



# The Summit Summary February 2020

Focus on "Price" - one of the 4  
Ps of Protection

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The IPipeline logo features the word "IPipeline" in a bold, white, sans-serif font. The letter "I" is replaced by three horizontal white bars of varying lengths, creating a stylized "E" or "IP" effect. A registered trademark symbol (®) is located to the upper right of the word. Below the word, the tagline "INNOVATION UNLEASHED" is written in a smaller, white, all-caps sans-serif font.

We held our third Protection Review Summit in association with iPipeline on 12 December 2019. At these interactive two-hour events, we are looking for change through debate. We tackle important, often controversial, industry issues.

iPipeline has long talked about the 4 Ps of protection which they call the:

- Perils
- Process
- Product
- Price.

At the third summit we focussed in on “Price” and how we can help people see the value of protection and avoid a focus on cheapest premium.

As usual we welcomed speakers to talk about the subject for 15 minutes followed by an hour long debate with our guests – providers, advisers and reinsurers.

## Charlotte Harrison and Matthew Collyer, iPipeline

Charlotte reminded us how tricky protection pricing is. It can be a barrier to consumer purchases, especially those who “think” or “have been told” protection is expensive. 69% of people think protection will be too expensive for them and this prevents a conversation even starting. So how does an adviser overcome this barrier? It’s hard to convey value for money with a protection product and people never see it as a fun purchase. They’ll buy higher priced “fun things” and not perceive them to be expensive.

Greater product competition has led to price pressures in the life space; cost of Life cover 15% down from 2014 to 2019 (CI cost risen 3%, but with greater product differentiation).

Matthew suggested the one size fits all attitude to pricing is outdated and we need to be looking at tighter targeting which means we need to know the customer more. Product providers would consider Charlotte and her sister Sophie to be within the same demographic but their attitude to price is completely different. Our challenge is to make the price relevant to the target customer rather than it being a barrier.

A “shopping basket” approach presents the customer with a range of options and a clear indication as to the cost of each element of cover, allowing the customer to quickly try out different permutations and find something tailored to their need and budget. In addition, where one benefit or one life is loaded and is pushing up the overall cost, the customer can simply remove that benefit or life from the basket without needing to recalculate the remaining premiums. Factory gate pricing goes one step further, by separating out the operational, commission, servicing and distribution expense from the underlying cost of covering the risk.

## Anna Graham and Nicki Plews, AIG Life

Anna described falling industry prices as a race to the bottom which wasn’t helping to close the protection gap.

As prices fall, the risk cost is increasing because mortality improvements are slowing down, and costs are increasing. Should we be moving to a cost based pricing approach rather than matching to the

market? This would move the focus away from price based decisions and encourage more sustainable pricing which is a true reflection of the underlying risk cost of policies. We should explore if there are changes needed to the sales journey to support this approach and remove the competitive pressure on insurers.

Again, customer perceptions about what makes up the price of a protection product are wrong. They think that 20% of a premium covers claims and the rest is profit for the product provider. Of course, the reality is that claims account for 50-80% of the premiums whilst the rest covers expenses, tax and commissions. And all this begs the question, "What is the most crucial factor for the customer?" Is it a perceived lower price or should it be about the certainty of a paid claim? Perhaps the portals perpetuate the notion that cheapest is best and they don't necessarily lead to clients getting the best deal.

About value, Nicki wondered whether we should explicitly charge for the added value services we offer rather than saying they are free. In the same way as saying children's critical illness cover is free (when it clearly isn't), are we taking the value out of the policy.

Would it help for advisers and customers to understand better what makes up the 'claims cost' part of the premium? Not only do additional conditions increase cost but the more flexible we make products, the more we have to add to the price.

Perhaps we should focus more on exactly what customers are buying with their premiums.

## Stephanie McCahon and Bronwen Seaton, Swiss Re

Stephanie and Bronwen are Occupational Therapists from the Claims Clinical Team in Swiss Re and help Swiss Re's clients to help people back to better health, back to work and to get better help – exactly the sort of added value service we discussed earlier. Stephanie described the "holistic claims management" approach now widely adopted by disability insurance claims teams, and that this is based on the biopsychosocial model of health. The basic assumption of this health model – based on significant academic research – is that psychosocial factors (thoughts, beliefs, support systems) predict an individual's recovery much better than biomedical factors (symptoms, diagnosis, treatment) alone.

How does this translate into disability claims management?

- Claims teams who highly value and undertake as much training and development in soft skills (having good quality, empathic, motivating conversations with claimants) as they do in technical claims skills;
- And value-add claims support services that don't just treat the diagnosis, but seek to understand the whole person and their very individual thoughts, beliefs, feelings, home/work supports and environments, and barriers to recovery and return to work.

We watched a very moving video of Ade, who described how the rehabilitation support offered through her income protection policy, helped her in her recovery and return to work following her breast cancer diagnosis. Bronwen explained that while significant improvements in cancer survival rates is clearly positive news, it has placed a spotlight on the challenges many survivors now face in returning to "normal" life and work after successful treatment. The Cancer Work Support Service, developed by Swiss Re and rehabilitation provider Working to Wellbeing, offers cancer survivors advice, specialised support, and access to a team of experts as needed. [Watch the video here.](#)

## Debate

### On price perceptions

One adviser agreed clients have no perception of what protection costs and what value for money means. Ask two people how much cover they could get for £20 per month and their answers might be miles apart. He wondered whether we need to go back to basics and teach customers, maybe through some content marketing, what insurance is and how pooling of risk works. It's a very dull subject though so how would we make it interesting?

Another adviser agreed about the confusion caused by saying benefits are free. It's a bit like saying the NHS is free when in fact we all pay for it through taxation.

A third adviser said that if customers don't believe something is going to happen, then they cannot see any value in a protection product. This brings us back to the age old issue that consumers don't think they might become ill, be unable to work, or even die.

Many in the room agreed people think protection providers are profiteering. Does this mean we should do more than publish claims statistics highlighting the percentages paid, and do more to educate people about how much of their premium was used to pay for those claims?

### On pricing strategy

For a long time, product providers have based their pricing strategy on trying to be in the top 5 on the portals for life cover and the top 3 for critical illness. It's almost an impossible position to hold onto because companies can change their prices so quickly. And yet we stick to this strategy. There was therefore some interest from everyone at the summit for alternative models. Perhaps looking at setting prices for more targeted products, rental cover, or basket of good cover.

Perhaps we should charge £5 per month for added value services simply to highlight the value they bring. But who would be the first to do this if that extra £5 knocked them out of the top spots on the portals?

One adviser raised the issue of long term products. We ask people to take out policies for 25 years when most people are more used to getting a two year phone contract or annual gym membership. Is long term pricing of protection an outdated concept and what would an alternative look like?

Another adviser felt the obsession with low prices in the protection market is a situation we've inflicted on ourselves. Everyone is complicit, providers, advisers, reinsurers and portals. But it's a virtuous circle that might be impossible to break out of. Who will break first? We can only squeeze margins can so far.

### On marketing to address price

One product provider suggested we move away from asking customers to consider insurance for themselves as individuals because individuals don't value themselves as much as they value other people, possessions or pets. This could be a reason people will consider buying pet insurance but won't consider income protection for themselves.

Should the marketing focus shift to the value of those other people – members of the family? Rather than getting people to think of their own value, get them thinking of how much their loved ones are of value to them.

Another adviser wondered whether we could do more price anchoring when we talk to customers. Can we talk to them about other goods and services to create a price anchor point in their minds so that protection doesn't feel as expensive once you move onto it?

## Summit actions for the industry

These are the main actions for the industry coming out of the discussions at the Summit.

- Further consideration of cost based pricing rather than match to market. Everyone in the supply chain has contributed to the constant downward pressure on price but no one wants to be first to break the cycle. How can we achieve this?
- More focus on the value of protection, especially how much of the premiums go towards claims paid.
- Maybe we stop saying benefits like children's cover and added value services are free even when we know they aren't?
- Consider more tailored made products rather than one size fits all which will allow people to see the relevance of the product and therefore be less concerned about the price

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