Banks & Insurance: Managing Social Impact

A Caribbean Perspective

Kyle Rudden FCCA, FIA, FSA, ACAS
KR Services Limited
Caribbean Actuarial Association Annual Meeting
Paramaribo, Suriname, 1 Dec 2016

© 2016 KR Services Limited
Disclaimer

• This presentation is being made by Kyle Rudden of KR Services Limited ("the presenter"). This presentation does not constitute professional advice or create a contractual relationship between Participant and the presenter or any of the organizations with which he may be affiliated.

• Neither the presenter nor KR Services make any representation or warranty concerning ideas, judgments, opinions, projections, analyses or estimates which the presenter provides to Participant.

• Any decision Participant may make to rely on such ideas, judgments, opinions, projections, analyses or estimates provided as part of this presentation shall be at Participant’s own risk and Participant shall, in its sole discretion, decide to accept or reject or modify any ideas, judgments, opinions, projections, analyses or estimates provided, and all decisions made or actions taken or not taken shall be the sole responsibility of the Participant who shall make an independent analysis thereof with Participant's own professional advisers.

• Neither the presenter nor KR Services, assumes any liability whatsoever, whether explicit or implied, with respect to any part of this Presentation or with respect to any oral statement, including but not limited to any facts, circumstances, assumptions, judgments, opinions, projections, analyses or estimates as may be contained in this Presentation. Where any information and statistics are quoted from any external source, such information or statistics should not be interpreted as having been adopted or endorsed by the presenter or KR Services as being comprehensive or accurate.
Overview

• Opportunities
• Challenges
• Lessons & Issues
• Caribbean Examples
Advantages of Bancassurance

• Lower cost of distribution
• Wider distribution channels
• Greater competition
• Product innovation
• Convenience to customer
• Takes advantage of technology
• Increased inclusion / societal development
• Reduces bank / financial system risk exposure

© 2016 KR Services Limited
Distribution Advantages For Banks

- Minor additional cost
- Branding
- Customer sales opportunity
- Transactional data advantage
- Control renewal process
Challenges of Bancassurance

- Abuse of relative power
- Misuse of information
- Inappropriate selling / products
- Lack of competition / tied products
- Lack of transparency
- Capital contagion
- Overpricing, taking advantage of the poor
  - 10% loss ratios on credit life business in South Africa
Actuarial Responsibility To The Public

1. A member must know the current requirements of this Code of Conduct and shall perform professional services with integrity, skill and care. He shall fulfill his professional responsibility to his client or employer and shall not act against the public interest.

2. A member shall act in a manner to uphold the reputation of the actuarial profession and shall act in a manner to fulfill the profession's responsibility to the public.

CAA Code of Conduct
Common Regulatory Responses

- Prohibition of tied insurance
- Requirement for options e.g. quotes from a panel of insurers
- Cooling off periods
- Disclosure requirements (commissions, fees, entities)
- Mandatory training or licensing for sales personnel
- Standardised financial underwriting forms
- Data protection legislation
- Price / commission regulation
Caribbean Bancassurance Example

• Scotia Insurance
  – Subsidiaries of ScotiaBank Caribbean legal entities
  – Creditor life, annuities, savings products, Universal Life ...
  – Very successful in Jamaica, Trinidad & Tobago etc.
  – Have rapidly become significant players in local markets
    • Started in 2004, ScotiaLife Trinidad is now 3rd largest insurer.
## ScotiaLife T&T – 2015 Annual Report

<table>
<thead>
<tr>
<th>$TT Million - 2015</th>
<th>Insurance</th>
<th>Banking</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>163</td>
<td>1,309</td>
<td>1,472</td>
</tr>
<tr>
<td>Profit before Tax</td>
<td>137</td>
<td>640</td>
<td>777</td>
</tr>
<tr>
<td>Assets</td>
<td>1,869</td>
<td>20,287</td>
<td>22,156</td>
</tr>
<tr>
<td>Profit / Revenue</td>
<td>84%</td>
<td>49%</td>
<td>53%</td>
</tr>
<tr>
<td>Profit / Assets</td>
<td>7%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>TT$ m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------------</td>
<td>--------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds B/f</td>
<td>375.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums</td>
<td>77.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invest. Income</td>
<td>12.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UL Charges</td>
<td>8.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deaths</td>
<td>(2.7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surrenders</td>
<td>(44.3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>(5.5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds c/f</td>
<td>(406.9)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td>14.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Conclusions

• Bancassurance can be a significant tool to assist in social and financial market development, particularly for disadvantaged groups.

• The power asymmetry caused by the banker’s special relationship needs appropriate regulation.

• We have no specific Bancassurance market conduct regulation in the Caribbean.

• We should do something about that.
Bancassurance Discussions
Banks & Insurance: Managing Social Impact

A Caribbean Perspective

Kyle Rudden FCCA, FIA, FSA, ACAS
KR Services Limited
Caribbean Actuarial Association Annual Meeting
Paramaribo, Suriname, 1 Dec 2016