Changes in UK Legislation – How has it changed the life market?

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Agenda

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   3. Simple products initiative
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UK life market overview

• New business volumes relatively static over last 5 years
• After period of consolidation, number of insurers operating in the market has been relatively constant
• Top 10 insurers write approx 85% of new business
• Main individual products written are term assurance, critical illness (typically as an acceleration of life), income protection, Over 50’s (guaranteed acceptance, funeral expenses) and limited amounts of fully underwritten WOL
• Group products are almost exclusively Employee benefits and are life, income protection and critical illness
• Market relatively mature – very limited innovation
• Increasing commoditisation
UK life market overview (2)

• The vast majority of sales are “advised” – including IFA, broker, bank, building society, etc.
• D2C segment is less than 5% of sales, but most potential
• Protection is typically sold, not bought
• “Churning” of business remains an issue
• Banks have become increasingly “risk averse”

However, the need for protection cover is greater than ever
### UK Life Market
#### Some Facts & Figures

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<th>Protection Products</th>
<th>New Sales</th>
<th>Total Sales</th>
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<tbody>
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<td>New Individual Life</td>
<td>91,000</td>
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<td>New Group Life</td>
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<td>New Income Protection</td>
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<tr>
<td>New Critical Illness</td>
<td>445,000</td>
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<td>New Term Life</td>
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#### 2013 Sales Figures

- **91,000 New IP Sales**
- **273,000 WOL Sales**
- **445,000 New CI Sales**
- **780,000 Life Term Sales**

**Key Figures:**
- **29.3m** individual term, whole of life, income protection, critical illness insurance policies in force.
- **£3.1bn** paid out in 2013 as a result of claims on protection insurance policies, an average of £8.4m each day.
- **10.4m** members of group life cover, group income protection and group critical illness schemes, of which 7.9m were life cover.
- **3m** new individual and group protection products taken out in 2013.
- **97%** of protection claims paid out, including **98%** of term life insurance claims and **92%** of critical illness claims.
RDR and MMR

RDR = Retail Distribution Review

According to the FSA: The Retail Distribution Review (RDR) is a key part of our consumer protection strategy. It is establishing a resilient, effective and attractive retail investment market that consumers can have confidence in and trust at a time when they need more help and advice than ever with their retirement and investment planning.

- Key elements:
  - Introduced wef 1 January 2013
  - Competent professional advisers (specific exam qualification + CPD requirement)
  - Fees only on investment advice (no commission)
  - Independent (whole of market) or Restricted (limited panel of providers) status
RDR – impact?

- Overall number of advisers has reduced, but mainly due to fall in numbers of bank advisers specifically
- Number of IFA’s relatively static
- General public have very limited awareness of RDR and its implications
- Impact on protection market – negligible (and no data to draw any firm conclusions)

RDR Has Had "Little Impact" on Most Advisers

Less than 17% of advisers have felt a notable impact on how they cater to clients as a result of the governo Review, which came into effect at the

Worst ravages of RDR over as advisers in 'survival mode' halve

By: Professional Adviser | 17 Sep 2014 | Be the first to comment |
MMR = Mortgage Market Review

- Key elements:
  - Introduced wef 16 April 2014
  - Aim - to ensure mortgage providers are only lending to applicants who are fully capable of affording the loan, taking into account personal circumstances
  - Also – a check to see how they would maintain the loan repayments or repay in the event of disability or death (respectively)
  - But…a much longer mortgage interview….will the applicant have any desire to extend the discussion to talk about protection?

Impact – negligible, especially given relatively low protection sales to mortgage applicants (30% or less)
Simple products Initiative

- Government initiative – part of their strategy to “put consumers back at the very heart of the financial system”
- Key elements:
  - Standard, straightforward & consistent language
  - 3 savings products, one life (term) product initially
  - Straightforward and clear purchasing process
  - Accreditation and “kitemarking” from an independent body
  - Designed to be purchased without the need for advice
  - Product designed for the masses – target market 20 million (earning £10k-£50k)
  - Money Advice Service (MAS) responsible for promotion and generic advice
Simple products Initiative (2)

- Since publication of final report...very limited progress; ABI still finalising accreditation process
- Despite this – Barclays/Aviva launched a Simple Term product in Q3
- Will be interesting to see if other providers follow

Impact (likely) – our view is that without some form of widespread and generic awareness campaign, the sales of Simple products will be limited.

Flawed assumption? The government’s core belief was that the complexity of products and the purchasing process were the main barriers to consumers buying life cover. However....
Our research shows

Why don’t individuals consider Life insurance?

- **Cost** 45%
- **I don’t need it** 43%
- **Too young** 26%
- **Complexity of the product** 13%
- **Lack of knowledge** 13%
- **Complexity of the buying process** 6%
- **Didn’t know where to get it** 4%
- **Changed my mind** 1%

**Q:** Which, if any, of these are reasons why you don’t have a life insurance policy?

**N.B.** Respondent can pick multiple answers.

- Cost and lack of perceived need are the two main barriers.
- Simple products initiative has a focus on complexity which is not the main barrier.

"Too expensive."

"As long as I have savings, I don’t feel the need of insurance."

"It’s a waste of time."

"Can’t insure against death."
PPI = Payment protection Insurance

• What is it?
Payment protection insurance (PPI), also known as credit insurance, credit protection insurance, or loan repayment insurance, is an insurance product that enables consumers to insure repayment of loans if the borrower dies, becomes ill or disabled, loses a job, or faces other circumstances that may prevent them from earning income to service the debt. It is not to be confused with income protection insurance, which is not specific to a debt but covers any income. PPI is widely sold by banks and other credit providers as an add-on to the loan or overdraft product.

• What was the problem?
Basically misselling – policy not explained fully/at all at point of sale (i.e. when loan taken out), product not suitable, poor claim payout rate, etc
PPI misselling scandal

- Providers required to review all PPI policies sold and go through a rigorous process to establish if policy was mis-sold
- Massive costs for insurers, banks, loan providers, etc
  - Compensation
  - Resourcing the review
  - Reputational damage to companies and the market as a whole

A few numbers:
- 45 million PPI policies sold 1990-2010
- 70% of misselling claims have been successful
- £16 Bn paid in compensation since 2011
- ....and more to come?

Lenders told to reopen 2.5m PPI compensation claims

City watchdog suspects many customers were rejected or paid too little, and concluded that many were treated unfairly
PPI misselling scandal

- A whole new industry segment has been created

Did you mean: PPI misselling scandal
Reclaim PPI Mis Selling - GladstoneBrookes.co.uk
www.gladstonebrookes.co.uk/PPI
£34m claimed in 2013 - 96% Success Rate - Call Us or Claim Online Today
Start Your Claim Not Too Late to Claim Yet
Who can claim PPI? How long do claims take?

100% Free PPI Claim Check - No paperwork? - PPI.co.uk
www.ppi.co.uk/freePPIcheck
We can still find PPI - Are you owed £3000? Find Out Now
How Long Will It Take? - What is PPI? - Get Me £3000

PPI Claims and Enquiries - Fill in the simple online enquiry
www.reclaimpplies.co.uk/hallfax
Your claim could be worth £000s

Payment protection insurance - Wikipedia, the free encyclopedia
en.wikipedia.org/wiki/Payment_protection_insurance
"PPI was so-sold and complaints about it mishandled on an industrial scale for a decade," with this mis-selling being carried out not only by the banks. ... Controversy - Calculations - PPI claims - Statistics

BBC One - Watchdog - Payment Protection Insurance (PPI)
www.bbc.co.uk/programmes/p00479p7/payment-protection-insurance-ppi
Money: ppi information. ... Just over half of the complaints (51%) were about the mis-selling of Payment Protection Insurance, or PPI. Payment Protection ...

Payment protection insurance [Money] The Guardian
www.theguardian.com/money/payment-protection-insurance
Latest news and comment on Payment Protection insurance from the Guardian 2014. Bill from the mis-selling scandals may be about to rise ...

Did you know that one of the main reasons for PPI mis-selling involved banks and lenders adding PPI to a loan without you even realising?

Have you made a claim? Lloyds Banking Group alone estimates it will receive a further 410,000 complaints.

"Firms have now handled over 13m complaints and customers have received £16bn in redress so far - making it already the largest financial services redress exercise ever undertaken in the UK," Financial Conduct Authority - August 2014

Can you be certain that you were never sold PPI?
The Claims Guys can check if you had PPI on your loan or credit card

- Our average customer claim is £3,200
- We’ve claimed back £240m for our customers
- We do not charge upfront fees
- We operate on a no win, no fee basis*
Gender neutral & tax changes

Gender neutral rates

- EU requirement to offer gender neutral rates wef 22/12/12 on all insurance products
- Lots of work for insurers to communicate/explain to advisers what would be happening
- Contingency plans to handle last minute rush of business
- Impact on rates dependent on gender and product
- Reinsurance rates typically gender specific
- Impact? Most providers saw a spike in new business volumes Q4 2012….but then a corresponding dip in Q1 2013.
- Subsequently fine tuned GN rates to reflect actual mix
- Nearly 2 years on…..nil impact!
Tax changes

- Change in basis of life company taxation wef 1/1/13, affecting most insurance companies:

**From:** “I – E” – investment income less expenses (based on FSA returns)

**To:** trading profit (based on UK GAAP/IFRS accounts)

Impact – typically an increase in tax, resulting in an increase in premium rates, especially when combined with GN rates implementation.

Most/all insurers combined both changes in one reprice.

During Q1 2013 most of the increases were “competed” away and most rates today are at/below pre Gender Neutral/tax change levels
Code of Conduct & Consumer Insurance Act

ABI Code of Practice (2009)
Consumer Insurance Act (2012)
Financial Ombudsman Service

- When u/w, insurers must request information they want
- An insurer can only decline a claim on the grounds of directly related non disclosure
- For “careless” responses to Q’s a proportionate settlement is made
- “Honest” consumers can expect full settlement
- At claim, insurers can only request evidence directly related to cause of claim, can’t “fish” for other information
- FOS are “independent” arbitrator on claims
- Transparency, TCF, claims paid stats, league tables
Claims paid statistics

Paid claim statistics for Life

Paid claim statistics for Critical Illness

- Declined due to non-disclosure
- Declined due to not meeting definition
- Paid claims

2014 Convention knowing more 22-23 October, Cape Town
Auto-enrolment

- Requirement for all employers to contribute to a pension for all employees; employees can “opt out”
- Largest employers wef Oct 2012; smallest employers by 2017; aiming for 6-9 million additional pension scheme members. Initial contribution 1% each for E’er/E’ee.
- By 2018, contribution rates will total 8%, 4% from employer, 3% employee with tax relief
- Opt out rates only 9% so far (better than expected)
- Group life schemes have seen membership expand and hence more new business
- AE extending to smaller Co’s may create further opportunities (new schemes)
- Potential to develop in line with Australian model
- AE for Group IP a (slight) possibility?
General Insurance Article - Insurers face Solvency II costs estimated to exceed £200m

No time to waste as insurers face Solvency II costs

Published today, the Chartered Accountants' Survey 2014 recorded that Solvency II compliance is expected to take an average of 30 months for the UK sector, with 42% of firms allocating a significant portion of their budgets for technology to meet the new rules.

Solvency II cost branded ‘indefensible’

A senior British financial regulator has acknowledged insurance companies have been burdened by what he called the “shocking” costs of a planned overhaul of EU rules that has been delayed for UK companies.

Andrew Bailey, the chief executive of the Financial Conduct Authority, said insurers were being asked to bear the cost of a major new approach to financial regulation that they had not anticipated when it was first proposed.

Cost of Solvency II remains a major concern for insurance industry, despite its acceptance of the inevitable

Grant Thornton > Media Centre > News > 2014 > Cost of Solvency II remains a major concern for insurance industry, despite its acceptance of the inevitable

09 July 2014 –

A survey conducted by leading business and financial adviser Grant Thornton UK LLP has found that only 6% of respondents believe the costs of Solvency II are ‘reasonable’. By contrast, the survey finds that more than three quarters (76%) of respondents consider the costs of Solvency II to be disproportionate and nearly two thirds (65%) believe the value added by Solvency II will not justify the expense incurred.
Future changes?

- Commission on protection business
- Use of family history as an underwriting tool
- FCA review of existing life business
- EU legislation generally
- Welfare reform
- Medical advances, self testing, genetics
- Pensions flexibility
For the Actuaries amongst you....

\[
\frac{(GN \times TC) + (MMR \times RDR)}{(SP - PPI) \times (ABI + FOS + CIA) + (AE - SII)} = ?
\]
Questions and discussion
Food for thought...

“To improve is to change; to be perfect is to change often.”

– Winston Churchill