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Distribution Shift: Developments in the D2C Market

Hamish Wilson (Hymans Robertson)
Ed Hall (Royal London)



07 November 2014

Agenda

- Developments in Protection
- Developments in Pensions
- Conduct Risk

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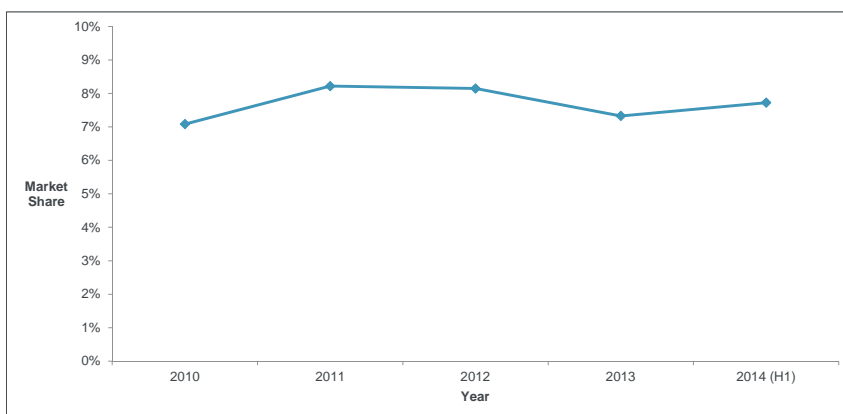


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Developments in Protection

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D2C Share of Protection Market

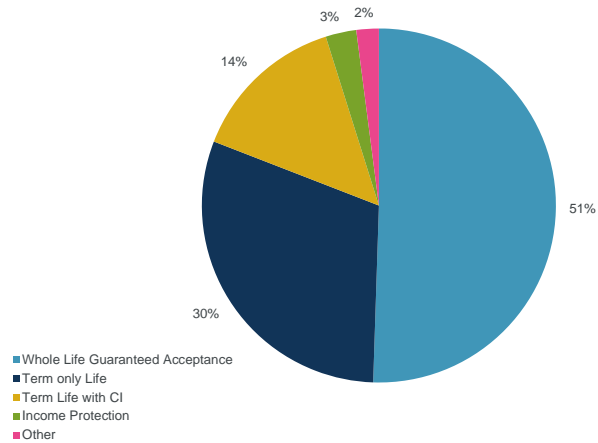


Source: ABI figures for new premiums for protection products (Regular Premium, Individual Life business)

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Breakdown of D2C Protection Sales



Source: ABI figures for new pure direct premiums for protection products for Q2 2014

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Issues in the market

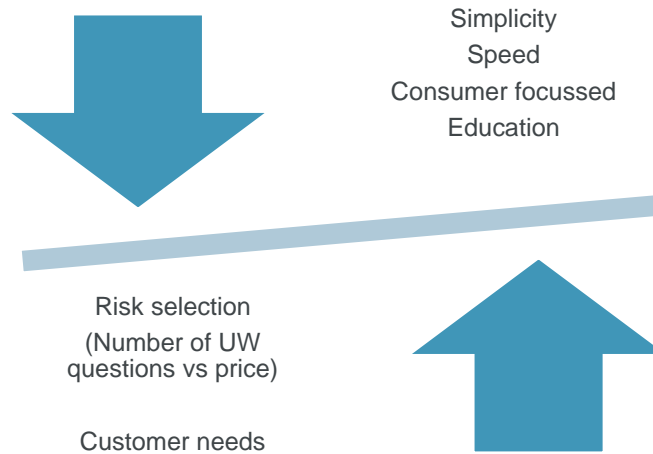
- IFA products moved straight online
- Consumers confused by complicated products
- Consumers have to answer typical jargon based questions, with little help
 - How much cover?
 - Policy term?



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Solutions



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How much cover?



1 of 5: Tell us about yourself

How old are you?

Male Female

Have you got a significant other?

Yes No

What is your average monthly salary after taxes?

2 of 5: Tell us about your children

How old is your child?

Is this child a ... Boy Girl

Day to day living costs involved in bringing up a child will be included automatically but university costs can make a big difference.

I'll pay their university fees

I'll pay their living costs during university

3 of 5: Your housing costs

Tell us about your housing costs

I'll still paying my mortgage

How much do you have left on your mortgage?

I'm renting / I'm a rental tenant

No housing costs

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How much cover?



4 of 5: Your assets

5 of 5: Your debts and liabilities

Category	Amount	Status
Family	£122000	✓
Home	£50000	✓
Debts	£4000	✓
University costs	£0	✓
Assets	£21000	✓

Based on the information provided, the amount you need to cover is:

£ 00155,000

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Beagle Street

BEAGLE STREET LIFE INSURANCE - REBORN



- New advertising campaign: Life Insurance Reborn
 - "...extinction of most Independent Financial Advisers"
- Level Term Assurance or Decreasing Term Assurance
 - Critical Illness cover

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Beagle Street



YOUNG COUPLE BUYING THEIR FIRST HOME

Age: 30

Life event: Buying first home. Want to pay off mortgage if you get seriously ill.

Debt: £175,000 mortgage

Life cover: £175,000

Cover type: Decreasing term

Term: 25 years

Critical illness: £50,000

When buying your first home you are unlikely to have a great deal of debt, other than the mortgage you are taking on. As time goes on you will have paid more and more of your mortgage, which will leave you with less debt repayment in the future. A decreasing term policy is ideal in this scenario. Added Critical Illness can provide additional cover so you can rest assured you are financially stable with mortgage repayments if you were to fall seriously ill.

FAMILY Find out more >	CANCER Find out more >	HEART DISEASE Find out more >	HIV Find out more >
DIABETES Find out more >	SMOKERS Find out more >	DIVORCE Find out more >	LIFE ASSURANCE VS LIFE INSURANCE Find out more >
HAZARDOUS HOBBIES Find out more >	YOUNG PEOPLES LIFE INSURANCE Find out more >	SWITCHING Find out more >	PREGNANCY LIFE INSURANCE Find out more >

Case studies

- What might someone like me do?

- Guides & jargon buster
- Free trust tool

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Beagle Street

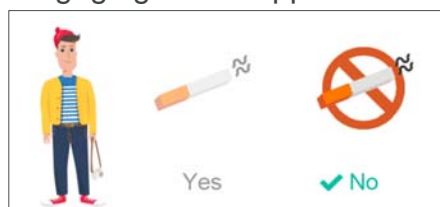
- Fewer underwriting questions

HOW HAZARDOUS ARE HAZARDOUS PURSUITS TO LIFE INSURANCE?

DANGEROUS HOBBIES

Short answer – at Beagle Street, they're not!

- Engaging online application



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- New D2C propositions launched in May 2014



- Life Insurance:
 - Level Term Assurance
 - Decreasing Term Assurance
 - Family Income Benefit

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Instant
decision

The price you
see is the price
you will pay



Desktop, tablet
& mobile

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Aggregators



- Provide “Quick Quotes” before underwriting
- Applicant then has to go through full underwriting



- Underwriting questions up-front
- “Buy now” option

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Income Protection

Sick Pay Insurance
Get tax free money each month if you become too unwell to work in your job.

- ♥ No health or financial questions
- ♥ Tax free money to spend on essentials and fun stuff
- ♥ You only have to be too unwell to work for 4 weeks



- Simplified Income Protection
- Launched in June 2013
- Pays out for a maximum of 12 months

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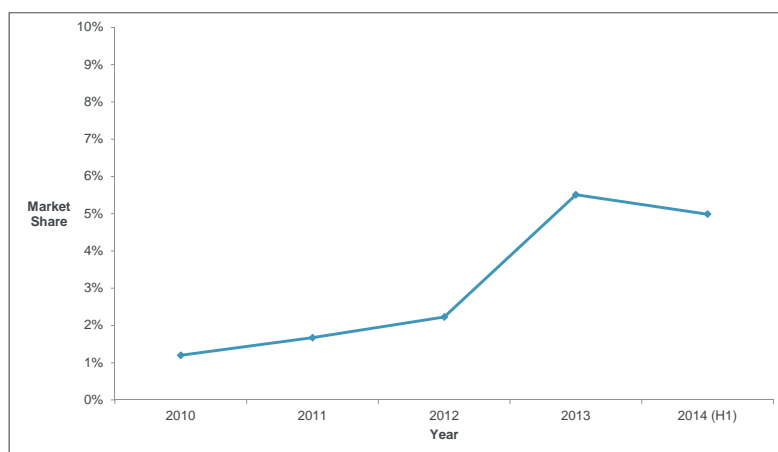


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Developments in Pensions

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D2C Share of Accumulation Market



Source: ABI figures for new premiums for pension products (Single Premium, Personal Pensions and SIPPs)

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Recent propositions - accumulation

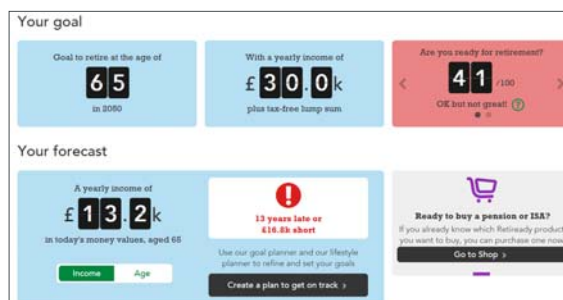


- Aegon launched D2C platform in April 2014
- ISA and SIPP wrappers
- Tablet and mobile app

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Recent propositions - accumulation



- 'Retiready' score based on customer's inputs
- Risk profiling used to select investment fund

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Recent propositions - accumulation

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How much might your pension pay? Is it on track? Find out in seconds with this free pension calculator.

Your details and contributions

I am: ☐ Female ☒ Male

My date of birth: DD MM YYYY

My gross salary: £ 0

My existing pension fund: £ 0

Retirement age: 67

Tax free cash: 0% 25%

Personal contribution: £ 0 4 % Gross contribution per month

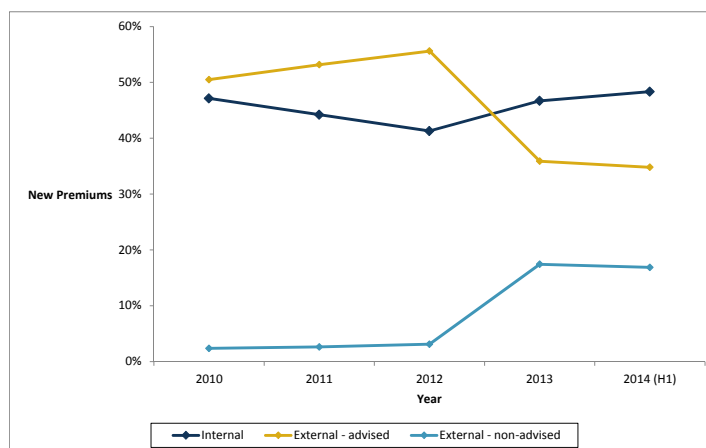
Employer contribution: £ 0 4 % Gross contribution per month

Calculate now

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D2C Share of Annuities Market



Source: ABI figures for new premiums for standard pension annuities

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Recent propositions - decumulation

Annuity Comparison Sites



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Future developments

Aviva confirms D2C platform plans

L&G plans end of year D2C launch

...we're looking at growing in the D2C space particularly around mutual funds and ISAs

(David Nish, Standard Life)

Budget 2014: George Osborne drops bombshell on pensions flexibility

19 March 2014 1:23 pm | By Tom Selby

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With freedom comes confusion



Is an annuity or drawdown better for me?

Should I take my tax-free lump sum now?

Can I use the pension flexibilities to enable me to work part-time?

Where can I go for help?



The Guidance Guarantee

March 2014



And we're going to introduce a new guarantee, enforced by law, that everyone who retires on these defined contribution pensions will be offered free, impartial, face-to-face advice on how to get the most from the choices they will now have

Guidance

October 2014



CAB to deliver face-to-face guidance

TPAS to offer phone guidance

The key is not a particular target level of guidance take-up but the right kind of people take the guidance. We will be very much focused on the people who really need the guidance

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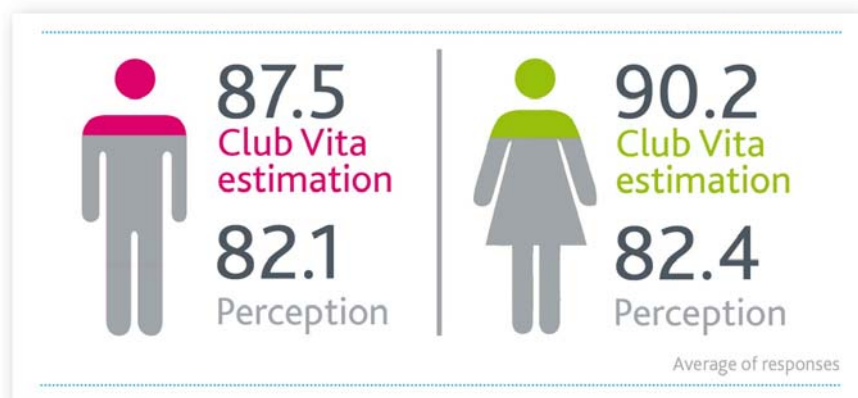
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Guidance and advice - how will individuals ensure they make the right decisions?



Lots of confused over 55s looking for help



What age do you think you will live to?



Significant under appreciation of great news

Helping people understand

Tell us a little about yourself

Gender  

Postcode

Annual income

Job type

Year of birth

When do you want to retire? Age

Health at retirement

How long could you live?

Your want to retire at age 65

From this age you might live


Remember, this is an average! Half of people like you generally live longer, and half live less.

Want to know your chances of living longer?

How much longer do you want to live? years

Your chance of living this much longer is Moderate 30%

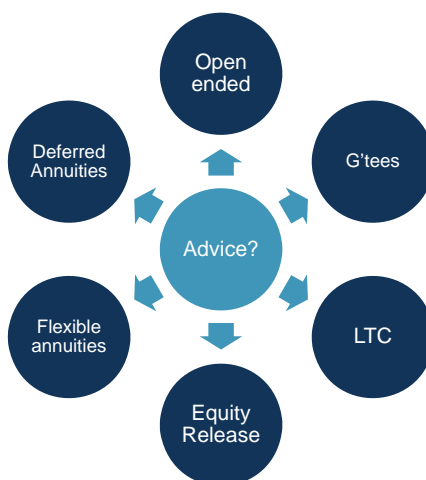
30 out of 100 people like you will need their money to last at least 30 years into retirement



Powered by:



New decumulation products?

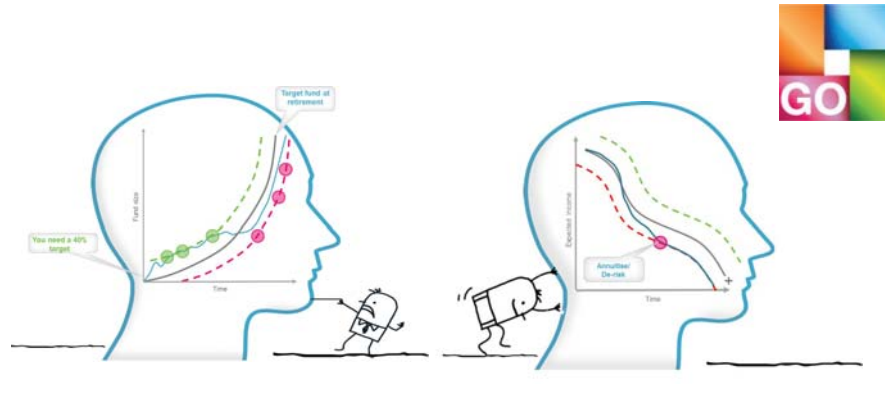


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Life feels better when you have a plan...

- Guided Outcomes is a framework to provide pro-active guidance to individuals about retirement income needs



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Conduct Risk

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

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High Focus on Conduct Risk

FCA Focus



Firms do not design products and services that respond to real consumer needs or are in consumers' long-term interests

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D2C Focus

- No adviser to confirm that product meets real customer needs and in their long term interests
- Proposition design needs to go further
- Can't put the burden solely on the consumer

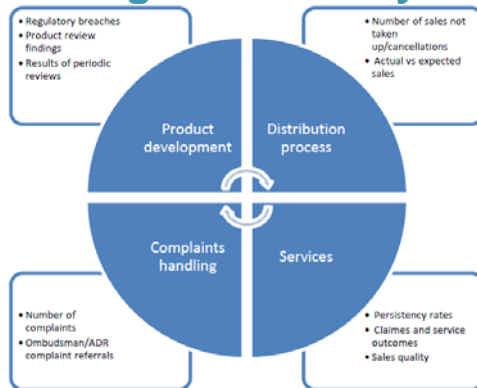
New Approach?

- TCF had been at heart of proposition development for number of years
 - For many insurers has been part of the product approval process is that consumers have been at heart of the initial product design and ongoing product review
 - TCF governance papers
 - Many Product and Pricing approval committees had additional TCF oversight
- But More demanded
 - Board sign off on product design ?
 - Legal / risk / compliance integral to product and proposition design (on top of this being part of the culture of all staff involved)
 - How to ensure information and/or guidance is not advice, yet still fulfilling that product is suitable ?
 - Evidence required at every stage

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Risk Register and Key Risk Indicators



From CRO forum paper:
<http://www.thecroforum.org/consumer/>

- Conduct Risk Register can record risks, KRI's, RAG status, mitigations, owners, review frequency, throughout product cycle.
- Builds on many reports available and genuinely adds value rather than being a burden.

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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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