RGA Middle East

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# Credit Life Insurance: Key Success Factors

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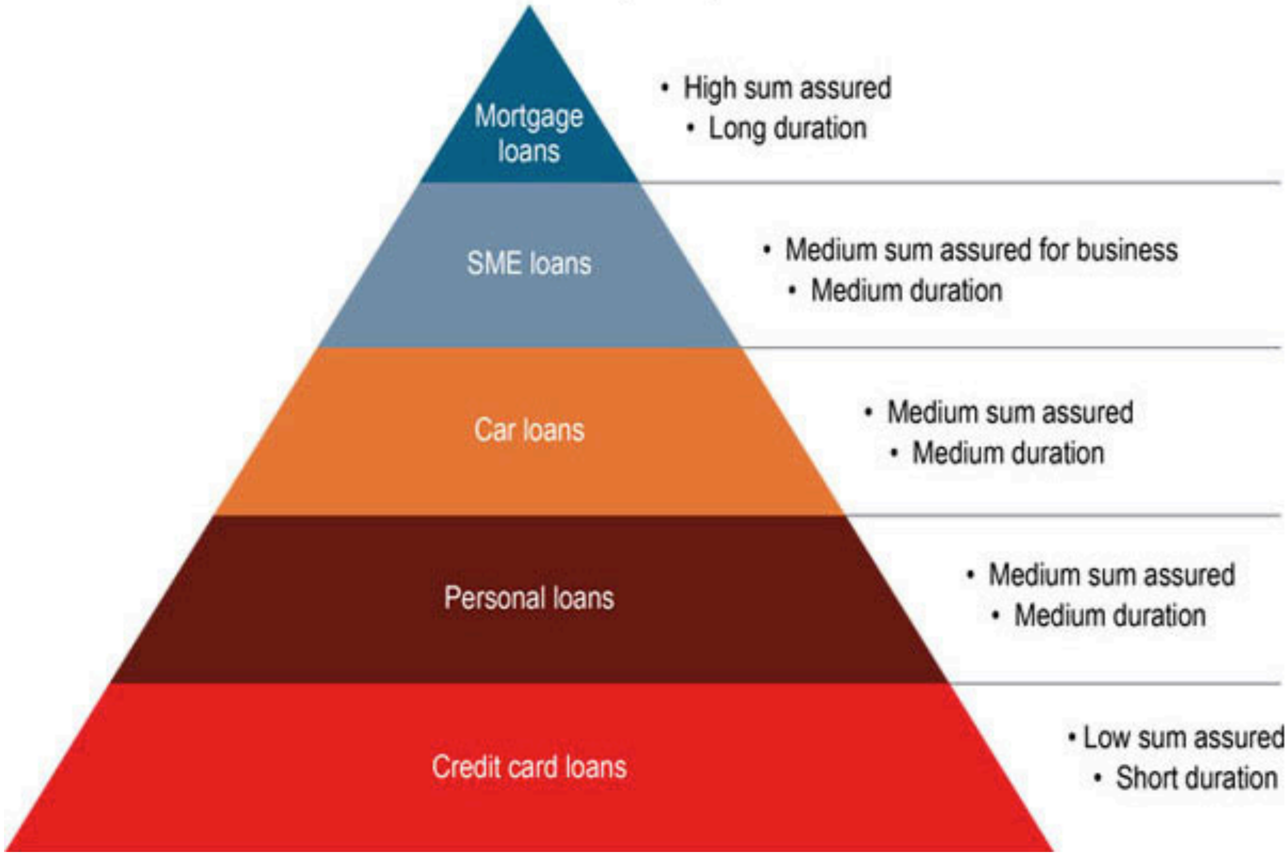
Across geographies, the financial sector is a significant contributor to any economy. Yet, financially engineered products carry inherent risks for financial institutions, such as credit risk, default risk and interest rate risk, among other risks, and especially those in the lending business.

One element of risk is the death or disability of the borrower. However, individual or group insurance mitigates such risk and benefits both the lender and the borrower. Group credit life products, and their design and administration, are the key to successful risk mitigation.

Group credit life insurance occupies a significant share of the life insurance segment in the Middle East, with estimated net reinsurance premium exceeding USD100 million in the two major markets: United Arab Emirates (UAE) and Saudi Arabia (KSA).

**Group Credit Life Products from USD100 to USD10,000 or more**




While there is a large number of credit card borrowers, the total and average outstanding amount is less in comparison to mortgages. Personal/car/small loans and medium-sized enterprise (SME) loans fall in between in terms of quantity and size. From the bank's perspective, mortgage loans are secured (with collateral security of the property), unlike credit card loans, which are unlikely to be backed by collateral.

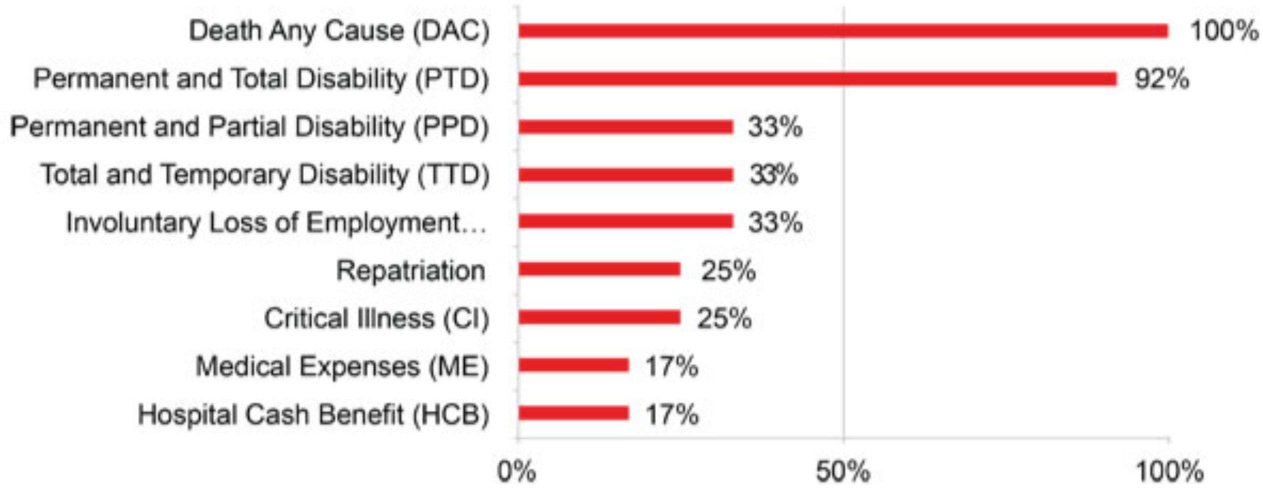
# Benefits

Group credit insurance offers coverage to the lender, usually a bank or finance company, where the payout is the outstanding principal amount in the event of the death/disability of the debtor. Additional benefits offered include an accidental death benefit, partial disability and critical illness.

Another feature that is gaining significance is loss of employment coverage, where the installment payable is indemnified should the insured borrower's employment be involuntarily terminated by the employer – often because of reorganization, redundancy or other reasons.

Last year, RGA Middle East conducted a survey of the UAE and KSA markets. The benefits that insurers were offering in their group credit schemes are as follows:

**Credit Life Products**




*Source: RGA 2014 Middle East Group Life Underwriting Survey Report*

## Product design

Product design efforts for credit risk should focus on a mutual benefit structure that works for the insurer and the bank, while placing the customer at the heart of it.

The banks offer pure banking products, whereas insurance products, in addition to risk transfer, can provide additional income. The banks know customers from a financial perspective but not from mortality or morbidity perspective.

Life insurers are in the business of covering risks, with profits enabled by efficient underwriting and appropriate pricing of products. Insurers focus on growing business in a sustainable way by accepting good risks and modifying the terms for or declining substandard risks.

Insurers and banks can develop a common and agreed-upon plan for the product, and with a long-term perspective. Together as partners, they can identify and evaluate areas of complementary effects, especially in terms of one-stop shopping for products, ease of sales and services provided.

## Communication

Insurers can start by talking in detail to the lender and asking questions:

- What does the lender really want?
- What is the exact nature of the loan portfolio?
- What are the loans' criteria, including eligibility norms and financial requirements?

## Insurer's capability

It's important for insurers to examine their own product capabilities:

- Can we develop the required insurance products?
- Do we have appropriate systems and processes in place?
- Can we handle claims and service delivery for this market – especially in the areas of claims track records, complaints handling and general policy servicing?

# Contract design

Now it is time to evaluate the factors that are considered for creating the products. An inter-relationship exists between each factor and its sub-factors, e.g., evidence of insurability and types of coverage, salary requirements and occupation range, exclusions and occupation range.

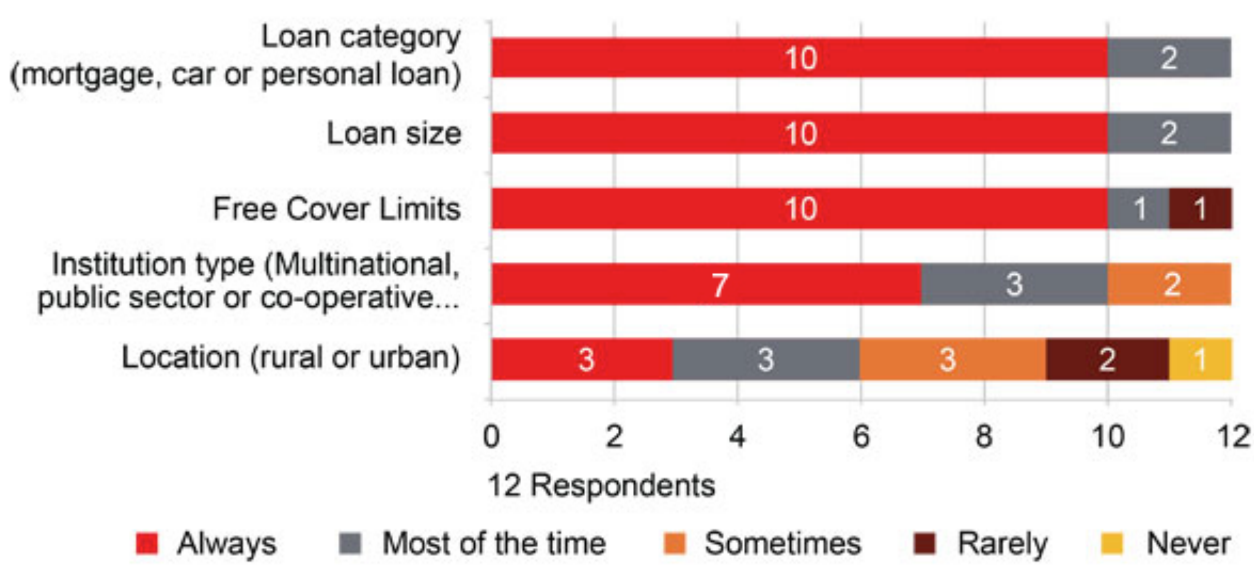
**Scheme type**
Loan types
Loan size limits
Loan purpose
Repayment period
Repayment profile
Average loan amount
Age profile
Average repayment term
Scheme turnover
Interest rate

**Scheme features**
Claims experience
Types of coverage
Disability cover definition
Open/closed
Profit commission
Voluntary/compulsory
Exclusions
Evidence of insurability
Acceptance authority
Claims authority
Claims notification period

**Borrower type**
Age range
Salary requirements
Collateral security requirements
Number of borrowers
Residence requirements
Occupation range

**Operational features**
Volume projections
Delinquency
Administration
Refunds
Rescheduling
Premium payment and accounting dates
Profit share
Rate guarantee

Here are the prime factors for credit life insurance, according to the Group Life Survey conducted by RGA Middle East:




*Source: RGA 2014 Middle East Group Life Underwriting Survey Report*

The majority of respondents (10) said they either **always** or **most of the time** consider the loan category type and the size of the loan for quoting on credit life options. Free cover limit (FCL) is also quite commonly considered, with only one respondent rarely considering FCL.

More than half (7) take into account the type of institution (e.g., multinational, public sector or co-operative bank) when quoting on credit life insurance. Location of the group or distributor is not commonly considered at the quoting stage.

# Pricing

Here are some considerations for credit life insurance product pricing:

- Evidence of health limits (underwriting limits) in place of FCL.
- Requirements that take into account the average coverage amount and total number of borrowers.
- Occupations, age and amount limits.
- Duration of loan, repayment profile, application form design and acceptance authority.

Cost of coverage rises steeply with age. The age limit should be set as low as is practical for the products concerned to reduce costs and administrative requirements.

Claims experience:

Claims experience and best practices are essential components of any credit insurance offerings. This is especially important for the sizes of credit life products and the lending criteria that may vary between each product and each bank.

The vital data that is required:

- Total exposure in terms of both the number of borrowers and amounts separately by policy year. This should include claims experience for the last policy year, the last reporting date of the claims to estimate the proportional period exposure in the expiring policy year and adjustment needed for the incomplete year.
- Claims for each year by benefit amount and by number of lives.
- Paid claims and outstanding claims for each year, including the nature of outstanding claims.
- Growth/shrinkage of product options (by number of lives and by amounts).
- IBNR reserve.

# Key success factors and improvement areas

The graph below illustrates where the UAE group CL market stands in a number of key categories.

**Group CL Success Factors and Improvement Areas (UAE)**


*Source: RGA 2014 Middle East Group Life Underwriting Survey Report*

RGA's experience in international markets has concluded that focusing on improving the customer experience in terms of the underwriting and claims management typically results in higher sales and better quality business. The right product offering with competitive pricing, adequate underwriting process/FCL and effective claims management are the key success factors of a credit life program.