Market trends

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What were the key trends of 2015 and what will they be going forward? Andy looks at some of the trends and issues that kept us busy in 2015. Is there an overall theme? Actually, yes. We are beginning to see signs of life in some areas (LTCI; IP) and a lot of focus on distribution, cost cutting and (as always) price, but individual sales remain challenging. To keep things simple(ish) we've listed them alphabetically.

CI conditions

Two trends here. The first is simply bringing existing policies into compliance with the new ABI SoBP. The second issue is the continued strive to have more and broader definitions of what's covered. On one level it's a mess – I defy anyone to tell me what is and isn't covered by a modern CI policy EXACTLY. But on another, you have to applaud insurers for not just paying out on more claims (and telling the world they've done so) but of wanting to pay even more in future.

But oh, there must be a better way. There is and it's simple – 'This policy pays out if what the insurance and medical professions agree is a critical illness for insurance purposes'. Or, we introduce a 'catch-all' definition along the lines of terminal illness benefit. Would that be difficult to achieve in practice? Hell yes (sorry Ed). But shouldn't we at least try?

Group is GO, GO, GO

Swiss Re reported that in 2014, the number of people in excepted (non-pension) group life arrangements rose by 17% and the number of relevant life policies grew by 13%. Technical manager Ron Wheatcroft told *Cover* on 21 December 2015 that he expected 'similar or greater growth when we report the 2015 results'. Wow, that's actually pretty spectacular, and puts lie to the view that there is no market any more for protection insurance. The key for the individual long term market is to look at what we can learn from group risks and how that market has to be different to succeed but also why is group life so much more valuable now? In some quarters we're too defeatist but even in the individual market Swiss Re expects 'slight recovery'. When did we learn to accept such modest ambition?

Health

I've long argued that what people would really want from protection insurance is insurance against being ill. In other words they don't want to be ill or injured (or die) in the first place but, if that happens, they want top class help and advice at what is often a scary time or overwhelming experience. Only then do they want the money needed to continue their income (IP and ASU style plans), give them a lump sum (CI or life insurance) or pay for their treatment (PMI; iPMI, dental and health cash plans). In the past we over-focused on the third part, often to the total exclusion of the first two. That's now changing and it can't come fast enough. But it does require a different way of

thinking and not everyone is yet convinced. And certainly we don't know how to sell it yet. And no, that wasn't a mistake – I used the 'S' word. We need to sell good benefits better – not oversell, not con people into buying the wrong things or deceiving them about what they've bought, but we need to learn again how to actively sell – just as IT companies, car dealers, phone shops and just about everyone else has already done. The regulator may not like it, the consumer lobby may not like it but – and this is the key – the customer will like it. As long as we do it properly.

Some insurers, such as Vitality and Simplyhealth, are already big into positive health messages and many others are creating good stories too. Positive health benefits customers, families, insurers and society at large. And disadvantages – well none that really matter. Isn't improving the health and life expectancy (in all its meanings) of our customers a goal to go for?

One potential is so-called wearable technology. The health bracelet market is still very basic but it's growing fast and it's benefiting more and more people. We need to handle the issues with care but they hold the potential to give us not just information to right price risks (what we used to call underwriting) but also to benefit our customers too.

IPT – It Puts Tears in your eyes

The Chancellor's 2015 Budget contained quite a shock – Insurance Premium Tax would be increased from 6% to 9.5% from November 2015. Surprisingly, there was not much reaction on the surface from insurers. Of course, everyone complained but few argued around the consequences. Those include a material change in the value proposition. If almost one tenth of your premiums goes straight to the Government, it must change the line between where you buy insurance and where you self-insure.

We were concerned too about 'project creep' – whether IPT would extend in future either above 10% (likely) or even to include life insurance and income protection (both considered unlikely but I'm not so sure).

The industry had seemingly forgotten to make its annual call on the Chancellor not to increase IPT, and little hard information was available either from the Government or the industry on what IPT equivalent rates were elsewhere across Europe. You can read more about our findings on IPT elsewhere in Big Read (we published it in October 2015). Meantime we're concerned about the knock on effects of a 58% increase in the tax charged on general insurance policies.

Long term care insurance (or later life policies)

Not that old chestnut… Well yes, but this time it's different. VitalityLife was first into the market offering a benefit that would pay a cash lump sum on being diagnosed as needing long term care. It's attached to a conventional whole life policy and it will increasingly make sense once care fees are capped by the Government from 2020. Other insurers were expected to follow suit but it actually took until the latter part of 2015 before any did so. First to emerge was AIG Life, followed shortly after by Zurich.

These new plans are more like a development of the proven critical illness model than the old LTCI plans of the 90s. But the potential market looks attractive and we hope other insurers will follow suit and continue to develop the model. One side effect is that the new benefit really has to be linked to a WL rather than term plan (OK product designers, prove me wrong, but you know what I mean) and

that in turn could see a resurgence of the value of WL plans. Personally I've always liked the 'permanence' of WL solutions, although for many years they fell out of fashion and some consumerists still don't like them.

Later life policies have potential but product design is at a very early stage and the final model may take some time to emerge – just as it has with the CI market.

M&A and new entrants

AXA PPP healthcare acquired both Simplyhealth's and the Permanent Health Company's PMI books in 2015 and consolidators, led by Chase Templeton and Punter Southall, continued acquiring PMI brokerages. Both Ms & As will lead to less competition but also hold open the prospect of bigger insurers and intermediaries being able to develop bigger and better solutions for customers more cost-effectively.

In the individual protection insurance market Canada Life, Cigna and Scottish Widows entered or re-entered the market. Do they know something the naysayers don't? Or is the tide now turning and we're looking for growth again? Don't get too excited though – Prudential's rumoured re-entry now looks unlikely to happen.

Not a merger or an acquisition, but AvivaHealth and VitalityHealth set up a JV to jointly buy services from independent hospitals. It should mean cheaper premiums for PMI customers in the long run (and greater sustainability) but could it go further?

PMI continues to hunt out savings

Private medical insurance is one of those things most people want but can't afford or won't pay for. With premiums having run well ahead of inflation for years, insurers are forever chasing ways of offering better value or at least a lower ticket price.

One hope was that the CMA inquiry into healthcare would yield savings. It may yet do so but the inquiry remains bogged down and any savings are not thought to be great.

One clever idea is encouraging self referral. It's not new, but avoiding GP referrals can save the patient money and even lead to better outcomes. Early intervention can often improve outcomes and steering customers towards friendly medics can save money too. Bupa has apparently cut its costs by 25% on musculoskeletal self referrals and Aviva's BacktoBetter service reduces claims costs by up to 30%. Such moves may sound counterintuitive – but trusting customers more looks a positive way to go.

Despite that the personal (individual) market is said to have fallen by around 14,000 in 2014 according to analysts LaingBuisson, with little sign of a recovery trend.

In the group market, the rise in IPT should lead to more trusts being set up. Perhaps another way forward though is AXA PPP's new AccessHEALTH plan, which provides help, advice, diagnostics and consultations but NOT traditional hospital day and inpatient treatment. With the NHS's financial woes being all too apparent, getting faster to the waiting list for an admission makes sense – as does avoiding such admissions in the first place if at all possible. Arguably, this is an area where health

cash plans can advance too – indeed the boundaries between PMI and HCPs could well become further blurred going forward.

Resilience: the new keyword

Building resilience for an uncertain future is the new keyword, according to my old friend and fellow consultant Dr Robert Davies (www.drrobertdavies.com) of DRD Advisory Ltd. I mention it because it's relevant not just to insurers and product marketeers but also to our customers.

For those of us with families, our overall financial strategy must include being resilient to whatever life throws at us ***as a family***. Of course, for most people most of the time, what life throws at us is pretty good – family, home, career, kids (and grandchildren!), money, friends, relationships and so on. Some of that we plan for; some of it is little more than pure chance.

But it also makes sense to have a strategy to cope with what happens if life is not quite so kind. In the past, insurers' solutions were chunky, clunky and sometimes cranky. Increasingly though, those solutions are ever widening (look at the growth of CI conditions as an example) and the gaps in between can be filled with 'soft' benefits included in the overall proposition.

So, the likes of RedArc can step in if say cancer is diagnosed, Best Doctors can help ensure best treatment, a bereavement helpline can provide practical help and support if someone dies and, if it's a parent who dies, organisations such as the brilliant Winston's Wish are there to help.

Those are all brilliant initiatives (and there are many more I could name) but they're hard to value and hard to market. So one of the big challenges going forward is not just to broaden the resilience safety net, but to work out how best to market that. But be in no doubt, if we get it right it will be one of the strongest reasons to buy protection insurance and it will re-energise what is sometimes seem, erroneously, as a has been market.

Sales are flat in the individual and personal markets

For PMIs, the glory days were back in the 80s; for life insurers it was around 2004. Since then sales have declined and the markets have shown little appetite for sparkling growth.

It's a good job then that people have stopped being ill or dying, that the NHS now meets everyone's health needs quickly and fully and that new State help with long term care funding is now up and running and that welfare benefits are so well geared to middle class needs. Except they're not. We know they're not; the public knows they're not and yet too many people, couples and families don't think about life and health insurance, or simply put it off until – well, never.

The growth of comparison sites, D2C propositions, direct salesforces (well, they may be making a comeback someday soon) and robo-advice all hold potential to increase sales. But so too does the IFA and wider financial advice sector – and this is where generic training such as that led by our CEO Kevin Carr, is so important. Organisations like LifeSearch have proved that if you aim to do protection right and work hard, the numbers can come good, but there are too few in their league, even if relative newcomers such as Dewbury are proving that younger faces can make their mark too.

Oh and one more gripe (switches into grumpy old man mode – again…). When are we going to develop solutions that have the market coverage of the old PPI products but without their inherent

problems (most of which were due to pricing – still not adequately tackled by regulators – and how they were sold rather than the products' fundamentals)? The CML is forecasting that 2016 will see 1.25m residential property transactions in the UK and gross advances of well over £200 billion (yes, billion!). How many of those shiny new mortgages will be adequately protected? Is the market not big enough (eh?) or is it simply too big a problem?

Perhaps we need an industry or Government commission into the whys and why nots of why so many mortgage borrowers are not buying the (inexpensive) protection they need. The FCA now requires borrowers to be able to afford their mortgages even if interest rates rise. It's as pity it doesn't require them to at least consider their protection insurance needs at the same time too. But we need some sort of inquiry (beyond that on the advice gap) soon and we need answers sooner.

Seven Families

Many in the industry were doubtful when Karin Lloyd's concept of the industry supporting, for one year, seven families who did not have income protection cover was first mooted. All credit then to the industry for making it work (and a mention of my colleagues Peter LeBeau for heading it up and Kevin Carr for PR-ing it so splendidly would not go amiss – well done chaps and your teams!).

The 7F project has involved a huge amount of work but it succeeded way beyond most people's hopes and way above what it cost. Disability Rights UK managed the process extremely well too. So what did we get out of it?

First seven real families got a huge amount out of it. Moreover it helped reconnect the industry not just with its customers but also with its claimants. It highlighted the value of help as well as money and it showed that the industry, working together, could achieve more for a modest outlay than any one insurer could ever hope to achieve on its own regardless of budget and resources.

Cynics pointed to the fact that only seven families would benefit. They missed the point – the aim of 7F was not to change the world and replace IP but to highlight the need for it or rather what it can do for people and families. As an industry, one lasting legacy will be that product designers will look much more in future to the soft benefits, such as help and advice, that are so important if you run into problems. For advisers, just look at the 7F videos and encourage your clients and prospects to do so too. There can't be a 7F for the tens of thousands of families that will need it every year, but there can be IP and there is IP – but people need to be aware of it and what it can do – and that's much more than just paying them a cheque every month if they need it.

Solvency II

Wake up at the back! Yes the long awaited and much delayed Solvency II pulled into the station on 1 January 2016. It's apparently cost the industry around £3bn to implement and is designed to help ensure insurers are solvent. Er, that's it – it's sort of health and safety for insurers. Could the £3bn have been spent better elsewhere? Yes. Could the whole process have been managed better? Yes. Does the consumer understand any of this? No. Will they benefit? Let's hope so.

Technology and underwriting

Technology such as UnderwriteMe, iPipeline's XRAE and Sunaptic Webline are helping make the quoting, application and underwriting process not just smoother but also more honest. Without such technology – and there's more to come – we got to the point where 1 in 4 customers were charged a different price to the one they were 'quoted'. Would you accept that from a garage or builder – especially when the insurer need only ask a few questions to find out what rating (if any) it will probably apply?

Technology is also playing a growing part in comparing and reviewing products. Those are different aims, and services such as CI Expert, Defaqto and F&TRC as well as the comparison websites can all compare products and help intermediaries decide which one best suits a particular customer's needs. The Protection Review product reviews are wider, in that we cover all areas of life and health insurance, and our ratings look at products overall – including comment on their good and bad points. Such reviews ideally complement the tick box and price comparison style ratings that many organisations now offer.

Coming back to underwriting, the Information Commissioner has attacked SARs – subject access requests. They may not yet be dead though so watch this space for more on the debate in 2016.

So, as we are already into 2016, it's clear that many of these trends will continue. New ones will emerge too – some of which we are aware, and some of which we are not. The challenge for any CEO or decision maker is to look at how best to manage the issues faced in the best way. Sometimes an issue can appear that we completely fail to take advantage of. Reducing State benefits, for example, has not really helped sales of protection insurance. It should have, but we have failed (so far) to capitalise on it.

Fortunately, it works the other way too. Sometimes we are faced with what looks like a negative issue – a higher rate of IPT for example. In theory that should make our products less attractive. In practice, it is more likely to mean we redouble our efforts not just to provide value for money but to be seen to be doing so. That can actually lead to higher sales. Funny old world, isn't it?