

## **Low price preferred lives could increase sales of protection**

The concept of preferred lives seems to send shivers down people spines and have them running for cover, and yet it seems that there is a general acceptance they are already here – having crept in by the back door.

This protection industry prides itself on accepting ~80% of people as standard rates, and that this is a noble and ethical value the industry provides to the public. I believe this is nonsense, I agree it is noble and ethical – but the consumer does not understand this, and hence if they don't understand or appreciate this – then it has no value to them. I don't believe we can claim the ethical stance if our customers don't appreciate this.

The real reason that we maintain the 80% ordinary rates is that we sell the product at this price, and then have a poor process for managing changes for those who do not fit into this category. Advisers have the burden of having to tell their customer they have to pay more than originally quoted.

Now in a large controlled distribution channel it is possible to increase the proportion of ordinary rates, increase the price to accommodate this, and collect less information hence carrying out less underwriting on these consumers, and this is practised in banks and group schemes.

In the individual market, however, price is certainly king and so there is a clear opportunity to provide a lower priced product for those who are fitter than the norm. There are several angles here – firstly the obvious one of a lower price, but secondly, and ,maybe more importantly, there is potentially a whole section of the market who believe themselves to be fitter than the average, and hence more inclined to take up the product if it is specifically for them.

In the majority of our purchasing experiences we are faced with products to fit our individual needs, be it cars, cloths, banking, car insurance they are all based on meeting our specific needs. All these industries have cottoned on to the fact that consumers like to be treated as individuals and like to have product tailored just for them – be that car insurance for women, breakfast cereals for the healthy, cars for the young family. Most industries thrive on segmentation and providing products focused on these consumer segments. Consumers purchase their insurance from the same brands for car and household on an annual basis, and more and more expect individual pricing for their individual circumstance, (even though in most cases this is differentiated by marketing rather than the core financial product underneath). I believe we need to start doing the same – differentiating our products by consumer segments, rather than product features no one understands. Life insurance for the fit and healthy, Income Protection for the young family...

With the old methods of application forms and high levels of non-disclosure companies were scared of segmentation as this may inadvertently include anti-selection. With proper full Tele-Interviewing, the resultant minimisation of non-disclosure (10 times less than traditional techniques) then this segmentation now becomes feasible .

One of the main reasons against segmentation, is the problem the industry presently has with rating cases. The general principle is that advisers don't like rated cases. The real problem is one of managing the customers' expectation. We presently inform the consumer of the ordinary rate price at the time of sale, and any change in this at a later date disturbs the original pitch. The traditional paper application process only collects basic information and does not give the customer any feel for the

relevance of their answers, hence giving the impression to the consumer and the adviser that their case will be straight forward. The introduction of Tele-Interviewing has greatly reduced the problem of rating cases, and having to inform the applicant of any change. As the consumer has been interviewed about their health and as the interviewer went into great detail about conditions of concern, the consumer is hence not surprised when the premium increases. Average results for MorganAsh Tele-Interviewing report a 50% reduction in issues relating to ratings post underwriting even though the proportion of rated cases through Tele-Interviewing is increased.

Many providers now offer underwriting help lines and pre-underwriting support so that Advisers can obtain a better idea of price at the time of sale. To adopt segmentation, we would need to change the way we advise and sell, maybe giving estimates or ranges of price first and giving an exact quote after underwriting. MorganAsh presently operate a process close to this with Totally Insured Group for their segmentation of specially impaired consumers.

New business and underwriting departments are traditionally been seen as sales prevention departments. However, the underwriting in the UK is generally excellent, and now with good information collection techniques separated from the sales process there is no reason not to utilise this expertise and tailor the premium to the risk, even on an individual basis. The major change will be in how we market and sell the products.

In a commoditised and price driven market, market dynamics would normally dictate that greater differentiation and segmentation will appear. The question is just who and when it will occur, and who will be the first to take the strategic advantage.

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