

Time for innovation

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Agenda

- Past innovation in the UK
- Risk management, the customer proposition and the brand
- Customer value
- The industry's ability to innovate
- Innovation in South Africa
- Innovation in the US
- In a new world...

History of the UK since 1950

- Early 50s – Diabetic, Blood Pressure and Coronary Pools
- 1960s to early 80s – Progressively greater appetite for substandard risks
- 1960s to early 80s – Progressively more scientific approach to individual risk pricing
- Late 70s – Non-smoker rates
- Early 90s – Introduction of rules engines; (cheaper processing at head office) point-of-sale acceptance
- Early 00s – Introduction of tele-underwriting
- Late 00s – Introduction of tele-claims interviews

Critical illness?

IP claims – early intervention, rehabilitation

Pharmacy screening

- Still in its infancy
- Question mark over convenience
- Screening is not a direct substitute for a GPR or good questions put to applicant (via a tele-interview)

But:

- Pharmacy screening potentially can address *prospective* risk factors, and...
- It's undeniably a new customer proposition
- Part of a bigger (new) proposition?

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- Late 00s – Pharmacy screening

The UK market is often, and has been traditionally, regarded as innovative and progressive, but is it?

And compare the protection market to other industries – even to other financial services sectors

But does it really matter? And if so, how much?

Consider the customer journey

- Sales experience
 - Application form
 - PoS underwriting
 - Rules engine
 - Tele-interview
 - Customer questionnaire
 - (Para-) Medical exam
 - Blood, urine, oral fluid – lab testing
 - Underwriting policy
 - Underwriting handling of individual case
 - Customer communications
 - Acceptance terms (match the original quote?)
 - Policy delivery
 - Speed of service
 - *After-sales service*
-
- The policy document and the promises contained therein
 - *Carrying out the promises when called upon*

The customer journey – claims

- Claim form and other documentation
- Claim tele-interview
- Medical evidence – reports
- Independent medical exam
- Correspondence and other interaction with claimant
- Claims philosophy
- Claim decision
- Speed of service

Carrying out the promises when called upon

The customer journey – claims

- Claim form and other documentation
- Claim tele-interview
- Medical evidence – reports
- Independent medical exam
- Correspondence and other interaction with claimant
- Claims philosophy
- Claim decision
- Speed of service
- Claim review
- Tele-interview and other evidence...
- Interaction with claimant...
- Claims philosophy
- Claim decision
- Speed of service

Carrying out the promises when called upon

The ultimate test of the brand

Risk management is intimately bound with the customer proposition and the manifestation of the brand*

* The brand:

- *Core purpose*
- *Values*
- *Role*
- *Personality*
- *Characteristics*

Key forms of value...

... influenced by risk management processes:

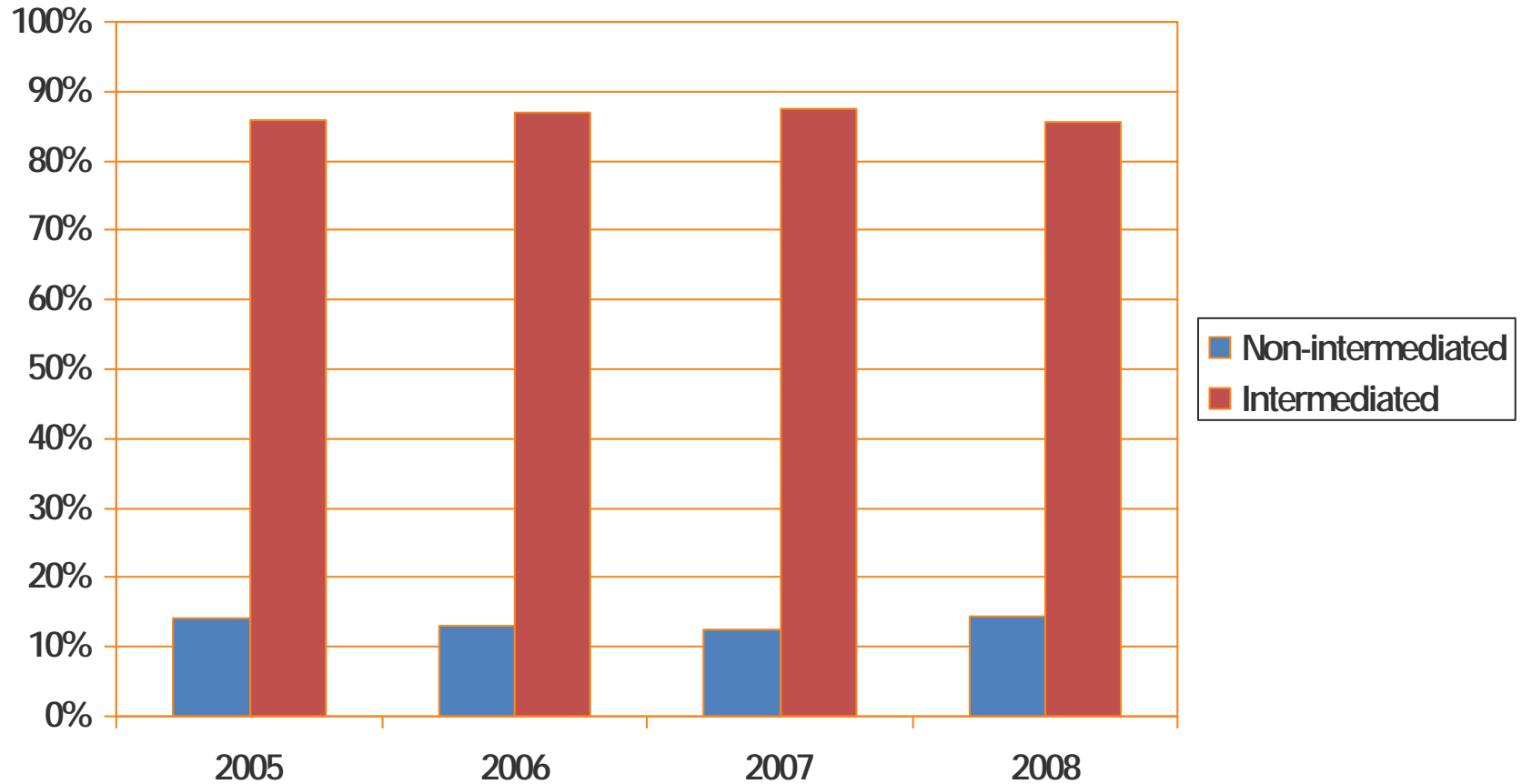
- Giving the customer the cover applied for
- Price/value for money – and whether the final terms match the quotation
- Trustworthiness, reliability, security; delivering on promises
- Peace of mind
- Speed of service
- Convenience; smooth and anxiety-free? Or an ordeal?

Why is our industry so poor at innovation?

- Inherently conservative; reactive
- Actuaries predict the future by looking backwards
- It's a left-brained industry...
- Preoccupied with complying with regulation
- Innovation is stifled by regulation and a 'club mentality'
- Companies don't compete enough
- Too much focus on distributors as customers rather than end-consumers

Change when it does occur is incremental

UK distribution



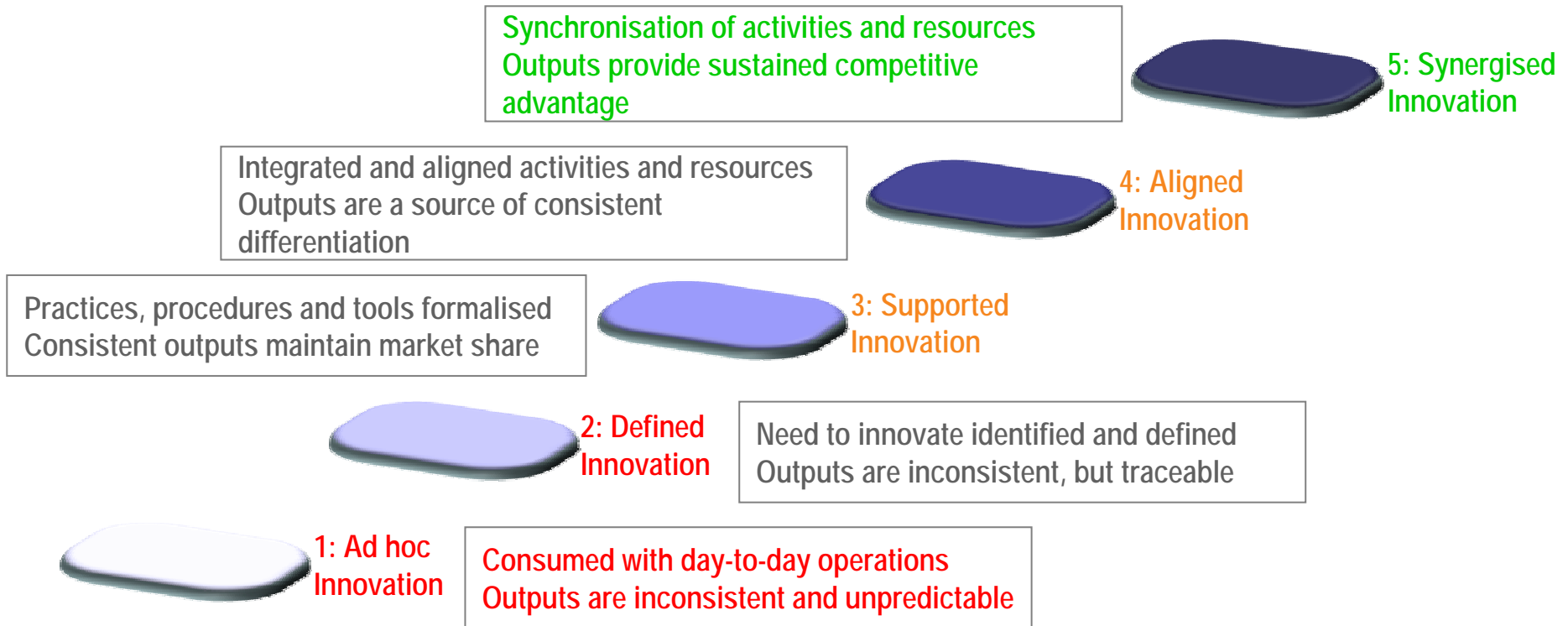
Source: ABI

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- **Innovation is not a core activity; innovation effort is opportune rather than systemic throughout organisations**

Change when it does occur is incremental

Innovation capability maturity



Source: Indutech (Pty) Ltd

Some questions that need answers

- Why is it that over three-quarters of applicants qualify for the basic rate of premium? (Yet there are wide variations in level of risk within that group.)
- Why do we expend so much time and effort gathering 'risk information'... but do nothing with it pricing-wise for over three-quarters of applicants?
- Why are we so interested in the past... when that is a relatively poor guide to the future?
- Why, for pricing purposes, do we view the vast majority of those who don't smoke as 'non-smokers', regardless of their smoking history?
- Why do we ask everybody the same questions on the app?
- When are we going to start covering people with HIV?

Some examples of innovation – South Africa



- Paperless application process; tele-interviewing and mobile phone
- Simple 'fit for purpose' underwriting
- 'Inclusive Life' – addressing 'uninsurable' illnesses
- 'Premier Cover' – discounts for regular HIV tests
- 'Cover2go' – simple products, no underwriting, easy to buy – even entirely by mobile phone

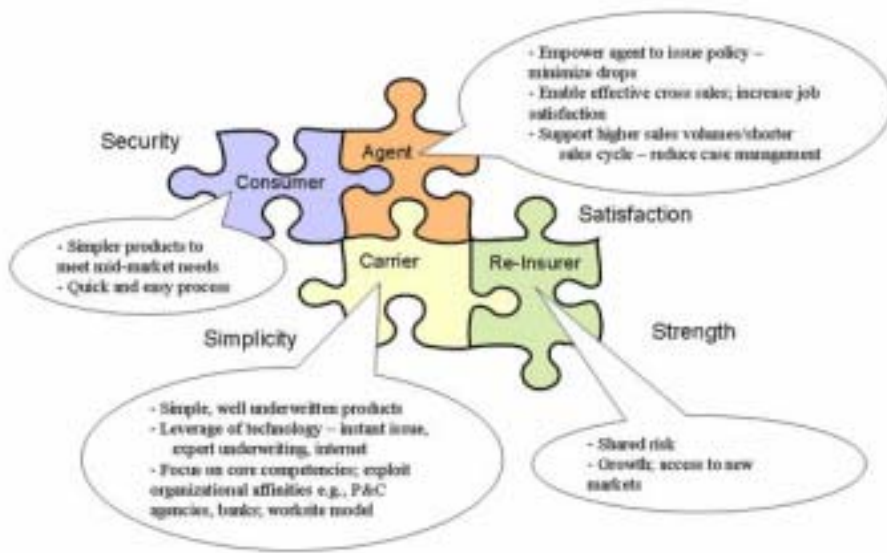


Some examples of innovation - USA

- Tele-interviewing
- Non-smoker rates
- Preferred lives
- 'Gamekeepers turned poachers' within brokers
- New proposition for the middle market...

USA – new proposition for the middle market

- Automatic needs assessment geared to income replacement
- Simple app
- No medicals, no lab tests (no body fluids)
- Integrated auto-access to industry databases and pharmacy records
- Simple underwriting via a rules engine; either accepted or not – no ratings



- Instant policy issue at point of sale
- Growing interest in this model in the US

RAD Insurance Holdings

When will we see...?

- A company throw away its basic smoker/non-smoker premiums in favour of a matrix approach (like motor and household insurers use)
- Use of socio-economic class in basic pricing (FAR more powerful than smoker status)
- Proper recognition of smoking history
- Use of other differential mortality risk factors – like marital status, car and home ownership, educational attainment, driving record...
- Mass customisation in risk pricing

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- *Proper recognition of smoking history*
- *Use of other differential mortality risk factors – like marital status, car and home ownership, educational attainment, driving record...*
- *Mass customisation in risk pricing*
- A company saying 'We gather risk info ONLY by tele-interview; it's the way we do business, and that's because...'
- A company take a radically different approach to collecting data from external as well as internal sources
- A truly new deal for consumers consistent with safe DIY finance (not a DIY version of the classic intermediated proposition)
- A new protection brand that re-writes the rules...
- ... disrupting the traditional players and initiating a trend to a consumer-led market

I'm up for it.

Are you?

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