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SCOR

## Scottish Widows Protect: Ready, Steady, Launch!

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27 April 2016



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### Agenda

- Why re-enter the IFA market?
- Scottish Widows Protect vision
- Development and reinsurance
- What changed along the journey
- Early learning points

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## Why re-enter the IFA market?



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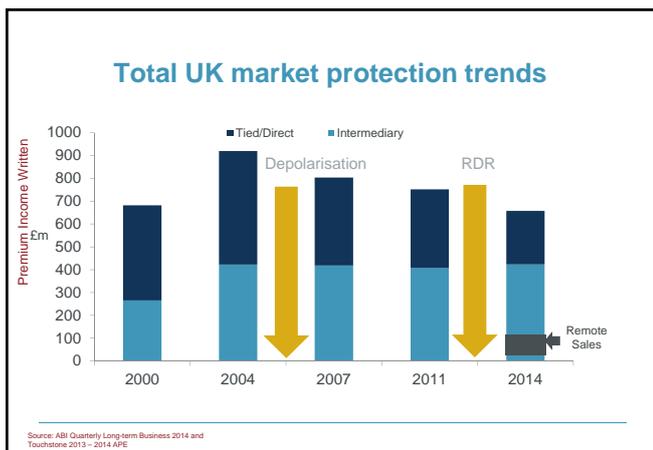
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### Intermediated Protection Market Customer Segmentation

	Volumes Premium Band (p.a.)	Sales Volumes	Segment Value (APE)
HNW Corporate	£1,000+	75,000	£168m
High Affluent SME	£500 – £1,000	156,000	£110m
Low affluent	£250 - £500	285,000	£104m
Mass Market	<£250	430,000	£69m

- LBG had large coverage of Low Affluent and Mass Market segments through Bancassurance distribution
- Under exposed in HNW and high affluent segments, with material value opportunity

Source: Touchstone 2013 - 2014 APE

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### How SW Protect fits to Lloyds Banking Group purpose

**Purpose:** Best Bank for Customers

As the UK's largest retail and commercial bank, we have a relationship with nearly every home in the country and with many businesses too.

We recognise that we cannot reach all customers through our traditional banking relationships. Developing an IFA offering to complement our banking position supports our overall purpose.

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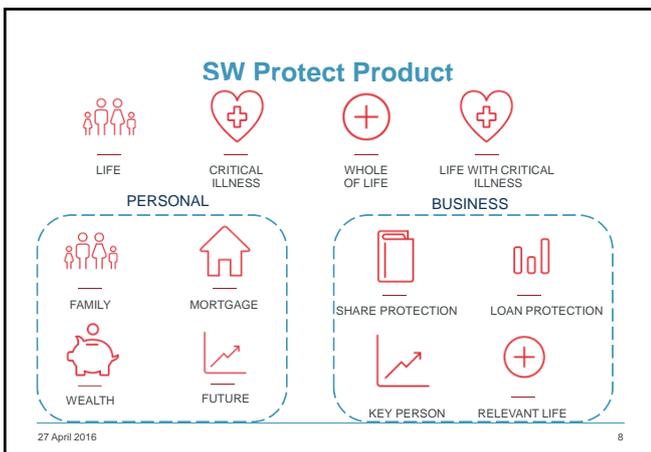
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### Providing clarity in decision making

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These results were calculated on 31 February 2015 and are based on a male, non-smoker, aged 40 with moderate rheumatoid arthritis, with no need for oral steroids or methotrexate treatment in the last 5 years.

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### Critical Illness Proposition

**Principle:** Only provide cover that is meaningful to customers

**Reality:** Product needs to match up to main competitors on definition count and coverage

- 54 conditions (including the 23 defined in the ABI's statement of best practice)
- 17 exceed the ABI's standard definitions (ABI+)
- 12 additional conditions, where payment can be over and above the sum assured
- Children's critical illness and life cover (excludes total permanent disability and terminal illness)

Our most comprehensive definitions are for our top 5 illnesses where successful claims have been made in 2014.

Illness	Percentage of Successful Claims
Cancer	62%
Heart attack	14%
Stroke	8%
Multiple sclerosis	5%
Benign brain tumour	2%

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### Product Pricing and Reinsurance

- 80% of business in IFA market sold by placing in top 3 on price, but don't need to be 1<sup>st</sup> in all cases
- Positioning yourself here helps, need competitive cost base and risk pricing
- Consideration on tendering, how to get market leading terms with no experience
  - Selling a vision, not experience
  - Strong risk controls
    - Application forms and underwriting system
    - Existing quality standards and processes
    - Control and insight into distribution practices
  - Build trust in team, and in reinsurer
    - Be accessible
    - Work from fact base
    - Accept and adapt to feedback

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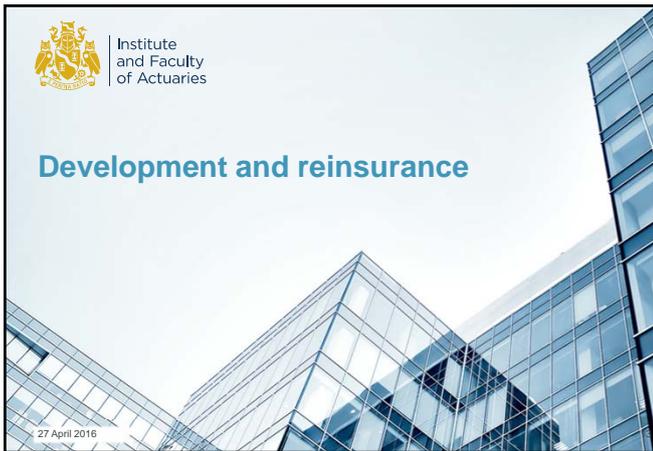
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## Development and reinsurance



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### New Market Entrants Generally

Building everything from scratch so reliant on reinsurance partners to help with product design, underwriting & claims philosophies, document wording etc.

No experience so book rate quote – take a view on quality of underwriting & claims processes.

**Traditional Concerns**

- Keen to get traction – may write business from the parts of the market where others fear to tread.
- Can lead to some dubious early claims.
- System teething problems leads to business going on the books which shouldn't have done.

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### Scottish Widows Protect (SWP)

Consistent message of quality all the way through.

Very focused on distribution quality management.

Also had a big focus on retention – read across from their experience with bank customers.

**SCOR Concerns for SWP Launch**

- Will they be willing to work with us to develop their proposition?
- How will our other clients react to us supporting a new entrant to the market?
- Will they want to pay claims at all costs to protect their brand?

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### Bank vs IFA

Traditionally Bank Experience has been worse than IFA but gap is narrowing considerably.

Banks have been through some tough times and are very focused on getting the best outcome for their customers – many have removed remuneration related to sales.

Bank not a competitive environment. Don't have IFA's exposing any weak spots you might have.

Generally sale is being made on the back of an event (typically a house purchase) which in itself tells you something about the health & economic status of the individual in question.

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### Why does 'quality' matter?

Gets over some of the problems introduced in the last slide!

SCOR have researched this area heavily.

Often correlated with socio-economic group which we know has a big impact on mortality rates – less so on morbidity.

We see socio-economic group have a strong correlation with lapse behaviour for both products.

Reinsurers very worried about lapse profile for net level premium business – much less so for risk premium business (although anti-selective lapsing always a concern).

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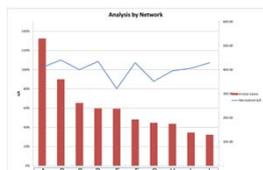
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### Importance of Distribution Management

- Claims Experience:
- What drives good/bad claims experience?
    1. Distributor business mix: client profile
    2. Distributor behaviour: application process
    3. Distributor behaviour: post application

Social band	EXPOSURE A	EXPOSURE B
1-5	31.02%	33.74%
6-10	26.64%	27.33%
11-15	17.65%	22.32%
16-20	20.72%	17.42%
Average Social Band	7.38	9.17




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### Working Together

Concerns over transactional relationship quickly dissipated:

- Very receptive to working with us to develop underwriting philosophy.
- Fostered a close working relationship.
- Gave us the confidence we needed to be able to offer the best terms via our Client Specific Adjustment.
- Used our knowledge and expertise to be able to show SWP whether their ratings would be competitive in an IFA market.
- Also helped them understand the pricing dynamics in the IFA market.

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### Pricing

Did some work with iPipeline to try and understand the propensity to purchase in relation to price position.

Is a very competitive market but a sizeable proportion of sales not being made to the cheapest provider.

Quality is clearly important and if you have this and are close enough on price then you stand a good chance of winning the sale.

Much like our own strategy at SCOR!

Also helped give a view of market mix of business in the IFA world which can be a little different to that in the Bancassurance market.

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### Underwriting

Our own pricing process 'scores' each client for how strong we think their underwriting is looking at areas such as:

- Non Medical Limits
- Proposal Form
- Non Disclosure Checking
- Quality Checking process
- Philosophy

This is a subjective process but is translated to a load or discount which feeds through into pricing.

We felt that Scottish Widows were particularly strong in non disclosure checking.

We used our expertise to give SWP a view of how competitive they would be with respect to ratings.

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**The road to success is not a smooth one**

EXTERNAL FACTORS

- Tailwinds of RDR
  - Decline of Bancassurance and bank driven advice
- New technology entering market
  - Drive for further electronic offerings throughout purchase process

INTERNAL FACTORS

- Own Bancassurance sales force reduced significantly
- Adapting legacy IT systems

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**Product adaptations**

- One the whole, very few.
  - Support and continual dialogue with our reinsurers allowed us to tweak as we went, keeping up with market positions
- Our industry helped, the slow debate on CI best practice helped to keep product aligned with direction of market
- Want to move away from “numbers” game.

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### Early learning points

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Mentorship  
Thought Leadership  
Community  
Sessional Meetings  
Education  
Working parties  
Volunteering  
Research  
Shaping the future  
Networking  
Professional support  
Enterprise and risk  
Learned society  
Opportunity  
International profile  
Journals  
Support

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### Evolution is a slow process

- People are creatures of habit, creating a presence needs perseverance, even with strong brand.
- You will be targeted by some intermediaries, and spun some great stories...
- The market never stops so the next big thing will already have been started on before you launch!
- BUT the market is welcome to new entrants with brand to back up proposition

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### Lessons Learned

Really important to build good relationships between insurers and reinsurers for new market entrants.

Gives the insurer the benefit of the reinsurers expertise.

Gives the reinsurer the confidence to offer the best terms possible.

Got the impression that Widows were very keen to ensure that everything was running smoothly before launch:

- Delay to launch to give time for additional testing. Worst case scenario was felt to be launching and having lots of problems which would turn advisers off.
- Soft launch to ensure that any remaining teething issues were sorted out during this phase and allowed us both test processes.



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**Questions**      **Comments**

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