



SHAPE YOUR THINKING

Protection Review Conference 2011



Jonathan Gunby

CURRENT STATE



Most interesting events of the past 12 months – your comments.....



“Gender neutral pricing”

“Paying death claims more quickly”

“Winning the argument for an exception for group risk when the DRA is abolished”

“The consolidation which had been talked about for so long really started to happen”

“The launch of the Money Advice Service. Poor name, fine intention and not a bad output at first brief review”

“The FSA’s critical letter to Aggregators last week”

“More D2C offerings from insurers”

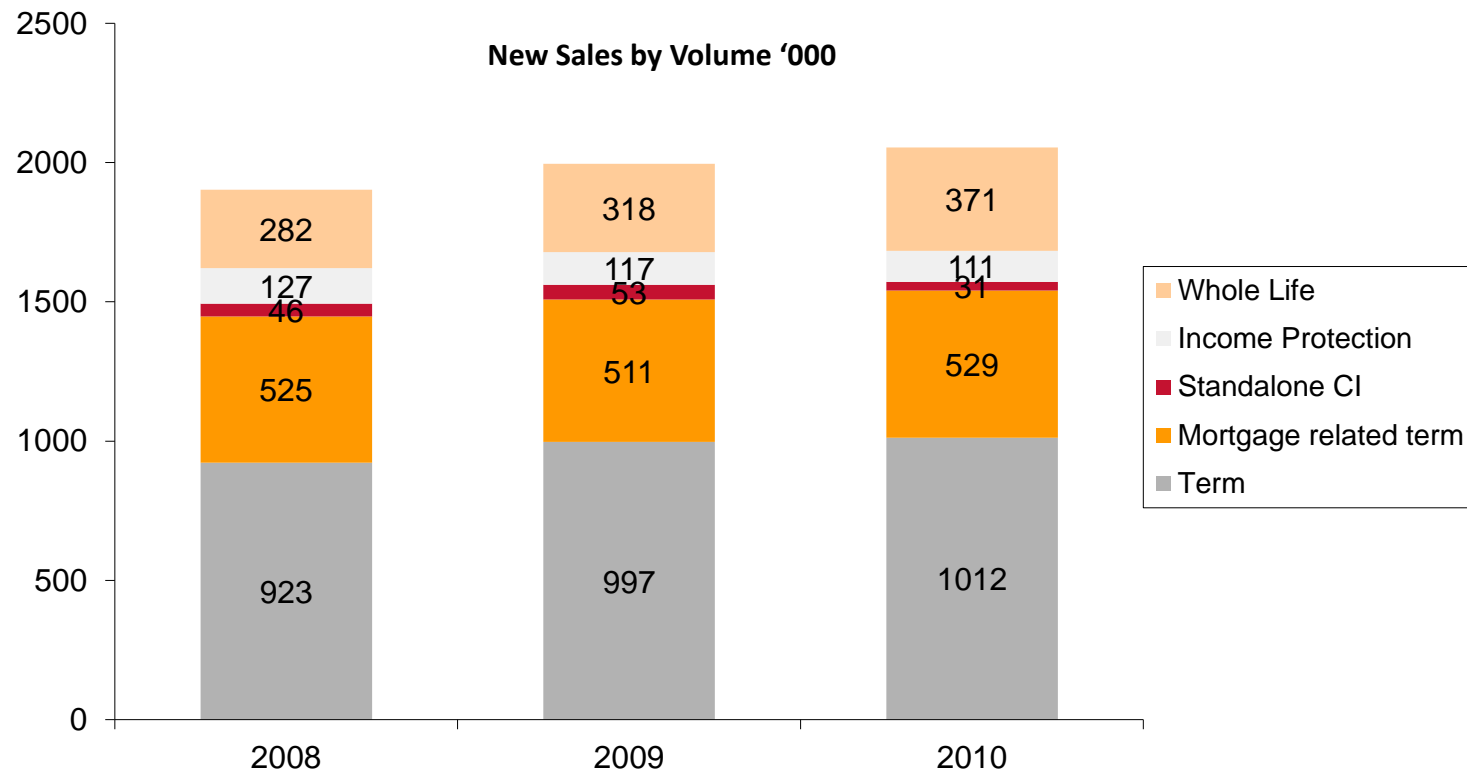
“Barclays withdrawing from the advisory market”

“A new distributor challenge for the traditional insurers taking a new D2C product to market in a shift to move control from the traditional insurer to distributor”

Individual Life Protection: Market in 2010



Overall slight growth in sales in 2010, boosted by term and whole of life (over 50s) segments

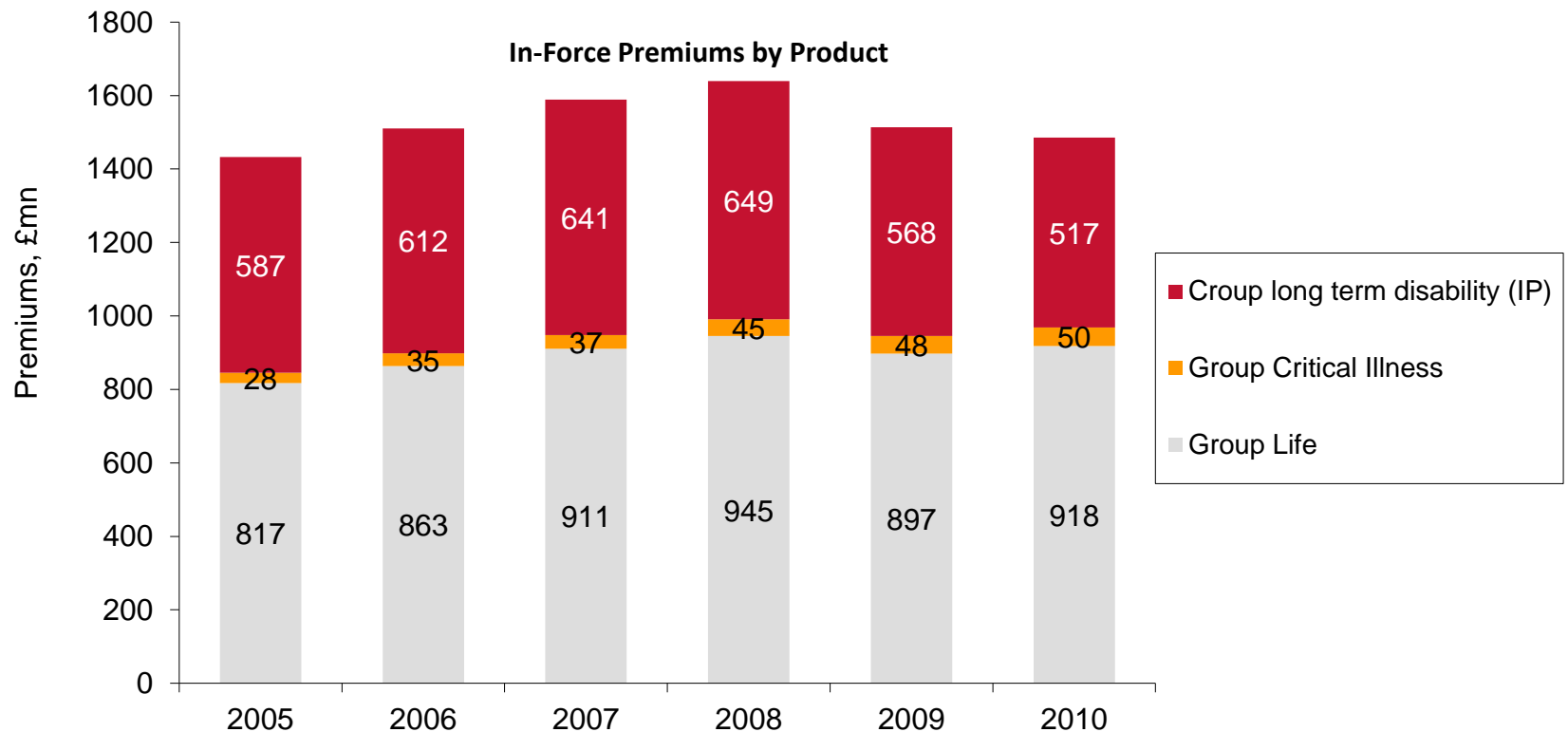


Source: Swiss Re Term and Health Watch 2011
Term figures include accelerated critical illness

Group Life Protection: Total Market Size & Trend



Group IP declining in value, tiny Group CI market continues positive trend and 2010 showed an increase of 2.3% in Group Life



UK protection relative to leading risk markets



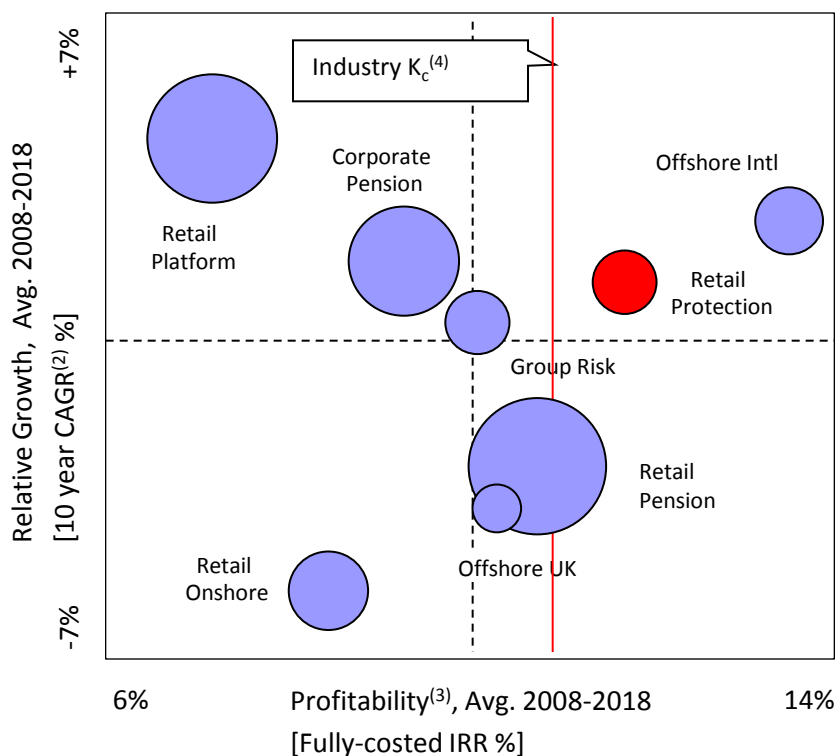
	UK	Australia	South Africa
Customer	Limited demand uplift from incentives or awareness – consumers undervalue need for financial protection	Pension tax relief and industry campaigns drive demand – sizeable superannuation assets facilitates sales	Heightened risk awareness (e.g. security; HIV) and limited welfare state creates active customer demand
Distribution	IFA plus large retail bank/ broker leveraging mortgage sales; successful DM over 50s proposition and growing online direct	Predominantly via risk specialists within bank-owned but IFA-like structures; growing DRTV direct distribution	Mix of agency and small independent/ local brokers' growing mass market; innovative direct model
Insurer	Tax incentives (I – e) and price/ commission focus rewards scale players	Some scale benefits achieved by insurers; distribution landscape supports YRT product structures	Despite a small/concentrated market, product innovation encourages specialists and multiple brands
Reinsurer	High levels of reinsurance supports price competition and affects product innovation	Licensing set-up means reinsurers participate direct	Limited participation compared to UK and Australia

Protection within UK insurer portfolios



Size, Growth & Profitability 2008-2018

[Size: NB APE⁽¹⁾ £bn, Avg. 2008-2018]



Market Profitability 2008-2018

[IRR - k_c]

Rank	Market	Economics
1	Retail Offshore Intl	+ 2.3%
2	Retail Protection	+ 0.6%
3	Retail Pension	- 0.3%
4	Retail Offshore UK	- 0.7%
5	Group Risk	- 0.9%
6	Corporate Pension	- 1.1%
7	Retail Onshore	- 2.4%
8	Retail Platform	- 3.5%

Sources: (1) Touchstone, Swiss Re, BQMW

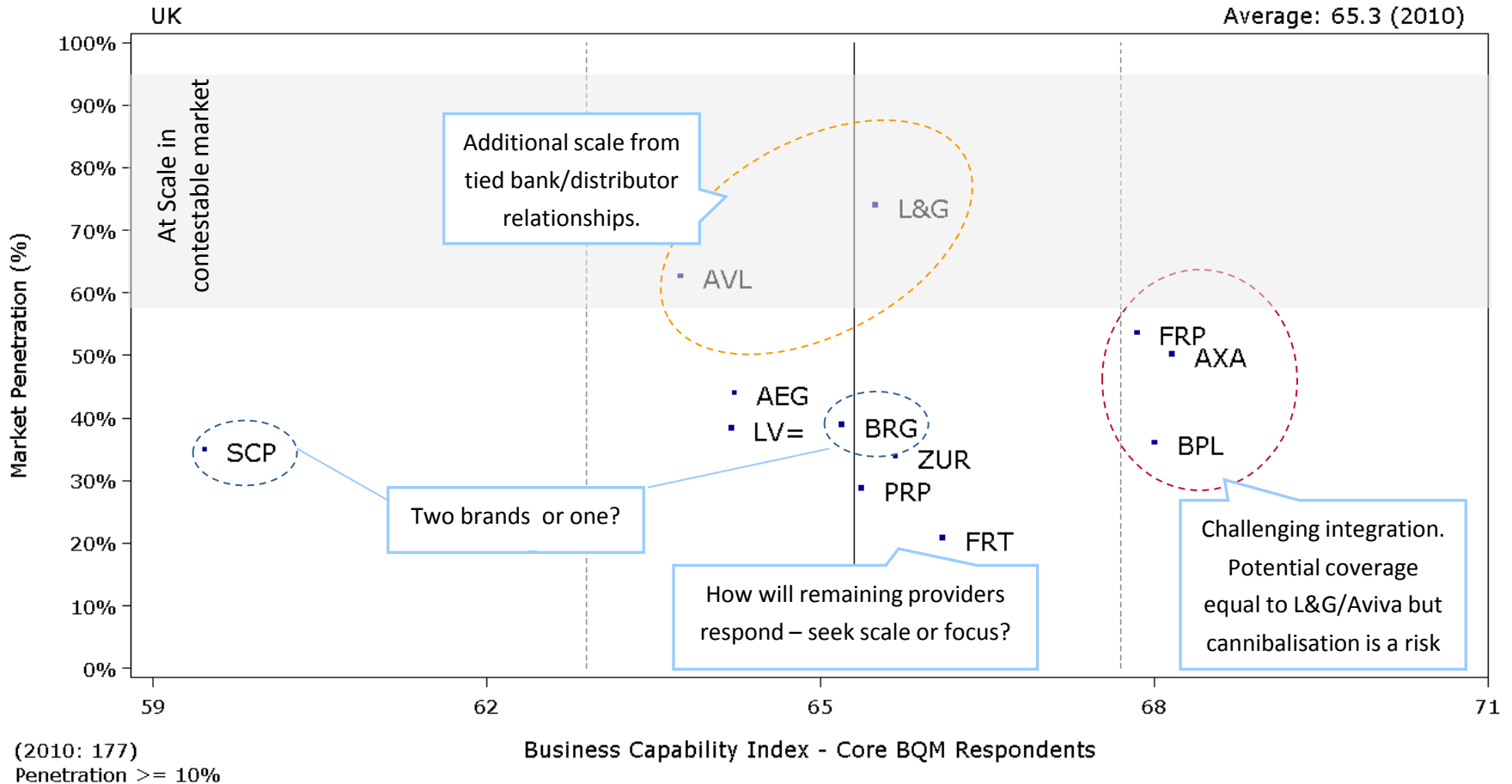
(2) NMG-BQM Programmes, NMG analysis

(3) BPA, NMG profit database

Industry Consolidation



UK Contestable Individual Protection Market – Competitive Positioning



UK protection market trends



Supply-Side

- Insurers focus on wealth and exit protection
- Emerging product innovation notably menu plans/ split sum assureds
- Fulfillment efficiency (auto-acceptance, tele-UW) driving down costs
- Development of corporate wrap may substitute portion of individual market
- Platforms may extend their propositions

Regulation

- RDR reducing flow from traditional GP segment and driving specialisation of wealth and protection advisers
- Solvency II expected to favour scale
- Gender discrimination legislation may lead to product innovation

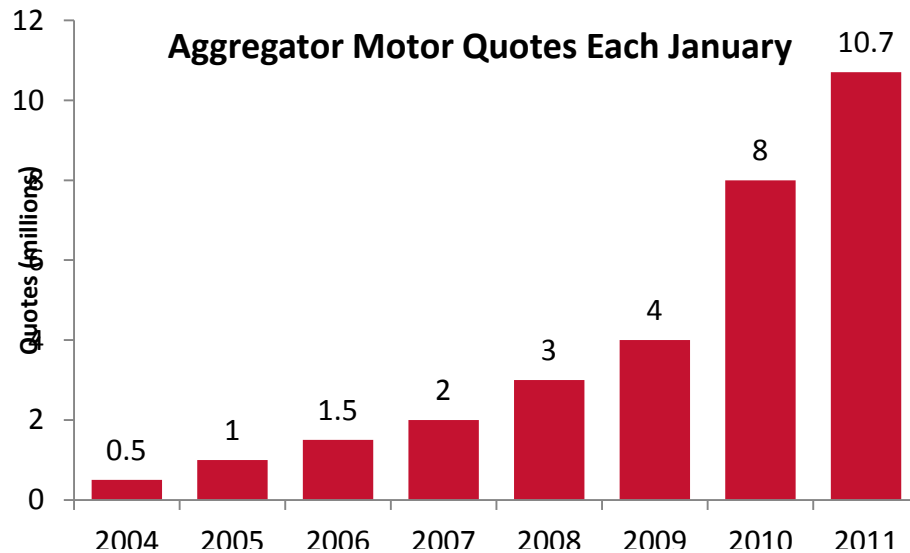
Competition

- Market consolidation
- New direct distribution models
- Continued scarcity of insurer entrants
- Reduction in state welfare provision supports private participation (IP gets a fillip?)

Demand-Side

- Tough macro outlook – weak housing market and squeeze on consumer spending
- Huge protection gap (£2.4trn)
- Increasing propensity to consider purchase via non-advised channels
- New direct models (inc aggregators)

Direct distribution – don't ignore the aggregators!



Aggregator product participation



Leading price comparison sites now offer a comprehensive range of insurances, many powered by direct brokers such as The Idol and PMI Partners

Aggregator	Level Term	Level Term with CI	Decreasing Term	Decreasing Term with CI	Standalone CI	IP	ASU	PMI	Over 50s whole of life
Confused.com	✓	✓	✓	✓	✗	✗	✓	✓	✓
Moneysupermarket.com	✓	✓	✓	✓	✗	✗	✓	✓	✓
Comparethemarket.com	✓	✓	✓	✓	✗	✗	✓	✓	✓
Tescocompare.com	✓	✓	✓	✓	✓	✓	✗	✓	✗
Gocompare.com	✓	✓	✓	✓	✓	✓	✗	✓	✓
Beatthatquote.com (bought by Google)	✓	✓	✓	✓	✓	✓	✓	✓	✗
Moneyexpert.com	✓	✓	✓	✓	✗	✗	✓	✓	✗

FUTURE MARKET SCENARIOS





1. Market stagnation

- RDR outcome forces General Practitioners to exit or reposition as High Value or Risk Specialists
- Lack of reform maintains existing industry structure (competitors, products)
- Supply-side failures in direct – unsustainable online economics & aggregator build issues





2. Incumbents Direct

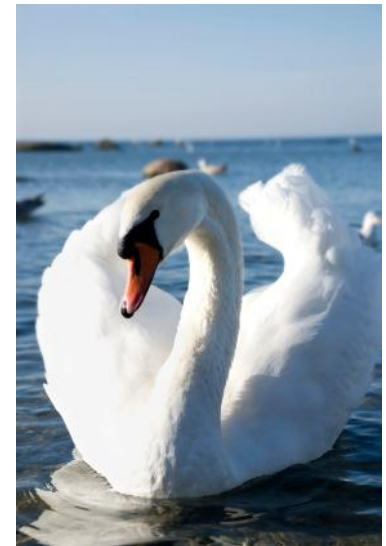
- RDR has limited impact on protection sales from key intermediary segments
- Structural bias (e.g. Solvency II) favours scale players
- Direct growth emerges from incremental improvements to existing models





3. Reshaped Industry

- Decrease in welfare support & industry education leads to people being more responsible
- Auto Enrolment leads to innovation & a new distribution channel
- Tax/ capital reforms level the playing field - drive innovation/new entrants
- Online becomes more sophisticated (product & process) and becomes a major channel



WHAT DO YOU THINK?



Challenges for the next 12 months.....



“The state of the economy and changes to interest rates will make both the individual and group markets difficult”

“Solvency 2 and “I minus E”

“Test Achats” - removing gender from insurance pricing”

“Getting out clear and concise messages about why people should buy and keep protection products”

“Providers will need to write more direct to customer business as the IFA market evolves into a post RDR world, whatever that may be”

“We need to take some big uncomfortable steps to engage with customers, in a way they want, and not the way the industry knows is best for them”

“RDR may drive many thousands of advisers to reinvent themselves as protection specialists”

“Finding any time for protection when there are so many other essential changes just to stay in business”

“The state of the protection world. Our industry should be lobbying for far more help from legislation, rather than hindrance, which has been the norm in recent years.”