

2001 Healthcare Conference *Keeping Health on Track*

21-23 October 2001
Scarman House

2001 Healthcare Conference *Hybrid Healthcare Products*

Jason Paschalides - Munich Re
Jeff Davies - Swiss Re Life & Health

FORMAT

- **What is a hybrid product?**
- Current problems in market
- Stakeholders' drivers
- Breakout
- Feedback/Summary

DEFINITION OF HYBRID HEALTHCARE PRODUCTS

- Benefit payable whilst the insured is *alive*
- Cover for *medical treatment* and/or *disability*
- Hybrid being a combination of 2+ products
e.g. CIC and IP
- NOT menu products

Debilitating Condition Cover

- Specifically for mortgage cover
- All based on monthly mortgage payment
- Stand Alone CI for 6 months' payments
- D26 IP - 3/8 ADWs
- Commuted value (pay off mortgage) - if
judged permanent

Self Assurance v Debilitating Condition Cover

- | | |
|---|---|
| • Life, CI, TPD and IP | • (Life), CI, TPD, IP |
| • No changes to cover if different options chosen | • Specifically designed to deal with overlaps |
| • Product combo variable | • Automatically purchase combo |
| • Many sales triggers | • Mortgage only |

FORMAT

- What is a hybrid product?
- **Current problems in market**
- Stakeholders' drivers
- Breakout
- Feedback/Summary

PROBLEMS IN THE MARKET

- Distribution and Sales
- Reputation of the industry
- "Sales Triggers" limited to mortgages
- Polarisation leading to standardisation
- Low penetration by:
 - product e.g. IP covers 1 in 10 workers
 - se group e.g. C2/D access&awareness

PROBLEMS IN THE MARKET

- Regulation and Compliance
- Regulation overlap - GISC/FSA/ABI
- Dealing with straddle products
- SALTR etc.
- Integration with state benefits
- Polarisation - regulation less applicable

PROBLEMS IN THE MARKET

- Design of current products
 - Too complicated for policyholder
 - Integration lacking- "gaps and overlaps"
 - Cost vs. need
 - Impact of medical changes
 - Lifestyle changes
 - Underwriting process

PROBLEMS IN THE MARKET

- State Benefits
 - Perception of coverage: wide but decreasing
 - Impact of ageing population
- | Year | Ave.
<u>Age</u> | #Aged
<u>60+</u> | Failing
<u>3 ADLs</u> |
|------|--------------------|---------------------|--------------------------|
| 2000 | 38 | 36.3 mio | 51,000 |
| 2020 | 42 | 40.1 mio | 66,000 |
- Importance of replacement strategy

FORMAT

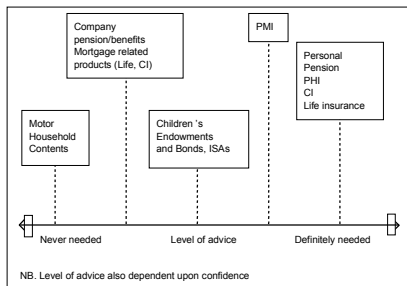
- What is a hybrid product?
- Current problems in market
- **Stakeholders' drivers**
- Breakout
- Feedback/Summary

STAKEHOLDERS' DRIVERS

- **Consumer** perceptions of industry

! Undifferentiated
! Small print
! Complicated language
! Complicated products
! High pressure sales

When is advice needed?



Source: SwissRe Insurance Report 2001

Buying Process

- Surprising familiarity with sales and underwriting processes when compared to non-life.
- ***But nobody expects the Spanish Inquisition.***
- But acceptance that underwriting severity determines rates



Language

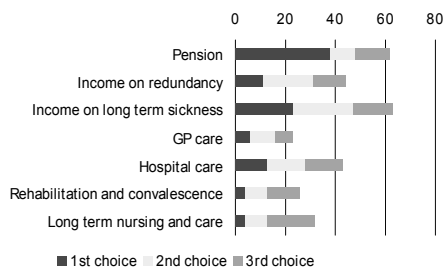


It is effecting sales

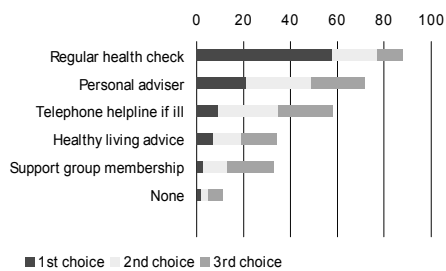


It is effecting NTU rates

Where do consumers see private insurance role? (Swiss Re Insurance Report 2000)



Services valued from a health insurer (Swiss Re Insurance Report 2000)



STAKEHOLDERS' DRIVERS

• Government

- Have clear agenda
- Upset as few people as possible
- Get as many votes as possible
- Live a life of soundbites

STAKEHOLDERS' DRIVERS

- **Government Agenda**

- Encourage self-protection, protect those unable to help themselves
- Work for those who can, support those who can't
- Change the dependency culture
- Prevent social/financial exclusion

STAKEHOLDERS' DRIVERS

- **Government Agenda**

- Win/win public private partnership to deliver:
 - Integrated public/private benefit system
 - Reduction in risk across the whole community
 - Clear quality guidelines for assessment & service provision

STAKEHOLDERS' DRIVERS

- **Distributor**

- Split IFA/other distributor
- IFA - Must be 'best advice'
 - Flexible but complicated?
 - Comprehensive
 - Guarantees easier to sell
 - Cheap?
- Commission?

IFA Panel

Key factors delivered by provider

| HIGH | MEDIUM | LOW |
|------------------------|-------------------------------------|--------------------------------|
| efficient underwriting | product flexibility | commission rate |
| price | ease of communication with provider | quality of broker consultant |
| | waiver of premium option | consumer awareness of provider |

STAKEHOLDERS' DRIVERS

- Distributor**
 - Other distributor' -
 - Still want to make money
 - More affinity with customers? - tailor product?
 - Brand complementing - not damaging
 - Hook to core offering

STAKEHOLDERS' DRIVERS

- Distributor**
 - More specifically -
 - Simple product
 - Flexibility to meet lifestyles
 - Meet a need - acts as trigger
 - Competitive/Affordable
 - Simple sales process

STAKEHOLDERS' DRIVERS

- **Insurer**

- *Still want to make money*
- Attractive to distributor
- Attractive to consumer
- Able to reinsure/reduce capital/manage risk?

STAKEHOLDERS' DRIVERS

- **Insurer**

More specifically -

- Increase premium (and margin) on total sale
 - single offering meets need
- Defensive move to provide all products
- Synergy with existing systems/processes

STAKEHOLDERS' DRIVERS

- **Reinsurer**

- *Not driven by making money!*
- Be able to price and manage risk
 - limiting liability
 - working with providers of medical services
 - costing accurately for future risks
- Avoid anti-selection

STAKEHOLDERS' DRIVERS

• SO IT WILL NEVER WORK

- Risk managers paranoid about anti-selection
- Insurers and distributors happy churning out mortgage related sales
- Low priority to consumer
- No incentive from Government
- Antiquated regulation
- Prohibitive total cost

YOUR TURN

- Breakout
- Split - half Consumer and Government
half Distributor and Insurer
- Argue about what we have just said
- Rank possible product features

FEEDBACK

- Views from Breakout Groups
- Summary
