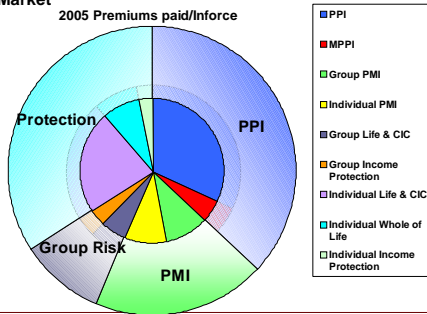


## Healthcare Protection - a market view

Bernie Hickman  
Managing Director, Protection  
Legal & General

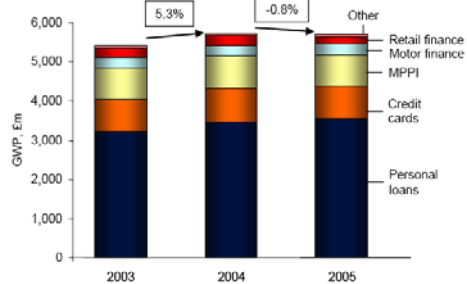
## Healthcare Protection Market Size

£15 Billion Market



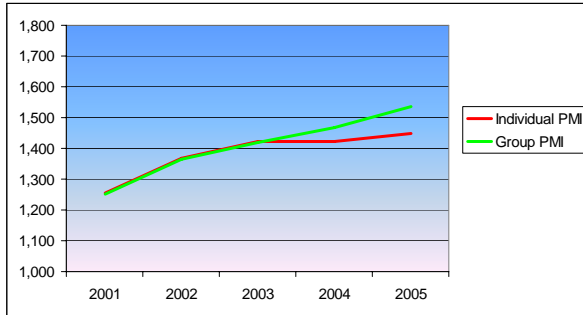
Source: Swiss Re, Data Monitor, ABI

## PPI Market Movements



Source: Datamonitor Creditor Insurance Database, industry interviews and analysis of ABI, SynThesis, CML statistics

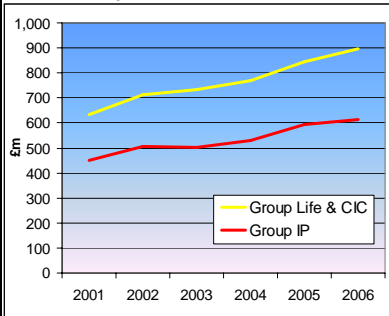
## PMI Market Movements



Source: ABI

The Actuarial Profession  
making financial sense of the future

## Group Risk Market Movements



Source: Swiss Re Group Watch 2007, ABI

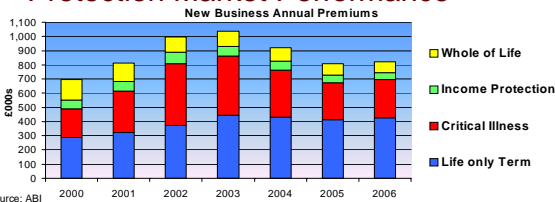
Company Budgets  
Cash vs benefits  
Age legislation

Flexible Benefits

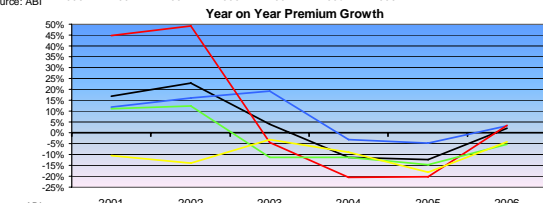
DB Schemes closing  
Product Innovation

The Actuarial Profession  
making financial sense of the future

## Protection Market Performance

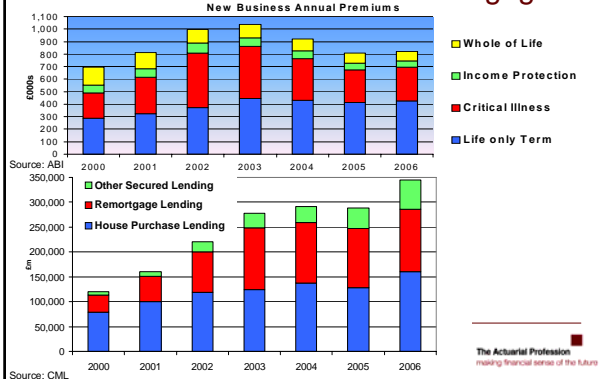


Source: ABI

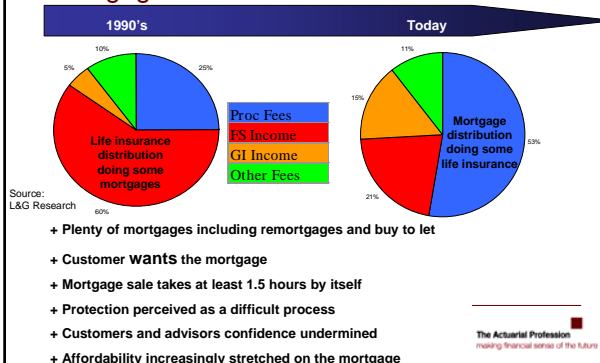


Source: ABI

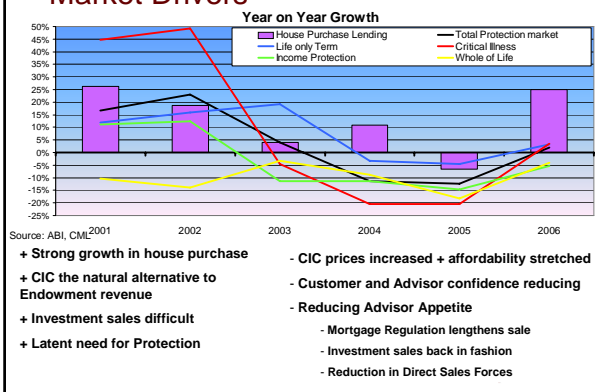
## Protection Market Drivers - Mortgages



## Protection Market Drivers – Mortgage Distribution Financials



## Market Drivers



## Big Market Issue 1:

### Consumer Confidence

#### ■ Payment Protection Insurance:

“Claims = 20% premiums paid” GMTV 3<sup>rd</sup> May 2007

- OFT investigation + Competition Commission Enquiry
- FSA review

#### ■ Critical Illness Cover:

“20% claims rejected” GMTV 3<sup>rd</sup> May 2007

- Persistent poor media coverage
- FOS publicly criticising
- Industry criticising itself over declined claims

#### ■ Paying claims is our reason for existence

The Actuarial Profession  
making financial sense of the future

## Tackling the big issues: Consumer Confidence

#### ■ Not meeting definition rejections

- Work undertaken on clarity
- Profile of the issue should improve understanding
- TPD is being addressed

#### ■ Non-disclosure rejections

- High profile
- Warnings and wording improved
- Some evidence trend is improving
- Perception insurers trying to wriggle out of paying
- Perception of unfairness

The Actuarial Profession  
making financial sense of the future

## Tackling the big issues: CIC Claim Case study

#### ■ Life + CIC policy taken out January 2005

#### ■ Answered “No” to:

- Have you ever had Mental Illness requiring hospital consultation?
- In the last 5 years have you had anxiety, depression, or any form of nervous or mental disorder for which you have been prescribed tranquillisers or anti-depressants?
- In the last 5 years have you had any form of back, neck, spine or joint trouble?

#### ■ June 2005: Suffered a stroke and claimed

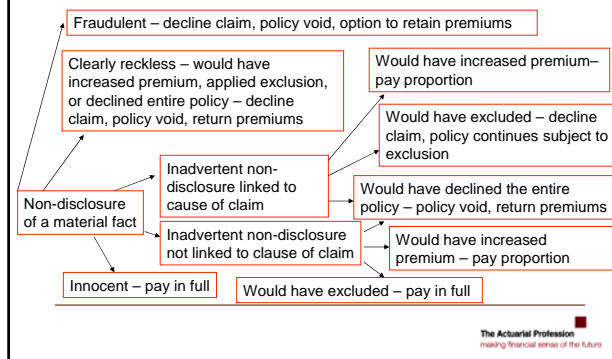
#### ■ GP records showed: 1997-2004 history of back trouble including certified time off work 1998 – 2001 Mental illness history including depression, stress following car accident, certified time off work and counselling

#### ■ Underwriters confirm Cervical Spine exclusion would have applied although mental illness would probably have had no impact on underwriting decision

**What decision would you feel comfortable defending on the GMTV couch?  
Could you convince a reasonable viewer it was fair to decline?**

The Actuarial Profession  
making financial sense of the future

## ABI NON-DISCLOSURE FLOWCHART




---

---

---

---

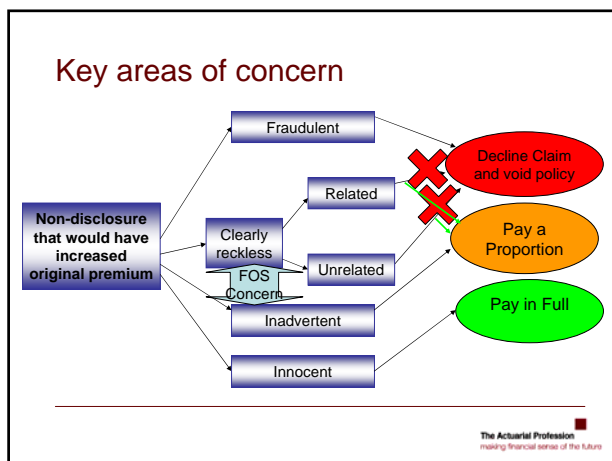
---

---

---

---

## Key areas of concern




---

---

---

---

---

---

---

---

## Law commission proposals

Consultation Paper expected Summer 2007

- Many issues raised are valid points that have already been addressed
- Some tentatively proposed solutions could be disastrous for the market and consumers: eg Non-contestability
- Some issues need addressing

---

---

---

---

---

---

---

---

## Tackling the big issues: Consumer Confidence

### Drivers for change    Do Nothing    Take Action Now

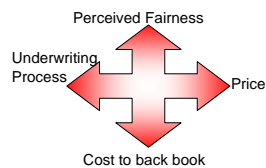
- |                                   |                                     |   |
|-----------------------------------|-------------------------------------|---|
| • <b>Consumer dissatisfaction</b> | → Lower sales                       | → Higher sales                                  |
| • <b>Advisor confidence</b>       | → Reluctance to promote             | → Keener to sell                                |
| • <b>Consumer lobby groups</b>    | → Increased lobbying                | → Reduced lobbying                              |
| • <b>Media pressure</b>           | → Sustained bad PR                  | → Reduced bad PR                                |
| • <b>FOS</b>                      | → More overturns                    | → Fewer overturns                               |
| • <b>FSA</b>                      | → Greater scrutiny                  | → Less scrutiny                                 |
| • <b>Law Commission</b>           | → Imposed legal change              | → Legal change avoided?                         |
|                                   | → Uncertain increase in claims cost | → Managed increase in cost offset by some sales |

The Actuarial Profession  
making financial sense of the future

## Tackling the big issues: Consumer Confidence

### Industry response

- New ABI committee: TCF Protection Claims Group
- Overall aim: Improve consumer confidence and so help to close Protection gap
- Understand and quantify the issues
- Engage with FOS
- Propose ways of addressing issues
- Pursue positive PR opportunities



The Actuarial Profession  
making financial sense of the future

## Big Market Issue 2: Advisor Appetite

- Consumers need to be persuaded to buy Protection
- Not enough advisors who are good at persuading
  - Mortgage brokers more interested in mortgages
  - IFAs often more interested in pensions and investments
  - IFAs focusing on HNW customer base
  - Direct sales forces no longer around
  - Banks not maximising Protection opportunities
- Cost efficiency focus has reduced provider sales support
- Online discount brokers potentially undermining viability of advice paid via commission

The Actuarial Profession  
making financial sense of the future

## Tackling the big issues: Advisor Appetite

### Industry response required

- Big marketing campaigns directed at consumers not the answer for now
- Protection sales training heavily subsidised by the industry should be revenue generating for the market
- Lobby for Protection advice to have greater importance
- Process and Technology innovation to make advisors life easier

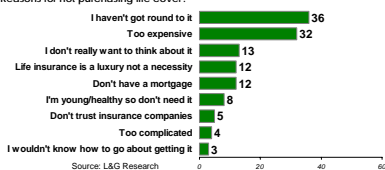
The Actuarial Profession  
making financial sense of the future

## Protection Market Prospects

### High levels of underlying customer need:

- Family Protection
- Business Protection
- Inheritance planning
- Mortgage Protection
- Income Protection
- Unsecured lending Protection?

### Reasons for not purchasing life cover?



Source: L&G Research

Must be ways of making Protection selling financially attractive  
Mortgage Volumes may make for a tough couple of years

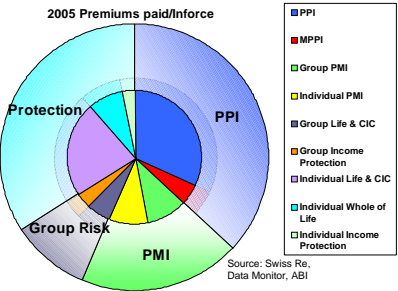
The Actuarial Profession  
making financial sense of the future

## Success Criteria for Protection Providers?

- Strong distribution capability
- Heavy Technology Investment
  - Self service functionality for advisors and customers
  - Cost efficiency for advisors and providers
  - High quality risk management
  - Speed of response
- Highly skilled people delivering excellent service
- Scale
- Competitively priced, flexible products
- Reputation for fairness
- Focus on meeting the needs of customers and advisors

The Actuarial Profession  
making financial sense of the future

Healthcare Protection – a market view



Comments & Questions

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---