

Has product design got better or worse?

Let's face it, all of us at some time or other have criticised the design of at least some of the protection insurance products in the market. It's part of the wider debate on what's best for our customers and healthy debate is a sign of a responsible industry.

But has product design got better or worse over the years? Are consumers getting a better or worse deal than in the past? And why does Protection Review believe it has a part to play in helping the industry and individual insurers and others to improve still further the product designs we have become used to?

To help answer these questions we spoke to Protection Review Co-chairman and long time product reviewer, Andy Couchman and sought his views.

Q. Let's start by asking a question about you for those who don't know you or about Protection Review's product reviews. What makes you qualified to review new products?

A. The ultimate judge is the consumer and the intermediary but I suppose where we've always tried to be is an unbiased third party giving what I hope is an expert and measured view. Whether we succeed in that is down to intermediaries and others to judge though – just because we say a product is good or bad doesn't mean it is right or even wrong for client A or client B.

Q. What experience do you personally bring to the table?

A. Protection Review was established back in 2003 and has grown considerably since then. We're still a small business though and each of us is actively involved in delivering the services our clients want. Each of us too brings huge experience and that's something that is really unique.

Personally, before setting up my own business, a large part of my career was spent in product design with a couple of insurers after starting as a life underwriter. In product management, I started on investment product design then moved into mortgages and finally to life and health insurance. During that period I also qualified as an FCII and Chartered Insurer and that gave me a useful wider technical knowledge so that when, for example, I later got involved in PMI design, at least I knew the underlying principles, which was a great help.

When the publisher Emap decided to launch a newsletter on life and health insurance back in 1994, I was headhunted to be its editor and a key part of that publication was product reviews. I've been doing it ever since and to date have reviewed probably close to 1,000 new products – virtually every new product launched since then. In addition, we have the resources of my colleagues at Protection

Review and, between us, we have a good few decades' experience across a very wide range of companies and products.

Q. What was product design like back in the 80s and 90s?

A. Gosh that makes me feel old! It varied considerably. I was lucky in that I worked for a very large insurer that believed in strong product design and which thought through every aspect of the product before it was launched. So, every product started with a feasibility study. Then a group would be put together representing each aspect of a product – actuarial, legal, compliance, systems, underwriting, claims and sales and marketing. For each product we built up a 'basis book' which became its bible – it set out the decisions we took and why, how plans should be administered in future and of course modelled the financials.

The process was highly disciplined but invaluable not just at the time but even years later if an issue arose. Perhaps most importantly too, we allowed failure and learned from it. So I can proudly boast of the market leading products I managed but am almost as proud of the estate agency chain we never launched or the low commission paying investment product launched after LAPR was stopped, which failed to achieve its projected sales because we got it wrong!

Q. How big a voice did marketing and distribution have in the process back then? Come to that, how big a voice did the consumer have?

A. The consumer is much more central to product design today, and that's exactly as it should be.

But part of my role as the marketing rep back then would be to represent those very important voices. That involved seeking views and undertaking market research – although we actually did little formal market research with consumers.

Q. That's surprising. Why didn't you research consumer views more?

A. Partly, research was seen as a bit hit and miss and it was expensive too. One off research can only tell you so much and indeed one of the reasons Protection Review set up The Syndicate was to help members build up a much better picture over time as to what real people really think and to use the combined huge brain power of all the members for a common good that individual companies can also use fully too. I wish I'd had this resource back then!

To give an example of why formal research was not top of our list, look at critical illness insurance. That was one of the few products we actually invested heavily in research for. The findings were unequivocal. Consumers didn't want it, nor did IFAs, nor did our direct salesforce. But we launched anyway. And that was because neither consumers nor IFAs knew what CI was (it had only been launched in South Africa a couple of years earlier), they saw no need and some even saw it as gimmicky. But we believed it could become popular, that it could make a real difference to people's lives and that we could make it work. Arrogant? Or did we just ask the wrong questions? Maybe, and

it really took until claims started to be paid regularly before the product took off and started to become the mainstream product it is today.

Q. Let's cut to the chase - is product design better or worse than in the past and why?

A. Better. And that's a combination of stronger regulation, a more competitive market, better technology and resources and better – for want of another word – ethics. Part of that has been forced on the industry by regulation, but it was a growing trend anyway and there has been a genuine culture change really starting in the mid-80s with Professor Gower's report that led, ultimately to today's FCA.

Q. And what of value for money? Has that improved or worsened?

A. It varies of course but generally consumers are getting a better deal than was the case 20 or 30 years ago.

Partly that's because price competition has become so much fiercer. Insurers can and do reprice quickly and frequently – decades ago a reprice meant reprinting a hard copy rate book and that alone took weeks. Insurers have more data at their fingertips too.

And there's more transparency. IFAs can compare prices online and through e-initiatives apply online and get faster, more reliable underwriting decisions too – at least in some cases.

Regulation has been a factor too and, where we and others have spotted things that we think are particularly good or bad value, we'll publicise that and encourage positive change.

Don't forget too that life expectancy has changed massively, at least for most of our target markets. So, term or whole of life insurance is way cheaper now than a generation ago as insurers reflect the mortality improvements seen and expected.

I don't think we've fully succeeded in getting our value for money arguments across yet though and that partly reflects the underlying trust issue that we're still grappling to fully overcome. Even there, look at the progress that's been made on first CI and now IP and life claims stats. So, we not only offer good value for money but we can also demonstrate we do actually pay out millions and millions of pounds to claimants, and we help them in practical ways too.

Q. You've been critical of some product design – particularly of critical illness insurance. Why?

A. CI is a great product and today's plans are way better than the clumsy initial designs. But they've become too complex and yet still don't go far enough. The number of critical illnesses covered is growing ever wider but each must have its medico-legal definition, exclusions and fine detail. How do you explain that fairly and fully to a potential customer?

I've also known people who have suffered what anyone would have to say was a critical illness – life threatening, life changing and darned scary. Yet because that condition wasn't specifically covered, they could not claim under their CI policy. So I think what's needed is some form of overall claim criteria so that if, for example, your doctor and your insurer both thought it qualified as a critical illness then the policy would pay out. We don't define what illnesses we cover on IP or PMI so why should we on CI? OK, that's a very simplistic argument and I know the counter arguments, but it frustrates me how little progress we've made really since the mid-80s. Mind you, it's easier being a critic than having to actually come up with a workable solution that the industry will adopt!

Q. Innovation – a good thing or a bad thing?

A. Good. Unquestionably. Look, innovation is hard – as a product designer you might be putting your career on the line by being different and there's truth to the old maxim that 'pioneers get scalped'. But you also can't stand still – you either move forwards or you move backwards – it's like planning to 'break even' with a business – it's not sustainable.

So innovation is a necessary but we're often too narrow in our definition of it. I was fortunate to be involved in a great piece of research undertaken by the CII and Cass Business School some years ago and we identified a number of forms of innovation beyond the obvious one of product design. So, STP, tele-underwriting and selling through aggregators are all great examples of innovation that have and are radically changing our industry. But you do need product innovation too and even with the FCA looking over your shoulder and shareholders anxious for sustained profit increases there is scope to innovate on a product level.

One great example of innovation, and something we at Protection Review have always strongly supported, is third party or soft benefits. Not just giving people money or paying for treatment but giving practical help – often at a time when people are scared or even desperate – not just benefits them, but it also helps change people's perception of life and health insurance. Seven Families has really shown that – yes, getting money was great and life changing, but it has been the additional support that has really helped change people's lives for the better. The issue we as an industry haven't fully got to grips with yet is how to market such benefits. We are so used to selling on price and things that can be counted and measured that we struggle a bit with the sizzle that makes people want to buy the sausage.

I'm not in favour of gimmicks though. Take double accident benefit – where life cover is doubled if you die by accident. That begs the question 'why would my family or business need twice as much money if I died in a plane crash rather than of a heart attack?' Such benefits are not necessarily wrong, but if we don't understand a benefit we will highlight it and ask why it's there.

Q. This may sound like an odd question but, when reviewing products, what do you ignore? Come to that, how much detail do you look at anyway and why do virtually no products get ten out of ten?

A. We try to get as much information as possible – press release; terms and conditions; brochures and other client literature and – often most useful of all – technical guides and sales aids. Ideally we get all that before the product is launched so our review can then come out just after launch.

What's ignored? Price, underwriting and service essentially. Price is a tricky one – a product may be best in the market for someone age 30 but worst in the market at age 50. Moreover, insurers can and do change pricing frequently so any view we take today could literally be out of date tomorrow. Underwriting too has to be ignored – company A may be lenient with those who are overweight but harsh with those with a poor family history whereas company B takes the opposite view. On service, it's so hard to be truly objective. Some IFAs find company A's service to be perfect, while others says it is slow, the staff surly and decisions anything but customer friendly.

A good product will get 8 out of 10 - that's our gold standard. Products scoring below that can still be right for this or that client but elements of the design may be lacking. Anything above 8 out of 10 we reckon is pretty special. But it doesn't mean the product is better or best for a particular client.

What the IFA or broker will do is to use our reviews to get an overview, to maybe raise questions in their own mind or to reinforce their views. But we're a starting point – only the intermediary can say which product is right for that client.

Q. How long does it take to design a new product and is the industry too slow in bringing new designs to market?

A. That's a really interesting question. When I was in corporate life, we reckoned on three months start to finish but that was regarded as short at the time by others. That said, my slowest product launch took two years – simply because we were restricted to three new products a year for system resource reasons and my product kept coming out at priority number four across the company...

My quickest was actually one of the first pieces of consultancy work I did. My brief was to take a basic outline (it was actually for an income bond), do the detail design, write the T&Cs, get it approved by the DTI (the product used derivatives so we needed to get special permission for it to be an admissible asset) and to scope out the admin and systems too. All that was achieved in six weeks, working just three days a week (I was also running the CII's Society of Fellows at the time).

Those are extremes and, as a consultant, it frustrates me that product design is still a slow process for many insurers. My IT colleagues tell me this doesn't have to be the case at all, but I recognise that standards are higher now than in the past and the price of getting things wrong is potentially greater too. So greater care is needed and things have to be tested better. But the bottom line for any organisation is that developing a new product not only costs time and resource, but it also delays the release of profits from the new product, so slowness is a double whammy.

Q. Where do you think product design will go in future?

A. We will go on developing better and better solutions. Existing designs will continue to be refined, evolved and, in some cases we'll come up with very new technical solutions. So, adding CI to RLPs,

shorter benefit term IP, whole of life that takes account of interest rates or platform based life cover are all exciting new approaches to old problems (and some new ones too). We've seen cash plans evolve to embrace more everyday health costs and some very radical ideas to cut the cost of PMI and slow down its rising costs. We've seen iPMI extend to meet area needs and local partnerships and we've seen the need for help in later life being met by the new range of later life products.

Q. What part can Protection Review play in that?

A. We'll continue to review every new plan and major update to give an honest and fair appraisal of its plus and not so plus points. In doing so, we give both an overview and we drop down into the detail in a unique and valuable way too. We won't tell you which product is cheapest for which client on a given day – others do that and do it well – but we'll give the intermediary a really valuable service and highlight perhaps products they may not be aware of and help reinforce their own thoughts or give them a different angle that might, for example, mean they look again at a product maybe they might have dismissed.

For insurers, we can also offer advice and help. For example, we can feedback on T&Cs, make suggestions and comment on issues and benefits.

Above all, we remain independent and look to help advance an industry we know first hand does a brilliant job 99% of the time, but where the public's perception of it is much less favourable. There is scope to improve further though and we'll aim to bring our experience and expertise to bear in helping insurers and others to achieve that.