What is Fair...and who gets to say?

David Kirk


WHIRL
SPIN OUT

impartial and just treatment or behaviour without favouritism or discrimination

APN106 and APN 403 mention of fairness

APN106 / APN403 include 7 references to fairness

- The *Act* does not require the *Head of Actuarial Function* to provide an opinion on TCF, but the APN brings several elements back into scope

- Allocation of profits for with profits business
- Fair treatment of policyholders in context of transfer of business or similar transaction

- Also references to Reasonable Benefit Expectations

…should not only be considered for discretionary participating business but also for linked business and reviewable risk premium business.

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Policy Terms & Conditions

Terms and conditions

Specific examples (conveniently not from South Africa)

- A claim for stolen luggage was denied after the insured left his baggage 'unattended' where the stolen baggage was within reach, but the insured was distracted at the time of the theft, asking for directions.

- A claim was refused under a no-fault comprehensive motor vehicle policy due to a failure to take 'all precautions to avoid the incident'.

Terms and conditions

More general issues

- Unilateral termination of a policy
- Ability to change pricing based on changes in expected risk
- Ability to change pricing based on changes in experienced or expected lapses
- Requirement to improve pricing if experience better than expected
- How to deal with different generations of policyholders

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Actuarial Justification

Where a distinction is made between the premiums, benefits or other values of different policies, the Head of Actuarial Function ***should be satisfied that the distinction is actuarially justified.***

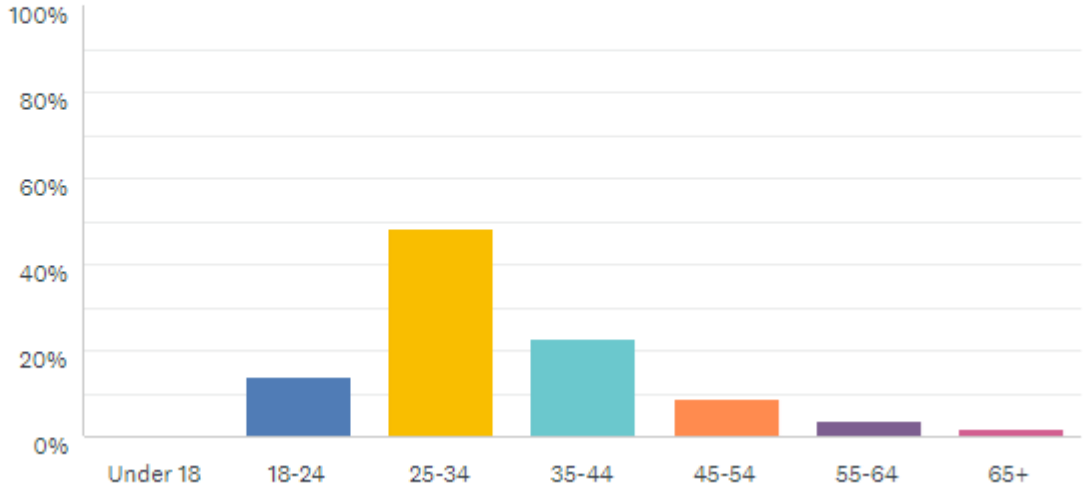
Survey results – summary of respondents

- 542 responses in total
  - About 60 skipped when asked about their profession
  - About another 130 skipped when the real questions started
  - This removed many university students
- South African responses just under half of total
  - 230 / 267 answered most questions
- Left in 356 respondents

Survey results

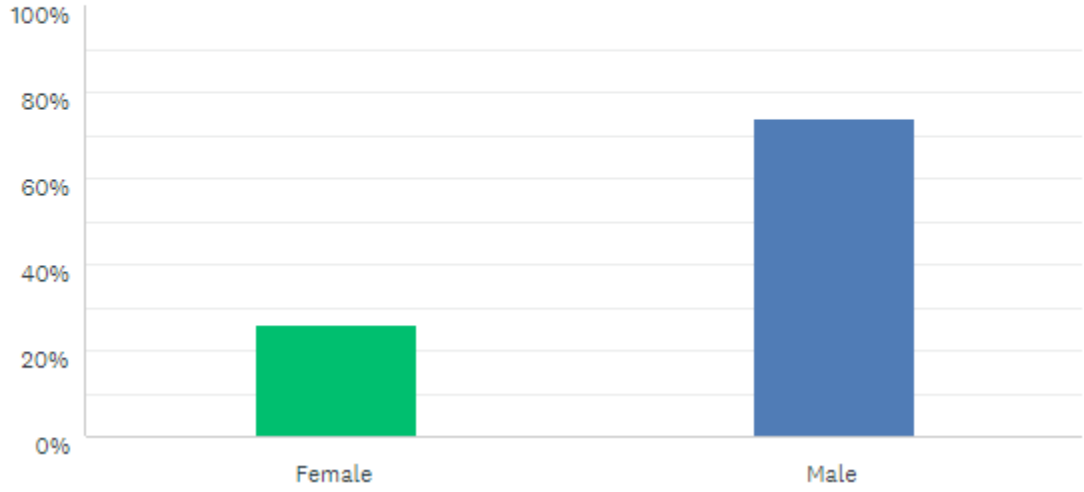
What is your age?

Answered: 356 Skipped: 0



What is your gender

Answered: 356 Skipped: 0



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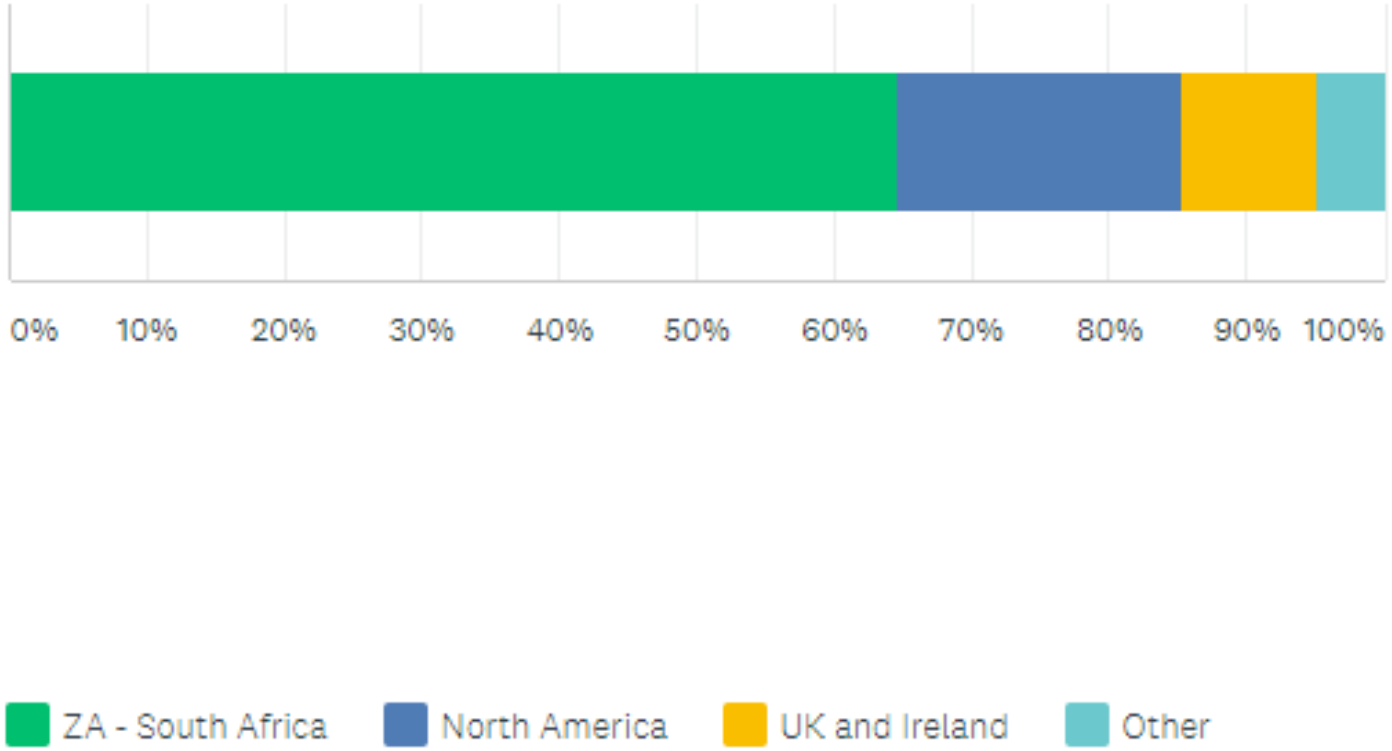
What country do you work in primarily?

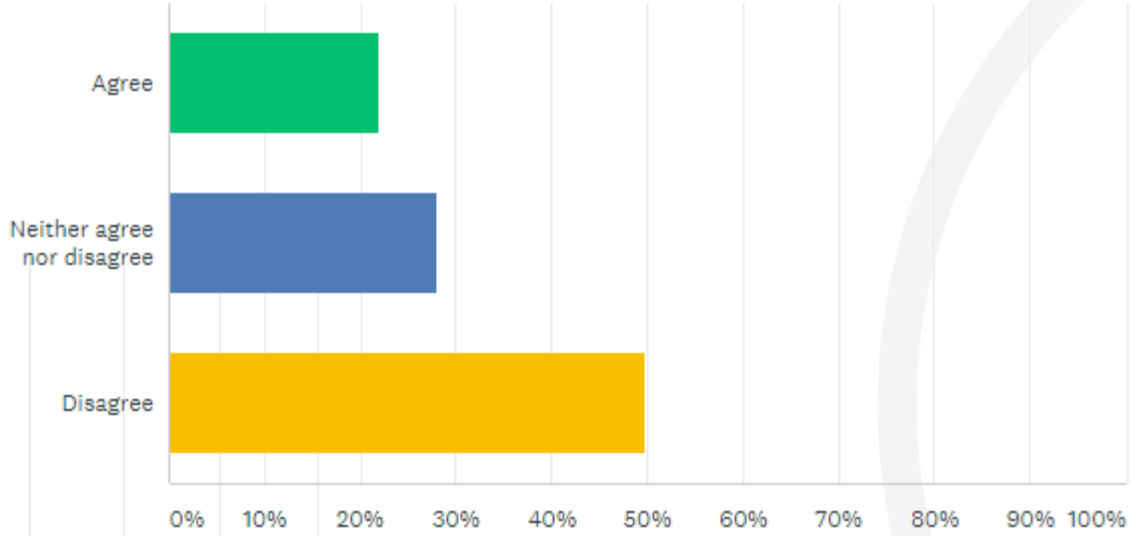
Answered: 354 Skipped: 2



Survey results

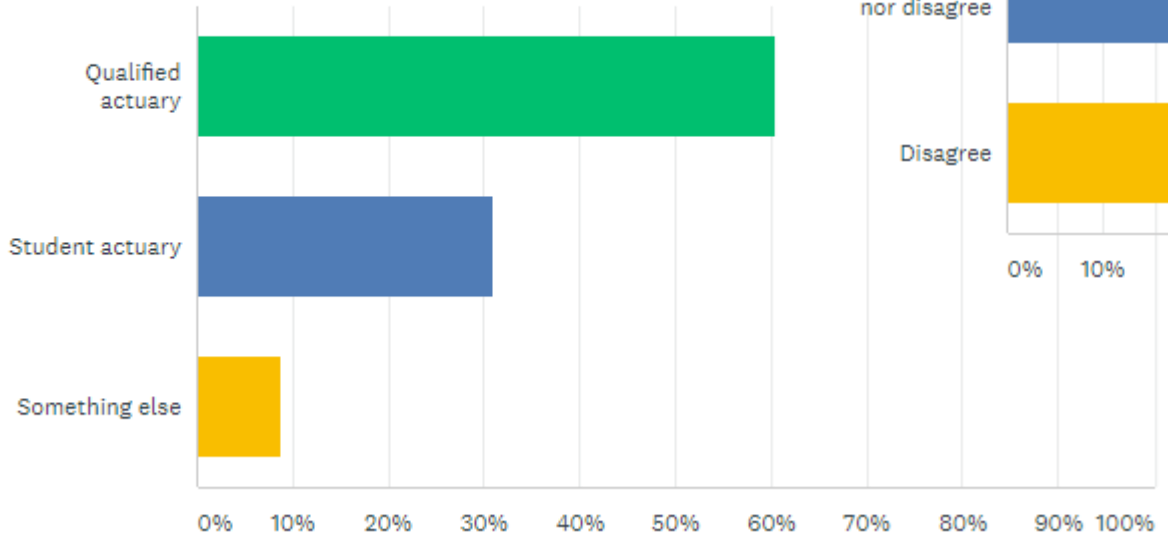
I didn't have to think much about the answers to this survey as I already have a well defined position

Answered: 345 Skipped: 11



What is your profession

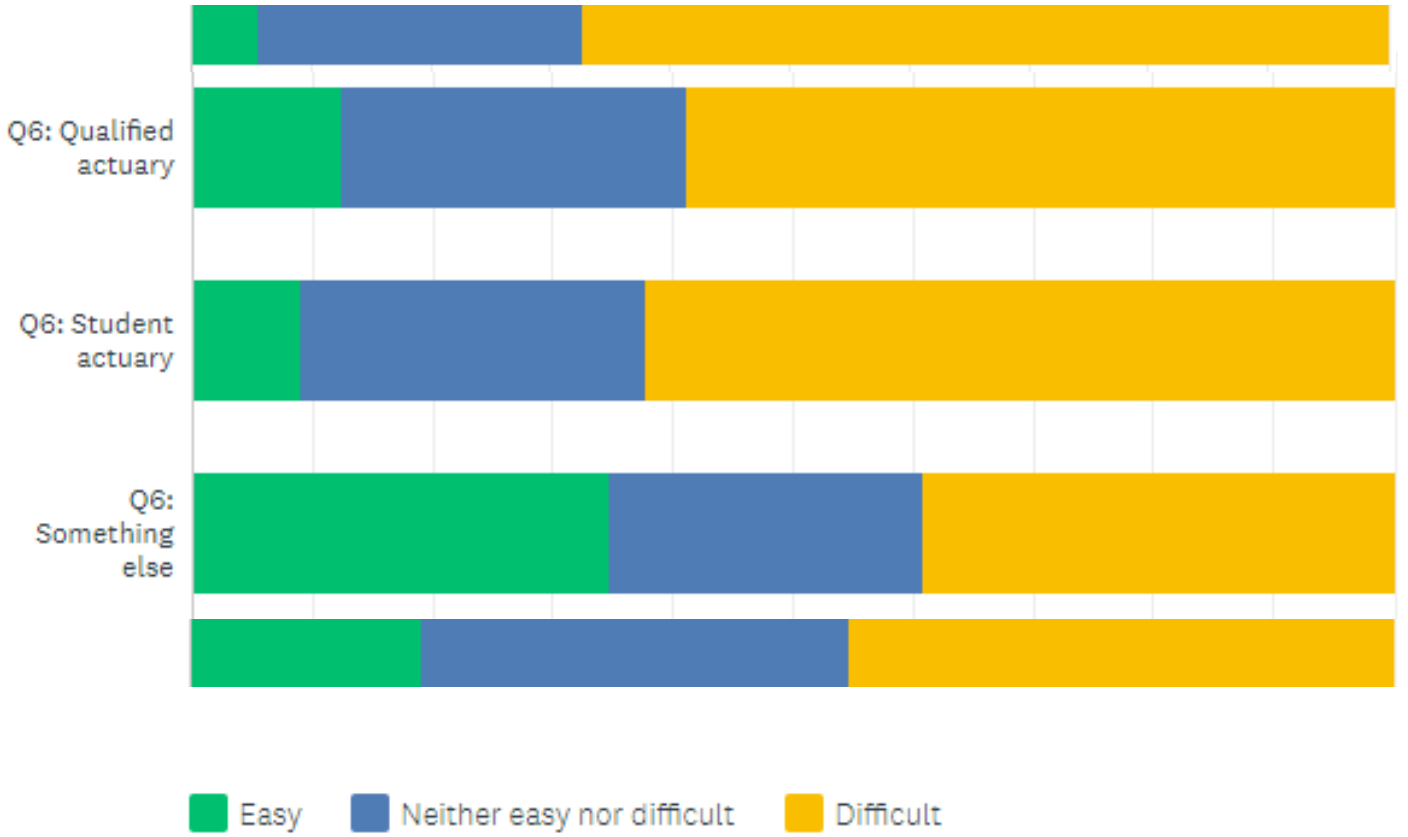
Answered: 356 Skipped: 0



Survey results – is fair hard?

Determining what is fair is:

Answered: 482 Skipped: 1



After

Before

Little change

Before

After

Survey results – premium differences

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80%

- think race or ethnic background shouldn't be used

75% to 80%

- view it okay to charge differently across new/existing customers and distribution channels

31%

- think risk factors outside control of policyholder shouldn't be used

Only 25%

- think gender shouldn't be used

Survey results – price optimisation

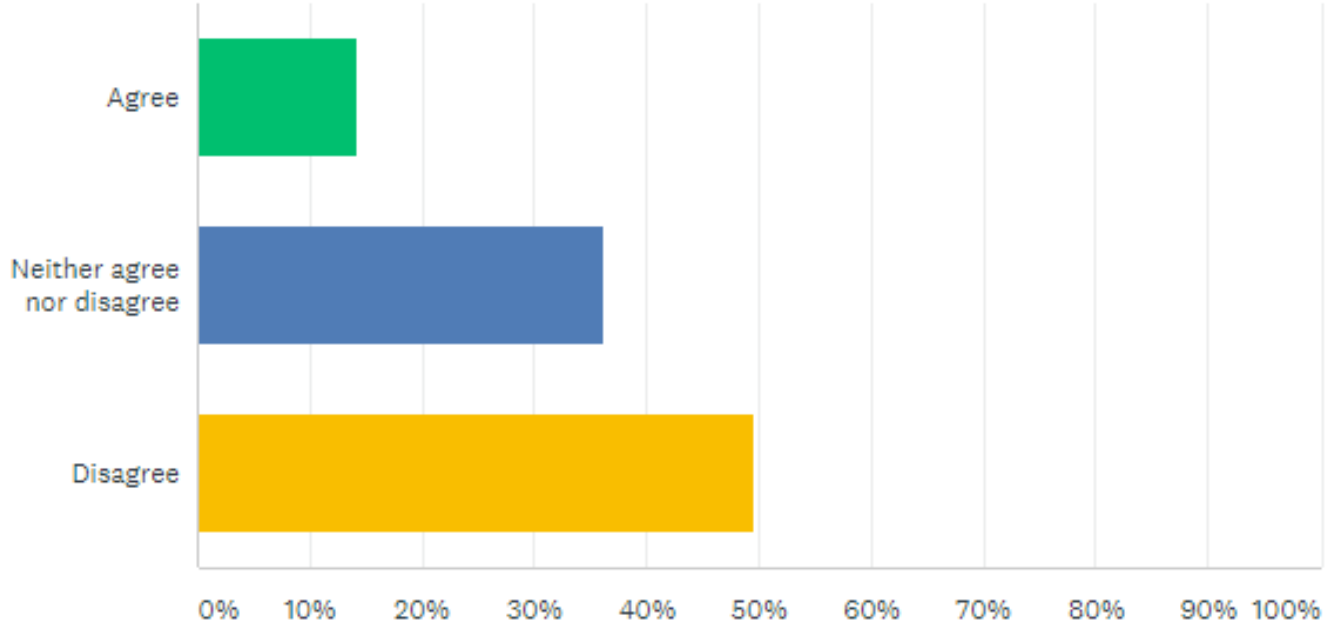
- Majority view price optimisation as unfair
- Widespread in the non life market in South Africa

- 75% okay with different premiums for new and renewing policyholders
  - Which way did they expect premiums to move…?

Survey results – value for money

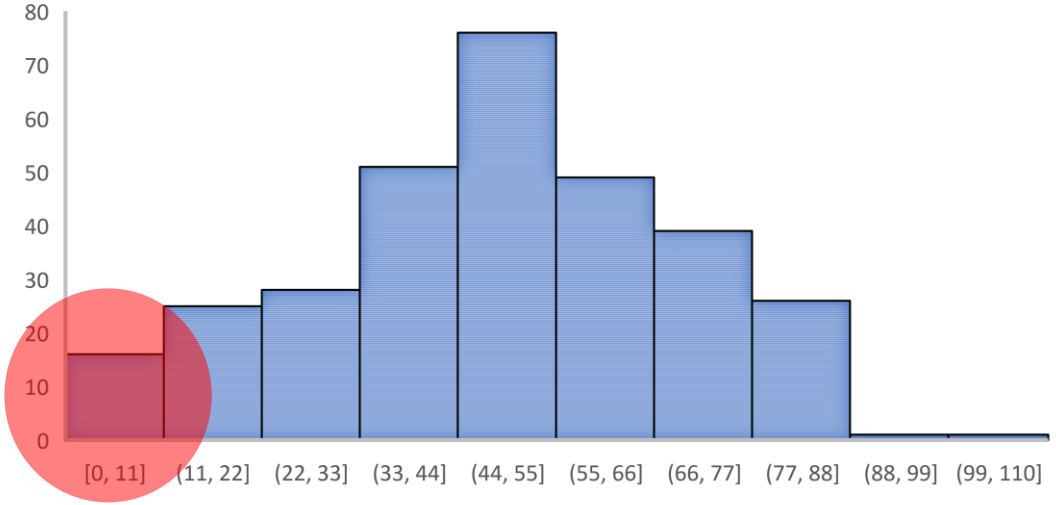
A product is automatically fair if it provides materially better than average value for money

Answered: 349 Skipped: 7

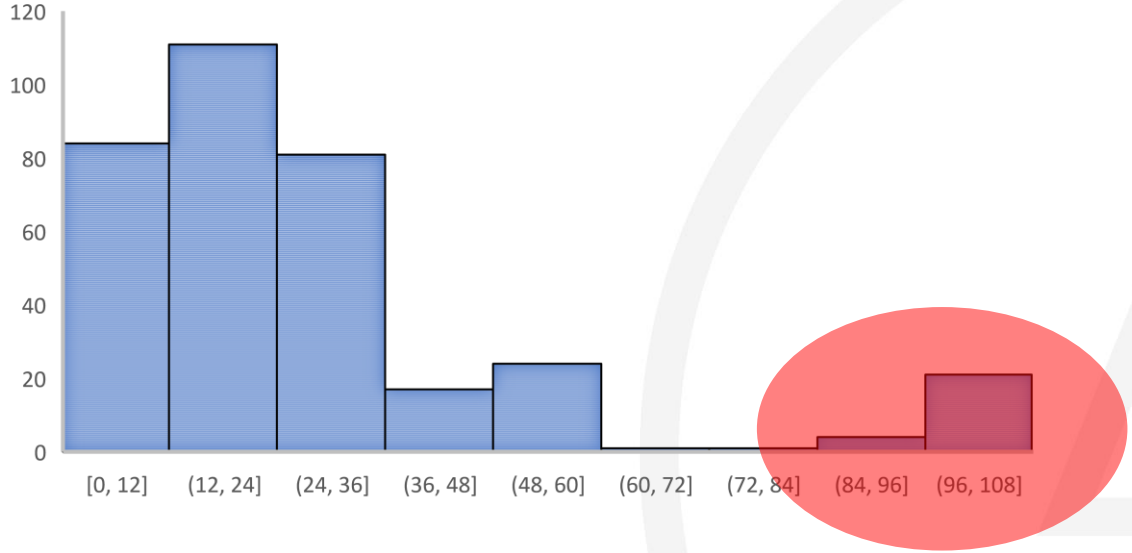


Survey results – value for money

MINIMUM FAIR RISK PRODUCT CLAIM RATIO - AVG 47%



MAXIMUM FAIR PRE TAX RISK PRODUCT PROFIT MARGIN - AVG 27%



Survey results – value for money key comments

- Not automatically fair (as all competing products might be unfair), but more likely to be fair
- A product can provide better than average value and still be misleading / lead the insured to believe their cover is better than it actually is
- If the entire market is unfair then better than average remains unfair (assuming PH are mislead/ unable to fairly judge value)
- If it does not meet the need as sold to the customer, it is unfair

Being sold a Gucci handbag with a 1000% profit margin isn't unfair but being miss-sold a fake Gucci handbag with a 10% profit margin is.

What does Free Will have to do with it?

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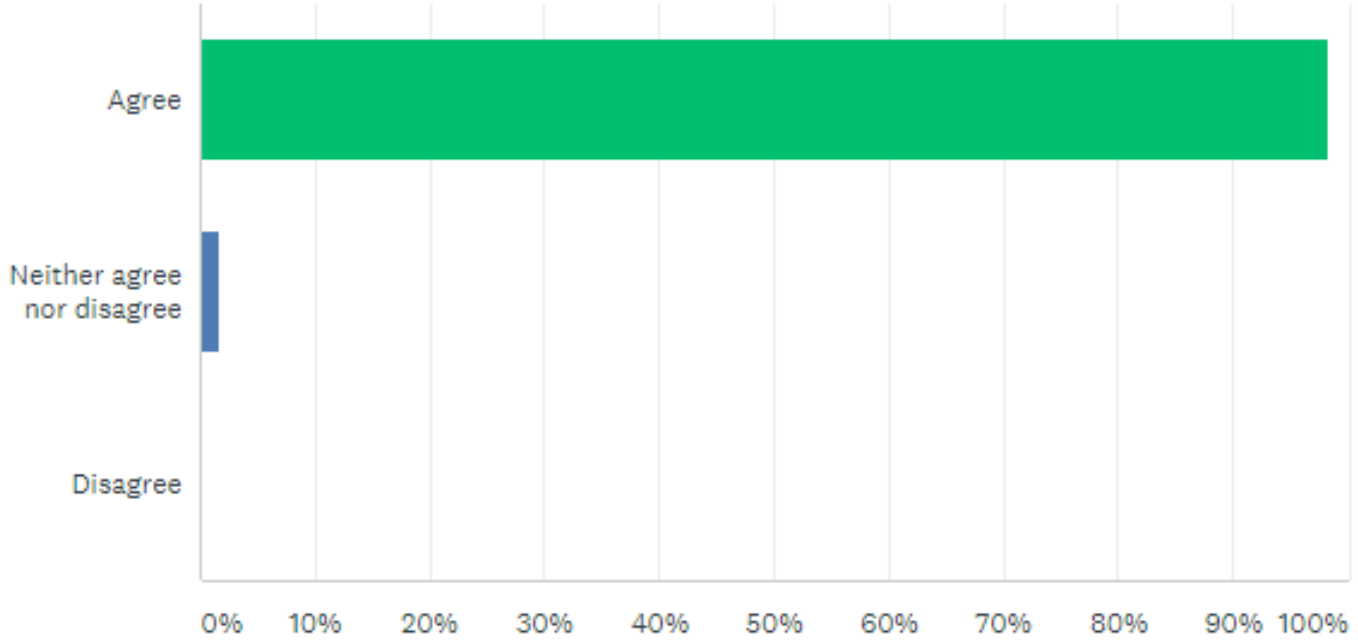
Different actuaries may reach different conclusions presented with the same facts on questions of fairness

Answered: 229 Skipped: 38

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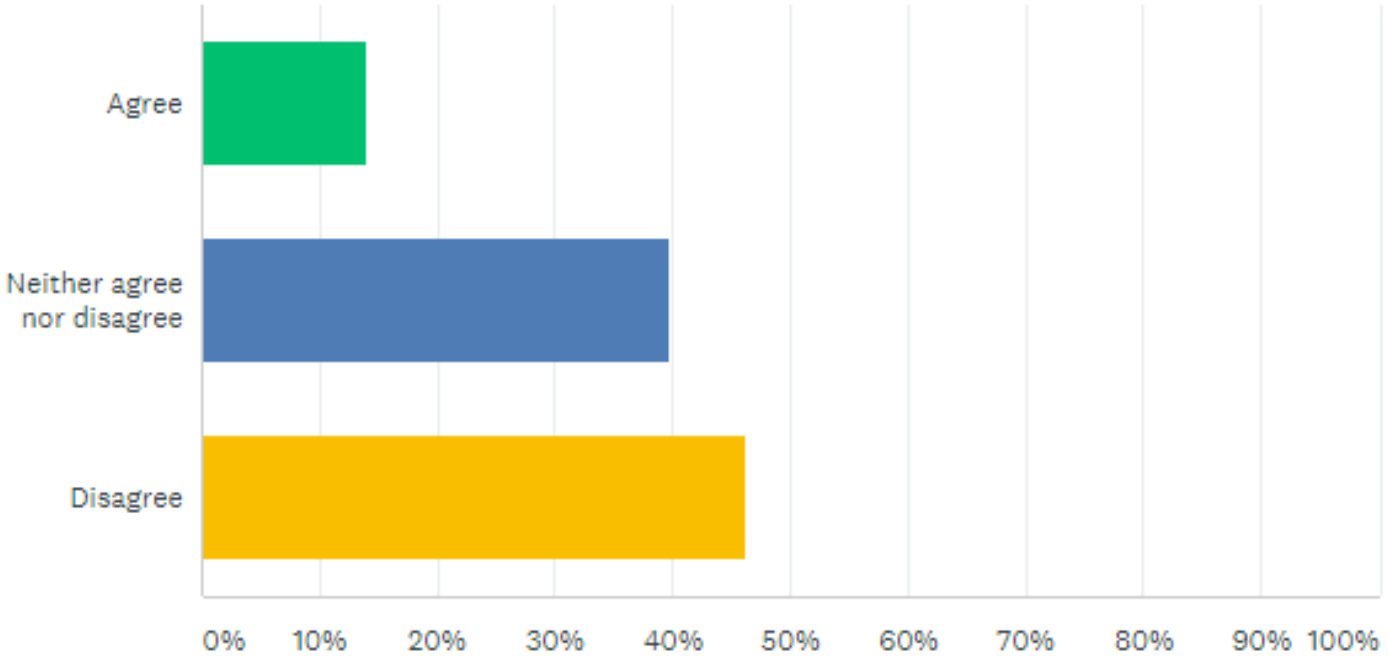
Adequate guidance exists to support and guide actuaries in determing what is fair?

Answered: 344 Skipped: 12



Survey results – key comments on guidance

- "Fair" cannot be captured in a document, in a claims ratio or a profit margin.
- There is a lot of leeway but I don't think that is a weakness as rigidity will just lead to outdated guidance
- Fairness, although subjective, should not be guided by rule and regulation. It should be an inherently professional trait of the actuary.
- Very little guidance exists and the UK regulator is extremely vague about it


12
1
TIMEX
2
3
4

Survey results – are we doing enough?

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Actuaries are doing enough to ensure policyholders are protected

Answered: 229 Skipped: 38