The Actuarial Profession
making financial sense of the future

Life Conference and Exhibition 2011
Russell Higginbotham and Alan Martin - Swiss Re
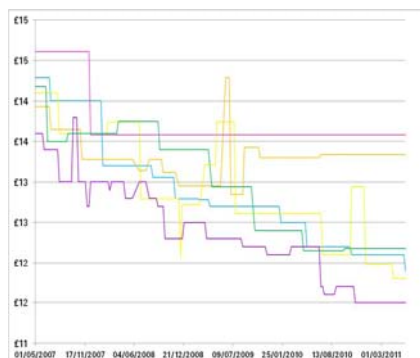
Life's cheap, but who's buying?

22nd November 2011

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Market pricing example

Level Accelerated Critical Illness
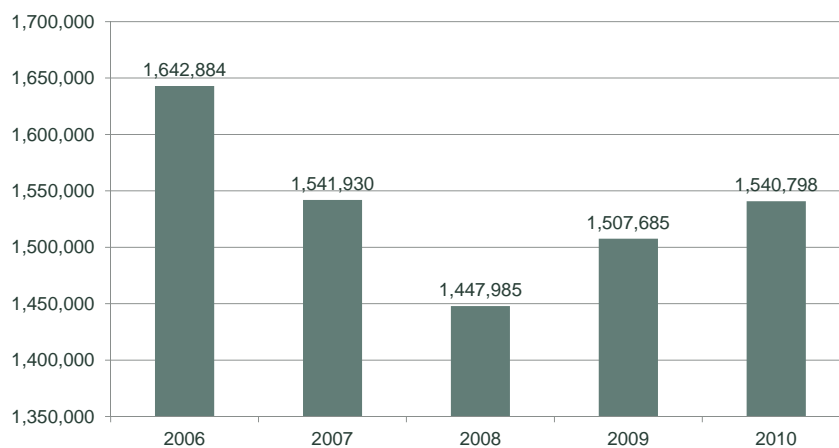Male, Age 40, 25 year term £100,000

Level Term Life
Male, Age 40, 25 year term £100,000

Price driven down purely by the dynamics of contested market... not consumer need

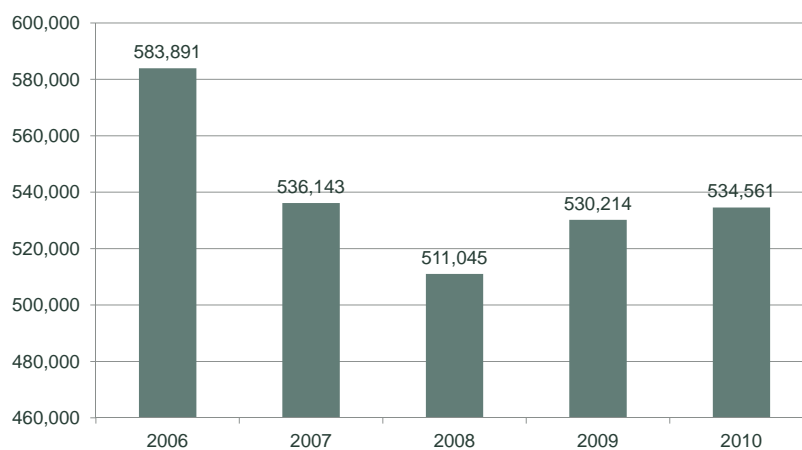Swiss Re Analysis of Moneyfacts data 1/5/2007 – 3/8/2011

**Individual term sales
(inc. critical illness, 2006 – 2010)**

2006	1,642,884
2007	1,541,930
2008	1,447,985
2009	1,507,685
2010	1,540,798

Term and Health Watch 2011 - Swiss Re

**Individual critical illness
(stand alone and accelerated) 2006 – 2010**

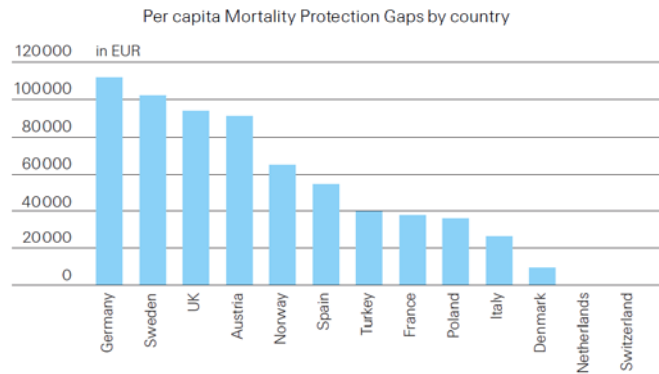|	
2006	583,891
2007	536,143
2008	511,045
2009	530,214
2010	534,561

Term and Health Watch 2011 - Swiss Re

Huge potential market untapped by traditional distribution

Life Assurance Protection Gap up to £2.4 trillion in UK

**Per capita Mortality Protection Gaps by country**

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## People are able and willing to cover the cost of life insurance

Average amount respondents would be prepared to pay per month for EUR 100 000 of life cover, by country, and lowest level premium available for that country (male aged 35, 20-year term)

Results backed up by UK Focus group research at Swiss Re in 2009

Average prepared to pay — Monthly cost in market
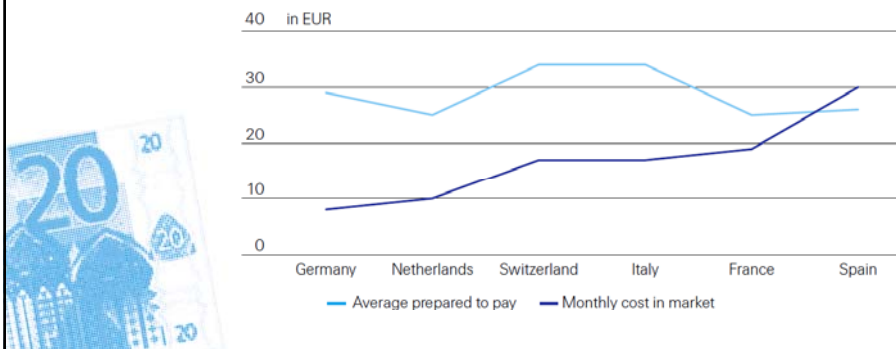
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How much would you be willing to pay each month for £100,000 of life cover ?

Pie chart:
- 19% — £0 - £5
- 26% — £6 - £10
- 13% — £11 - £15
- 11% — £16 - £20
- 9% — £21 - £25
- 17% — £26 - £50
- 6% — £51 +
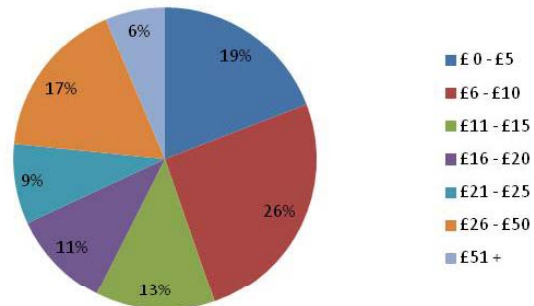
Typical Market Prices:
Age 35: £8 pm   40 year old: £12 pm   45 year old: £18 pm
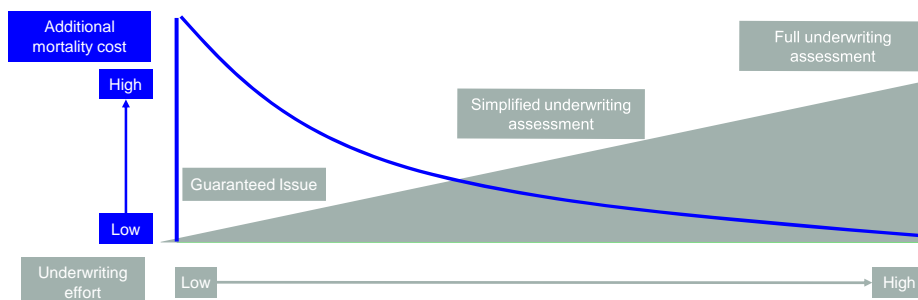
Graph excludes the 53% of people who did not know

Swiss Re Insurance Report 2011

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Balancing ease of sale and price

Additional mortality cost

High

Low

Underwriting effort

Guaranteed Issue

Simplified underwriting assessment

Full underwriting assessment

Low   High

- Customer journey and ease of sale more important than product design

- Focus: Develop a relevant, efficient process balanced by product design and price

- Swiss Re developing solutions that provide easy sales without compromising risk controls
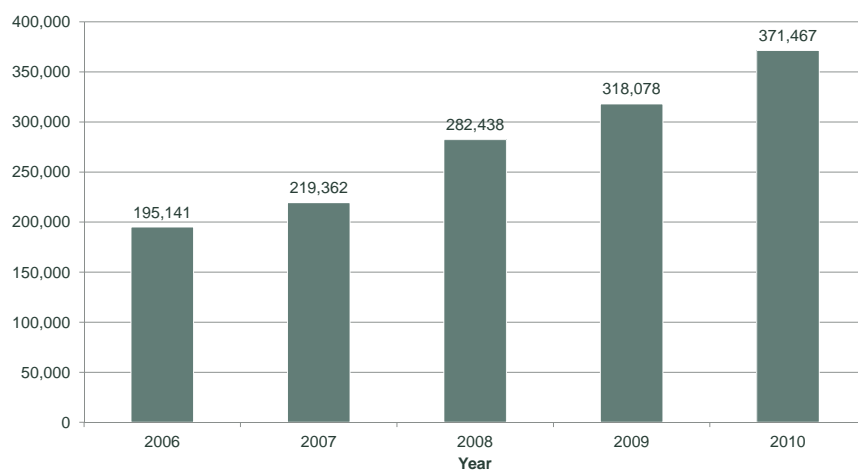
7

Completion is much higher for cases accepted at point of sale

Comparison of completion rates for cases accepted at point of sale (standard or loaded) versus those referred to underwriting

Source: Magnum UK data 2009 / 2010
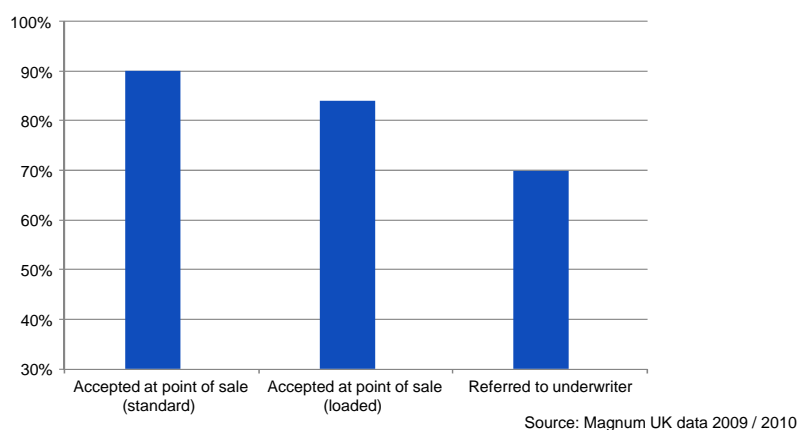
8

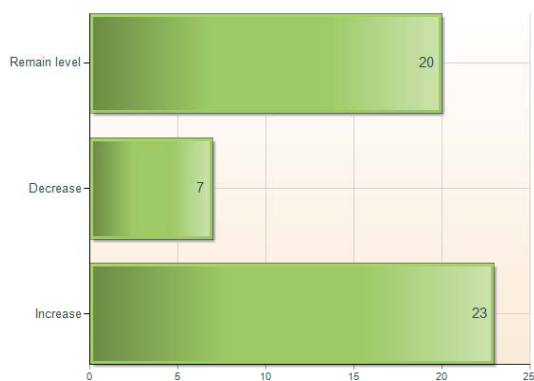# Whole life policy sales (2006 – 2010)

Term and Health Watch 2011 - Swiss Re

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Market opinion survey – life cover

Over the next year, do you think that the size of the life protection market will increase, decrease or remain level?
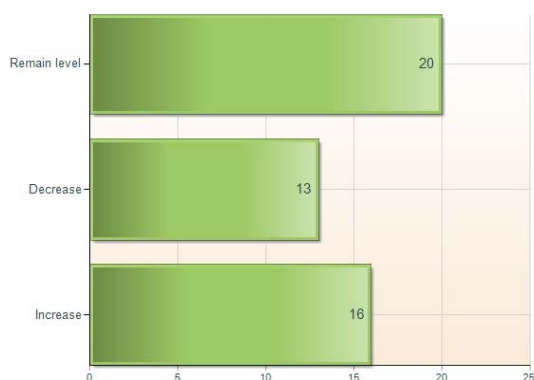

Term and Health Watch 2011 - Swiss Re

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Market opinion survey – critical illness cover

Do you believe that the critical illness market will increase, decrease or remain level over the next year?
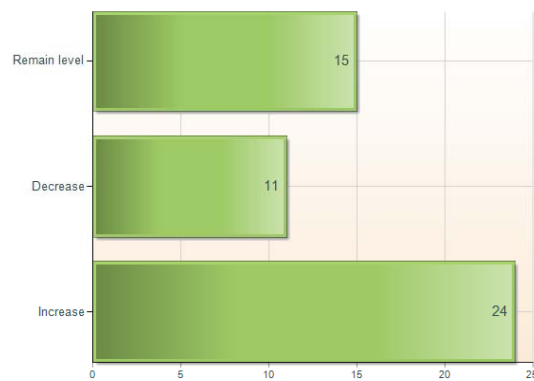

Term and Health Watch 2011 - Swiss Re

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Market opinion survey – income protection cover

And finally, do you think that the income protection market will increase, decrease or remain level over the next year?

Term and Health Watch 2011 - Swiss Re

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Market opinion survey – key emerging themes

- Uncertainty about the impact of the economic climate

- Less confidence in CI growth (affordability)

- Little new product development expected
  (Solvency II, I-E, Gender directive)

- RDR – generally seen as a positive for protection

- A targeted fire sale of protection products in 2012 ahead of gender-neutral pricing

- Welfare reform and other cost management opportunities seen as good for the market in principle

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Background themes (1 of 2)

- Life providers generally lack direct customer access and regular engagement
  - Little brand awareness and
  - Lack of customer touch points to demonstrate quality and build trust

- Broker distribution model stifles innovation
  - Products increasingly commoditised
  - Insurer / distributor only focus on price and commission (not customer need)
 - Insurers unable to develop bespoke product solutions in contested space

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Background themes (2 of 2)

- Distributors have position of strength in value chain
  - but missing out on an opportunity to truly engage the customer over time?

- Even the banks struggle with their traditional channels..
  - 60% of UK customers do not enter a branch
  - Telephone / internet banking removing typical touch points

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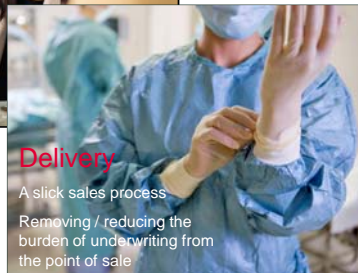**Addressing the sales process and customer journey is the key to growth**
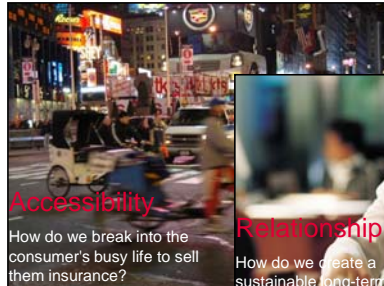
Accessibility
How do we break into the consumer's busy life to sell them insurance?

Relationship
How do we create a sustainable long-term relationship with customers and become less transactional?

Delivery
A slick sales process
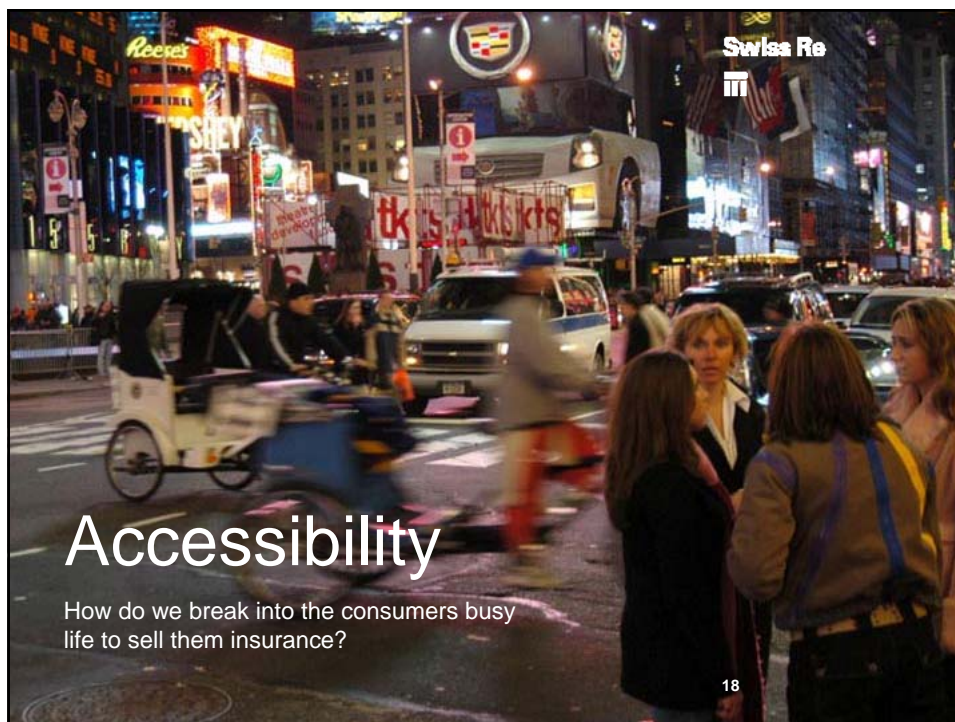Removing / reducing the burden of underwriting from the point of sale

- Life insurance is sold, not bought
- Propositions that rely on the customer to instigate the sale are rarely effective

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Potential solutions

- Focus on simple solutions to life's problems ("One small step")
  - Solve a problem that customer understands with a simple solution
  - Focus on what the customer will buy – not what we feel they need

- Use of technology and data to create instant sales offers with minimal / no underwriting
  - Crucial in the world of instant gratification
  - Traditional Direct Mail vs. I-tunes
  - Payment options

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Accessibility

How do we break into the consumers busy life to sell them insurance?
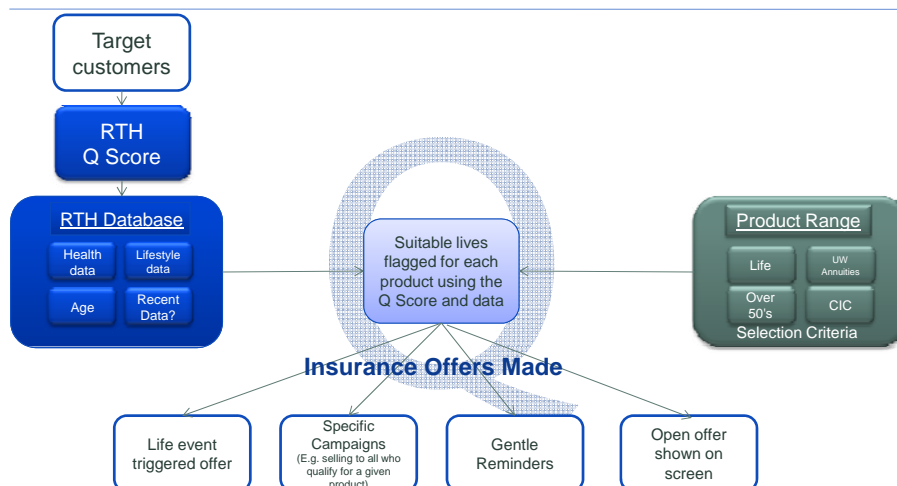
Swiss Re

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Accessibility

- Do your sales channels effectively identify life stage triggers ?
  - Birth of child, death of close family relative, marriage, divorce, new job, moving house, taking a loan etc.

- If a customer required insurance would they think of you?

- Do customers have an easy access point to approach you ?

- Possible solutions:
  - Intelligent use of data to identify when customer most likely to purchase (change of address, free cover for new mothers)

  - Creating access points for engagement / selling insurance (Health, occupation groups, self employed etc.)

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Engagement example: Road to Health

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The core roadtohealth insurance model

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Relationship

How do we create a sustainable long term relationship with customers and become less transactional?

Relationship

- Creating regular customer touch points

- Extract value from customer over time
  - No need to solve all of a customers problems in one product
  - Leave some room for cross and up sell opportunities

- Each "upgrade" a relatively small incremental step

- Up selling campaigns
  - Proactively "sell" guaranteed insurability options (GIOs)
  - No underwriting within two years of first sale (Declaration of health)
 - A few triage questions

Delivery

A slick sales process

Removing / reducing the burden of
underwriting from the point of sale

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Delivery

- Simple products
  - As much focus placed on ease of underwriting as product features

- Intelligent use of existing data
  - Pre select / segment lives
  - Fully underwrite lives using data
  - Predictive underwriting
  - Use of previous "recent" underwriting decisions

- We should not be afraid of asking a few simple health questions
  - 2011 UK Swiss Re survey:
    Health questions not a roadblock to sale for healthy lives
    (underwriting is !)

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Reasonableness of health questions

- Would you consider it reasonable to be asked medical or health-related questions when purchasing life insurance?
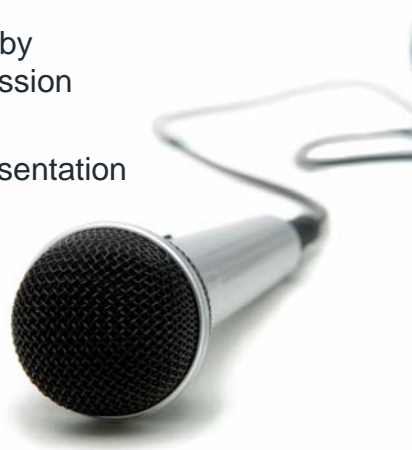

6%

10%

84%

- Yes, I would
- No, I wouldn't
- Don't know
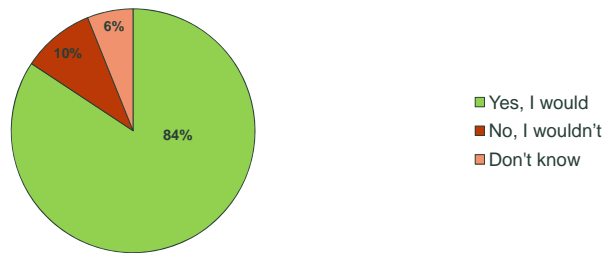
Swiss Re / YouGov 2011

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Questions or comments?

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