



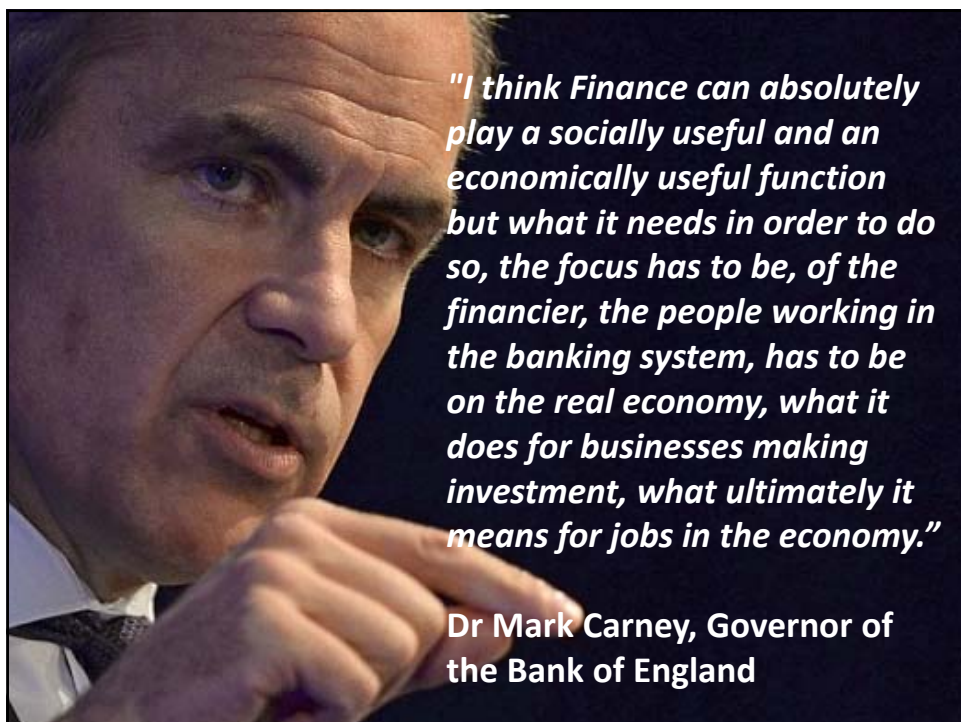
## **Social Use – the next area of scrutiny?**

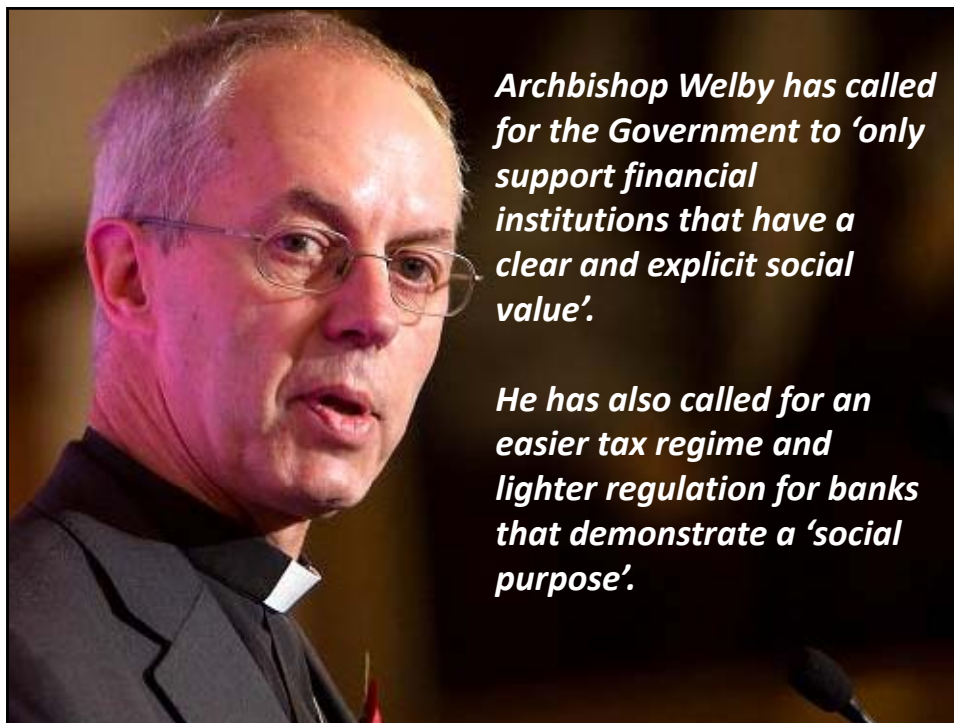
Greg Clare & Kiran Kamath, Aviva UK Life Risk, November 2013

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## Background



## Has the trust gone?

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- Damaged reputation.
  - Do people just blame bankers?
  - 'Genie is out of the bottle'
  - Times are hard...

- 
- No money to 'buy' the electorate...
  - So need to show voters they are on their side...
  - Social value, ethics, moral behaviour – increasingly important
  - What does this mean for insurers?







## **Consumer Access**

### **Why do we need to boost consumer access?**

- **Social challenges**
- **Government austerity**
- **Do people need what we offer?**
- **Saving / Protecting / Credit**





- Different ways to engage
- But increasingly, people want to engage on their terms



## What does this mean for us?

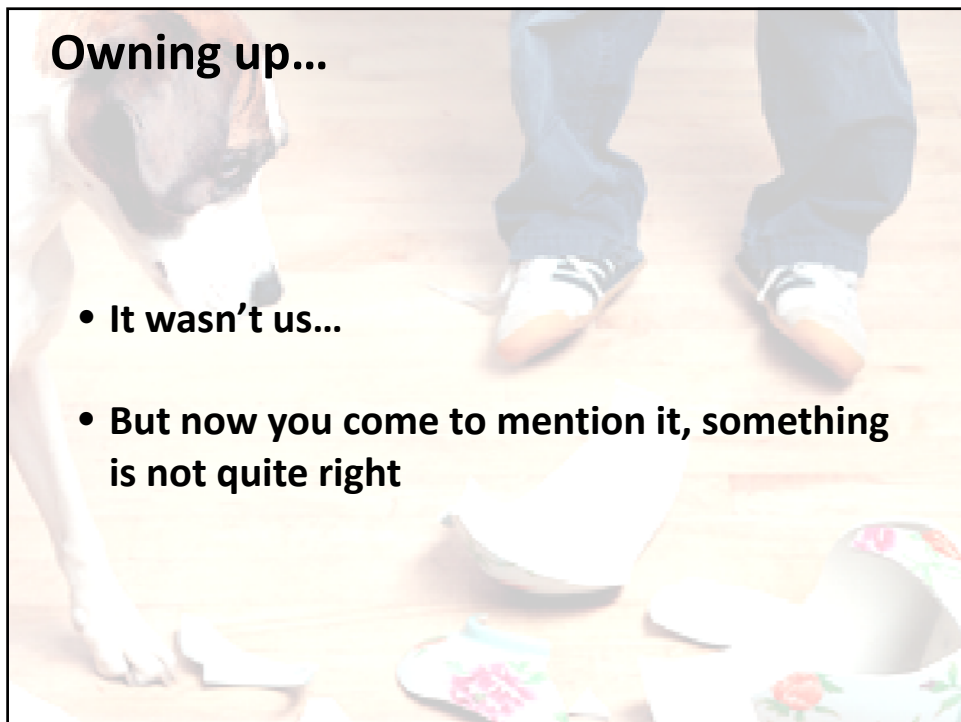
- New experience for us
- We like TIME
- We need to adapt
- The age old challenge

How to get consumers to buy...



Owning up...

- It wasn't us...
- But now you come to mention it, something is not quite right

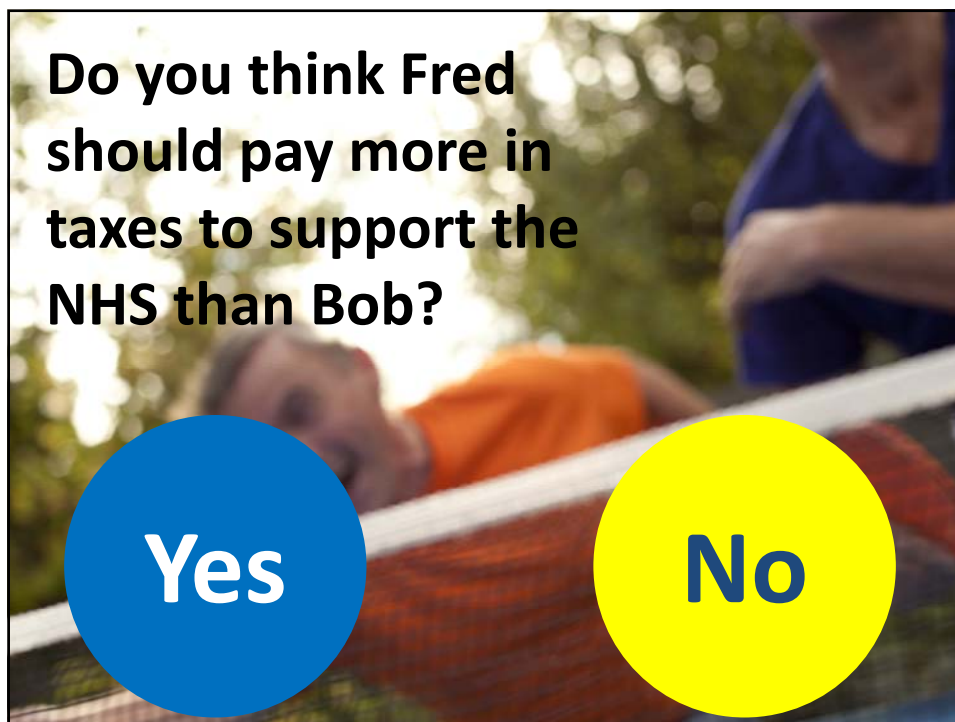
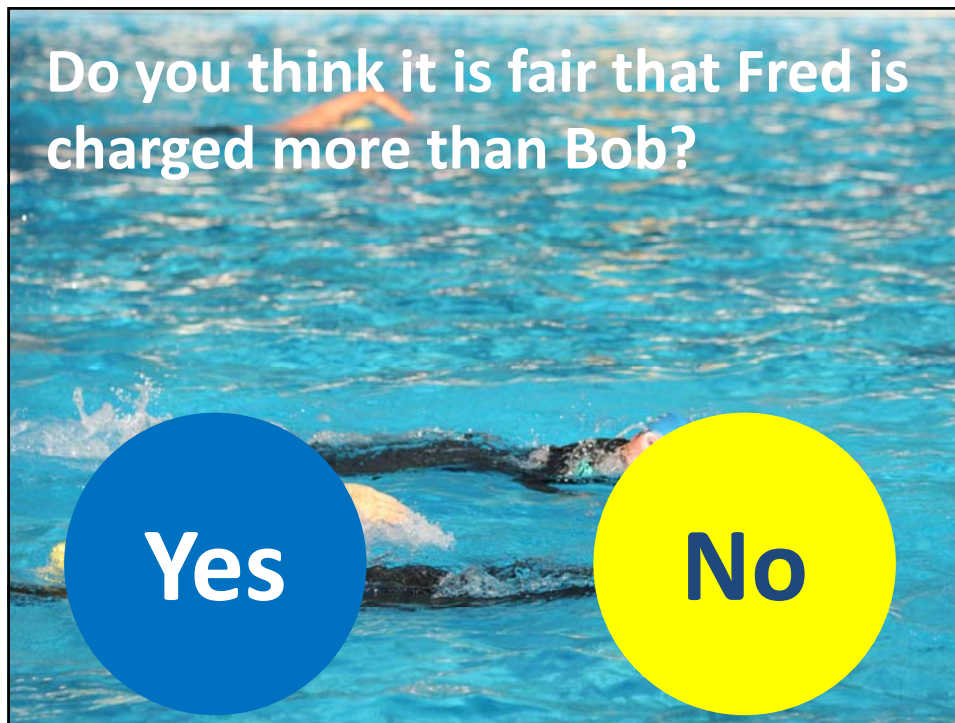




## Risk Pricing

### Individual Risk Pricing

- It's simple! We charge the customer a premium linked to the risk they pose to us.
- Actuaries and others in Finance are generally supporters of individual risk pricing, but not everyone agrees.





## **The pros of risk pricing...**

- **Economic efficiency for insurance companies**
- **Fairness for customers**
- **Promotes positive behaviours**
- **Encourages insurers to innovate**

## **An External Perspective...**



**Middle class annuity pensioners punished by annuity providers**

**Harry Wallop, Consumer Affairs Editor (ex), Daily Telegraph**

## **An External Perspective...**



***“Individual risk pricing...could cause more segmentation in the market, reduce the tolerance for risk sharing, and potentially cause a shift with some consumers being priced out of the market altogether, leaving them completely uninsured.”***

**Mark Hoban, MP (ex Financial Secretary to the Treasury)**

## **An External Perspective...**



***“The problem is that the models used by insurance companies are so crude. Just because you have saved a lot during your life does not mean you will live longer. There needs to be radical overhaul of how annuities are priced”***

**Dr Ros Altmann, DG Saga (and ex Economic Adviser to New Labour)**

## **... and the cons**

- At the extreme risk pricing goes against one of the central pillars of insurance – pooling of risk.
- Does it encourage a fractured society?
- If statistics are used badly, or in a way which is hard to explain to people, it can lead to poor customer outcomes
- Is it fair to treat customers in a particular way just because they are similar to other customers?
- Could there be a public backlash? Some forms of risk pricing aren't used –e.g. race, and of course gender is now illegal

## **What could happen next?**

- Does the insurance industry believe in risk pricing?
- If yes, are there any limits to this?
- Do we feel a need to provide everyone with affordable insurance? Who would pay for this?
  - Insurance companies
  - Other customers
  - The State
- What could regulators and governments do next? Should we act before they do?



## Recap

- **Since the financial crisis, trust has gone**
- **We play an essential role in society and have a duty to maximise consumer access**
- **Risk pricing is here to stay – but we need to explain it or limits may be imposed**
- **It is in our interest to take a lead on this – or regulators and the government will do it for us**



