

Group IP and CI – a market overview

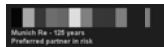
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2005 Healthcare Convention



Agenda

- Market overview
- Product and process differentiation
- Essentials for success/survival – “informed capacity”
- Market dynamics and impact on results – “commercial”
- Operational competence is the foundation of good pricing

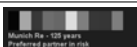


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Themes and challenges

- Good pricing, in itself, will not guarantee success*.
- Are the pricing wizards involved enough in the key operational aspects ?
- Are our IP/CI products answering the question that is being asked ?



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Market Overview

- Fewer insurers in IP and CI
- Drivers for consolidation are complex
- Scale, risk competence and strategic commitment
- Intermediary concerns that there are too few players

Only the strong survive...



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Market health check

- Growth
- Profitability
- Future of CI



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Are we answering the employer's question ?

Q. How can I manage the risk that employees' health brings to my venture?

A. Transfer the cash flow impact of your promise to help in the event of chronic (IP) or sudden acute (GCI) incapacity

Do advisers want us to answer the broader question or stick to our knitting – ever cheaper generic cover.



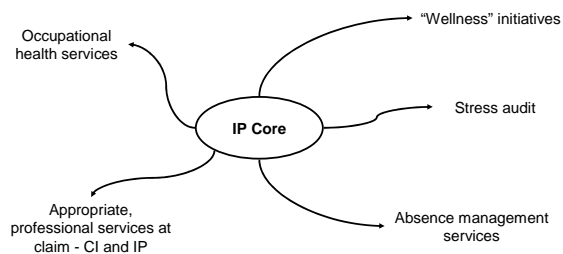
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Are we answering the employer's question ?

- Commoditised, generic insurance will always be under extreme price pressure
- Advisers will often signal that they are uncomfortable with service innovation from insurers
- Is continuing income to NRD a bad fit for many employers ?
- What is the current psychological contract between employer and employee ?

Service possibilities



Make your business “stickier”

- IP and CI claims are Low frequency, High impact
- Not many chances to contact client/ purchaser
- Differentiating with services may improve retention

What does informed capacity look like?

- Scale
- Focus on business retention
- Claims management excellence
- Scheme underwriting process that is reliable, repeatable (not high profile scheme underwriters)
- Appropriate relationship management
- Systems that enable CCDA

Health warning

- Over-reliance on one area of competence is risky
- Ranking competence also risky
- Adopt a Balanced Scorecard and adjust weighting as conditions change

CCDA

Contracts	Operating to contract Contract formation process "On risk" process that enables disclosure
Cash	Timing of cash collection important
Data	Cash leads complete and timely data
Analysis	Data enables ongoing profitability analysis and portfolio analysis

What does uninformed capacity look like?

- Major advisers' "insurer of the last resort" or "favourite underwriter"
- Sub-scale and prone to dashes for growth
- Personality scheme underwriters
- Greedy share of niche markets
- Over-reliant on relationship management and "commercial" decisions.

Uninformed capacity

- "We've got to match the rate set by those [eejits@quickand dirty ins.com](mailto:eejits@quickanddirtyins.com)"
- How much of your new business in 2004 was done on another insurer's basis ?

"Commercial"

- Clients will, quite rightly, relentlessly seek value
- Best big advisers have a well developed purchasing method, but insurers still organise as if they're selling to them.
- Relentless competition between advisers for high value clients

Can you segment your market and find a less crowded space?

Commercial – the reality

- Drop key elements of your scheme basis
- Concede on peak risk medical underwriting
- Hesitate to press for outstanding data
- Waive premiums due from previous years to retain scheme at recost – “ the CFO did not budget for it “

Commercial =margin erosion



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Munich Re - 125 years
Preferred partner in risk

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Commercial - the alternative definition

- Ensure contract formation and wording is fit for purpose and clear to all parties.
- Expect to perform to contract.
- Clearly communicate when cash is due and payable.
- Measure performance on all aspects and strive to get better.
- Stop paying for other's operational failures.



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Operational Risk

Can the margins in Group IP and CI support the practice of sponsoring client and intermediary operational failures?



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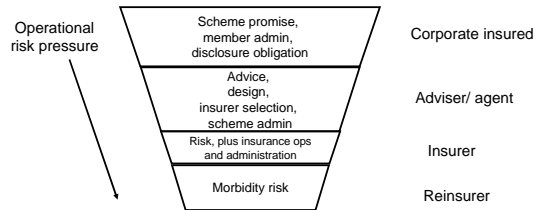


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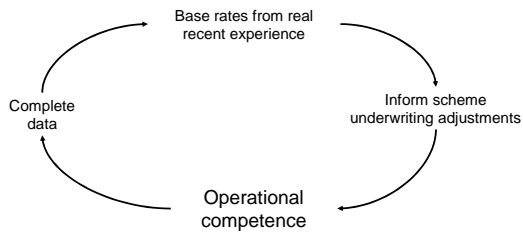
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Operational risk



Do the margins in Group IP and CI support the practice of sponsoring client and intermediary operational failures?

What does really informed capacity look like?



Data mining is the key

- Claims in payment data
- Quotes data.
- We quote for whole market in two year cycle.

Themes and challenges

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