

# **Cost Results in Life Insurance – The Increasing Importance of This Source of Earnings**

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ABOUT ME



MARTINA  
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- Born in 1962
- Graduate mathematician, actuary (DAV) since 1995
- Since 1987 working in the life insurance industry, since 15 years as actuarial consultant

## **Topics**



Regulatory framework



Development Sources of Income within the Life Insurance Industry in Germany since 1987



Improvement of processes – Usage of AI

## ***Regulation based on German Insurance Supervision Act (VAG)***

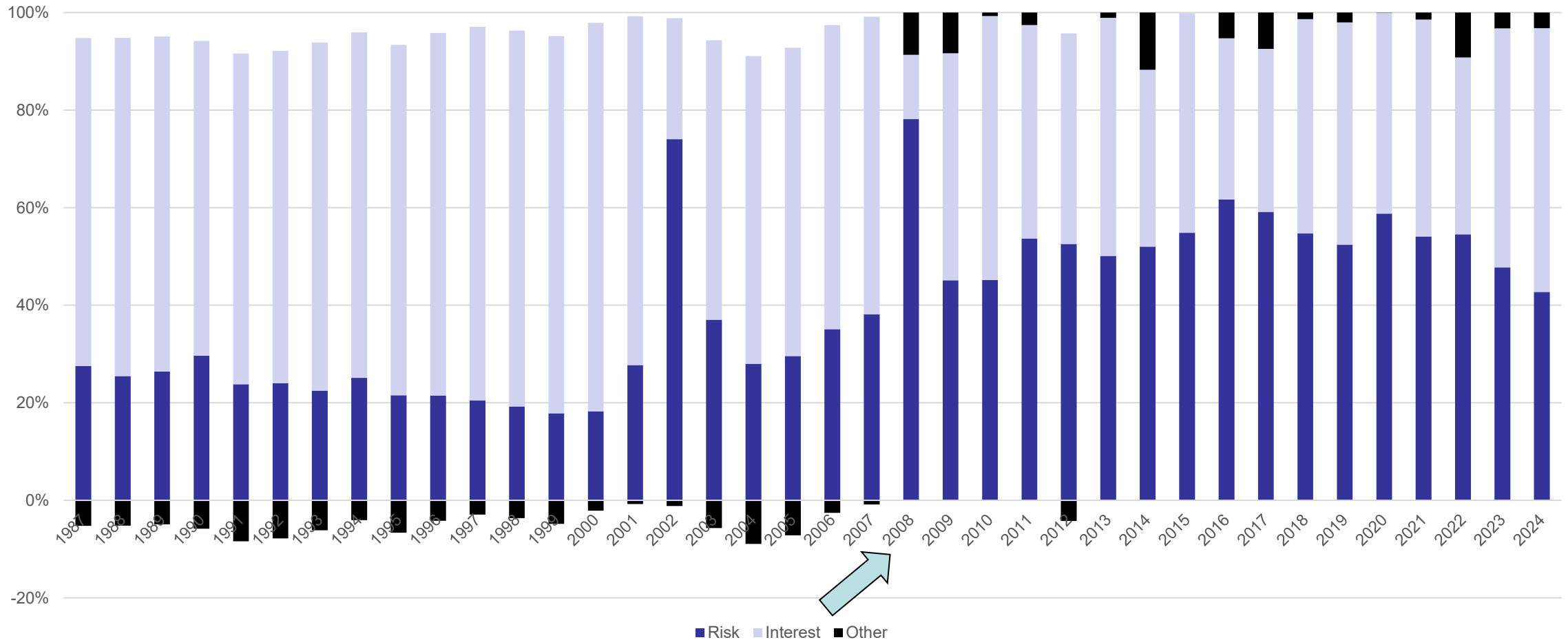
### VAG, Section 138 Premium calculation in life insurance; Equal treatment

- Premium calculation based on appropriate actuarial assumptions
- Financial position of the insurance company to be taken into account

### VAG, Section 141 Appointed Actuary in Life Insurance

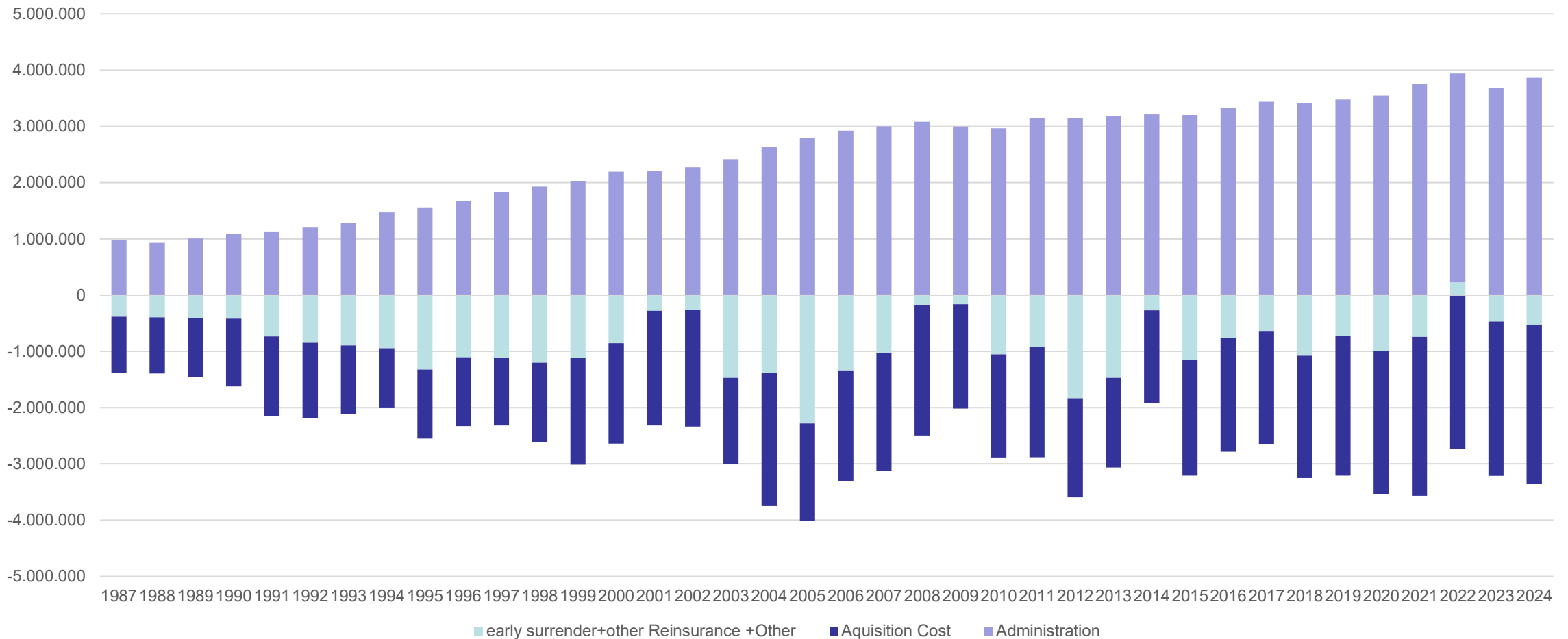
- Confirm, that the technical provisions are built according to section 341f Commercial Code and the principles of the statutory order based on section 88 (3) of the insurance contract law
- Must review the financial position of the undertaking, in particular to ensure that the obligations arising from insurance contracts can be met at all times
- Must explain in a report to the company's board of directors, the calculation methods and other methods on which this confirmation is based

## Percentage distribution of sources of income



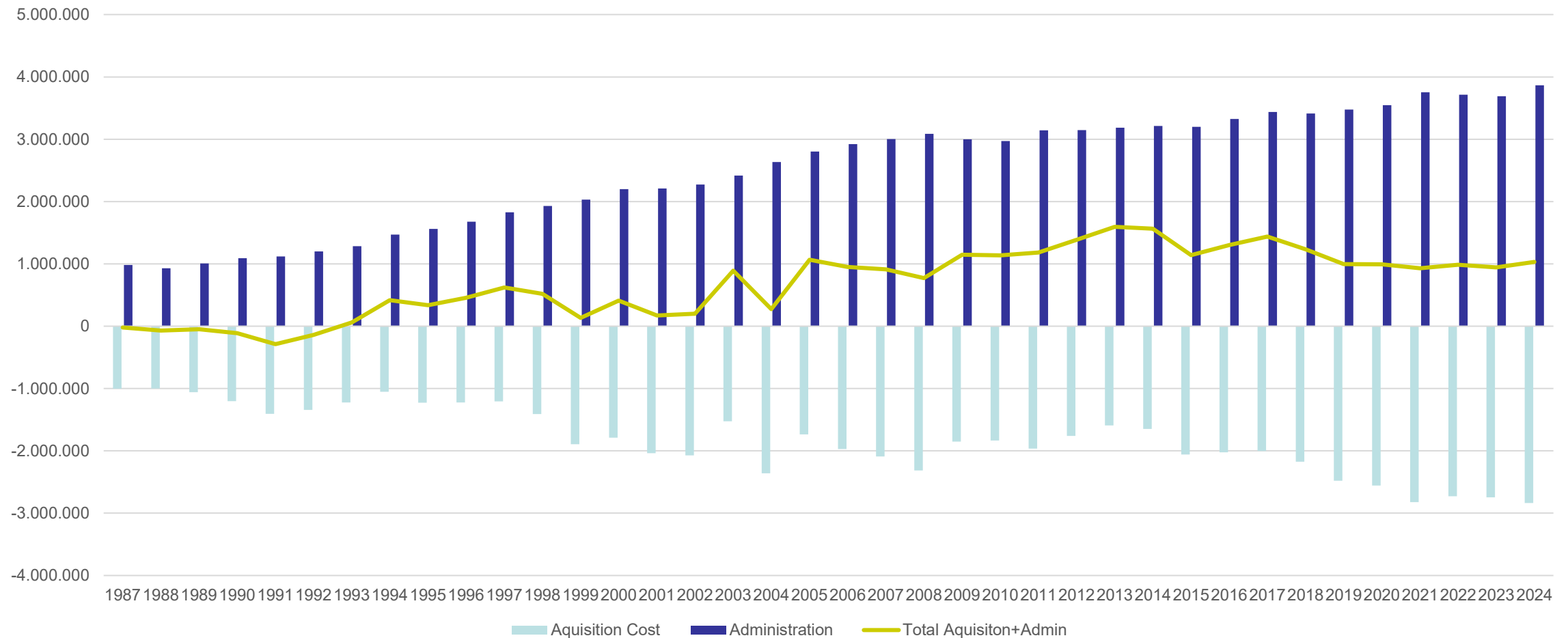
Source: BaFin Jahresstatistik – own representation

## Absolute Figures



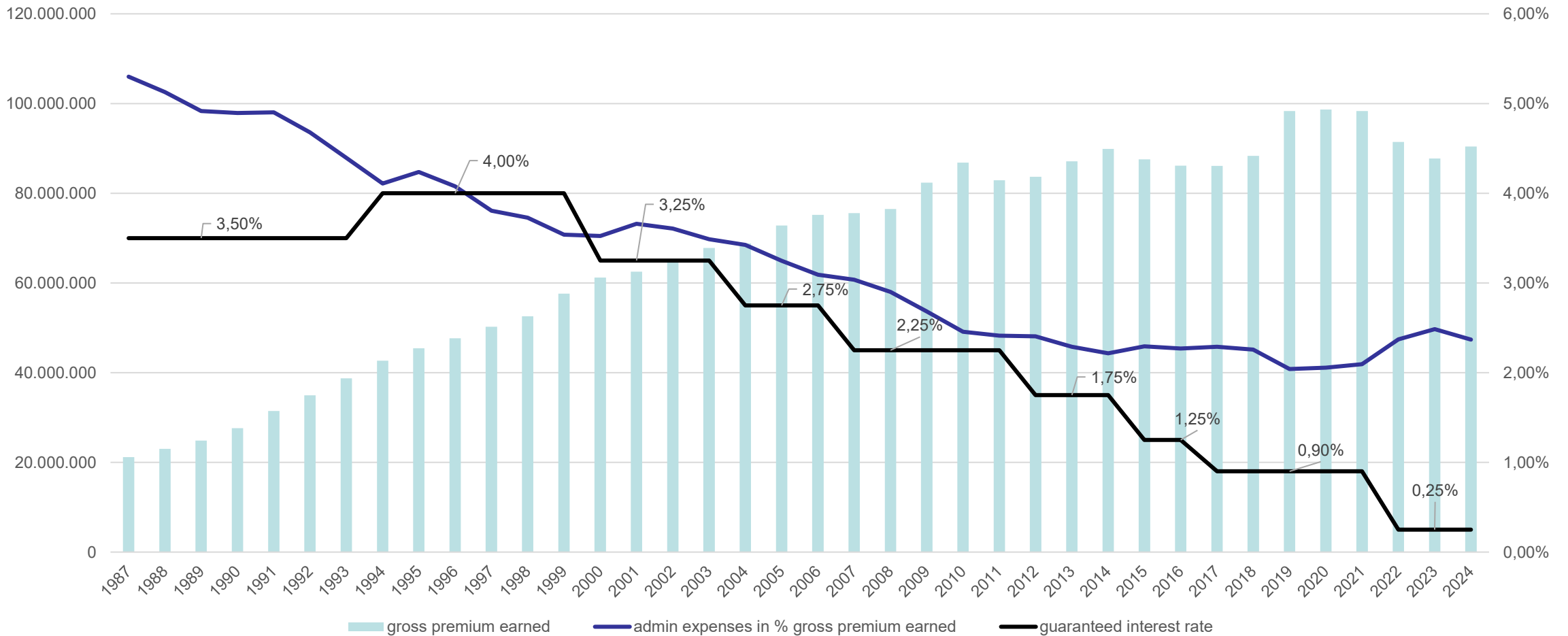
Source: BaFin Jahresstatistik – own representation

## Development of aquisition and admin cost results



Source: BaFin Jahresstatistik – own representation

## Development over time



Source: BaFin Jahresstatistik – own representation



- Calculation basis “costs” has an increasing impact on earnings
- Cost results compensate lower interest income
- Decreasing percentage of admin expenses in relation to premiums earned correlates with decreasing guaranteed interest rate
- Focus of actuaries on cost results is in addition triggered by
  - Cost transparency for customer acceptance of insurance products
  - “Value for Money” – guidance notice on savings products from BaFin
  - Demographic change – demanding automation of business processes

## *Increasing attention on Costs in Life Insurance Products*

### **Main Requirements**

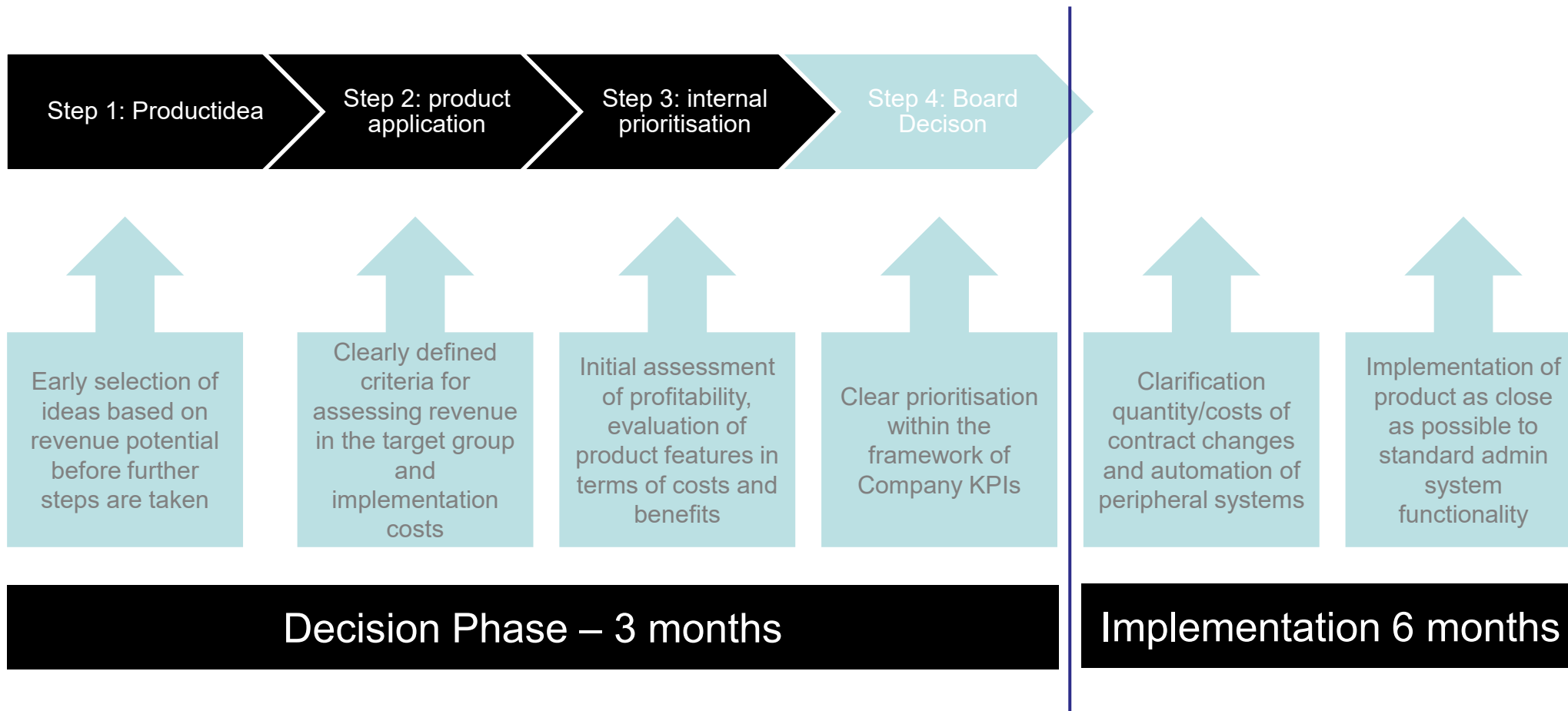
Finance Products should fulfill

- Appropriate balance between costs and benefits
- Meeting Customer Needs
- Appropriate Customer Benefits

### **Core Elements**

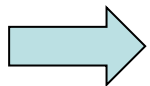
- Economy: reducing/minimizing costs
- Efficiency: appropriate results
- Effectiveness: achieving objectives
- Equity: fair distribution of profits

## *A smooth Process is key for the customer and the insurance company*



## ***Timely Controlling improves the next product development process***

- Comparison of sales figures – Plan vs. Realized
- Analysis of model contracts within the portfolio vs. assumptions
  - Average contract
  - Distribution of entry age, premium size and contract term
  - Selection of individual features
- Analysis of project costs
- Analysis of project period – time to market



**Insure the main requirements of the “Value for money” principles**

## Usage of AI

### Chances

- The use of AI helps to counteract demographic change and converts „head monopoly knowledge“ into structural knowledge
  - Use of Robotic Process Automation
  - AI Agents
  - LLMs to analyze text-based information
- Fully automated processes – dark processing

### To be valued

- Impact on operational risk
  - Potential of mass errors
- Ensure proper testing (regression tests)
- Functioning internal Control System

## ***Ensure Financial Stability of the Life Insurance Company***

- Actuarial Controlling to ensure that reality meets the actuarial assumptions
  - Take action for future developments
- Ensure adequate and fair profit sharing between customers and insurance company
  - Appropriate safety margin within actuarial assumptions
- Support Process improvement activities by investment calculations and the impact on
  - MCEV
  - SCR

## Thank you!

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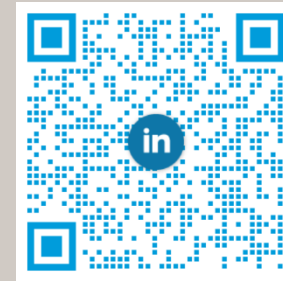
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