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The Complexity of Simple Products

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Why are products complex?

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Advisory
Sponsorship
Thought Leadership
Community
Professional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

Complexity

Consumers don't ask for complex products but as an industry we can be really good at those.


Driving Complexity

IFA Distribution;
the perception of a "quality" product

Aggregators bringing features to the fore;
more = better

Competitive pressure;
New product features quickly imitated

Industry ratings;
Highest ratings for most comprehensive products



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How would the protection industry 'do' i-phone?

- 411 MHz ARM processor
- Corning Gorilla Glass
- Oleo phobic coating
- TFT Capacitive Touchscreen
- Accelerometer and Proximity sensors
- 5" rated phone
- From £1.16 a day
- Only available through advisers
- No marketing budget



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How did Apple 'do' i-phone?

In 30 seconds on TV they showed...

- It fits in the palm of your hand
- You can control it by touching the screen
- It knows where you are
- It has maps on it
- You can watch movies and listen to music on it
- Oh and you can use it as a spirit level...



They did 'Relevance'...



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ABI Simple Products framework




"The Sergeant Review showed that some customers would benefit from simple and easy to understand savings and protection products that meet their essential needs and that they can trust. Receiving the TSI CCAS approval for our Simple Product Framework gives consumers confidence that they can purchase a financial services product in a straightforward way."

Helen White 2014 Head of Protection at the ABI



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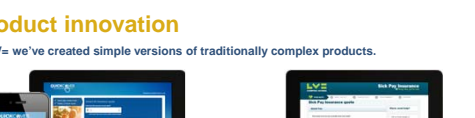
Two examples of products made simple

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advice
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Product innovation

At LV= we've created simple versions of traditionally complex products.




Life Insurance

- Simple version of Term Insurance
- Instant online Life Cover
- Sold Direct via mobile or PC

Car & Home Insurance

- Simple version of Income Protection
- No health or financial questions
- Sold Direct via mobile or PC



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QuickCover – get a quote in 2 minutes

Product Features

- Instant cover**, low premium term plan that pays out on death or diagnosis of a terminal illness
- Available on a single life basis to UK residents aged **17 to 55 attained** for up to 50 years or up to age 30
- Payments and cover amount are fixed though the customer may buy another plan subject to a **maximum sum assured of £300,000**
- Simple application** (short underwriting set) and straightforward product

Positioning	Customer Need	Existing Solutions
Simple positioning of proposition	Those with a mortgage or dependent children would benefit	None offer a 2 minute quote process with instant cover

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QuickCover

Designed to be bought on a mobile, tablet or PC

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QuickCover

A quality product with same day cover

- No concessions made on product quality
- Sums assured up to £300,000
- No waiting for underwriting decision
- Answers replayed before purchase
- Customer can be covered in minutes
- User journey will feel familiar with checkout and scrolling capability

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QuickCover

Easy purchase journey enables buying at novel trigger points

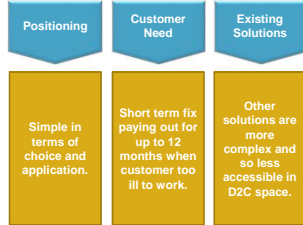
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Sick Pay – no health or financial questions

Product Features

- From £500 to £1000 benefit paid out after 4 weeks of illness
- Available to UK residents aged 17 to 45 attained for up to age 70
- Must be working at least 16 hours a week
- Covers any type of sickness other than conditions suffered in the two years prior to buying the plan.
- Simple application (short underwriting set) and straightforward product



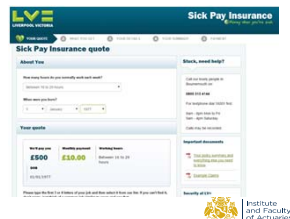
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Sick Pay

Making IP easier to understand – no jargon

- A quarter of adults have literacy equivalent of GCSE D-G grade
- "Premium" becomes "The Price"
- "Income Protection" becomes "Sick Pay Insurance"
- "The Benefit" becomes "Your spending money"
- Summary and conditions reduced to 12 sides vs. over 50 sides for traditional IP



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Sick Pay

Easy to grasp what the product does in a short space of time

Product Features | **What you get** | **What you don't get** | **Payout** | **Useful information**

Sick Pay Insurance – the facts

- Choose how much spending money you need if you can't work – you can get between £500 and £1000 a month.
- It's yours, for free, to spend on anything you want.
- You only have to be too small to work for 4 weeks.
- We'll pay you for as long as you need it, for up to 12 months.
- Covers any type of sickness or accident, apart from things you've had in the past 2 years before you took it out.
- You can start at age 17 or 18.
- We'll pay you up to age 70, or until you cannot.
- Available if you're working at least 16 hours a week.
- The price will stay the same for at least 5 years, after this the cost may change as you get older.

Here's what it costs

Spending money we'll give you each month	Monthly cost to you	Available if you're working
£500	£10	16+ hours
£750	£14	30+ hours
£1000	£20	30+ hours

What you need to know

Read your policy summary and everything else you need to know.

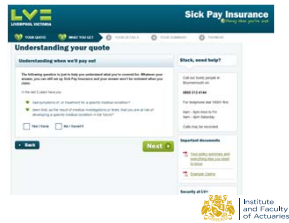
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Sick Pay

Making IP easier to understand – simplicity in product design

- Not based on income – based on hours worked
- No financial questions at start or at claim
- No percentages to worry about
- No risk of over- insurance if income falls
- Customer gets what they pay for:
 - no deductions
 - pays out after 4 weeks



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Sick Pay

Fixed Price – no quote required

- £1,000 a month insurance costs £20 a month
- £700 a month insurance costs £14 a month
- £500 a month insurance costs £10 a month
- You don't 'get a quote' you buy it
- Makes it a one stage process
- Can market the price – not market get a quote
- It's what people are used to!



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Complexity behind the simplicity

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Building Simplicity

What's simple for a consumer proposition can be complex for an actuary to deliver.



Building Simplicity

What's simple for a consumer proposition can be complex for an actuary to deliver.



Simple Features & Pricing

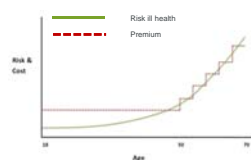
- TCF – product literature easy to understand
- Rates – balance needed between simplicity & pricing
- Product Features – balance needed between simplicity & pricing
- No financial underwriting – risk of over insurance

Building Simplicity

Pricing Sick Pay to enable simple marketing messages

- Priced to remain level to age 51 then goes up with age
- Future prices shown in rate table in literature
- Rate table is guaranteed for 5 years
- Allows us to market at fixed price to age 17-45 year olds

A high level visual



Building Simplicity

Consumers will expect a reasonable price with or without full underwriting.



Pricing Level

- Pricing needs to be reasonable compared to fully u/w equivalent
- Fair pricing required
- Uncertainty over experience may drive loadings
- Cross subsidies can mean risk of poor business mix



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Building Simplicity

An appetite for a degree of risk is required when engaging with a new target market.



Assumptions

- Anti-selective lapse risk
- Mortality & Morbidity depends on target market and level of underwriting
- Anti-selection risk
- Persistency is dependent on sales process and distribution



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Building Simplicity

Marketing and distribution channels will influence the mix of business.



Business mix

- Heavily dependent on marketing
- Risk of different distribution methods unknown
- Differences to IFA business to be considered



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Building Simplicity

A simple customer journey is essential but not without risk.



Speedy customer journey

- Impulsive decision could worsen persistency
- Non advised sale could impact persistency
- Non advised sale could result in rushed application with incorrect information



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Building Simplicity

A limited underwriting question set presents challenges when assessing risk.



Simple set of underwriting questions

- Not all information captured – hard to quantify risk
- Possible to monitor suspicious customer behaviour
- Information collected for monitoring
- Pre-existing conditions and declined occupations help limit risk

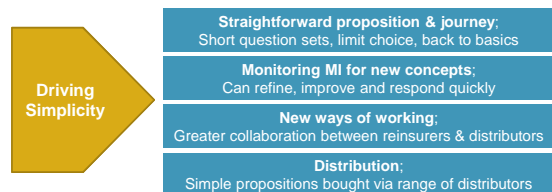


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Simplicity

Simple products require great MI and a flexible approach.



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Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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