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and Faculty
of Actuaries

What do customers want from health products through D2C?

Damien Bartlett, SCOR
Niel Daniels, SCOR
Nick Reilly, HSBC



20 May 2014


Agenda

- Outline of the Market
 - The UK market
 - Key Messages
- What do consumers want from Health products?
- What do consumers want from Direct offerings?
- Overseas
 - Australia
 - Japan

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Outline of the UK Market

- Term
- Over 50s



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'Term' Market





UK Market: ABI Q4 2013 stats


- Total Volumes: Non-Advised Introduced


	Life	Life + CI	Stand Alone CI
Premium: Non-Advised Introduced	£5.0m	£1.8m	£0.1m
% of all Premium: Non-Advised Introduced	7%	3%	6%
Premium: Non-Advised Pure Direct	£3.2m	£1.4m	£0.0m
% of all Premium: Non-Advised Pure Direct	5%	2%	1%

	Life	Life + CI	Stand Alone CI
# contracts: Non-Advised	37,350	9,519	437
% of all contracts: Non-Advised	15%	5%	9%



Smart Insurance	Beagle Street	Others
<ul style="list-style-type: none"> Offering from Nelson Financial Services Limited Provider = Scottish Friendly No simple fulfillment – internet site doesn't provide quote but suggests an agent will call back TV advertising Underwriting: Health and Lifestyle Questions Age based product <ul style="list-style-type: none"> Automatic 5% increase with opt out Premiums change annually 10% cashback at end of year 1 Optional covers: <ul style="list-style-type: none"> Childs CI: specific conditions, £10-30k available CI up to 50% of life cover, covers Cancer, CABG, Heart Attack and Stroke Accidental death cover 	<ul style="list-style-type: none"> Offering from BGL Provider = Scottish Friendly Instant online cover Standard Life and CI policies Underwriting: Health and Lifestyle Questions – felt to be very tight in order to generate significant premium reductions Yet to undertake significant marketing Believed to have a 15-20% share of the aggregator space 	 <ul style="list-style-type: none"> AIG direct <ul style="list-style-type: none"> Male and Female cancer products Advertised in Metro Potential issues at claims stage as a result of PECs Sun Life direct <ul style="list-style-type: none"> Provided by AXA Wealth Life only, restricted to £150k max 5 underwriting questions Advertised on TV 15% of premiums back if no claim by end of the term First month premium free Gift voucher, which can be used for a range of products 

Supermarkets	Aggregators	Insurers
<ul style="list-style-type: none"> Looking for high volume, high commission, cheapest prices and easy journey – difficult to deliver and competing with more successful CI products for advertising spend Tesco <ul style="list-style-type: none"> Provided by Aviva Standard Life and CI policies Online application Points – equivalent to free gifts Asda <ul style="list-style-type: none"> Price comparison – all providers available Model is to encourage a Lifesearch advisor call back Can buy directly online depending on provider <p>Online: LV=, Agass, L&G, Bright Grey Not Online: Aviva, Scot Prov, Zurich, Argon, Friends Life, Pru, Skandia Life, CI, IP and Real Life Cover</p>	<ul style="list-style-type: none"> Protection sales believed to be largely driven by 'price-checking' business generated elsewhere <ul style="list-style-type: none"> Very few genuinely 'direct' sales Despite significant presence on internet searches Aggregators generally dominate Google searches on 'life insurance' Volumes increasing annually, but still relatively small Some disillusionment amongst aggregator's with customer journey and redesign of journey seems likely with use of underwrite-me amongst other things 	<ul style="list-style-type: none"> Most providers have some D2C capability However, generally a hygiene factor <ul style="list-style-type: none"> Fear of upsetting brokers As per general market shares L&G and Aviva most successful <ul style="list-style-type: none"> Developments from Royal London
		D2C Advisers <ul style="list-style-type: none"> Lifesearch: <ul style="list-style-type: none"> WOM model Telephony based advisers Tie in to supermarkets, aggregators 

<h2>Over 50s</h2> 

UK Market: ABI Q4 2013 stats

- Total Volumes: Non-Advised Introduced

	Life
Premium: Non-Advised Introduced	£4.6m
% of all Premium: Non-Advised Introduced	38%
Premium: Non-Advised Pure Direct	£5.9m
% of all Premium: Non-Advised Pure Direct	48%

	Life
# contracts: Non-Advised	57,530
% of all contracts: Non-Advised	56% *

* Odd numbers for Restricted-Advised sales: large number of contracts but very low premiums



Over 50s Overview

- Success story in direct to consumer space
- Largely a result of:
 - Understandable 'call to action' – most people over 50 have been touched by death and ill-health
 - Large amounts of advertising spend
- Marketing:
 - Widespread: TV, door drops, press advertising etc
 - Celebrity endorsement
 - Free gifts: not valued when asked directly but valued indirectly
- Increasing interest in selling through intermediated channels
- Some concerns:
 - Poor value for consumer? Emphasised by Which?
 - ABI guidance (November 2012)



Key Messages

- Importance of combined internet/telephony (or online live chat) offering:
 - Belief that ~40% of applicants will start online and then require personal support
- General belief that outbound calling is not successful
 - Very high NTU rates
- Ticks and Crosses a valuable tool:
- Customer reviews
- Price checks
 - There is a strong compulsion to check the premium value at the end of the direct process



£8.38
Insured






Free cover during your application
Free cover for anyone named in the policy
Free cover for your mortgage (if eligible)
Free cover for your car (if eligible)
Free cover for your home (if eligible)



Price Check	
£100,000	£10.00
£200,000	£10.00
£300,000	£10.00
£400,000	£10.00
£500,000	£10.00
£600,000	£10.00
£700,000	£10.00
£800,000	£10.00
£900,000	£10.00
£1,000,000	£10.00



Key Messages cont.

- Call to action
 
- Time-bounding: motivation to act now – over 50's birthday mailings, special offers.
 
- Trusted brands
 
- Cover calculator
 
- Policy speed set up indicator
 
- Drop down options allow increased knowledge gain without increasing set eg smoker questions: yes / never / within last 5 years

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Summary

- 'D2C' is a small but growing proportion of term market
- Difficult to quantify as no universal definition and different models:
 - Hello.ie, Smart, Beagle Street.... (introduced-direct?)
 - Playingtoomuch, Money Supermarket... (aggregators)
 - Others: Supermarkets, Lifesearch tele-sales
- More success in over 50s market
 - Significant advertising/marketing
 - Call to action more resonant with older ages
- Significant questions:
 - Will insurance be bought rather than sold?
 - Where do current D2C customers come from – internet check of advisor, churn of previous advised policy?
 - Will anybody invest big marketing budget?
 - Need for simple process / simple products?

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What do D2C customers want from CI

• Approach

- Interviewed 500 customers
- Through a consumer research company
- Online survey
- Filtered towards those
 - of middle income
 - of working age
 - inclined towards protection



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What do D2C customers want from CI

• Survey explored their views of :

- **Importance**, of including the condition, relative to other conditions
- **Impact** that customers believe each condition would have on their life
- **Likelihood** of contracting condition, relative to other conditions

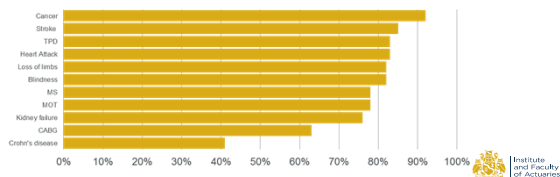


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What do D2C customers want from CI

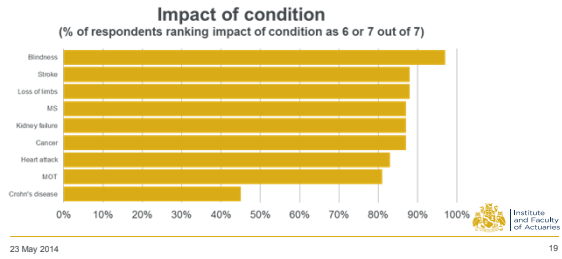
Importance of conditions
(% of respondents ranking importance of condition as 6 or 7 out of 7)



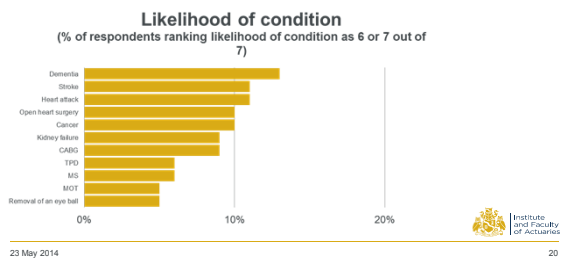
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What do D2C customers want from CI



What do D2C customers want from CI



What do D2C customers want from CI

- Strong correlation between importance & impact
- Much less so between importance and likelihood

What do D2C customers want from CI

- Public's perception of likelihood often bears little resemblance to reality – eg
 - 13% of public assessed Dementia as being highly likely – real incidence is far lower
 - 10% of public assessed Cancer as being highly likely – but it makes up more than half of CI claims & strikes 1 in 3 people
 - 5% of public assessed Removal of an Eyeball as being highly likely – but claims are almost non-existent
 - 10% of public assessed Open Heart Surgery as being highly likely – but claims are very rare



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What do D2C customers want from CI

- So there is a clear gap between perception and reality
- There is a need, to a degree, to cover both
 - What consumers think is important (piece of mind)
 - What we know is higher risk (value)
- And ideally, we should use education to bridge this gap ...
- ... social media / D2C website / advertising ??



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What do D2C customers want from CI

- Public's interpretation of a disease definition is key.
- Whilst each particular disease includes a detailed definition, it is doubtful many policyholders will follow this
- Eg for Heart Attack, a typical definition

Death of heart muscle, due to inadequate blood supply, that has resulted in all of the following evidence of acute myocardial infarction:

- Typical clinical symptoms (for example, characteristic chest pain);

- New characteristic electrocardiographic changes;

- The characteristic rise of cardiac enzyme or Troponins recorded at the following levels or higher:

- Troponin I > 1.0 ng/ml

- AscorTnI > 0.5 ng/ml or equivalent threshold with other Troponin I methods.

The evidence must show a definite acute myocardial infarction.

For the above definition, the following are not covered:

- Other acute coronary syndromes including but not limited to angina



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What do D2C customers want from CI

- It's a pretty fair bet that the vast majority of public won't understand the words troponin, cardiac enzymes or even myocardial infarction
- They will hear their doctor say "Heart Attack" and, in their eyes, they have qualified for a claim
- But is the public approach (= diagnosis only) really that different to the ABI definition ?
- We'd expect heart attack claims to increase by ~ 20% if we pay under diagnosis only



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What do D2C customers want from CI

- So does all this imply that CI is not the right product for a D2C market ?
- It's potentially too complex (in terms of coverage & definitions)
- And for D2C market, Conduct Risk stays with office !
- We want
 - a simple product
 - that can work in the D2C market
 - That is easy to understand



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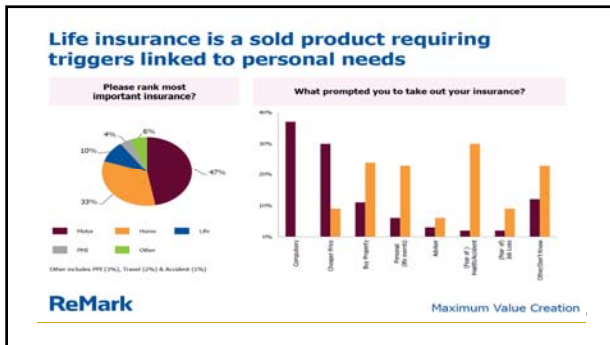
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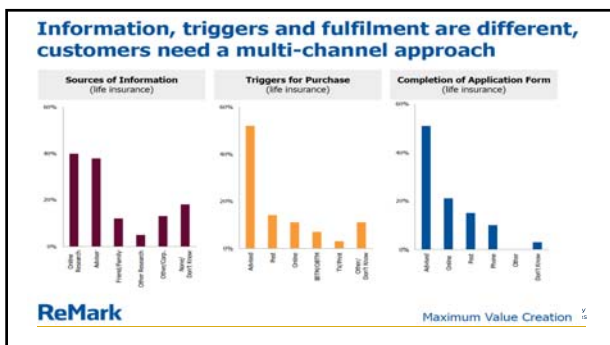
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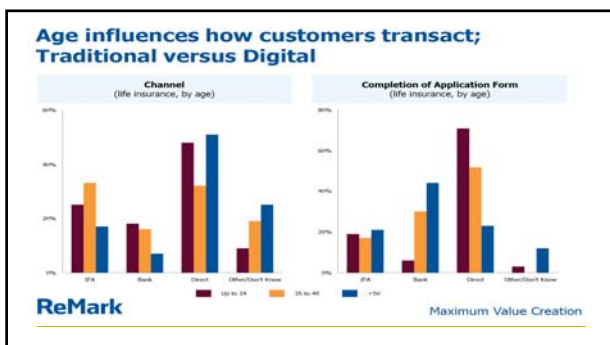


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There is consumer demand for life insurers to invest in direct propositions in the future



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The overseas market

- Japan
 - Lifenet
- Australia
 - LIME



Overseas Markets - LifeNet

- LifeNet – Japanese Direct to Consumer Protection company
- Launched 2009, pure online distribution.
- Clever use of Innovative Marketing to deliver message/promotion
 - Normal mass market (TV, etc.)
 - Unique marketing
 - Social media, marketing tie-ups, marketing by employ/Widespread use of Web PR
 - Web PR: Blogs
 - Not faceless
 - CEO on the ground handing out flyers.
- Why chose LifeNet
 - Low Insurance Premium,
 - Simple Products
 - Convenient Services
- Applicant time zone.
 - Significant volumes post 9pm.



Overseas Market - LIME



- offers "advice" but all remotely through a Direct model
- first "technology" to be licensed as an "adviser" in Australia
 - regulator (ASIC) has been supportive
- How does Lime work – Personal advice in under 15 minutes



Why Life Insurance?



Summary

- D2C small but growing market in the UK
- Lots of activity in new propositions
- What can we learn from successful over 50s market?
- Consumers perceptions quite different from reality
 - How do we reflect for both?
 - Do we need to educate – if so how?
- Is CI right for Direct market / Is IP a more sensible fit for what consumers want?
- Research shows Protection, and Health insurance continue to remain a low importance
- Most research is on line, yet most purchases and apps are Advised
- Younger lives are happy direct, and this is a vast majority
- Future is bright for online, but what about phone (for underwriting)
- Research suggests the younger generation will continue to engage in an online way and it is key for providers to offer suitable fulfillment options to grow the direct market