ACTUARIAL SOCIETY OF SOUTH AFRICA

Actuarial Society 2012 Convention

Peter Temple

Why do we undersell ourselves ?

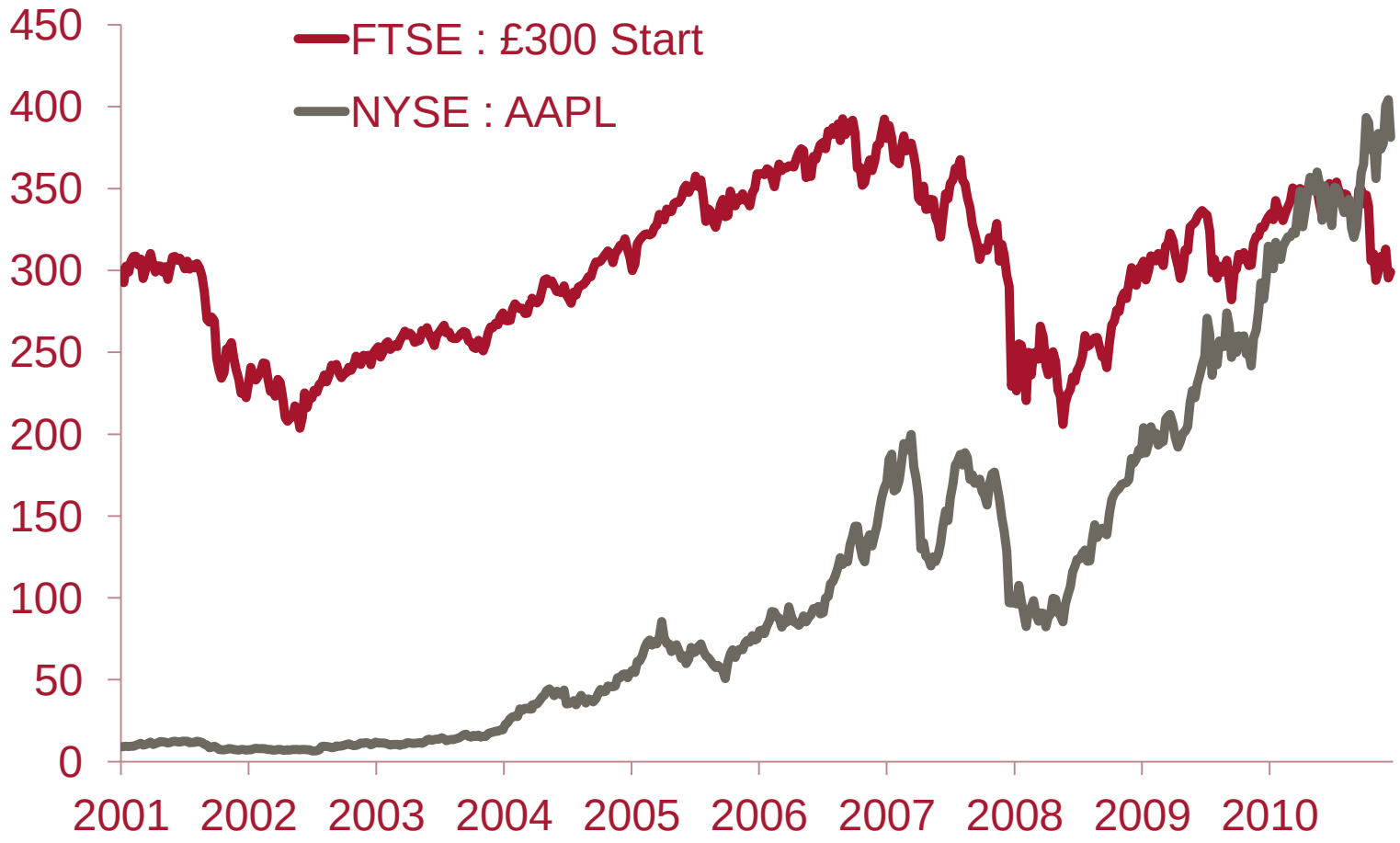
Where did it all go wrong?

"Life Insurance is SOLD, not BOUGHT"

Value

- People don’t value life insurance for what it is worth
- People don’t value financial services brands
- People are sceptical about value for money from insurers
- Financial performance of the industry lags other products / industries

The result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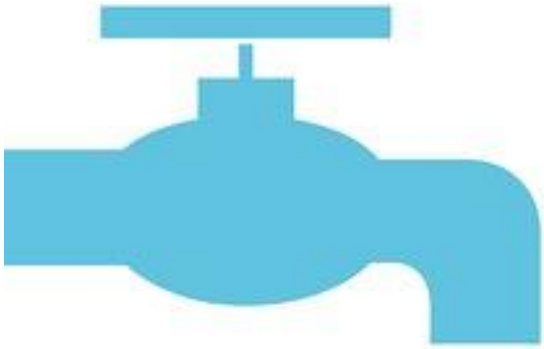

tap water is, on average, **500** times cheaper than bottled water.*
boycott the bottle.

Life insurance: uninteresting and unengaging

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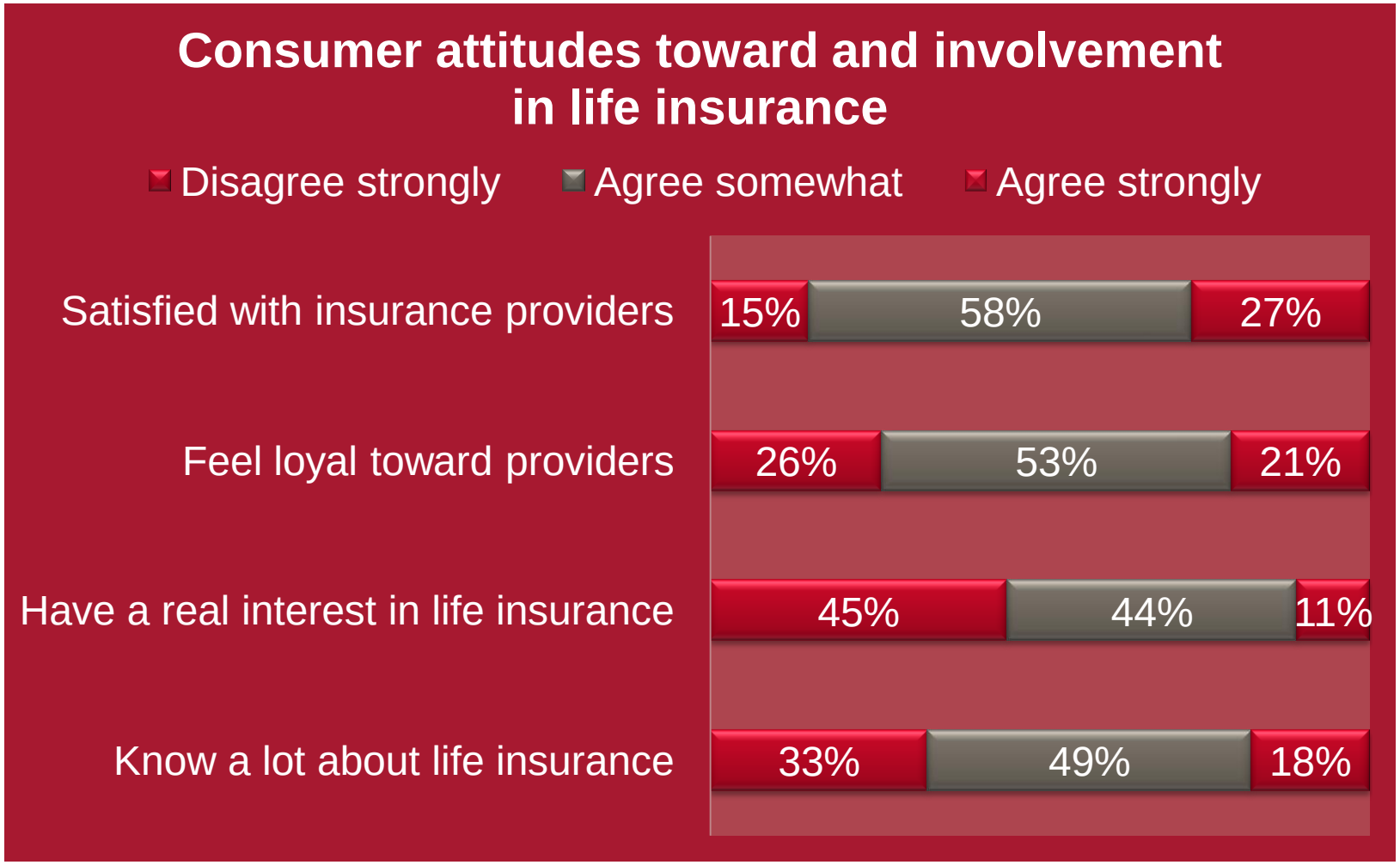

Source: Accenture Global Consumer Survey 2010. n=1300

It could get even harder

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Attitudes about life insurance	Gen Y b.1981-86	Gen X b.1965-80	Boomers b.1946-64
Most people need life insurance – agree	63%	75%	73%
Life insurance is the best protection – agree	60%	71%	71%

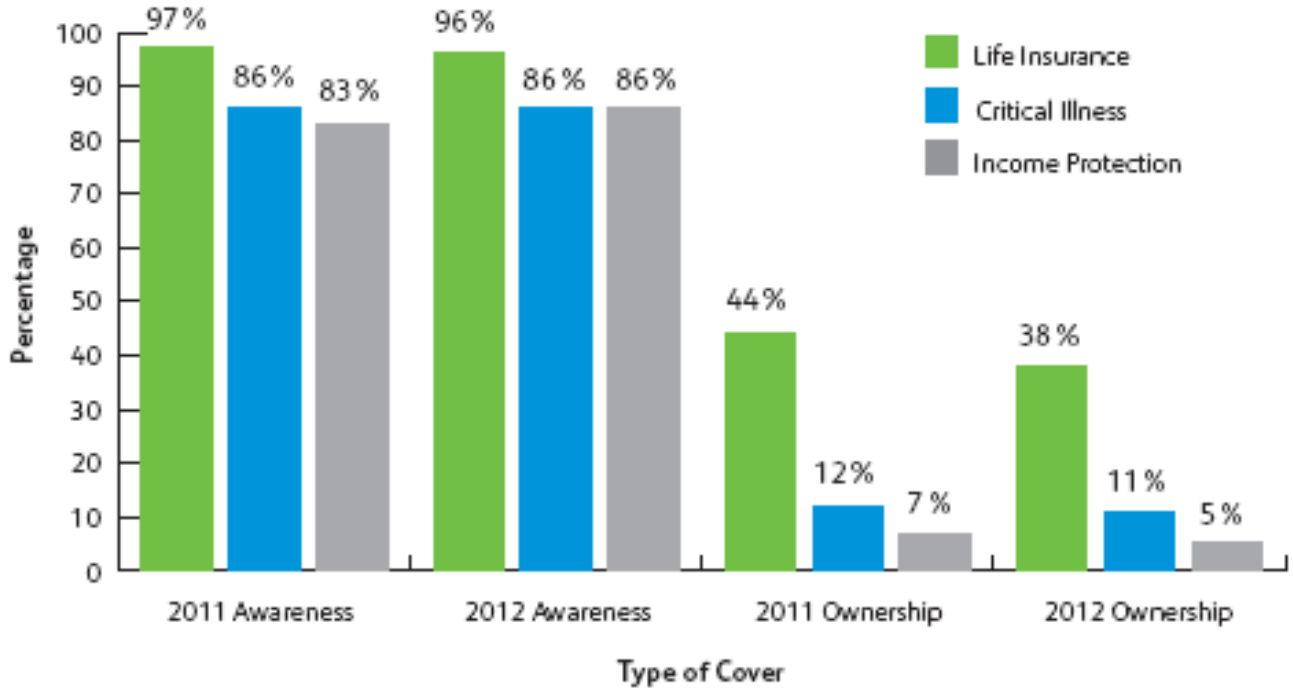
Source: LIMRA. Protecting the futures: life insurance and Gen X & Y, 2008

Perception of essential vs. luxury items over time

Perception of essential vs. luxury items over time	2011		2012	
	Essential	Luxury	Essential	Luxury
Broadband access	69%	27%	74%	23%
Short breaks	19%	75%	23%	67%
Shopping trips	13%	80%	17%	74%
Financial security for dependents on death	53%	34%	44%	29%
Financial security for dependents in case of illness	39%	45%	29%	37%
Protecting income	35%	47%	23%	39%

Courtesy of Scottish Widows UK Protection Report 2012

Awareness of insurance



Courtesy of Scottish Widows UK Protection Report 2012

How do you sell insurance if no desire to buy?

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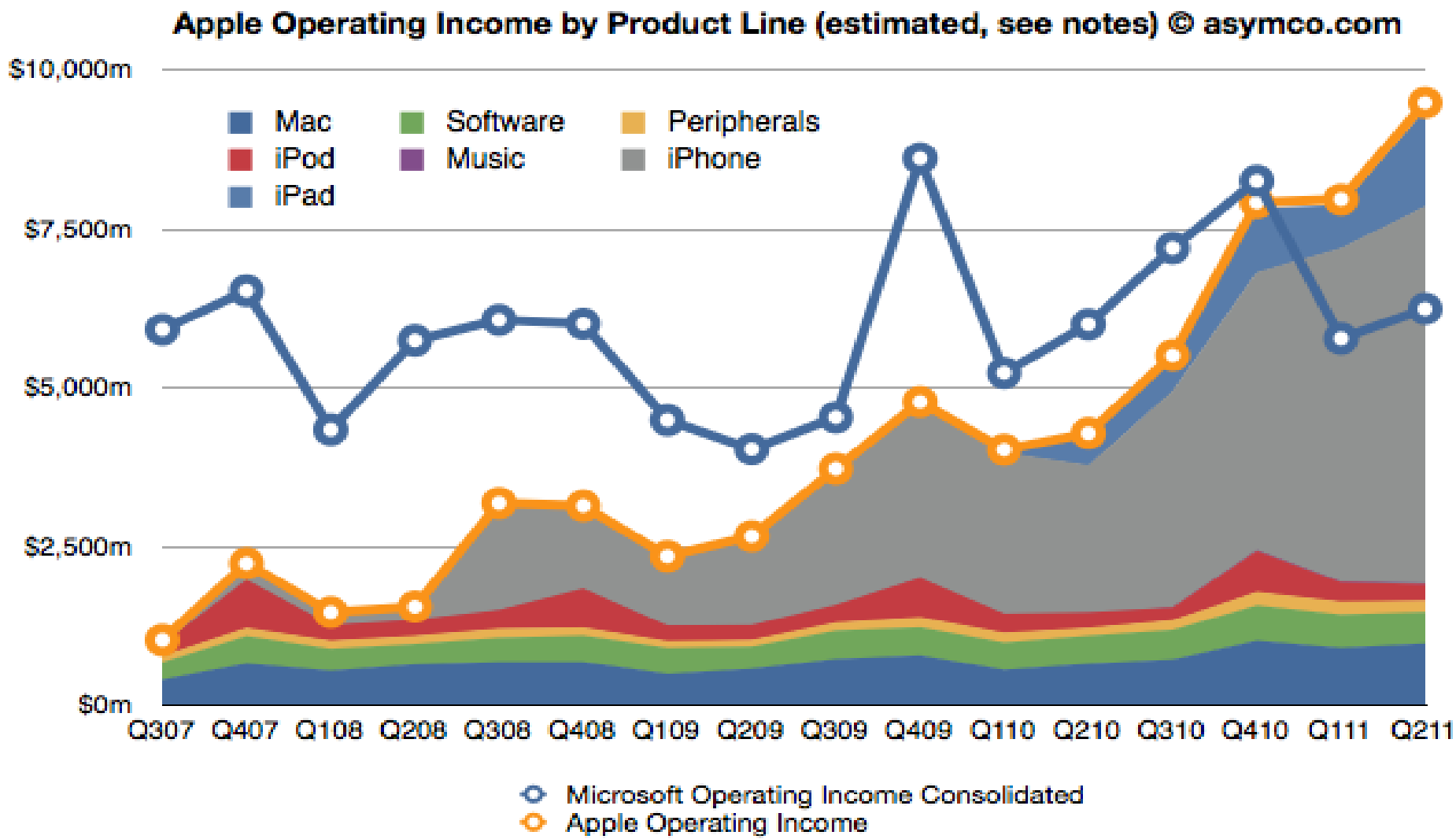
- Expensive distribution
  - Advisors
  - Direct mail
  - TV advertising
  - Pay to access potential customer
- Hard sell practices with reputational damage
- Product complexity to attempt differentiation
- Insurers have ceded the consumer to advisors & sales
- Claims ratios are at 50% and (sometimes much) lower
  - We can debate “value”
  - AAPL has a 40% margin

What about other industries?

- Value for money?
- Emotional value?

- Simplicity
- But very cunning
- Obsessed about the client

The Value of Innovation



Why has Apple done so well?

- Visionary leadership
- Innovation
- Brilliant marketing
- Emotive appeal
- Complex product
- BUT really easy to use

"Why can't we move life & disability insurance into a similar space?"

Value

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- I think we would all have a similar understanding of what someone means when they say “it was good value for money”

BUT

- We need to split this up into

“economic value” + **“emotional value”**

The Economic Value of Insurance

- 35 year old male
- Non-smoker
- Best “class” of life
- United Kingdom

  (from moneysupermarket.com)
- £ 500,000 / £47.33 (level term 50 years)

The Economic Value of Insurance

- Die at age 85
- “Value” of premiums £ 28,398
- “Value” of claim £ 500,000

HUGE WIN!

The Economic Value of Insurance

- Die at age 85
- Present value of premiums £ 12,423
- Present value of claim £ 70,356

BIG WIN!

The Economic Value of Insurance

- Die age 45
- Present Value of premiums £ 4,691
- Present Value of claim £ 337,782

Back to a BIG WIN again

The Emotional value of Insurance

- We have to tap in the emotional side of insurance

The Emotional value of Insurance

- We have to tap in the emotional side of insurance

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Questions to ask ourselves

- Are we doing anything to help customers assess value?
- Is it value to pay claims quickly but allow a few to slip through the cracks?
- Is it value to target a cheap product?
- Is it value to have thorough underwriting (and lower premiums)?
- How can we argue we creating value when we allow cross subsidies in our pricing?

What did we do?

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Gen Re Consumer Survey

- Behaviour compared to other goods
- Run in 3 countries
- July to September 2011

Demographic

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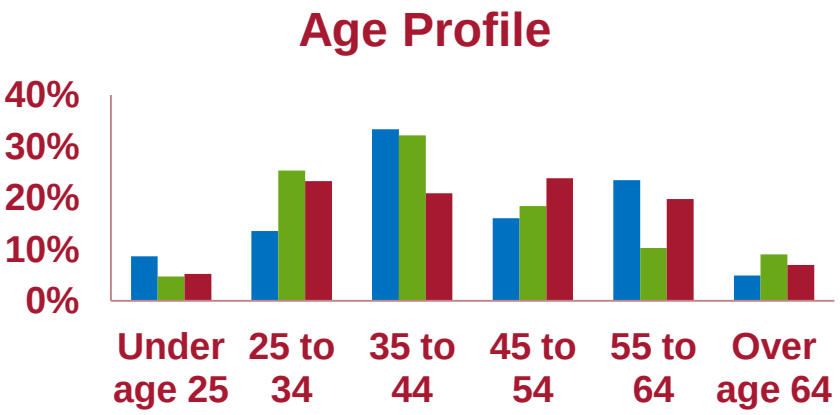
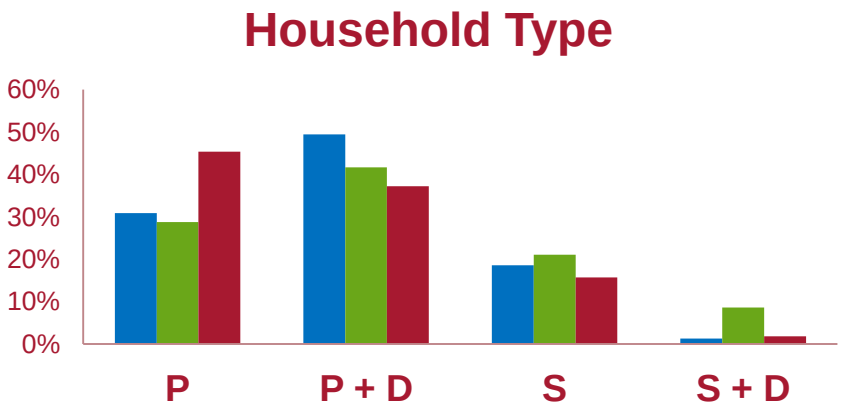
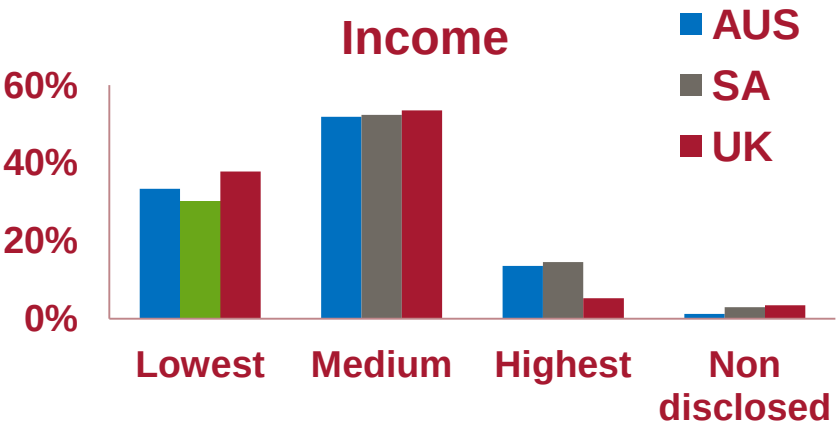
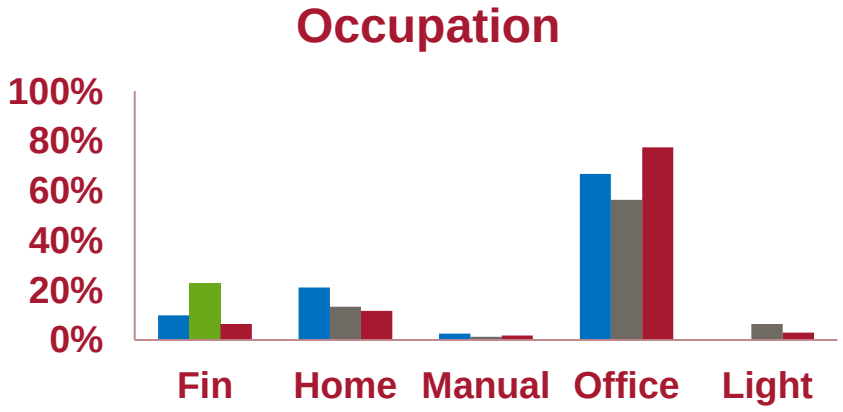
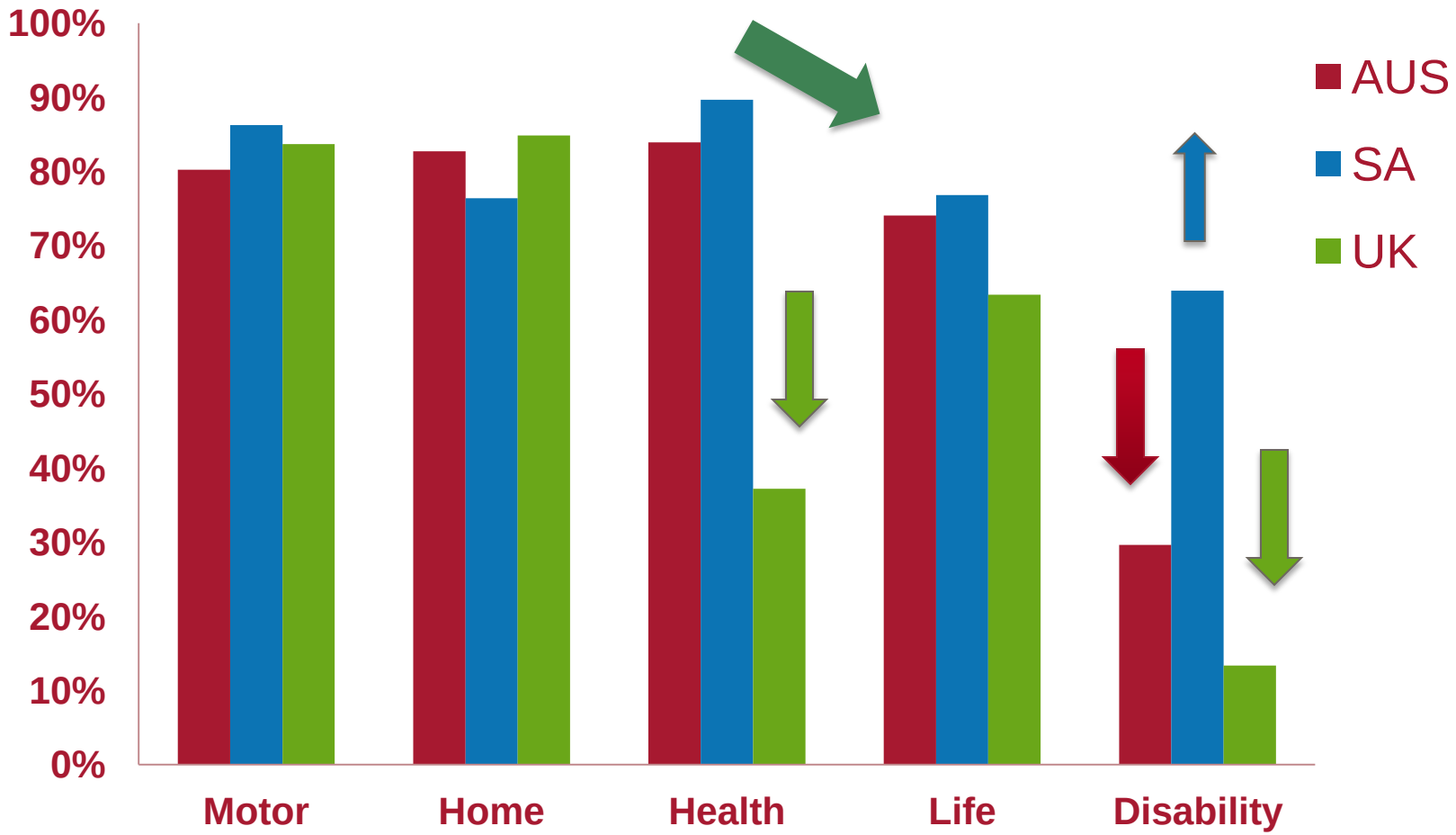




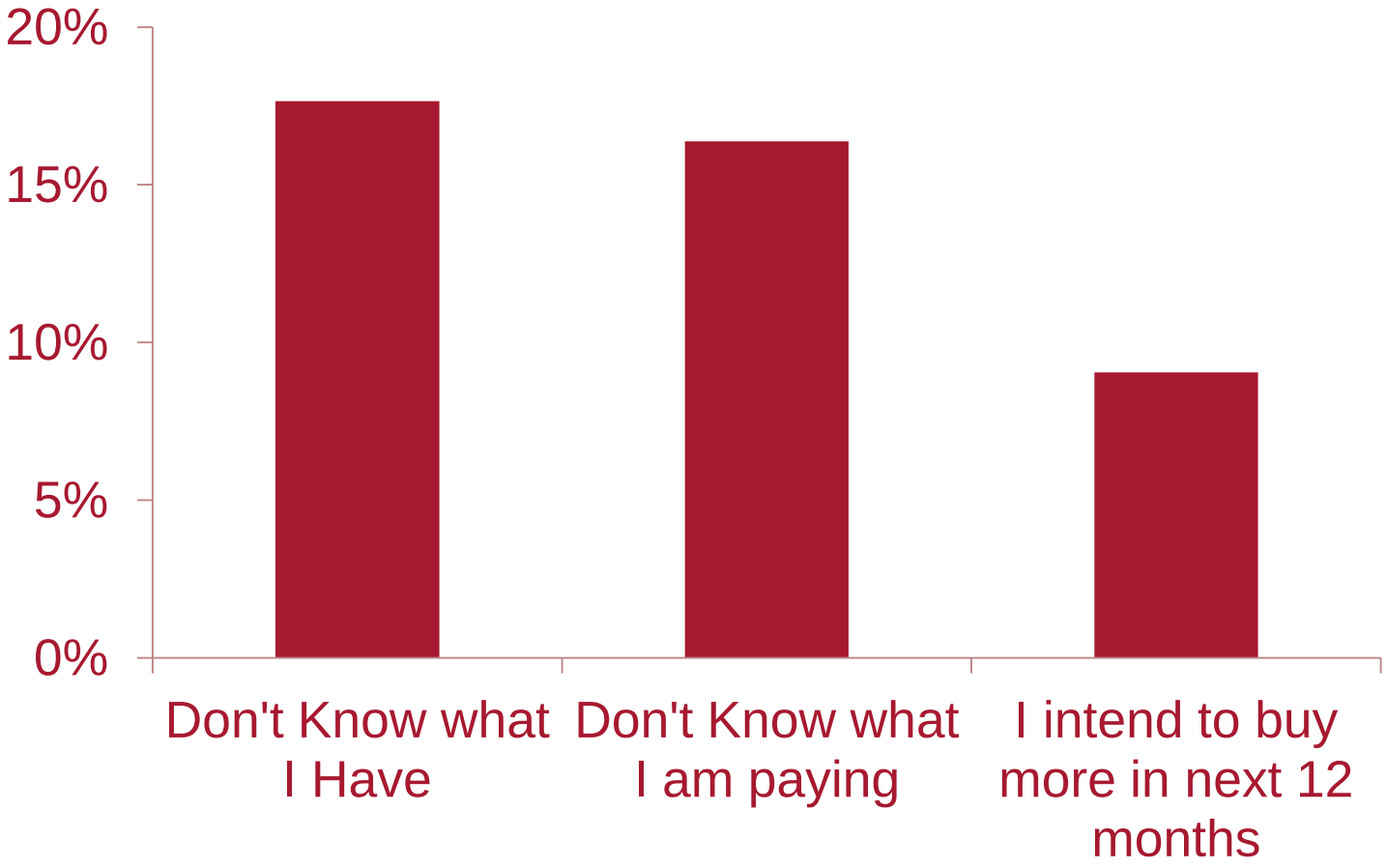




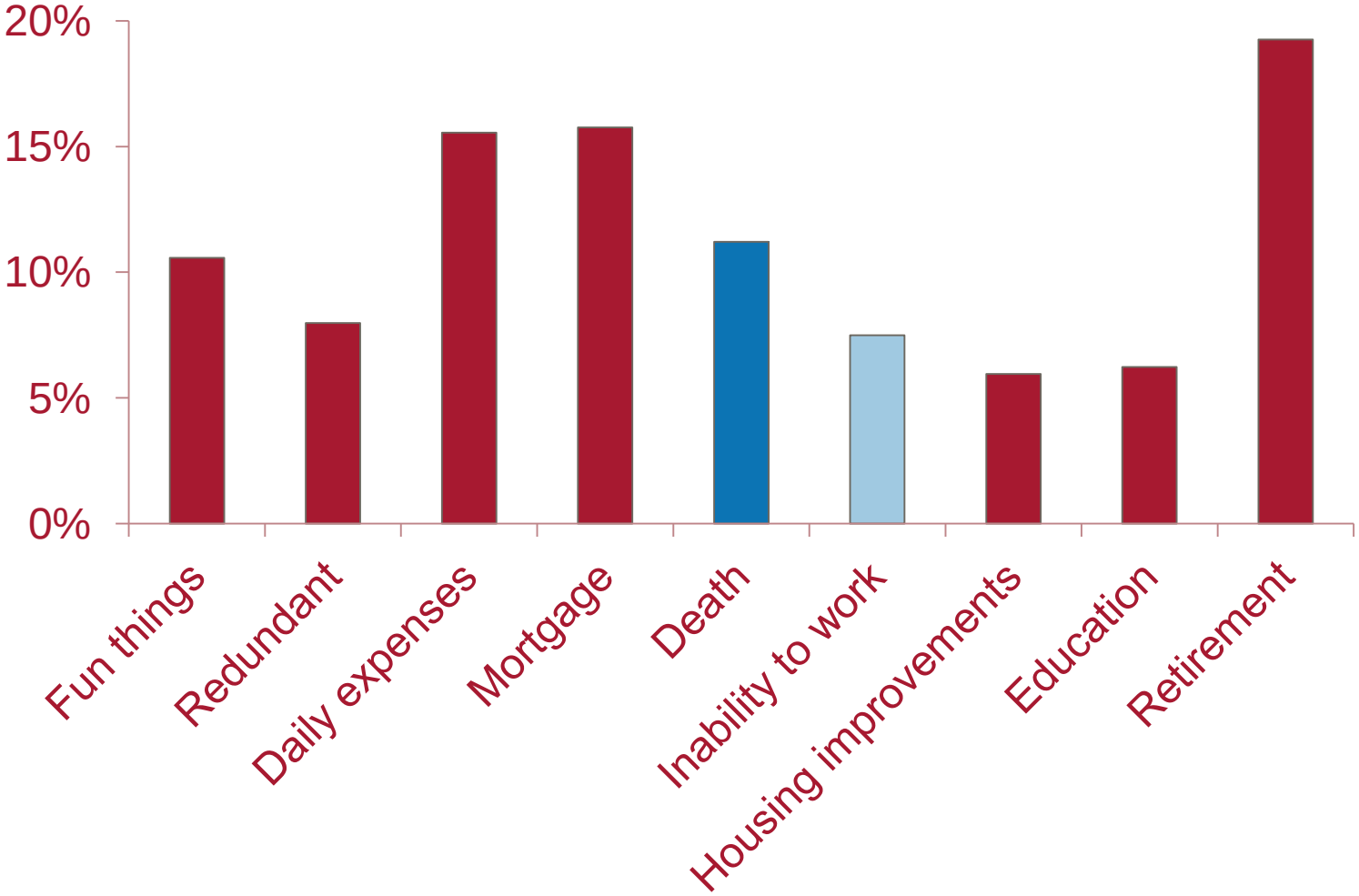
What insurance do you have?



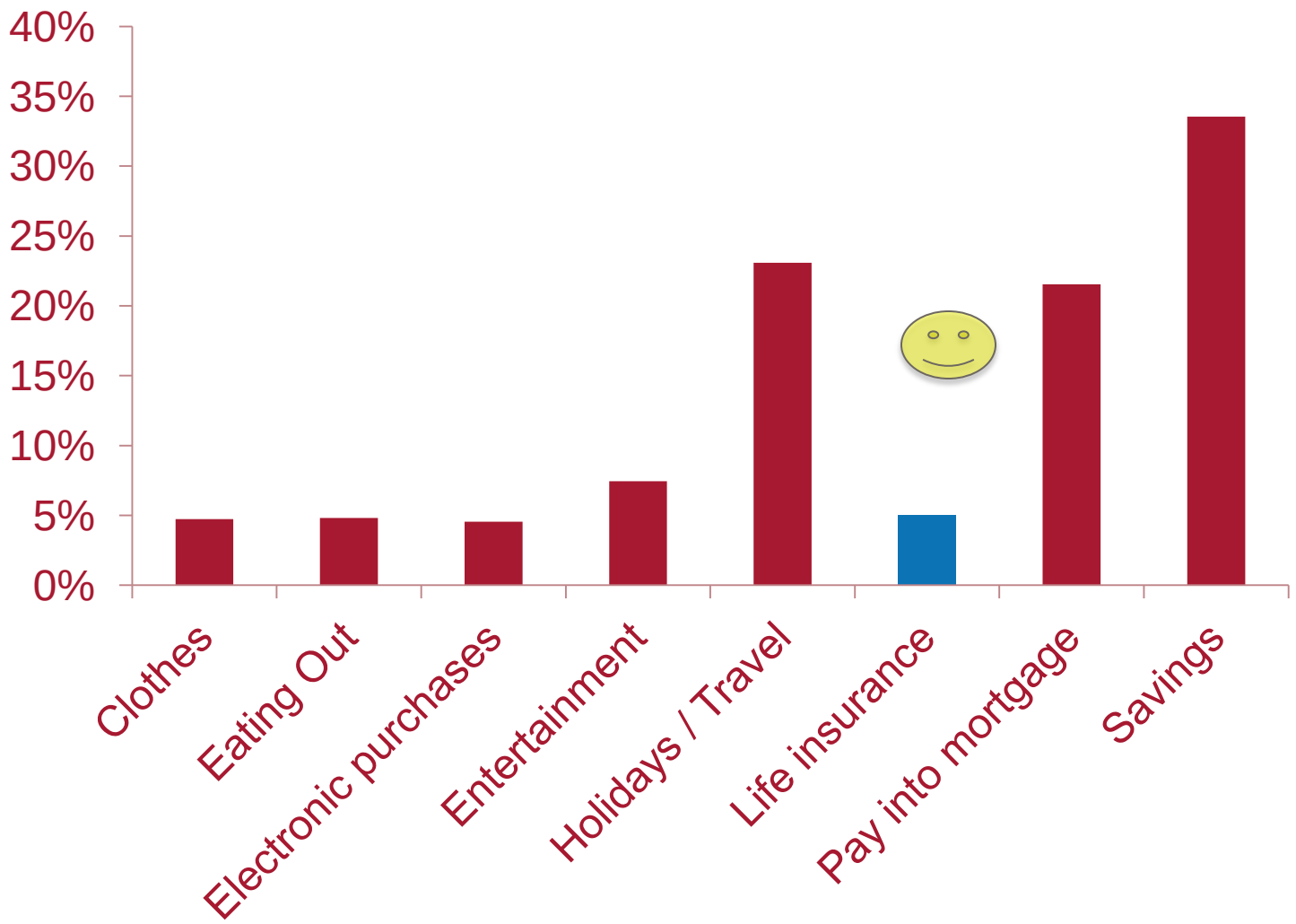
Do you know how much insurance you have?



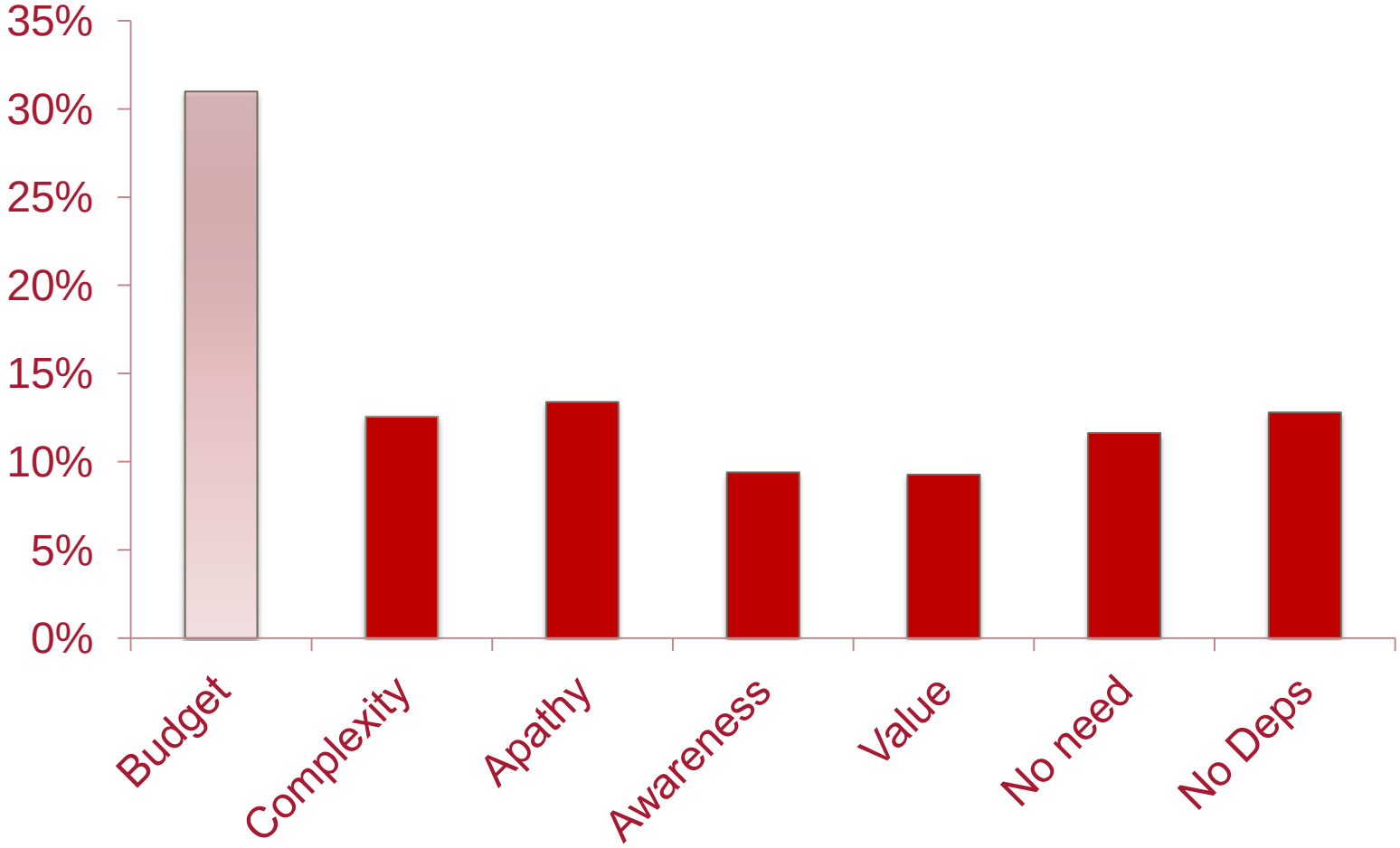
Top Financial Concerns



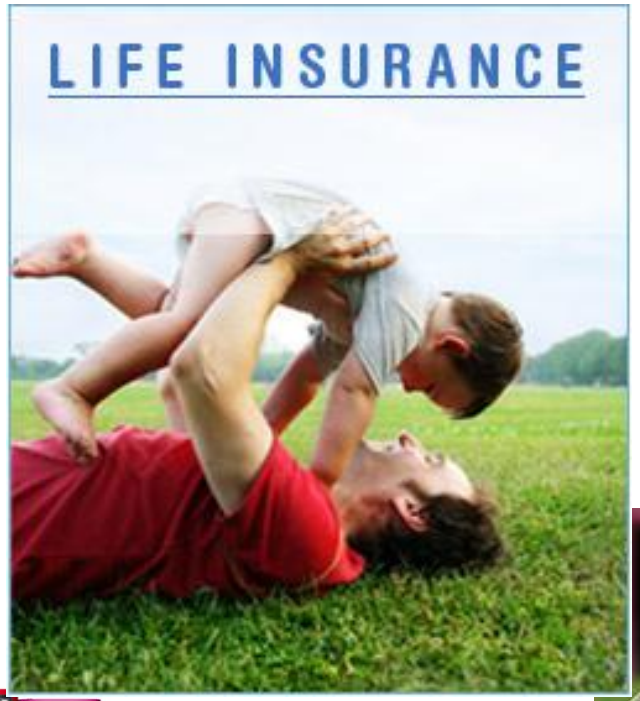
Where would you spend extra disposable income?



Reasons not to buy insurance



Products


LIFE INSURANCE

BECAUSE
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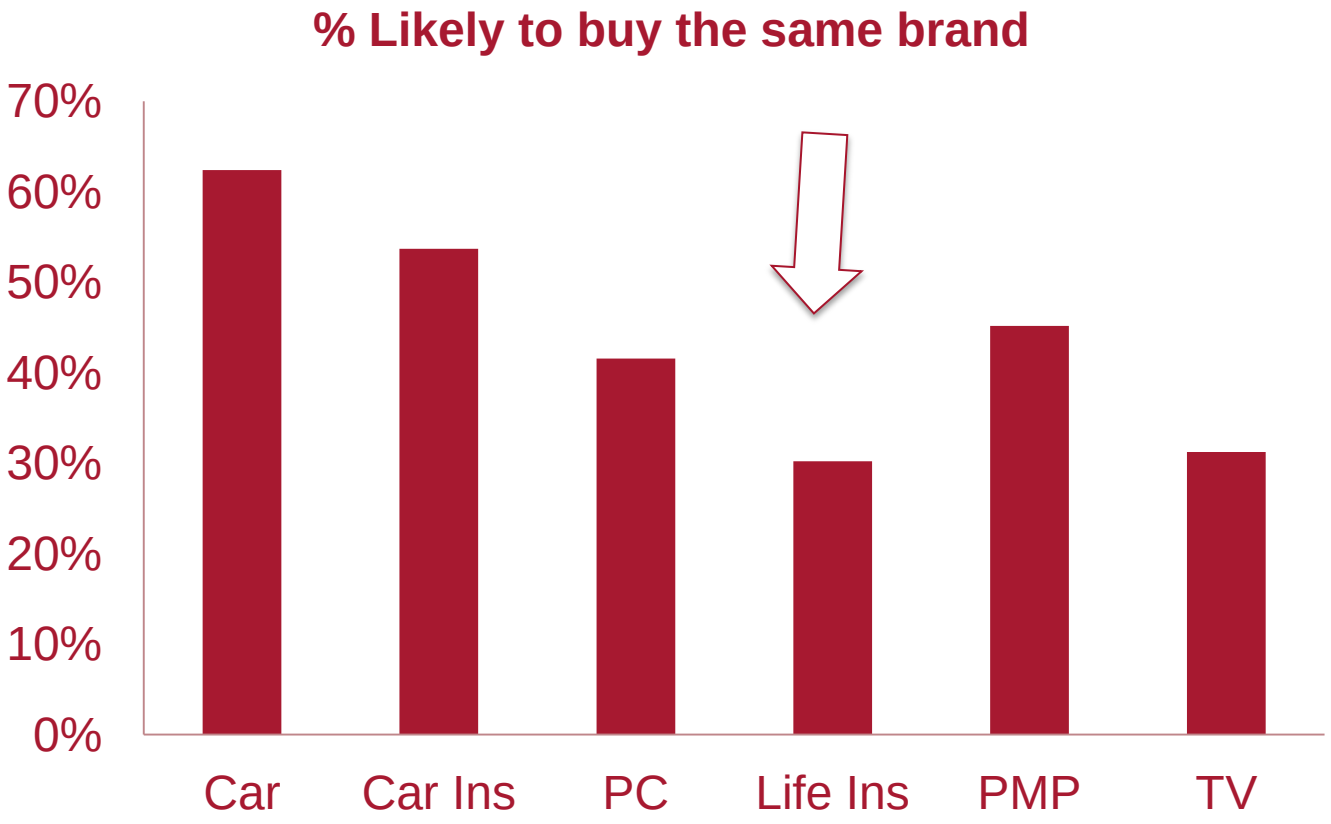
Brand Loyalty

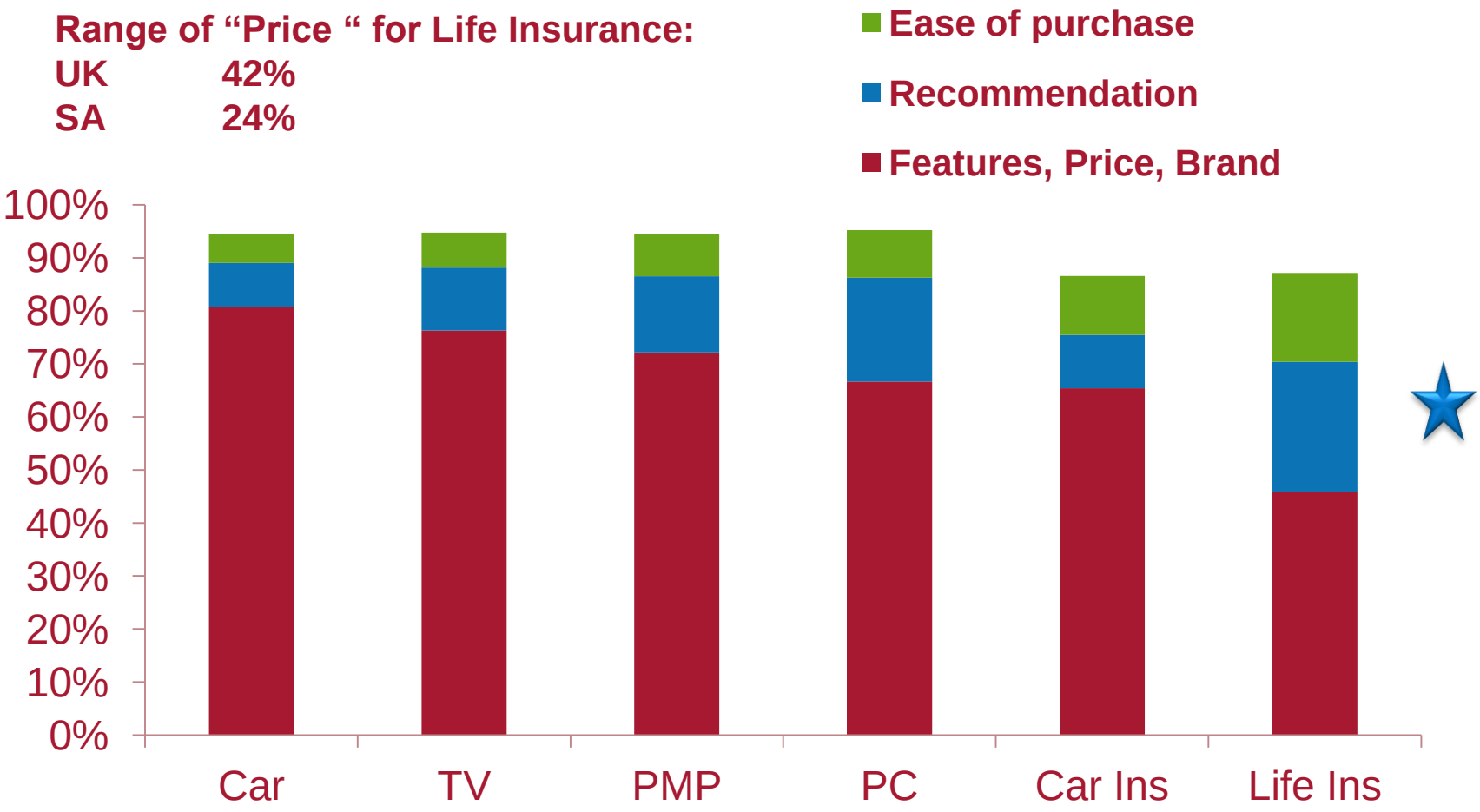


In SA the brand loyalty for life Insurance is 38%

Brand Choice

Range of "Price " for Life Insurance:

UK	**42%**
SA	**24%**



Likely to recommend a brand

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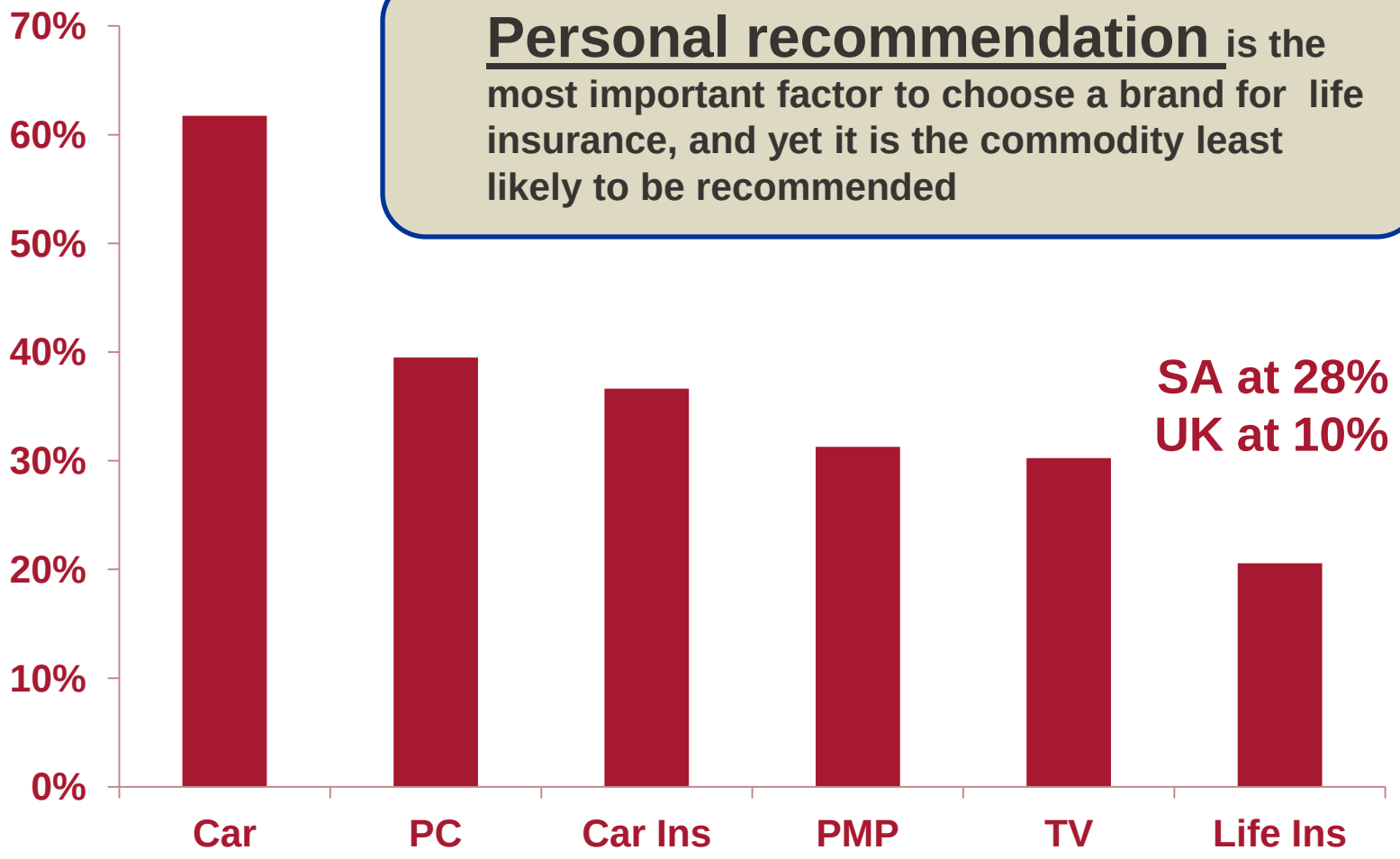
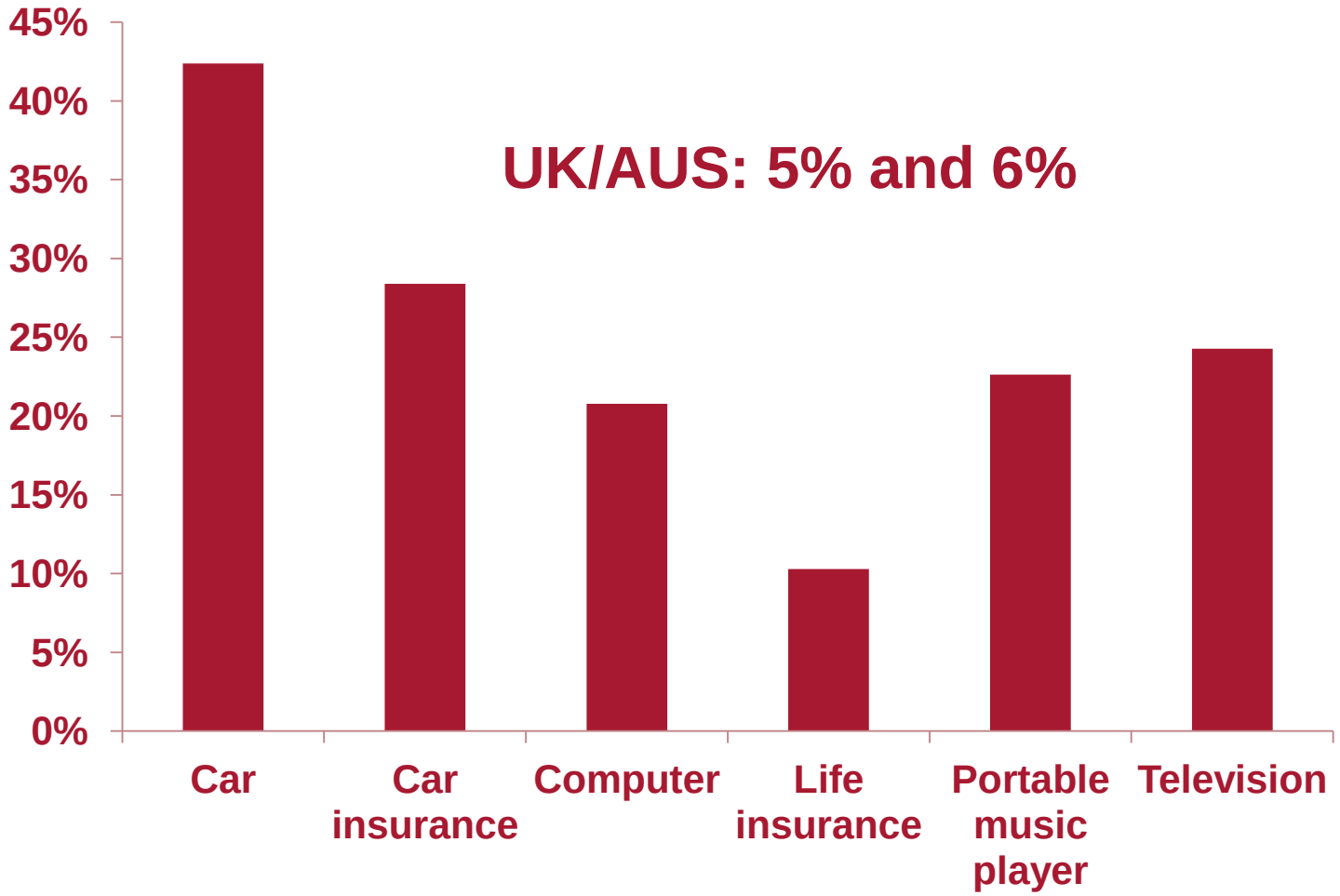
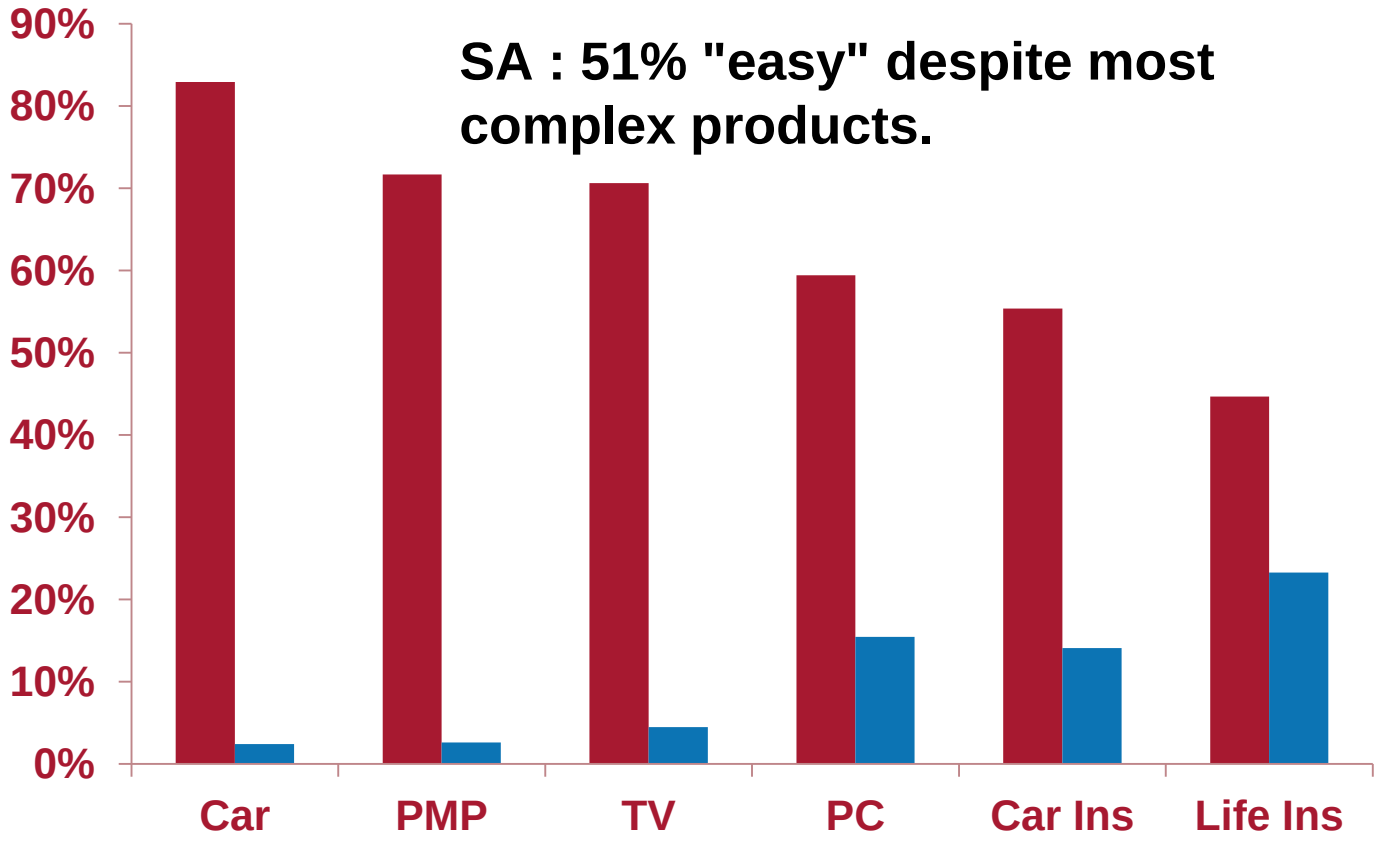
Personal recommendation is the most important factor to choose a brand for life insurance, and yet it is the commodity least likely to be recommended



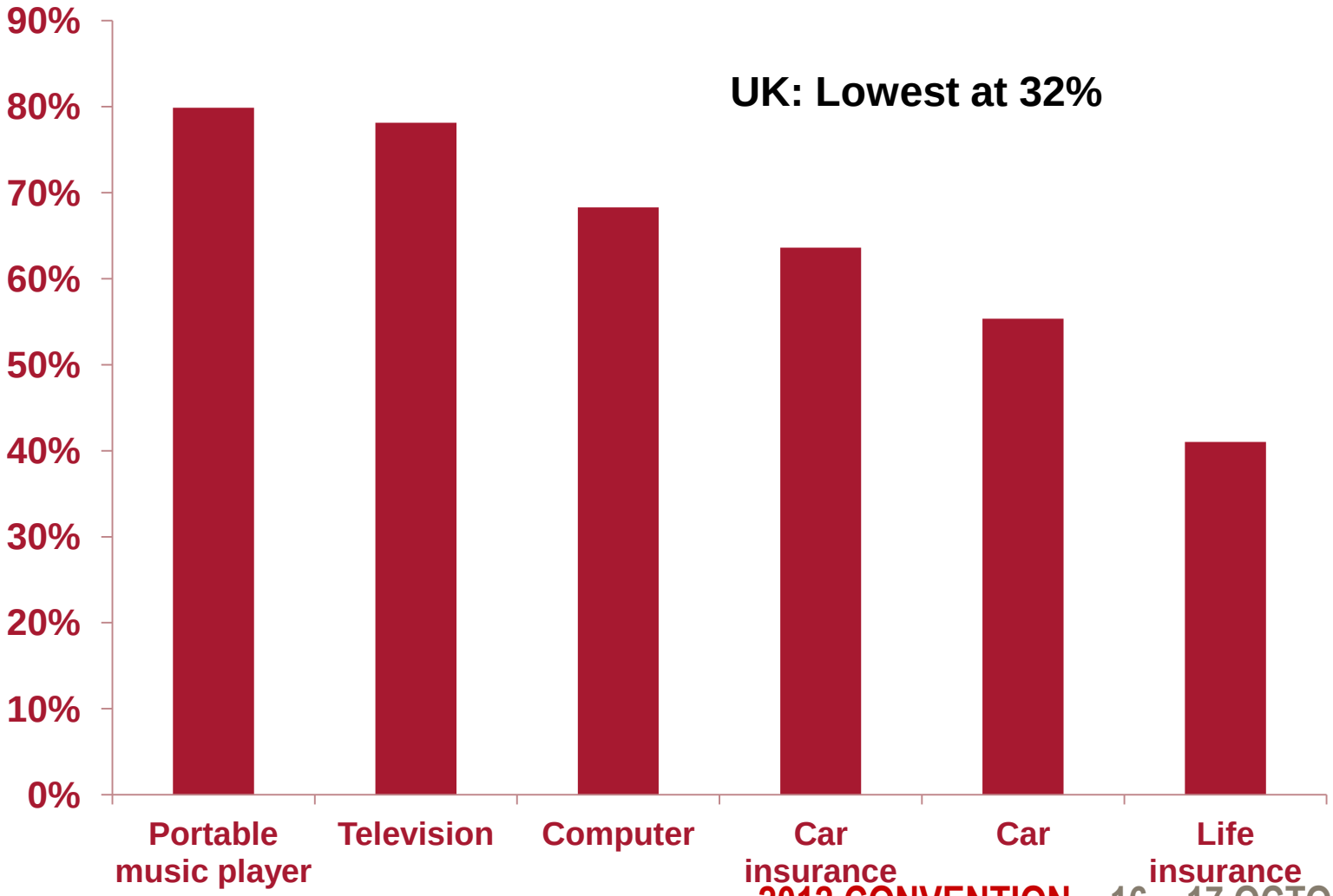
Effectiveness of advertising - Effective



Understanding features - Easy



Ease of purchase - Easy



Where would you start if buying insurance?

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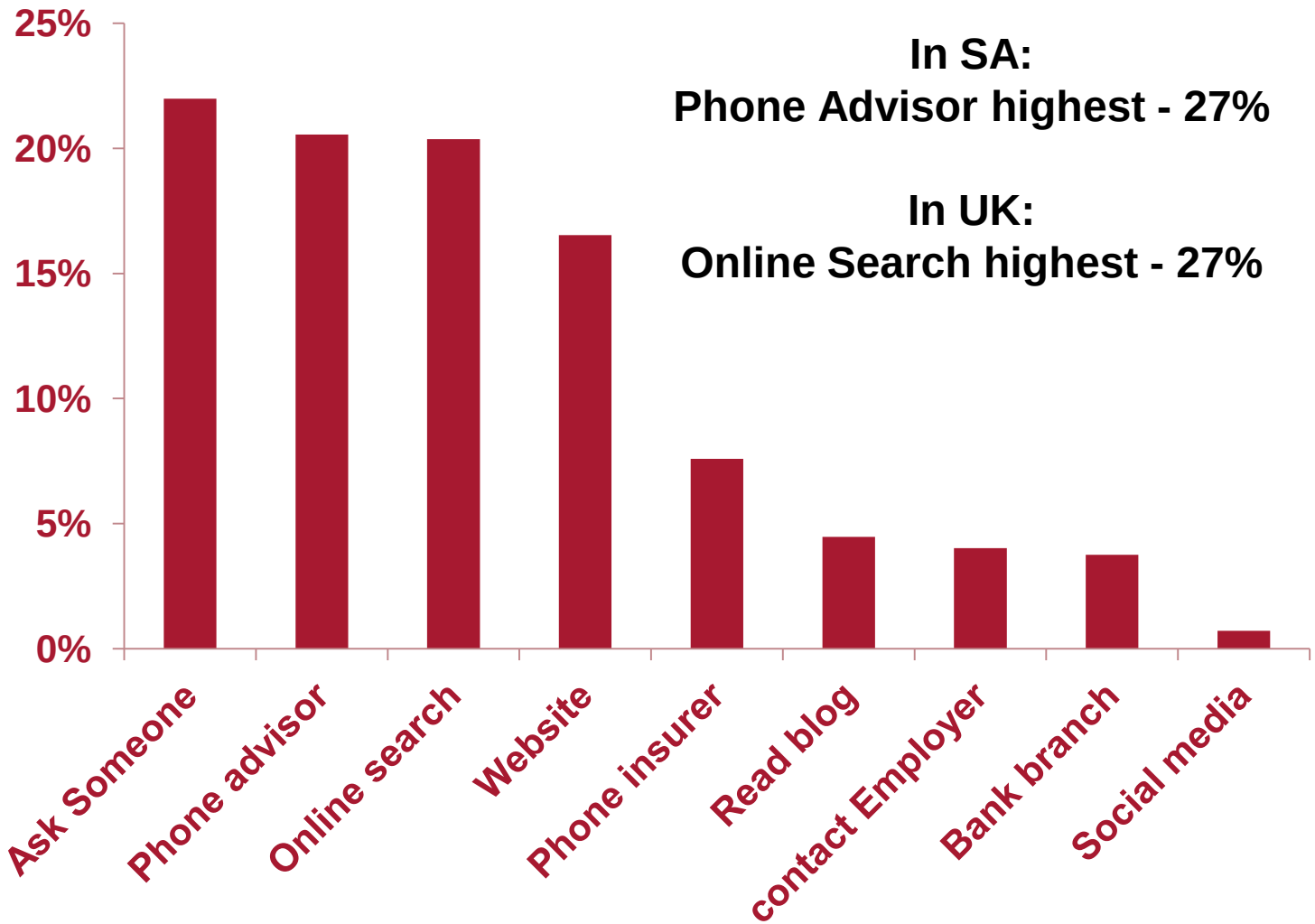

In SA:
Phone Advisor highest - 27%

In UK:
Online Search highest - 27%

How are you most likely to complete the transaction?

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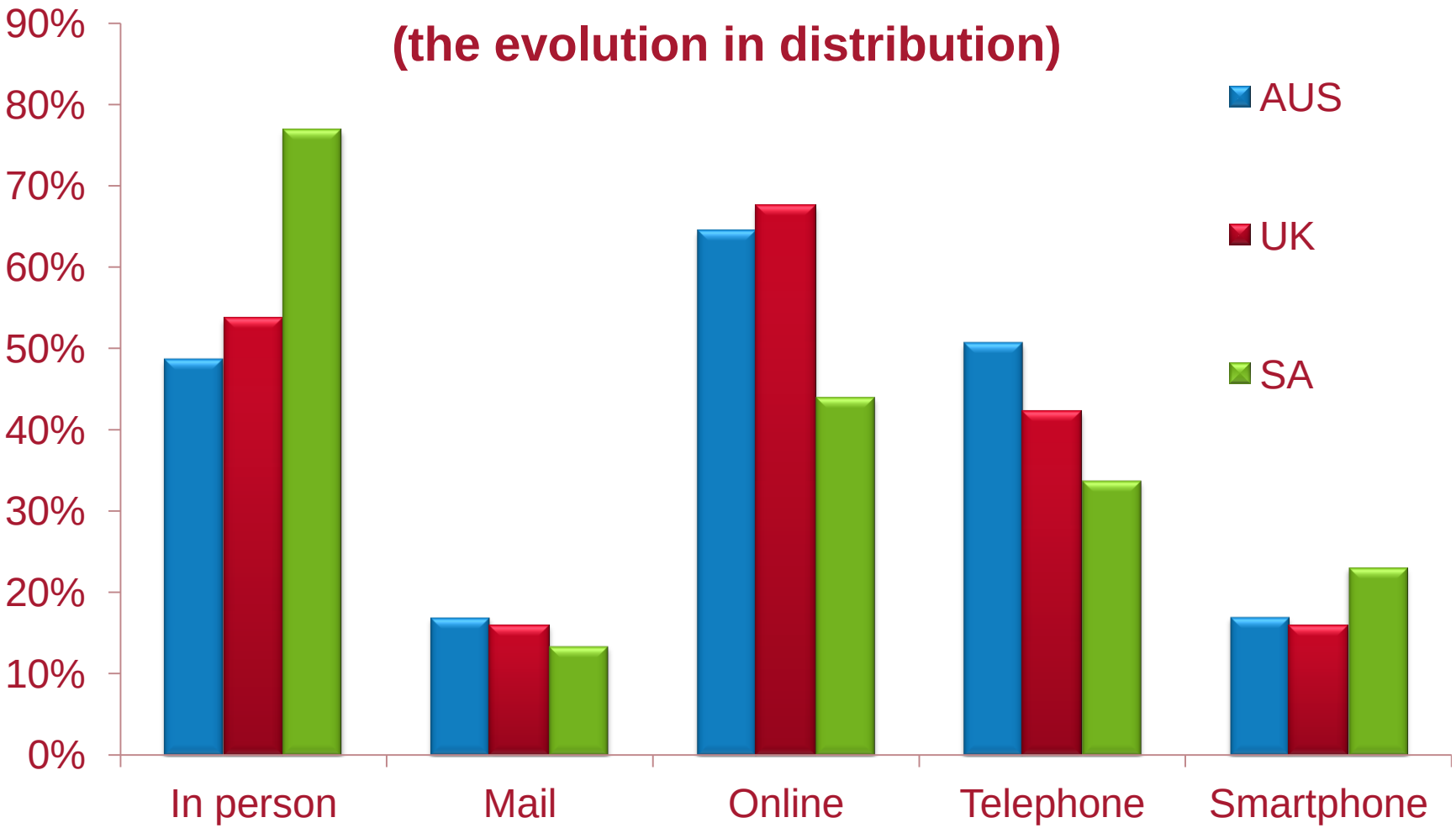

What should we do differently?

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Work together to SELL the VALUE of insurance

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Questions or comments?

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Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

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