Selling Health Insurance via Bancassurance: a success story from the UK

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Paul Hately
Sarah Bennett

Session Number: TBR16
Selling Health Insurance via Bancassurance: a success story from the UK

Agenda

• Setting the scene: L&H Insurance in the UK – Sarah Bennett, Swiss Re
• The bancassurer perspective – Dennis Smith, HSBC
  • Innovation: product and process
  • Pre-Approved Limits for life cover
• The reinsurer perspective – Paul Hately, Swiss Re
  • Building a predictive model
  • Managing the risk
  • Extending to Health products
• Concluding remarks and Q&A
Setting the scene: Purpose

- Bancassurers in Asia are not selling much protection business
- Focus is on savings business
- How can bancassurers increase protection sales?

Taiwan

Source: LIMRA report: "Bancassurance Products and Marketing" 2010

Hong Kong

Source: LIMRA report: "Bancassurance Products and Marketing" 2010

*Single premium products reported at 10 percent of premium
**Other products include term insurance, critical illness, hospital income, and accident insurance.
Setting the scene: Evolution of insurance in the UK

The shift from savings products to protection business in the UK

30 years ago insurance companies in the UK sold savings products but gradually the relative tax advantages disappeared.

- LAPR abolished (Life Insurance Premium Relief) in 1984
- MIRAS abolished (Mortgage Instant Relief at Source)
- Mortgage endowment "misselling"
- Growth of IFA market for Protection
- "Exchange" introduced (made rate comparisons easy)
- Mortality and morbidity improvements
- Focus on price, better value for consumer
- PPI misselling
Setting the scene: L&H Insurance in the UK

Introduction to the UK market
Setting the scene: L&H Insurance in the UK

Introduction to the UK market

• Postcode / zip code

For example, EC3A 8EP, the "Gherkin"
Setting the scene: L&H Insurance in the UK

Introduction to the UK market

- Postcode / zip code
  
  For example, EC3A 8EP, the "Gherkin"

- Mind the gap
Setting the scene: L&H Insurance in the UK

Introduction to the UK market: Bancassurance

- UK retail banks currently enjoy the status of being number 1 in terms of number of new health policies sold.

<table>
<thead>
<tr>
<th>Company name</th>
<th>Ranking on IP (DI)</th>
<th>Ranking on CI</th>
<th>Ranking on Life Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC</td>
<td>1</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Friends Life</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Lloyds Banking Group</td>
<td>3</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>LV=</td>
<td>4</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Legal &amp; General</td>
<td>5</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Swiss Re Term & Health Watch 2011
Selling Health Insurance via Bancassurance: a success story from the UK

Setting the scene: L&H Insurance in the UK

Introduction to the UK market

Bancassurance is a growing channel in the distribution of Health Insurance in the UK:

• Over the past five years sales of IP through the bancassurance channel increased at a compound annual growth rate (CAGR) of 14.4%.

• Many banks will have capitalised on their large consumer base, opting to cross-sell many of their products with a protection product.

• Banks are able to take advantage of the fact that many potential protection consumers will already have a relationship with the bank through savings or current accounts.
Setting the scene: L&H Insurance in the UK

Number of lives covered as at 31 December 2010

- Income Protection - Individual: 29.6
- Income Protection - Group: 1.5
- Private Medical Insurance - Individual: 1.9
- Private Medical Insurance - Group: 1.5
- CI - Individual: 5.4
- CI - Group: 6.5
- Long Term Care - Individual: 0.3
- Life insurance - Individual: 0.0
- Life insurance - Group: 0.0

Source: Association of British Insurers
("CI – Individual" includes estimate of Accelerated CI riders)
Setting the scene: The Protection Gap

Protection Gap

Across the globe Swiss Re has compared the financial means available to dependants in the event of an untimely death – insurance, state benefits and savings – against the sums assured consumers should be buying to ensure their dependents' financial needs are met.

The difference between the two is defined as the 'Mortality Protection Gap'.

The Mortality Protection Gap in the UK has been estimated as: £2.3 trillion

The Morbidity Protection Gap in the UK has been estimated as: £0.2 trillion per year (IP only)

Source: Swiss Re Term & Health Watch 2011
Selling Health Insurance via Bancassurance: a success story from the UK

Setting the scene: The Global Protection Gap

Mortality Protection Gap (USD billions)

Source: Swiss Re Economic Research and Consulting
Selling Health Insurance via Bancassurance: a success story from the UK

Setting the scene: The Global Protection Gap

Mortality Protection Gap (USD per capita)

- Defined as the protection gap divided by the number of people at working age
- US Protection Gap per capita is shown for under 55s only
- Not adjusted for Purchasing Power Parity

Source: Swiss Re Economic Research and Consulting

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How can we bridge the Protection Gap?

- If...
  - consumers are massively under-insured
  - they perceive that Protection costs more than it does
  - medical underwriting is a barrier to sales

- … then the key to success is having access to the consumer to engage with them, and:
  - drawing their attention to their need for Protection
  - demonstrating the relative cost and value of Protection
  - making Protection easy-to-buy (hassle-free)

Source: Swiss Re Asia-Pacific Mortality Protection Gap 2011
Innovation

Good or Bad?

• Product Innovation? – Common but often fails.

• Financial Innovation? – Less common but moderately successful.

• Process innovation? – Rare relative to the others, but most commonly successful.
Term Life Assurance

What is it?

How complicated does it need to be?
Term Life Assurance

We collect premiums from customers.

We pay claims to those eligible.
In the Past - Underwriting

Once upon a time

• Paper applications completed by sales staff.
• Multiple sets of standard questions.
• Frequent use of Medical Attendant reports and Medical Examinations.
• Underwriters often needed to request additional information.
In the Past - Underwriting

So what did this mean?

• Sales staff who might ‘lead’ customers when answering medical questions?
• Customers embarrassed to answer some questions F2F with sales person.
• Requests to customers for more information and detail on medical history.
• Long delays and wait for costly Medical Attendant reports.
• Poor customer experience with associated high attrition.
Did We Innovate with Product?

**LifeChoice**
Pays a lump sum if you die, or on earlier diagnosis of a terminal illness.

**SicknessChoice**
Pays a monthly amount for up to 12 months if unable to work due to accident or sickness.

**TraumaChoice**
Pays a lump sum on diagnosis of one of the 5 most common life threatening conditions.

**UnemploymentChoice**
Pays a monthly amount for up to 12 months if you become involuntarily unemployed.

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Did We Innovate with Product?

- Menu Product
- Four separate covers – Life, Critical illness, Accident & Sickness and Unemployment cover.
- Standard Term Assurance.
- No joint-life.
- No ‘bells and whistles.’
What Did Our Customers Tell Us?

**MAKE IT SIMPLE**
- Serve the simple risks quickly.
- Serve the more complex risks personally.
- Send medics to customers of taxi customers to them.
- Keep it simple.
- Five core critical illnesses.
- Use simple PECs for underwriting Income protection.
- Use phone rather than paper.
- Keep it simple.
- Five core critical illnesses.
- Use simple PECs for underwriting Income protection.
- Use phone rather than paper.
- Remove all unnecessary options.
- Few questions and tele-underwriting mean little material non-disclosure and high claims acceptance rate.
- Absence of TPD and simple core Critical illnesses make understanding easy and claims acceptance rate high.
- Phone rather than paper removes confusion and mis-understanding.

**RESPECT MY TIME**
- I TRUST YOU WITH MY FUTURE
- Keep your promises
- Speed
- Certainty
- Empathy
- I do
- Keep it simple.
- Five core critical illnesses.
- Use simple PECs for underwriting Income protection.
- Use phone rather than paper.
- Remove all unnecessary options.

**KEEP YOUR PROMISES**
- Phone makes it real for both underwriting and claims handling.
- Only rate and exclude exceptional risks.
- Rate by known factors so customers know what price they will pay from the start.

**SEE IT AS I DO**
- Phone makes it real for both underwriting and claims handling.
- Only rate and exclude exceptional risks.
- Rate by known factors so customers know what price they will pay from the start.

**EASE**
- Few questions and tele-underwriting mean little material non-disclosure and high claims acceptance rate.
- Absence of TPD and simple core Critical illnesses make understanding easy and claims acceptance rate high.
- Phone rather than paper removes confusion and mis-understanding.

**CERTAINTY**
- Keep it simple.
- Five core critical illnesses.
- Use simple PECs for underwriting Income protection.
- Use phone rather than paper.
- Remove all unnecessary options.
- Few questions and tele-underwriting mean little material non-disclosure and high claims acceptance rate.
- Absence of TPD and simple core Critical illnesses make understanding easy and claims acceptance rate high.
- Phone rather than paper removes confusion and mis-understanding.
Did We Innovate with Process?

• Three medical questions.

• Tele-underwriting.

• Wide use of medical professionals.
The New Underwriting Process

Apply in person
- 3 questions
- Put through to underwriter
- Interview by phone, u/w transcribes
- Accepted, application printed
- Customer signs
- COVERED!

Apply by phone
- 3 questions
- Put through to underwriter
- Interview by phone, u/w transcribes
- Accepted, signature - free
- COVERED!

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## Underwriting - The Before & After

<table>
<thead>
<tr>
<th>Before – Life Insurance and Income Protection</th>
<th>After – LifeChoices</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Time to underwrite</strong></td>
<td><strong>7 minutes</strong></td>
</tr>
<tr>
<td>7 weeks</td>
<td>7 minutes</td>
</tr>
<tr>
<td>15,000 cases</td>
<td>4,500 cases</td>
</tr>
<tr>
<td>17%</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Cancellation rate</strong></td>
<td><strong>‘Not taken up’ rate</strong></td>
</tr>
<tr>
<td>17%</td>
<td>9%</td>
</tr>
<tr>
<td>17%</td>
<td>16%</td>
</tr>
<tr>
<td><strong>Number of medical questions</strong></td>
<td><strong>Medical budget</strong></td>
</tr>
<tr>
<td>30%</td>
<td>3</td>
</tr>
<tr>
<td>42</td>
<td>3</td>
</tr>
<tr>
<td><strong>£3.5m p.a.</strong></td>
<td><strong>£1m p.a.</strong></td>
</tr>
<tr>
<td><strong>Medical budget</strong></td>
<td><strong>£1m p.a.</strong></td>
</tr>
<tr>
<td><strong>Customers accepted @ PoS</strong></td>
<td><strong>86%</strong></td>
</tr>
<tr>
<td>0%</td>
<td>86%</td>
</tr>
<tr>
<td><strong>Non-disclosure rate</strong></td>
<td><strong>4.8%</strong></td>
</tr>
<tr>
<td>25%</td>
<td>4.8%</td>
</tr>
</tbody>
</table>
Tele-Underwriting - The After

Customised…..

• Modern customers are well informed on their conditions.
• Skilled underwriters are not constrained by decision tree approach.
• Relatively low cost.
• Better privacy and openness than F2F conversation.
• Customer remains engaged.
• Customer expectations managed.
• Low levels of non-disclosure.
And for the Overall Proposition

<table>
<thead>
<tr>
<th>Feature</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ultimate customer experience</td>
<td>✔</td>
</tr>
<tr>
<td>Reduced pipeline</td>
<td>✔️</td>
</tr>
<tr>
<td>Simple customer process</td>
<td>✔️</td>
</tr>
<tr>
<td>Improved application times</td>
<td>✔️</td>
</tr>
<tr>
<td>Flexibility to meet needs</td>
<td>✔️</td>
</tr>
<tr>
<td>Reduced non-disclosure</td>
<td>✔️</td>
</tr>
<tr>
<td>Point of sale underwriting</td>
<td>✔️</td>
</tr>
<tr>
<td>Improved risk</td>
<td>✔️</td>
</tr>
<tr>
<td>Viable through all channels</td>
<td>✔️</td>
</tr>
<tr>
<td>Sales growth</td>
<td>✔️</td>
</tr>
<tr>
<td>Excellent customer feedback</td>
<td>✔️</td>
</tr>
<tr>
<td>Easier claims process</td>
<td>✔️</td>
</tr>
</tbody>
</table>
Differentiating Between Customers

• Three medical questions.

• Tele-underwriting.

• Wide use of medical professionals.
Differentiating Between Customers

- Three medical questions.
- Tele-underwriting.
- Wide use of medical professionals.

HIGHER CLAIMS COST  LOWER PROCESSING COST

LOWER CLAIMS COST  HIGHER PROCESSING COST
Differentiating Between Customers

• Cheaper but slower.

• Faster but costs more.

• More comfortable but neither fast or cheap.
Are There Other Alternatives?
Can We Learn from Non-Life Insurance?

- Unintrusive acceptance/rating process.
- Wider use of rating factors (or risk measures.)
- Wide use of multi-variate analysis.
- Non-linear scales of risk.
Can We Learn from Banking?

• Collect data on customers.
• Use data to assess normal credit risks.
  – Credit score/behavioural score.
  – Many customers have a Pre Approved Limit (PAL.)
• Send more complex risks to central unit.
  – Called a Central Underwriting Unit.
• Identify assess and offer terms to higher risk groups.
  – Non-standard terms.
• Reject applications for highest risk groups.
Alternative Underwriting?

• No medical questions
• Three medical questions.
• Variable number of medical questions.
• Tele-underwriting.
• Wide use of medical professionals.
No Medical Underwriting?

• Does not mean Guaranteed Acceptance.

• Ways of predicting underwriting risk.
  – Identifying low risk groups.
  – Avoiding high risk groups.
  – Lifestyle underwriting and use of existing data.

• Importance of distribution and channel.
  – Avoiding anti-selection.
  – Openly available or ‘invitation’ offers.

• Differences between mortality & morbidity.
Pre Approved Limits

A PAL enables cover to be offered without the need for underwriting.

Customers are pre-approved for Life Cover using information from our internal customer database to identify those customers who are likely to be approved through the usual underwriting process.

PALs enables:

1. An improved sales process: simpler and quicker
2. Easy Identification and targeting of ‘good’ customers
3. Effective use of bancassurance customer data
Pre Approved Limits

PALs is a sales enabler that:
- can be deployed across all channels and all brands
- can be used to improve targeted sales in any channel
- is strong in Direct channels as it offers a simple, quick & effective process.
- can help to reduce administration and processing costs
- offers a significant income opportunity for the bank
The New Underwriting Process

Prior to Lifechoices
- 42 questions
- 22 page application
- 0% of cases accepted at point of sale
- Non disclosure 25%
- Pipeline 15,000
- COVERED IN 7 WEEKS!

LifeChoices and BPP process
- 3 questions
- 15 page application
- 86% of cases accepted at point of sale
- Non disclosure 4.8%
- Pipeline 4,500
- COVERED NOW!

PALs process (for selected customers)
- 0 questions (PECs statement)
- 1 page application
- 100% of cases accepted at point of sale
- Non disclosure 0%
- Pipeline zero
- COVERED NOW!

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Alternative Underwriting?

- No medical questions - PALS
- Three medical questions.
- Variable number of medical questions - Preferred Risk Customers.
- Tele-underwriting.
- Wide use of medical professionals.
Tele-underwriting and Tele-claims –
Voice of the Customer

“The service was absolutely superb - the member of staff was superb. I really expected the process to be far more difficult and time consuming.”

“Excellent service, quick and efficient. Service 10 out of 10.”

“I expected a complicated drawn out experience. It was in fact simple and swift.

“Very good. I have recommended HSBC to friends and family.”

“An excellent service at a time of great need. You rang me to see how I was, you were polite and you cared about me! A truly commendable department that HSBC should be proud of.”

“Always there when I needed you, first class treatment, great empathy, I’ve told all my friends about this first class service. It is important that a claim is handled by people who understand my condition, you did and make me feel special, I was so impressed.”

“The service received was exceptional, our experience of the insurance business is appalling, so to be dealt with so quickly and efficiently, we are very happy!!”

“Outstanding, sympathetic, understanding, knowledgeable. No hesitation in recommending HSBC. Superb.”

“Very pleased. Quick processing & very professional staff. I have subsequently invested some funds with HSBC because of this.”

“Very good. Professional. Better than other insurance companies I have dealt with previously.

“Very pleased. Quick processing & very professional staff. I have subsequently invested some funds with HSBC because of this.”

“Very straight forward and supportive by HSBC. I did not expect the claim to be dealt with so quickly and efficiently.”

“I would like to say that the manner in which HSBC have dealt with my claim has restored my confidence in insurance companies… if only all insurance companies operated in this manner.”

“In times when it is so often a struggle to get anything dealt with…it was a pleasure to be able to talk to pleasant, helpful people who really seemed to care.”

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Reinsurer perspective: our thought-process

• Consumers are massively under-insured, and medical underwriting is a barrier to sales

• What if we could make insurance easy-to-buy for the healthy majority of the population?

• Intelligent data use is all around us
  - General insurance moving faster than Life & Health
  - Could we predict biometric risk based on everyday information?
Essentially: we are turning the traditional underwriting philosophy on its head

• Traditional underwriting is about identifying the unhealthy minority amongst the applicants

• Predictive Underwriting enables us to approach the healthy majority of the population (who haven't applied for protection)
Building a predictive model

- A model is built based on historic sales using the underwriters' decisions and independent descriptive (e.g. banking) data
- Any information held on a customer could be correlated with their health status – let the data do the talking
- Combining all the predictive variables found to be correlated with health, an algorithm is built that ranks each customer from worst to best prospect, in terms of "likelihood of being given standard rates at application stage"

\[
\text{Probability of being a bad risk} = \frac{1}{1+e^{-y}}
\]

\[
y = a + bx_1 + cx_2 - dx_3 + ex_4 + fx_5 + gx_6 + hx_7 - ix_8 + jx_9 - kx_{10} - lx_{11} + \ldots
\]
HSBC – The Data We Used

Demographic
Age, Home Ownership, Residential Type, Property Value, Council Tax Band, Employment Status, Occupation, ACORN Geo-Demographic, HSBC Customer Segment.

Lending, mortgages, savings (internal and external)

Behaviours
Monthly income and outgoings, ATM usage, lending balance, number of auto debit items, household assets.

Each data item is weighted within the model. Age is currently the most significant factor.
Predictive Variables – examples

Acxiom ILU Characteristics Analysis – Outdoor Pursuits Level (low to high)

Source: Swiss Re Predictive Underwriting National Model
Predictive Variables – examples

Transactis Characteristics Analysis – Bad Debt Measure

Substandard Rate (%) vs. Population (%)

Source: Swiss Re Predictive Underwriting National Model
A model's effectiveness

Illustrative Cumulative Gains Chart

- Random
- Model
- Best Case

% of all significantly rated or declined lives captured

Cumulative percentage of the model

- 10%
- 20%
- 30%
- 40%
- 50%
- 60%
- 70%
- 80%
- 90%
- 100%

- 0%
- 10%
- 20%
- 30%
- 40%
- 50%
- 60%
- 70%
- 80%
- 90%
- 100%

e.g. 84% of all "significantly rated or declined" lives are found to be in half of the modelled population. 50% of these are found in a randomly chosen half of the population.
A model's actual performance

Fictional model output

Cut-off could be set anywhere within this range

Model Output by 5 percentile

Percentage of standard & substandard

- Declined
- 100+
- 51-99
- Up to 50
- Standard
Managing the Risk

• With the reduction in underwriting comes extra risk
• There are three risk drivers:
  • Risk depends on efficacy of the model
  • Risk increases the more customers from the model are offered the product
  • Risk reduces the more underwriting questions are added
• Other key assumptions
  • take-up rate of the product by health status
  • extent to which an underwriting question puts off customers from completing the sale
Risk driver 1: Efficacy of the Model

- Measure of model effectiveness is the Coefficient of Concordance
  - CoC of 50 is random
  - CoC of 100 is always right
  - Models tend to be in the 60-70 range
- Our best models are built on a variety of data:
  - financial
  - socio-demographic
  - health-related
Risk driver 2: Proportion of the model to be targeted

- For example, product offered to all those within the best 30% of the model output
- Does not always equate to the same proportion of the database
- Trade-off between volume to be targeted and risk profile
Risk driver 3: Underwriting Questions

- Risk reduces the more underwriting questions are added
- Question(s) driven by the false positives in the model (what were the reasons for decline?)
- Alternative screening methods can be used:
  - moratorium
  - pre-existing conditions exclusion
Risk and Claims

• Further risk mitigants:
  • max. age at entry
  • max. age at expiry
  • max. sum assure

• Other key factors
  • take-up rate of this offer by health status
  • methods to limit anti-selection (where offer is made after the sale of another long-term product (e.g. mortgage, loan)
  • extent to which an underwriting question puts off customers from completing the sale
    - for risk purposes, the ill
    - for sales purposes, the healthy
Research on health questions in Life Insurance

- Would you consider it reasonable to be asked medical or health-related questions when purchasing life insurance?

84%

Source: Swiss Re research, YouGov respondents, 2011)
Health questions in Life Insurance: by health status

- Would you consider it reasonable to be asked medical or health-related questions when purchasing life insurance?

- Steady decrease in people's acceptance of health-related questions, as individuals move from the "very good" group to the "very bad"

Source: Swiss Re research, YouGov respondents, 2011)
Extension to health products

- What we have demonstrated: there are correlations between mortality and an individual's lifestyle (to be observed in their transactional non-medical data)

- What we expect to find: correlations of similar strength for morbidity products, where underwriting is similar to underwriting for Life
  - Critical Illness
  - Cancer product

- However, Health is inherently more risky – due to
  - the relative subjectivity of claims criteria
  - the increased moral hazard

- With Health, added benefit of using claims data as part of the model build

- Income Protection (Disability Income) – needs additional safeguards
Concluding Remarks

- Predictive Underwriting makes insurance easy-to-buy
- It enables data-rich organisations (like banks) to leverage what they know about their customers for the purpose of protection sales
- Can be combined with customer propositions that make buying easier and faster to fit with modern consumer expectations
- Does not need to be in conflict with the advice sale model, can work as a complement to it
- The risk needs to be appropriately managed
- A proven success for Life cover, morbidity products to be explored
Thank You