

Protecting Customers Fairly

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Agenda

- The current market – In-force and new sales
- The 'Perception Gap'
- The confused consumer
- Employer – sponsored issues
- Regulatory aspects
- Meeting the market need

Market Coverage – In-force Business

	No. of Lives
Income Protection:	
- individual business	2,492,000 *
- employer sponsored business	1,731,138 **
Critical Illness:	
- individual business (stand alone)	403,000 *
- individual business (accelerated)	6,000,000 ***
- employer sponsored business	229,998 **
Long-Term Care Pre-funded:	27,346 *

Sources:
* ABI In-force data at 31/12/05
** Group Watch, Swiss Re Life & Health, 2007
*** Best estimates, market commentators

Market Progress 2006 – Individual Business

	No. of Sales
Income Protection	139,000
Critical Illness	507,000
Long-Term Care Pre-funded	79

Source: ABI

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Market Progress 2006 – Employer Sponsored Business

	In-force Premiums
Income Protection	612,067,121
Critical Illness	34,798,472

Source: Group Watch, Swiss Re Life & Health, 2007

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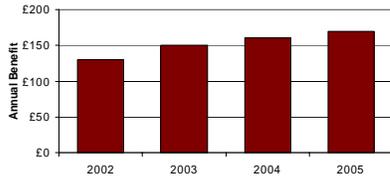
The Current Market in Summary – Income Protection

- Coverage is only around 15% of the potential market
- At least 25% of in-force individual IP only covers mortgage repayments
- Employer sponsored schemes provide over 60% of in-force cover
- The Income Protection Gap continues to grow

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The Income Protection Gap

How well are long term products meeting the needs of the retail customer?



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The Current Market in Summary – Critical Illness Cover

- Critical illness individual sales falling since 2002
- Employer sponsored CI is growing as more employees offer flexible benefit packages

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The Current Market in Context – Long Term Care Insurance

- Insufficient products
- Insufficient distribution capability, caused in part by high regulatory hurdles

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Understanding the Customer – The “Perception Gap”

- 42% of the population has income protection, 18% of whom expect to receive between three quarters and 100% of their pre-disability earnings
- 43% of the population has critical illness cover, with the average amount of cover for those who have it believing they have almost £100,000

Source: A gap in perception, Swiss Re Life & Health, 2004

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The Perception Gap in Perspective

- Approximately 11 million people think they have long-term income protection – reality is just over 4 million
- Approximately 11 million people think they have critical illness cover – reality is approximately 6 million

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The Confused Consumer – Income Protection

“We’ve got income protection and some sort of protection thing with our mortgage. The income protection is for accident, sickness and redundancy but it doesn’t pay out until after 6 months. I only wanted redundancy but I just got that myself. Most want to do all three. I work for the government and I get paid for 6 months and my husband does. So really it’s just for redundancy so we could probably struggle by until it kicked in. When we took out the mortgage, we took out some sort of payment protection thing.”

Source: Consumer, Swiss Re Life & Health Research, 2007

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The Confused Consumer – Income Protection

“It pays out your income what you were earning within the last year of your employment and it would be a guarantee up to age 70 or 65 that you would get that. It covers you for that illness.”

“It pays out if you broke your legs and couldn’t go into the office. Involved in a road accident....”

Source: Consumer, Swiss Re Life & Health Research, 2007

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Employer Sponsored Income Protection

- Market divided on prospects for future IP growth with many intermediaries expecting, at best, inflation-linked growth
- Rising employer costs and relevance of cover to 60 or 65 in the labour market today
- The impact of age discrimination regulations could lead to scheme closures

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Employer Sponsored Income Protection – Intermediary Views

“I can envisage employers reviewing why they provide this benefit in the manner most currently do, ie. through to normal retirement age. I think we might see a lot of change, eg. limited term benefits, and this may result in interest being generated.”

“If things go badly, I can see companies closing group IP contracts as being unaffordable.”

Source: Group Watch, Swiss Re Life & Health, 2007

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Employer Sponsored Critical Illness Cover

- Most providers and intermediaries have a positive outlook, particularly in flexible benefit packages
- Age discrimination regulations could slow down adoption of flexible benefit schemes

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Employer Sponsored Critical Illness Cover – Intermediary Views

“I do not expect much growth in stand alone group CI. However, as a flexible benefits option, CI is relatively popular.”

“The cost in general of flex platforms appears to be more within the reach of small to medium sized employers and this is where it is expected the flex market will continue to develop over the next five years.”

Source: Group Watch, Swiss Re Life & Health, 2007

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Health Insurance Products – A Regulatory Perspective

- ICOB Review initially announced in September 2005
- Scope extended to encompass principles-based regulation, simplification of FSA Handbook and the Government’s “Better Regulation Agenda” in June 2006

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Health Insurance Products – A Regulatory Perspective

- Market failure analysis of 11 products, including health products
- Interim report published in March 2007
- Consultation on amended ICOB Rules expected in June 2007
- Final Rules expected at end 2007

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The ICOB Review – Categorisation of Individual Products

The Provisional FSA View

- Protection products
 - Term, CIC, IP, PPI, any other products that meet the definition of a 'pure protection contract'
- Other general insurance products

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Protection on Products – Findings from FSA Consumer Research

- Consumers shop around less compared with other general insurance products
- These are emotional purchases; peace of mind is more important than bottom line price
- Products are seen as technical and complex

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Protection on Products – Findings from FSA Consumer Research

- Consumers feel less confident and seek more detail with disclosure documentation being used for reassurance purposes after the sale
- Consumers are highly reliant on advice from sales advisers and brokers

Protection Products and Consumer Detriment

FSA sees evidence of market failure in:

- Effectiveness of communication
- Status disclosure
- Inadequate data collection
- Product disclosure
- Price disclosure
- Insurance bought on a secondary basis (mainly PPI but may also effect other products such as IP/CIC in the mortgage market)

Protection Products – FSA Proposals

“We are seeking to secure better outcomes in those markets where it has been shown that markets are not always working in the interests of consumers.”

“We are considering a stepped approach of increasing measures to deal with the issues we have identified in different markets.”

Beyond the ICOB Review

- Retail Distribution Review
- Financial Capability
- Treating Customers Fairly

Retail Distribution Review

“A business model which is based on incentives which produce results which are unattractive to reputable providers, unattractive to their customers, and whose benefits to intermediaries are questionable.”

Callum McCarthy, Chairman FSA,
“Gleneagles Summit”, September 2006

Retail Distribution Review

- Primarily a review of investment business
- Protection may be drawn into the review as appropriate
- Remuneration will be one of the five main themes

Financial Capability

- Resolution Foundation
- Thoresen Review
- Generic advice
- Positioning protection products on the financial capability agenda

Treating Customers Fairly?

- Individual CI sales outsell individual IP by around 4:1; most sales are advised. Does this feel fair?
- High level of rejected claims. Does this feel fair?
- Giving confused customers more information. Or is it just overload? What is fair?
- In most instances, CI payments result in loss of life cover. Is this fair?

Treating Customers Fairly?

- But TCF is not about being nice to customers. For many questions, there may be a cogent diametrically opposed view
- Are we protecting customers fairly?

Treating Customers Fairly – Some Distribution Ideas

- The provider / distributor conundrum – how does a provider discharge its TCF requirements?
- Will providers refuse to accept business from distributors whose standards could be seen as poor?
- Data to meet TCF expectations of regulator?
- Do we need to raise standards of knowledge and qualifications?
- How does the industry achieve this without removing access points for advice which remains key to so many purchases?

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Treating Customers Fairly – Product Design

- Does TCF imply simple products or products whose complexity is linked to the amount of accessible advice?
- The use of research to support/validate product designs
- The use of discretion/reviewability – see Treating Life Customers Fairly, presented to Staple Inn Actuarial Society, 13th March 2007
- Ex-gratia payments
- Use of trusts, eg. life/CI

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Meeting the Market Need

- FSA challenges from ICOB Review should lead to increased IP sales
- Likely withdrawal or restrictions of employer sponsored IP should create more demand for IP
- CI will remain the product of choice for many consumers
- Need to ensure Retail Distribution Review has no unintended consequences for protection sales

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Protecting Customers Fairly will be good for...

- **Research agencies** : improved needs identification, consumer quant, qual research, etc.
- **Distributors** : better, and possibly simpler, products supported appropriately by providers
- **Government** : encourages self provision, relieve burden on Welfare State, etc.

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Protecting Customers Fairly will be good for...

- **Customers** : improved confidence, fewer claims declined
- **Actuaries** : pricing and managing it fairly to bring the sum of the parts together

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