

The Actuarial Profession
making financial sense of the future

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Managing the product development risk

- The product development process
- Identifying when the process is failing
- Preventing it from happening again

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Objectives of product development process

- Meet a customer need or needs
- Provide a return to shareholders and other stakeholders

Is the process failing?

- Symptoms and signs
 - Symptoms are noticed by the 'patient'
 - Signs are noticed by the 'doctor'

What are the symptoms?

- Your brand is getting a beating
 - Slated in the trade press.....
 -and the nationals
- Your call centre is jammed up
- You have a stack of cases referred to the ombudsman.....
-and you lose a lot of them

What are the symptoms?

- Your reinsurer is being 'difficult'
 - Will not take operational risk
 - Will not meet ex gratia claims
 - Increases your rates but you can't pass the increases on to customers
- You can't change your new business processes for fear of losing business

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What are the signs?

- The product development control cycle is failing:
 - Identify the need
 - Research the need
 - Develop the product
 - Monitor the sales
 - Do sales match needs?
 - Review the need

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Some product failures

- Pensions review
 - Opting out of non-contributory DB schemes?
- Endowment misselling
 - With 80% of new mortgages at the sales peak
- Precipice bonds and split caps
 - Sold to risk averse investors

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The common factors

- There was a genuine demand and need for these products
- It was enlarged and distorted by the salesforce
- Products were sold to which failed to meet customer needs
- There was no checkback mechanism in place to monitor sales versus need

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Treating the signs

- It all comes back to designing products to meet customer needs in the first place.....
-and monitoring that actual sales are made to those that need the products
- It's not just me saying this

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John Tiner said:

I can imagine that you may feel your industry is under siege from Government, select committees, regulators, the media and public opinion more generally. It is probably true to say that they can't all be wrong and I think the more enlightened quarters of the marketplace accept this and have the passion and desire to do something about it. In doing so, I suggest that those companies which succeed in generating returns from out performing competitors through more effective business models, better pricing related to risk, lower costs and superior customer services - before, at and after the point of sale are more attractive to shareholders than those that may look to exploit the weaknesses of customers, because they don't know as much as you do, or simply capitalising on customer inertia. It has been reported, wrongly, that I have said that firms should put customers before shareholders. This is far too stark a comparison and massively over simplifies the economies of the customer relationship. But I do say, and without apology, that a business which is well run and which wins the loyalty and trust of its customers and is never willing to compromise its fair treatment of them, must surely present a more attractive proposition to shareholders. So I think there is a genuine convergence of interest between customers and the providers of capital.

Speech of 16 March 2004 to the CII

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Callum McCarthy said:

What do we expect of the industry? First, we expect firms to face up to their responsibility to sell products which meet the needs of their customers – not in any way an unreasonable requirement, or a requirement special to the life insurance market. But it is necessary to observe that too often this has not occurred: the examples of pension mis-selling, or of precipice bond mis-selling, illustrate this all too clearly. The examples are too frequent and too important to let them pass without mention, or to regard them as isolated events. Behind them lies not only or mainly acts of irresponsibility by individual salesmen and women but – more worrying – incentive systems and even cultures introduced and tolerated by the management of firms which have encouraged irresponsible behaviour. This is something we should all be able to agree should cease; it is damaging to the consumer, damaging to the firm, and damaging to the reputation of the industry. I look forward to a time when there is no longer a need for compensation to be paid for mis-selling; and when it is no longer necessary for the FSA to impose financial penalties on companies who have mis-sold. In the meantime, you must expect us to act against mis-selling with determination. There really is no excuse.

Speech of 24 March 2004 to the Insurance Institute of London

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.....and

The second quality we seek from firms is greater clarity in their description of what they are offering. This has many aspects: there is what I would call demystification of many products, where the vocabulary and terminology of life insurance products are obviously capable of being simplified and clarified; and – much more fundamental – there is a need for firms to be more transparent in their dealings with policyholders about the practices they employ and the qualities of the products they are offering.

Speech of 24 March 2004 to the Insurance Institute of London

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Prevention is better than cure

- It is far better to prevent the signs or symptoms from developing in the first place
- Nigel will tell you how.....

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Don't look at symptoms, look at root causes

- Root causes create the real problems
- "Curing" symptoms is like a sticking plaster
- The problem will reappear or bubble up elsewhere

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Tackling root causes

1. Understand the difference between a root cause and a symptom
 2. Identify root causes
 3. Analyse the problems with them
 4. Solve them
- Easy – you've done 1. already!

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Step 2: Identifying root causes

- Here's some to start with
- Your own sales management
- The ABI
- Parent companies
- Your turn

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To show that we did our own list of root causes

- Systems
- Management
- Parent companies
- Capital
- Finance and the business case
- Risk management bureaucracy
- Your own sales management
- Your broker consultants / sales people
- Intermediaries
- Reassurers
- Regulators

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Step 3: analyse them

- What do they say they want?
- What do they think they want?
- What do they really want?
- How are they trying to get there?
- How could they get there?
- What is in their way?
- How are they stopping you getting what you want?

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Step 4: Some ideas on solving root causes

1. Accept that no individual can solve them all
 - Especially lowly product developers
2. Don't keep concerns to yourself
 - Failure is worse than ridicule
3. So get lots of other people involved
 - With lots of different skill sets
4. Use every lever that you can
 - Can you manage profitability to manipulate broker consultant remuneration?

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More ideas (cont.)

5. Have an end goal
 - But keep reviewing it
6. Use time
 - Time for action, time for people to adjust
7. Take manageable steps
 - Rome wasn't built in a day
8. Don't be afraid to start again
 - You sometimes need to drop into a valley to climb the next mountain
9. Trade
 - You scratch my back, I scratch yours

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Cases study 1

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Income Protection for mortgage interest

Introduced at Scottish Provident

- Salesforce didn't sell too hard to start with
 - It was new to them
 - And it wasn't "the same as others, but cheaper"

- After 2 years they got use to "having it around"
 - Then they had a need to replace lost endowment remuneration
 - They had an answer in place and it took off

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Case study 2

Different systems

As a product developer

- do you feel in control of your quotes engine?
- but lost as a cog in the policy administration system?

Then act to move the clever stuff into the quotes engine

- With lots of different skill sets
4. Use every lever that you can
 - Can you manage profitability to manipulate broker consultant remuneration?

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Case study 3

1. Accept that no individual can solve them all
 - Especially lowly product developers
2. Don't keep concerns to yourself
 - Failure is worse than ridicule

A lost opportunity

I identified the weakness in the processes, systems, market understanding and presentation of reviewable benefits when we first launched them

Am I looking for a pat on the back?

No, because I didn't tackle the root causes of my concerns

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Some don'ts

1. Don't assume others have the right answers
 - Even if they do, just copying what you can see won't always give the same result
2. Don't buck the problem
 - It gets your company and you in the end
3. Don't pass the problem elsewhere
 - Even the reassurers have woken up to that one in the end!

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