



DEVELOPING PROTECTION PRODUCTS

5th OCTOBER 2010

Madhu Sridharan, Barry Hewett

Product

insurance product

... covering at least one life contingency

Development

a new line of business, product that covers a new risk or service

does not mean rebranding or re-pricing an existing product

Caveats

Views expressed are our personal views

... and do not necessarily reflect the views of our employer.

PRODUCTS FROM ANTIQUITY TILL DATE...



Products from antiquity till date... 2250 B.C.

First Insurance Contracts

- Cargo and the ship being hypothecated
- For the money borrowed for the expense incurred in course of the voyage (usually to carry on maritime trade)
- Repaid only if the ship arrives at the shore safely
- Lender did not have any claim if the ship is lost in transit
- Premium being charged for the risk of loss of the ship

This was a common contract with the Babylonians, Phoenicians and the Hindus who had strong trading ties even before 2250 B.C.

Products from antiquity till date...

3rd and 4th Century

First Life Insurance Contracts

- Burial clubs in Greece and Rome
 - Age independent
 - Subscription
 - Pay-as-you-go
- Lacking in risk classification and reserving
- Romans had a first go at building mortality tables –
 - “people who attained age 30 would at age 60...”
- Life annuities and Tontine annuities laid the seed for life tables

Products from antiquity till date...

18th Century

-
- Marine insurers were allowed to cover merchant seamen who
 - Appear to be in good health
 - Younger than 50
 - Premium same for all ages; only one-year term
 - Equitable Society's age based rates in 1762

Products from antiquity till date...

18th Century

Marine insurance Act 1745

Gambling on other lives in England

The Life Assurance Act in 1774
(aka The Gambling Act)

- Legitimate interest
- Policy contracts to have the names of the insured and the beneficiary (who has a legitimate interest)
- Benefit not to exceed the “value of the beneficiary interest”

Products from antiquity till date...

19th Century

Workers' compensation Act

Sickness Bill became law in 1883 in Germany

The Sickness Insurance law paid indemnity for up to 13 weeks.

- The first 4 weeks were at 50% of prior wages, from the fifth to twelfth week the benefit was 67% of previous earnings.
- Workers who were completely disabled received benefits at 67% after the 13 week, financed entirely by employers.
- If the disabled person required constant care, then up to 100% of previous wages were awarded

Products from antiquity till date...

20th Century

1905 Armstrong investigation in the US

Predominantly on Tontine policies

Sweeping changes to the way insurance was transacted

- Illustrations
- Contract wordings
- Commissions
- Nature of investments

Forced companies to innovate to survive

Critical Illness cover was “invented” by Dr Marius Barnard with the first critical illness product being launched on the 6th of October 1983 in South Africa.

Covered four major critical illnesses – Heart Attack, Cancer, Stroke and CABG.

Payment on diagnosis of one of these conditions provides insured lives with financing for private health care.

LESSONS FROM HISTORY



(Historical) Triggers for Product Evolution

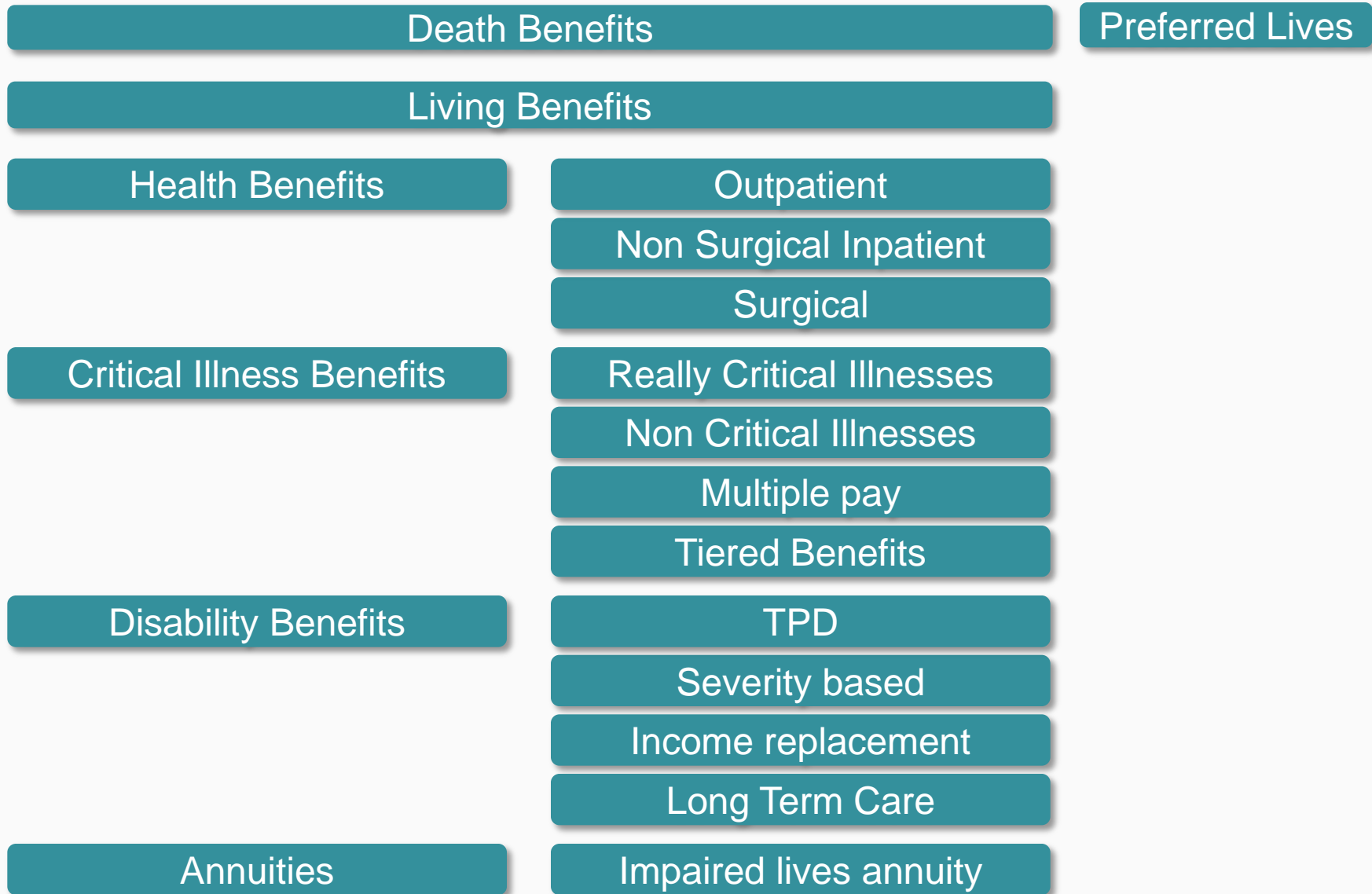


Need : Contingent event leading to a financial loss

Better understanding of the risks and the ability to estimate the financial loss

Regulations: either supporting or restricting or influencing certain product structures

External influences: Stock market, technology



WHERE ARE WE HEADED?



-
- Over 1700 years, life insurance has identified 5 key insurable needs
 - Mortality
 - Longevity
 - Disability
 - Severe Illness
 - Hospitalisation

What is next?

One approach...

- Identify a hitherto uninsured risk
- Identify the financial need associated with that risk
- Develop a insurance product to satisfy this need

Other approaches

- Identify a customer group that has an insurable need and that has not yet been targeted. A new product might be required to meet the identified customer need.
- Identify a customer need that has not yet been met by an insurance product and develop new products to meet this need
- Value added services to make existing products more attractive

Are all “needs” insurable?

Need: to indemnify the **financial loss** on the happening of a **contingent event**

Contingent Event

1. Clearly definable
2. Not too frequent nor too rare
3. Insured cannot (or would not be keen to) influence the occurrence of the event
4. Ratable
5. Measurable
6. Manageable
7. A material section of the population is exposed to this risk

Financial Loss

1. Not too small a financial impact
2. If the insurance benefit is linked to the actual financial loss, the insured must not be able to influence the size of the loss after the event has occurred

Can every company develop products to satisfy each “insurable need”?

Having identified customers’ insurable need, does the company have the right...

- Distribution channel which can deliver the product to the identified target market
- Risk management capabilities to manage the identified risk
- Systems and processes

And is the product consistent with the company’s brand?

CASE STUDIES



-
- Summary
 - Slow starter
 - High claims → Revised premiums and specialist insurers
 - 7 million lives covered in 2005
 - Consumer Views
 - Confusing choice (87% in 1990, 40% in 2005)
 - Covered under Medicare (58% in 1990, 20% in 2005)
 - Will not need LTC services (56% in 1990, 26% in 2005)
 - 70% of non-buyers underestimate cost of care (vs. 14% of buyers)
 - Analysis
 - Know your capabilities (manage risk and react fast)
 - Sales depend on perceived need
 - Sales depend on perceived value
 - The power of education

Case Studies

ElderShield (Singapore)

- Summary
 - Lower opt-out than initial consumer research suggested
 - Too early to comment on experience
- Analysis
 - The power of education
 - The power of endorsement
 - Tax advantages
- Question
 - What are the long-term political risks?

Case Studies

AFLAC (USA and Japan)

- Summary
 - Top-up Covers (e.g. ICU top-up to H&S plan)
 - Work-site marketing
 - Sales success
- Analysis
 - Clear and specific need identified
 - Simple covers easy to understand
 - Simple marketing message
 - Inexpensive (volume-based) marketing

Case Studies

Unit Linked Plans (India)

- Summary
 - New product introduced by joint-venture companies
 - Good sales and profits (dominant source of income and profit)
 - Cannibalised mutual funds and other savings products
 - Sales partially affected by financial crisis
 - Regulatory clamp-down
- Analysis
 - Innovation for the market
 - Timing of launch can be crucial
 - Concentration risk
 - Regulatory risk

Equitable Life – Guaranteed Annuity Option (UK)

- Summary
 - Many years of good sales
 - 1½ million loyal customers
 - Financial collapse
- Analysis
 - Insufficient management of financial market risks
 - Trends in attitudes to consumer protection → regulatory risks

Case Studies

Guaranteed Issue Mortgage (UK)

- Summary
 - Successful sales
 - Poor claims experience
 - Product retracted
- Analysis
 - Under-estimation of the anti-selection risk
 - Inadequate risk management controls in place

Case Studies

Unemployment Insurance (Asia)

- Summary
 - Packaged unemployment cover with standard MRTA cover
 - Poor sales and market resistance
 - Product withdrawn
- Analysis
 - Misreading of client perception
 - Misreading of cultural sensitivities

Case Studies

Wellness Programmes (South Africa)

- Summary
 - Good market acceptance
 - Favourable claim experience
- Analysis
 - Good risk management tool (at inception and ongoing)
 - Viewed as value adding feature by market
 - Increased brand-loyalty

Case Studies

Online Health-claim Tracking

- Summary
 - Favourable market acceptance
- Analysis
 - Value added feature
 - Increased importance of convenience

Help the Aged – Preferred Contractors (United Kingdom)

- Summary
 - Favourable market acceptance
- Analysis
 - Focused on well-defined and researched target market
 - Value added service
 - Identification of important (but non-financial) need

SECRET OF SUCCESS



Success – by volumes

- Simple, targeted, needs-based products (US LTC vs. AFLAC and Preferred Contractor List)
- Pay attention to cultural sensitivity (Asian Unemployment Insurance)
- Perception of need / value is key (US LTC, Asian Unemployment Insurance) and education can be powerful in bringing perception in line with reality (US LTC, ElderShield)
- There is more to a product than the risk cover (Wellness Programmes, Claim Tracking, Preferred Contractor List)
- Timing can be crucial (Indian Unit Linked)
- Pay attention to enabling regulations and tax regimes (ElderShield vs. Indian Unit Linked)

Success – by profit measures

- Identify and manage the risks (Guaranteed Issue MRTA, Indian Unit Linked & Equitable Life vs. US LTC, Wellness Programmes)

Other factors to bear in mind

- Successful products should be sustainable
- Successful products should enhance the brand value

-
- Know your customer
 - Identify the target market
 - Understand the financial needs and perceptions of that market (focus groups and consumer research)
 - Develop simple, effective products to satisfy those needs
 - Know your strengths and weaknesses
 - Harness your brand
 - Work within your risk management capabilities
 - Work within your systems capabilities
 - Work within your distribution capabilities
 - Address the risks – Identify . . . then avoid or accept, monitor and manage
 - Product design (definitions, exclusions, benefit levels, etc.)
 - Management of Insurance Risks (underwriting, claims and reinsurance)
 - Management of financial risks (investment policy, hedging strategies)
 - Etc.

-
- Have a compelling marketing message
 - Simple to understand the link between product and financial need
 - Highlight the benefits of value added services
 - Monitor and enhance
 - Regular monitoring of key metrics
 - Fine-tune and adapt whole product offering as experience emerges



QUESTIONS?

Madhu Sridharan, Barry Hewett