



IAA Mortality Working Group
Annuity underwriting in the United Kingdom

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Submitted as part of
Underwriting stream

The market



Large size annuity market in the UK:

Pensions savings environment with a requirement to convert part of an individual's pension savings into a pension annuity.

Ability to “shop round” for a better annuity (the “open market option”) supports a competitive market in annuities.

The proportion of consumers currently shopping around is 70%, with 46% of consumers discarding their pension provider's annuity rates and opting for better deal.



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The market



Also an active immediate annuity market,
a market for lifetime care annuities, and
annuities are written for structured settlements.



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Types of annuity underwriting



- **Postcode underwriting**
- **Lifestyle underwriting**
- **Enhanced annuities**
- **Impaired annuities**
- **Care annuities**



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Types of annuity underwriting 2



- **Postcode underwriting**
2-stage process to “rate” postcodes
“consumer type” then analyse
- **Lifestyle underwriting**
smoking and drinking habits, marital status,
occupation, height and weight, blood pressure
and cholesterol levels



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Types of annuity underwriting 3



- **Enhanced annuities**

history of medical conditions which might include a past episode of cancer, heart attack, or controlled type II diabetes

- **Impaired annuities**

medical conditions which significantly shorten the life expectancy of the annuitant



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Types of annuity underwriting 4



- **Care annuities**

individuals normally between age 75 and 90 or persons who have started to incur long-term care costs



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Portals



- IFAs enter annuitants' information, compare quotes and can then decide whether to apply directly for an annuity or go through the normal Common Quotation Request Form process



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Common Quotation Form



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Expert systems



Developed and calibrated using the organisation's existing book of business.
Needs quality data

Measuring the impact on mortality experience

Valuable but – limited by only covering lives accepted, not quotes rejected



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Developments in the UK and elsewhere 1



- Open market option encourages shopping around, but “enhanced annuities are currently only 12%” (Towers Watson)
- European Court has ruled that insurers can no longer consider gender when pricing insurance policies from 21 December 2012 (Test Achats)



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Developments in the UK and elsewhere 2 (*stop press*)



Pensions savings environment with a requirement to convert part of an individual's pension savings into a pension annuity. Ability to "shop round" for a better annuity

The proportion of consumers currently shopping around is 70%, with 46% of consumers discarding their pension provider's annuity rates and opting for better deal.

Association to introduce a compulsory code of practice for insurers, requiring them to remove the annuity application forms that accompany the packs sent out to pension customers in the run up to retirement.



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Developments in the UK and elsewhere 2



- UK Government proposals to fund Long-Term Care above a certain figure
- US and elsewhere?



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Questions and comments?



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