



Callum McCarthy Gleneagles 2006

- “My contention is that we have a system which serves neither the producer of the services nor the consumer of the services. It is doubtful whether it serves the intermediary either.”
- This speech led to the RDR and attendant fundamental change in wealth management which are still very much playing out
- RDR has been seen to be only about assets and we challenge that

Protection sales history

Product	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Whole of Life ¹	132	116	100	99	91	73	70	82	101	101	113	122
Term non mort	243	275	372	392	336	283	318	306	354	383	368	361
Term mort related	205	299	400	436	398	364	349	323	262	240	228	210

1. Includes funeral plans

Source: Protection Review

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Some lessons

- 82% of the whole of life sales were “funeral Plans” which it is unlikely the audience would buy or recommend to their parents
- “new annualised premiums (in 2011) were not only below 2010, but were also the second lowest recorded since 2000”
- If we ignore funeral plans 35% of the business is mortgage (and thus transaction) based
- The average premium on mortgage related business is £358 and on non mortgage £369 a year-same demographic likely

Source: Protection Review

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Wealth advisers

- “It’s important, but we don’t do a lot of it. Well I know how much business we put up that way and we probably do about, overall it's probably about 6-7% per year, we do about 30 out of 500 clients. “
- Presumably the other 470 might die one day?

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Source: Technical Connection Wealth preservation strategies

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Polarity of advisers

- Wealth Manager quotes:
 - “I don’t sell protection-we don’t take indemnity”
 - Too much trouble
 - “that’s great are you basing it on derivatives”
 - But even rich people die
- 59% of senior advisers think RDR will increase protection sales because “advisers need alternative revenue streams”
- Not in the mass affluent markets it wont

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Source: Swiss Re The Insurance Report 2011

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Protection gap or Luddite providers?

- The industry is good at articulating a “protection gap” of a few trillion pounds
- But the industry hasn’t changed in twenty years
- Eg Commission is a percentage of LAUTRO, a body that died in 1995
- So when the Insurance report says:” The choice of buying protection and savings products versus acquiring the latest iphone” the reality is we are on iphone 5, but LAUTRO remuneration

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Lessons from the RDR front line-advisers

- The following are unacceptable words:
 - Distribution (how can you distribute advice?)
 - Commission (so last century)
 - Product
- Wealth management advisers have really changed:
 - They act for the client
 - They are looking for long term relationships and support
 - Financial planning is recognised as a profession adding real value to consumers flexible lifestyles
- And the reality is that fixed term products don’t work in that environment

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Lessons from the RDR front line-the cult of the individual

- Wealth advisers had first to move from up front to trail commission and from there to recurrent fees
- The reality is that no customer will pay a fee up front to be ignored for the balance of the service (cf X% of LAUTRO)
- Ongoing advice means treating the customer as a (changeable) individual
- The Regulator with the current strong focus on suitability is reinforcing that individual trend

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Lessons from the RDR front line-provider winners and losers

- The proposition absolutely shifts from product packaging to service (cf SIPP growth)
- The immediate battle becomes technology to enable individual client proposition
- All “added value” is scrutinised much more closely and often rejected (cf growth of ETF and alpha challenge)

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So how might protection look to a wealth manager from Mars?

- It must be individually tailored
- It must flex with the client-there are identifiable long term commitments (children) but the adviser is reviewing the client's financial assets EVERY year and will expect to review liabilities at the same time
- It must NOT be a product (product and individual consumer are oxymoronic)
- It must be transparent and free of "bells and whistles" that don't add value

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The challenges-how a reinsurer can help

- By definition an older and mass affluent cohort-underwriting challenges
- The technology interface must work at point of advice – integration into an underwriting engine is critical
- Complex selection issues from a demanding but intelligent and articulate customer and adviser

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Flexibility, service and value are key

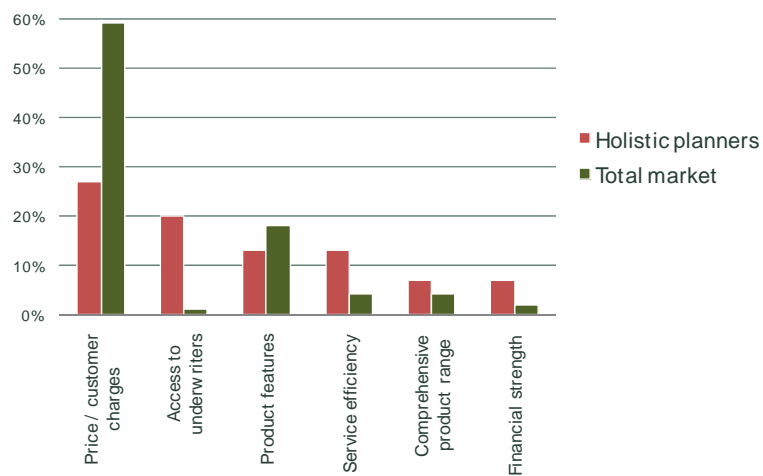
- "There is an opportunity for advisers to ...positively influence the development of the individual protection industry in the UK:
 - by matching contracts to client needs,
 - rewarding insurers based on product and service quality, and
 - focusing on value rather than simply on price"
- "Insurers are becoming increasingly cost and efficiency focused. Consequently advisers reported that insurers are focusing on delivering process *simplicity*, at the expense of process *flexibility*"

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Source: NMG UK Life Insurance Individual Protection Programme Insights Report

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Business placement drivers: holistic planners vs total market



Source: NMG UK Life Insurance Individual Protection Programme Insights Report

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What clients really want...

- School and University fees funding (19.6)
- Protect their current level of wealth (14.6%)
- Minimise income, capital gains and IHT taxes (2.4%¹)
- Adaptable life protection insurance
- that flexibly meets their changing needs
- continuously tracking individual risk
- providing the cover they need

A service offering not a fixed product

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1. Source: Cerulli Associates/Phoenix Market International

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What they don't want...

- Slow, intrusive and opaque UW process
- Lots of questions and told they are a bad risk
- Clunky service
- No idea of what is happening and when
- Advisors – protection to negatively impact on relationship

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What can make it better?

Underwriting features	
Electronic underwriting engine	High immediate acceptance rates. Strong feedback on question success
Improved medical evidence experience	Use of screening and / or medicals to minimise time and hassle for customers. GPRs evidence of last resort
Early declination warning	Early warnings of likely declines or high potential premiums give the IFA the knowledge to aid the process
Continuous status updates	IFA is aware of status via multiple channels of choice
Multiple sources / sessions of application	Allows IFA and customer to complete application in a multiple of environments to ensure smoothest possible process for the individual customer

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What success looks like....

- Customised, dynamic products that meet real needs
- Flexibility to changing circumstances
- A slick new business process
- Divorce the advice from medical questions
- Integrated with my wealth management programme
- On-going visibility to and management by the adviser
- Value for money

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