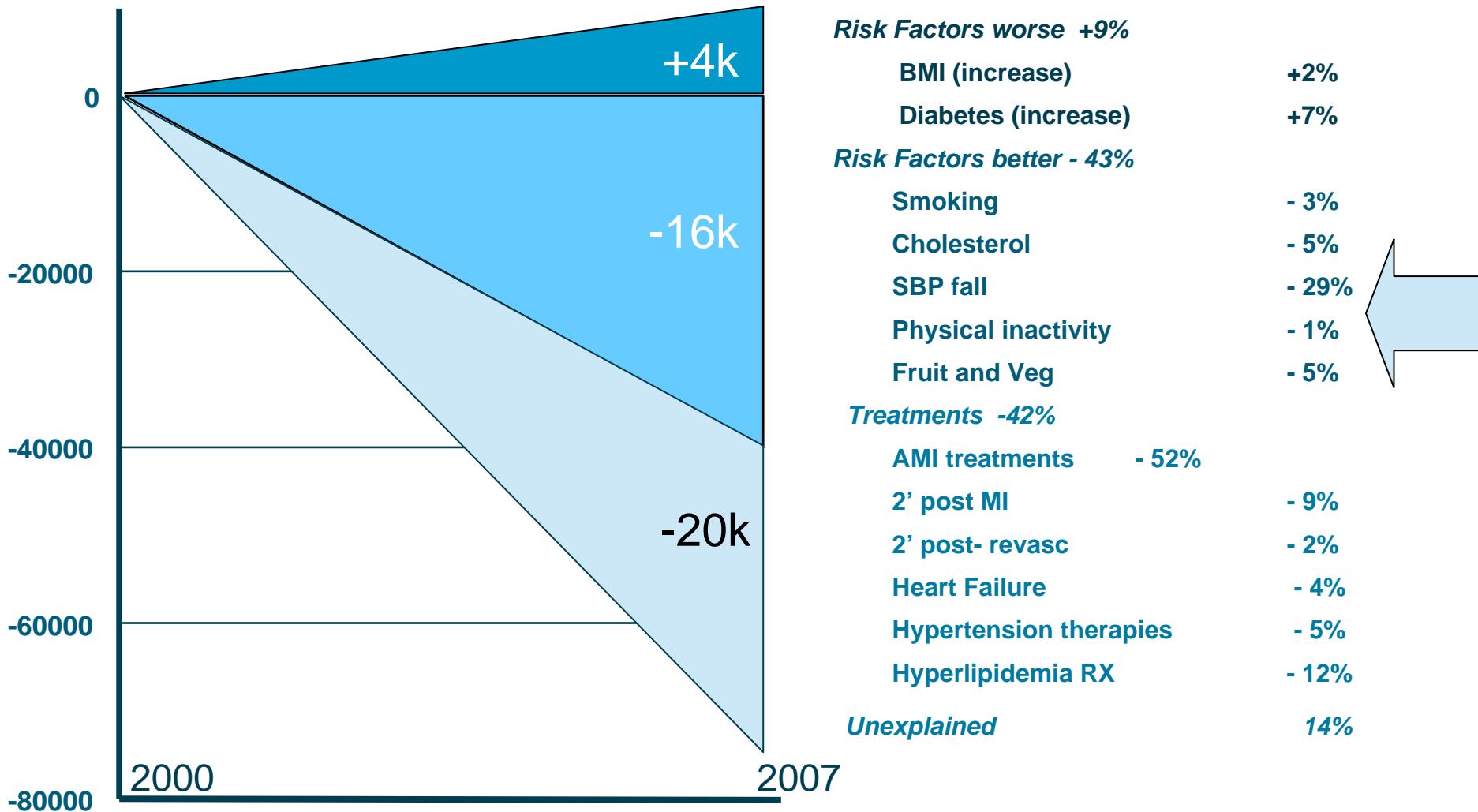
Source: L&G projection of ONS data

# Explaining fall in 1980-2000 cardiovascular deaths in England & Wales.



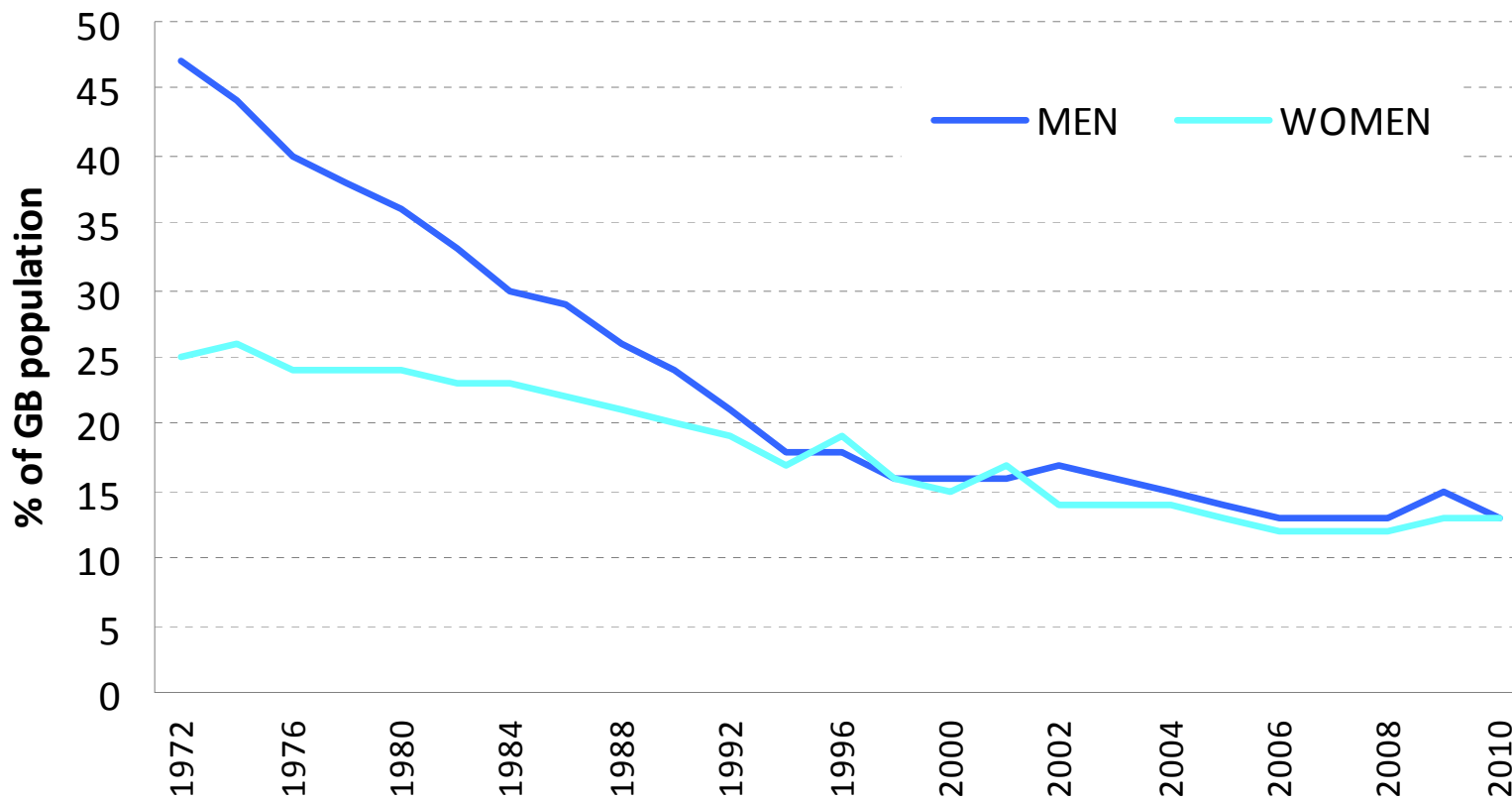
- Risk Factors worse +13%**
  - Obesity (increase) +3.5%
  - Diabetes (increase) +4.8%
  - Physical activity (less) +4.4%
- Risk Factors better -71%**
  - Smoking -41%
  - Cholesterol -9%
  - Population BP fall -9%
  - Deprivation -3%
  - Other factors -8%
- Treatments -42%**
  - AMI treatments -8%
  - Secondary prevention -11%
  - Heart failure -12%
  - Angina: CABG & PTCA -4%
  - Angina: Aspirin etc -5%
  - Hypertension therapies -3%

# Example of thought leadership: Contribution of risk factor and treatment to fall in cardiovascular deaths.



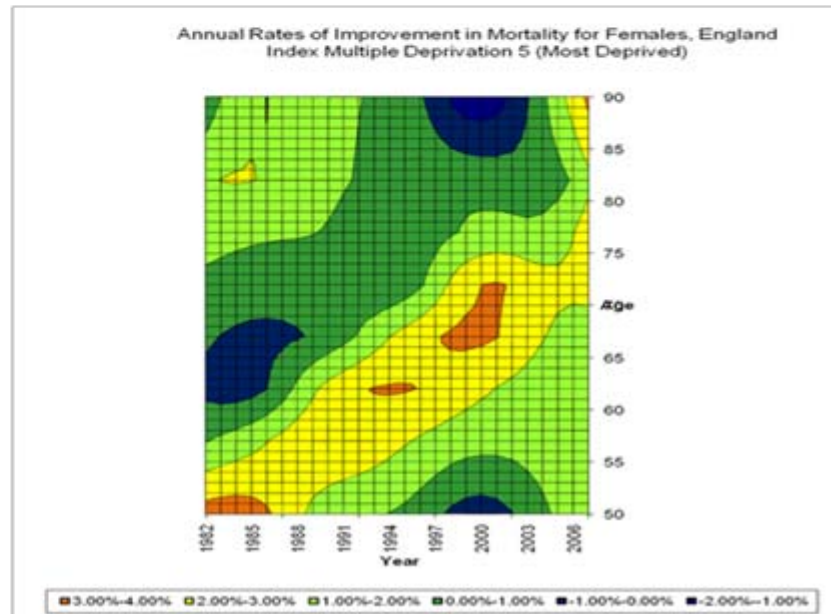
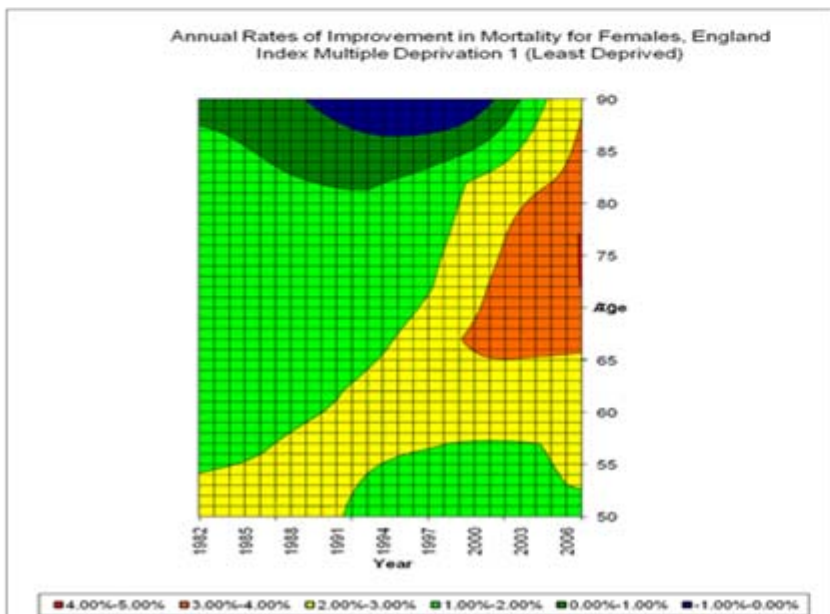
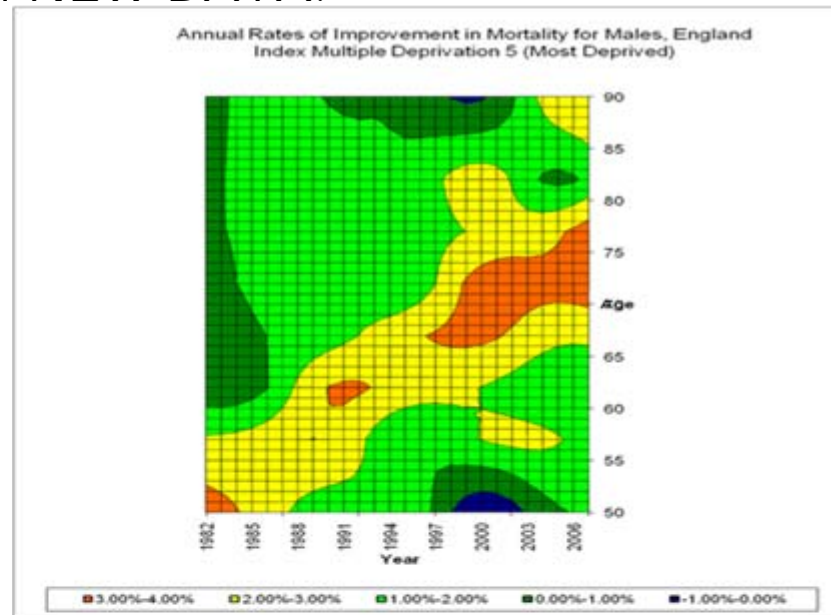
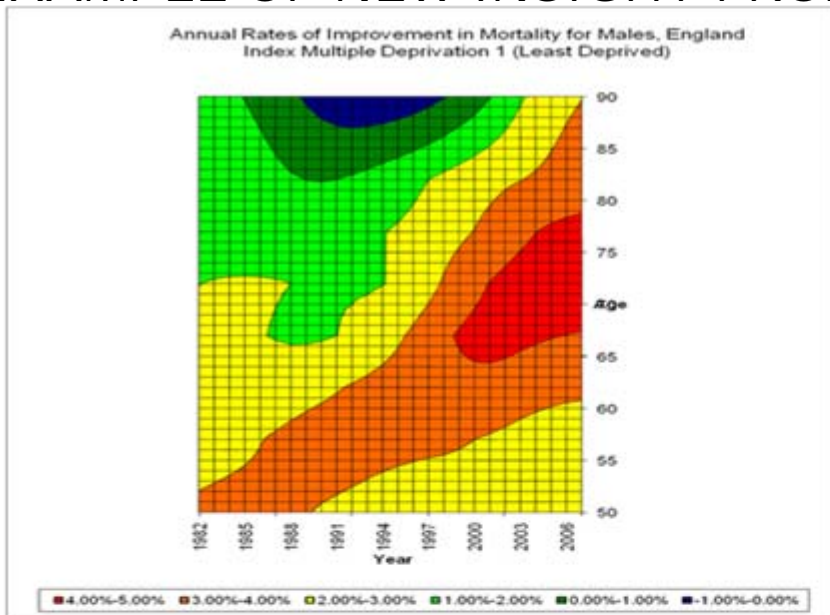
# FLATTENING SMOKER RATES?

Percentage of smokers above age 60



Source: L&G analysis of British Heart Foundation data

# EXAMPLE OF NEW INSIGHT FROM NEW DATA.



Source: Lu et al. (2012) Mortality improvement by socio-economic circumstances in England (1982 to 2006). British Actuarial Journal

# Thank You

