PACIFIC LIFE RE

THE MOMENT OF TRUTH:
A consumer's perspective

EUROPE May 2017

In 2016, we commissioned a survey of 2,000 people in the UK to try to gain some insight into their views of protection claims management, what they consider the chance is of getting a claim paid, how we treat misrepresentation and, more generally, to get a "laypersons" view of claims practices in the protection market.

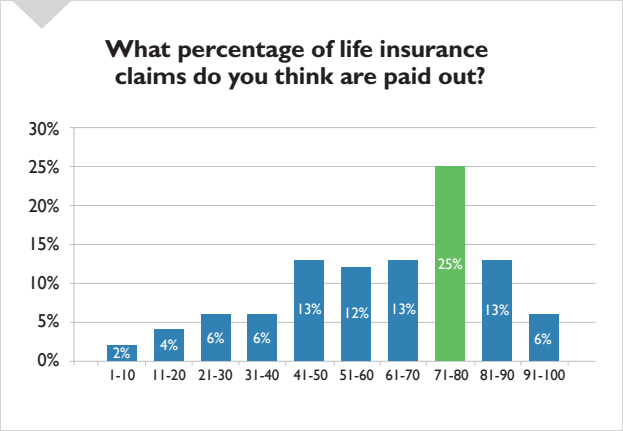
To keep things simple, most of our consumer questions related to life claims, but the results are useful in giving us a more detailed view of what consumers expect at the claims stage.

DO CONSUMERS EXPECT INSURERS TO KEEP THEIR PROMISES AND PAY CLAIMS?

Probably the most important question for consumers is whether or not a claim is likely to be paid. This is, after all, what they pay their premiums for, and it is the issue that generates almost all of the media coverage relating to protection claims. Unfortunately for us, and particularly for those of us that are closely involved with claims management, when stories are reported about claims it's usually from the perspective of a dissatisfied customer.

> "…the most important question for consumers is whether or not a claim is likely to be paid."

With this in mind, we wanted to know what our consumer group thought about the proportion of protection claims that are paid. We asked consumers what percentage of life insurance claims they thought are paid out.



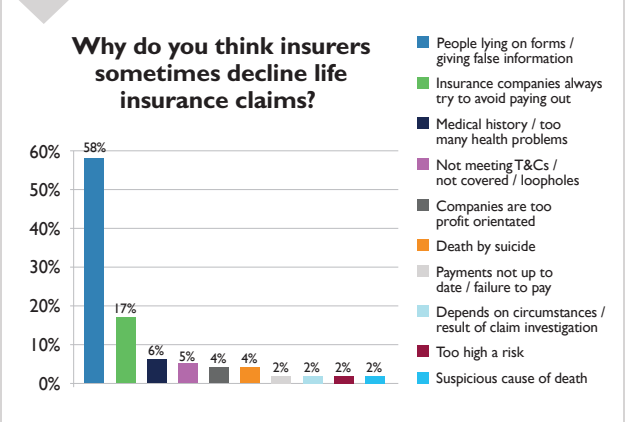
The most common answer was 71-80%; whilst this is low, it illustrates a greater understanding than the averages that are often quoted in the media. Despite that, it is striking that less than 20% of consumers thought that more than 80% of life claims are paid when, according to figures published by the ABI, the actual percentage of life claims that were paid in 2015 was **98%**.

Clearly there is a significant gap between what consumers expect and the reality, which is that very few life claims are declined. We should be concerned that the vast majority of our survey sample (i.e. potential consumers) believe that the industry declines in excess of 1 in 5 life claims, and that a significant number believe this figure to be higher still. It's clearly not good news, but it's unlikely that anyone in the protection industry is going to be surprised by this finding.

> "…it is striking that less than 20% of consumers thought that more than 80% of life claims are paid…"

WHY ARE SO MANY CLAIMS DECLINED?

There is value in digging deeper to understand why consumers think that the industry declines so many claims. We provided respondents with a range of options and asked them to select the one that they believe to be the main reason that we decline claims. The results are surprising.



58% of respondents believed that the main cause for declined claims was due to the policyholder not providing accurate information when they bought the policy.

To some extent, this result runs counter to the popular narrative that insurers rely on 'small print' or loopholes to prevent paying claims, and will go to great lengths to avoid meeting their commitments. Still, 17% of our sample selected "insurance companies always try to avoid paying out" as the reason why they believe so many claims are declined, with a further 9% citing "loopholes" or "insurance companies being too profit driven in general".

> "…this result runs counter to the popular narrative that insurers rely on 'small print' or loopholes to prevent paying claims, and will go to great lengths to avoid meeting their commitments."

Whilst consumers are aware that a significant number of claims are declined due to what we call misrepresentation, whether they think that we deal with this fairly is another issue.

HOW DO CONSUMERS THINK WE SHOULD DEAL WITH MISREPRESENTATION?

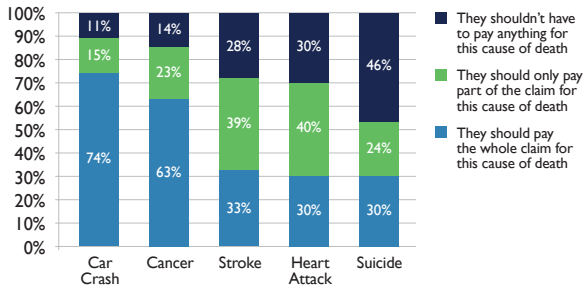
We have seen that almost 60% of consumers ranked misrepresentation or something similar as the main cause for declined life claims.

> "…almost 60% of consumers ranked misrepresentation or something similar as the main cause for declined life claims."

We wanted to know how they expect insurers to treat misrepresentation. To explore this, we presented them with a number of hypothetical scenarios, such as the following example:

*"A person who applies for life insurance **doesn't tell the insurer** about their **high cholesterol and raised blood pressure** before they take out the insurance. Had they done so, they would have had to pay twice as much for their life insurance cover. **A year after** they bought the insurance, they make a claim".*

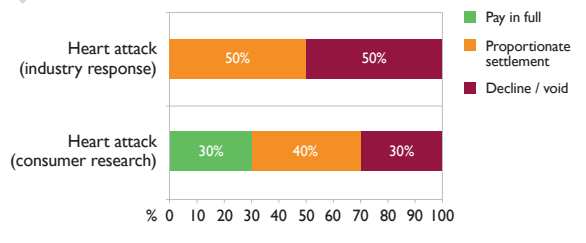
For each of the following causes of death how much, if anything, of the claim do you think it would be reasonable for the insurer to pay?



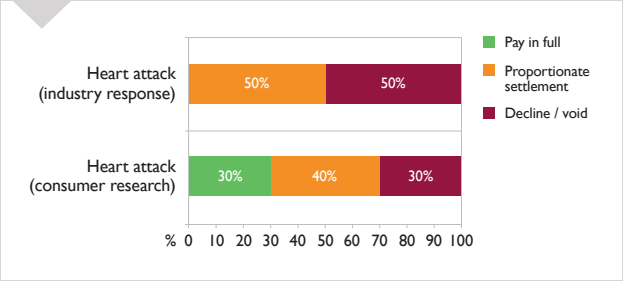
The results here indicate that our survey sample recognised the link between the cardiovascular risk factors and cerebrovascular or cardiovascular events. The majority would also expect insurers to apply a penalty in these circumstances. The result for suicide stands out, but the most likely explanation for this is that many consumers do not expect this to be covered under a life insurance policy.

> "The result for suicide stands out, but the most likely explanation for this is that many consumers do not expect this to be covered under a life insurance policy."

There is some similarity here between how our survey sample responded and industry practice. In a recent benchmarking exercise, we asked claims managers how they would treat misrepresentation of cardiovascular risk factors across a number of different scenarios. Here we can see how their responses compare to our consumer response for the question above, specifically where the claim cause is a heart attack, in other words, a 'linked' claim:



Whilst there is clearly some disparity with a number of our survey sample who expected a full payment, there is some similarity in the overall picture. The industry response for cancer, where the non-disclosure was a heart attack, is perhaps even further away from consumer expectations as you can see below.



However in practice, much would depend on the specific details of the case. Allowing for this, the gap between our respective views may not be as wide. When we compared the results for a non-linked claim however, there was a much bigger gap between industry practice and consumer expectations.

> "…there was a much bigger gap between industry practice and consumer expectations."

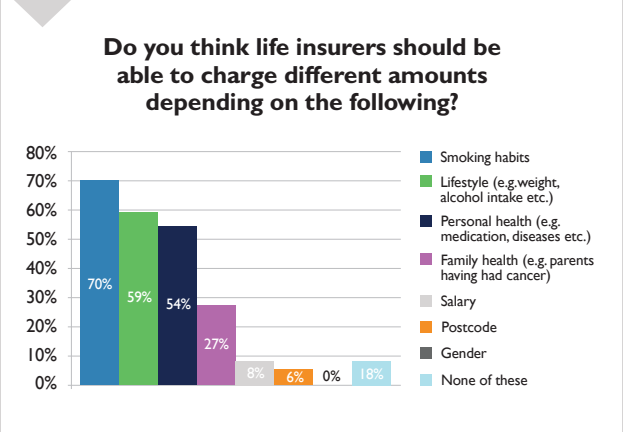
In reality, this type of case represents a small sub-set of those where misrepresentation is an issue, but it does highlight the fact that consumers expect non-linked misrepresentation to be treated far more leniently.

WHAT FACTORS SHOULD INFLUENCE HOW MUCH AN INDIVIDUAL HAS TO PAY FOR THEIR LIFE COVER?

In terms of current consumer perceptions, so far we have seen that a significant proportion of consumers believed that misrepresentation was a major factor in the number of claims that are declined. The results also indicate that they would expect insurers to apply a penalty where misrepresentation of an insured individual's medical history is discovered, at least for linked claims.

> "…a significant proportion of consumers believed that misrepresentation was a major factor in the number of claims that are declined."

We also wanted to understand what factors consumers would expect to influence the cost of life cover, in other words, those that they would expect to be of interest to insurers at the quote and application stage. Again, we presented them with a number of options and asked them to rank these according to which they would expect to have the biggest impact on premiums.



It's clear that of all the factors that might attract a higher premium for their life cover, smoking was ranked the highest, indicating that consumers recognise that this has a significant impact on mortality. It is surprising that only a little over 50% of our survey sample considered that medical history might be a reasonable factor to take into account.

> "…very few consumers would expect that an individual's postcode would have an impact on how much they should have to pay for their life insurance."

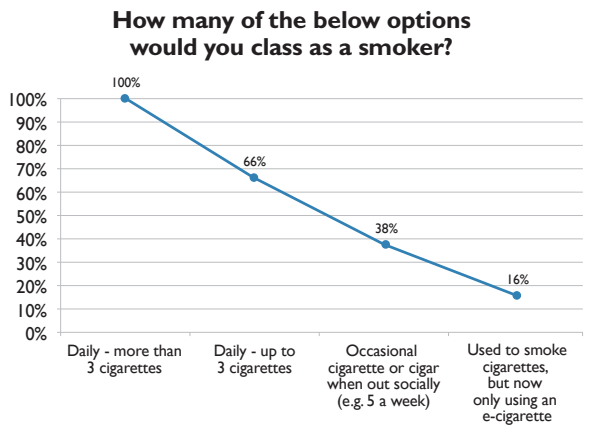
It's interesting to see that very few consumers would expect that an individual's postcode would have an impact on how much they should have to pay for their life insurance. It appears that in the majority of cases, individuals would have little concept of regional mortality rates, or at least not in this context. It is perhaps unlikely that an individual would consider socio-economics (including salary and postcode) to be a fair representation of their own state of health or mortality, and that postcode and salary should be factors in determining how much they must pay for cover.

WHEN IS A SMOKER NOT A SMOKER?

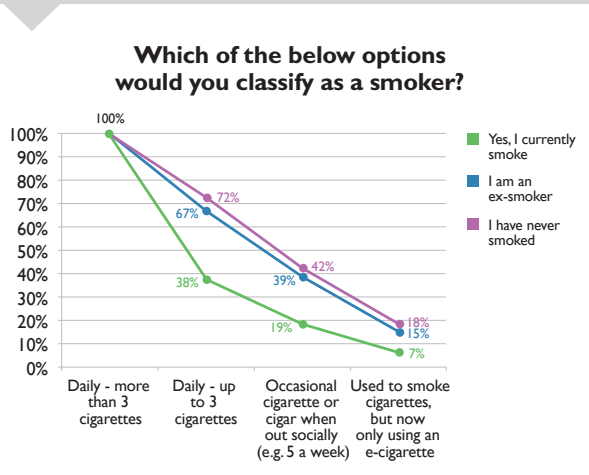
We've seen that smoking habits rank the highest in terms of why people think that an individual should pay more for their life insurance.

The question; "Have you smoked tobacco in the last 12 months?" appears simple enough but when you ask what makes someone a "smoker", it seems that it's not so straightforward!

Here's how our survey sample responded to the question:



It's very surprising to note the percentage of people who do not consider a person who smokes up to 3 cigarettes a day to be a smoker. Looking into the results in a little more detail reveals a marked difference in attitude between smokers, ex-smokers and non-smokers.

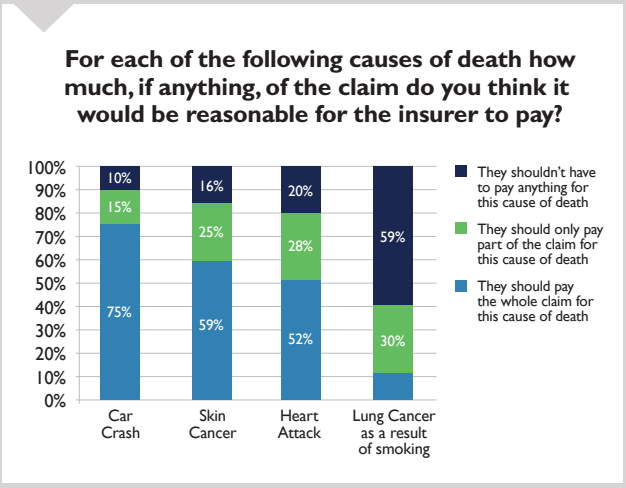


> "It's perhaps no surprise that those who classify themselves as a smoker set the bar a lot higher in terms of how many cigarettes a day it takes to be a member of that group!"

It's perhaps no surprise that those who classify themselves as a smoker set the bar a lot higher in terms of how many cigarettes a day it takes to be a member of that group!

We asked our consumer group how they would expect an insurer to treat misrepresentation of an individual's smoker status, and to what extent the claim cause should impact on the claim decision.

A person who applies for life insurance ***doesn't tell the insurer that they are a smoker.*** *Had they done so, they would have had to pay twice as much for their life insurance cover.* ***A year after*** *they bought the insurance, they make a claim.*



A far greater number of our sample would expect a penalty to be imposed where the claim is for lung cancer than for a heart attack, despite the fact that smoking is a major risk factor for both events. We can probably assume that the consumer view of linked as opposed to non-linked misrepresentation is a factor here, but if that is the case, this would also suggest limited insight into the extent to which smoking impacts on an individual's health.

WHEN IS IT OK TO PAY A LIFE CLAIM EARLY?

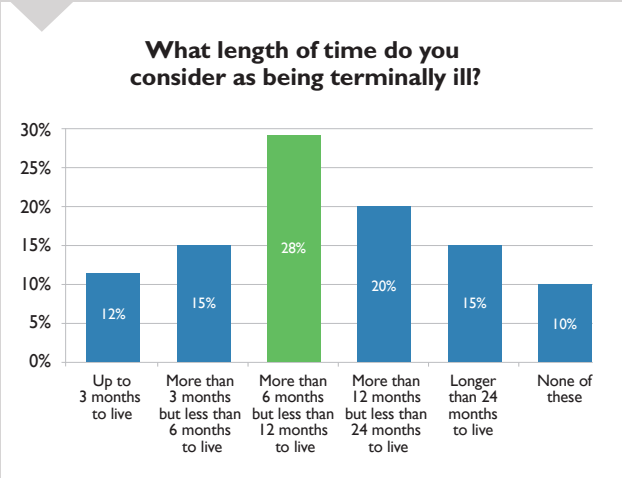
So far we have looked at declined claims and misrepresentation but we also wanted to look at what consumer expectations are in terms of accelerated life payments, most commonly of course, Terminal Illness claims.

As a percentage of life claims, we have seen the volume of Terminal Illness claims increase dramatically over the past few years in the UK. This is one of the most challenging types of claims that an assessor is likely to deal with on a day-to-day basis.

> "…we have seen the volume of Terminal Illness claims increase dramatically over the past few years in the UK."

Unfortunately, the media tends to focus on unpaid protection claims, rather than paid claims. Terminal Illness claims that have not met the definition have certainly attracted some scrutiny in recent years.

Setting aside the policy definition of Terminal Illness, we first wanted to know what our survey group understood the word 'terminal' to mean in the context of life expectancy.

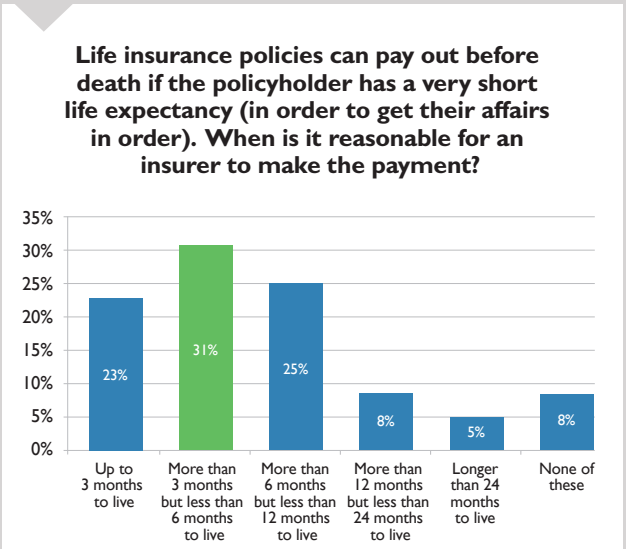


The responses are reasonably broad, ranging from 3 months or less to 2 years and possibly beyond. It's clear that when it comes to life expectancy, 'Terminal Illness' means different things to different people. It's reasonable to conclude that without further definition, there is little consensus here in terms of what it means to have a terminal prognosis.

Whilst the insurance definition does exist to provide this clarity, it is worth asking the question as to whether we as an industry have shot ourselves in the foot by inadvertently using a term which essentially just means 'incurable' for what is in essence only an accelerated death benefit.

> "…it is worth asking the question as to whether we as an industry have shot ourselves in the foot by inadvertently using a term which essentially just means 'incurable' for what is in essence only an accelerated death benefit."

To take this a step further, we provided our respondents with a very simplified description of what Terminal Illness cover is supposed to provide and, based upon this, asked them when it would be reasonable to pay the benefit. We deliberately avoided any reference to the current definition or using the word 'terminal'.



> "…with over 50% of respondents suggesting that a payment within 6 months would be reasonable."

The responses here bear little relation to the answers to the question of what Terminal Illness means. With the purpose of the cover explained, there is a significant shift towards shorter life expectancies, with over 50% of respondents suggesting that a payment within 6 months would be reasonable.

CONCLUSION

We should always be careful about how we interpret the findings of consumer surveys. In some instances, questions may be poorly understood or misread, and some level of interpretation may be applied by the respondent.

However, some clear messages have emerged.

There is a wide difference between the proportion of claims that consumers believe are paid, and the true figure. The industry has made significant and material changes to improve claims outcomes since the introduction of TCF Claims guidance nearly 10 years ago. In actual fact, proportionately very few claims are declined. The decision to decline a claim or reduce the sum insured is never taken lightly.

Since the TCF initiative, Protection insurers have continually endeavoured to improve claims payment rates and to optimise outcomes for customers across all product types. The results of this work are clear.

We have not just seen an improvement in outcomes. Claims teams across the industry have continued to work towards faster processing times through innovation and refining processes, such as:

- Fast-tracking cases within defined parameters
- Making use of customer supplied evidence
- Eliminating the requirement for death certificates for certain claims
- Reducing the volume of medical evidence required to assess claims wherever possible

A great deal of work has been done, which we as an industry should reflect on positively. However, this appears to have had little impact on the public consciousness and to build trust remains a challenge for all of us.

When it comes to claims assessment however, consumers understand a broad range of the concepts that underpin what we do, including the rationale for imposing penalties for misrepresentation.

"…consumers understand a broad range of the concepts that underpin what we do, including the rationale for imposing penalties for misrepresentation."

However, in some instances, the treatment of misrepresentation is not completely understood by consumers, and outcomes are not entirely consistent with what they would expect, non-linked misrepresentation being an example.

This may be driven in part by our survey respondents focusing on the experiences of the individual claimant rather than the impact of misrepresentation on the cost of cover for the wider consumer. However, in previous consumer research we commissioned, we asked "would you be prepared to pay more for your own life insurance to cover the cost of some claims being paid out on people who did not provide important facts when their policy was taken out?". Unsurprisingly, 76% said no.

With regard to the other factors that increase the cost of life cover, consumers clearly understand that an individual's lifestyle (e.g. weight and alcohol intake) and personal health (e.g. medication and diseases) is crucial. For example, 70% acknowledged that a smoker should pay more for their life cover than a non-smoker. Just over 50% of our survey sample thought that medical history would also be a factor, however, only 1 in 4 cited family history.

> "…70% acknowledged that a smoker should pay more for their life cover than a non-smoker."

Perhaps this suggests that the average consumer does not recognise the effect of their own medical or family history on their mortality, and subsequently how fundamental this is to life insurance risk assessment. It's difficult to imagine that many outside of the protection insurance industry would dwell on this!

It's worth noting again that little more than 5% of our survey sample would expect their postcode to have any influence on their life insurance premium.

> "…little more than 5% of our survey sample would expect their postcode to have any influence on their life insurance premium."

Finally, having conducted a significant amount of research and analysis on Terminal Illness, an increasingly important area of claims assessment, we wanted to take this opportunity to get a consumer view.

We have long held the view that, as an industry, we may not have helped ourselves in naming this benefit as we have. It's apparent that the word 'terminal' means different things to different people. Whilst the insurance definition does exist to provide clarity, it is worth asking the question as to whether we as an industry have shot ourselves in the foot by inadvertently using a term which essentially just means 'incurable' for what is in essence only an accelerated death benefit.

We also know how difficult it is for medical professionals to determine when an individual's life expectancy is less than 12 months, particularly where treatments and survival rates for cancer are changing rapidly. This is just one of the factors that make the accurate assessment of Terminal Illness claims extremely challenging in many cases.

We have been open in our view that a change in the Terminal Illness definition to a shorter life expectancy would be sensible, but we also acknowledge that for the individual insurer there are considerable barriers to implementing this. However, based on the results of our survey, it appears that such a change would not be out of keeping with consumer expectations.

PACIFIC LIFE RE

ABOUT PACIFIC LIFE RE

Pacific Life Re works with clients in Europe, Asia, Australia and North America to manage their mortality, longevity and morbidity risk. We have built a strong, experienced team with a reputation for technical expertise, responsiveness, innovation and excellence in service delivery to our clients.

Pacific Life Re Limited is a wholly-owned subsidiary of Pacific LifeCorp, the parent company of Pacific Life Insurance Company.

For more information about Pacific Life Re please visit our website www.pacificlifere.com or follow us on LinkedIn.

FOR MORE INFORMATION, PLEASE CONTACT:

James Tait
Head of Protection
Pacific Life Re | Europe
T: +44 (0)20 7709 1814
E: james.tait@pacificlifere.com

Ian Rowe
Director, Claims
Pacific Life Re | Europe
T: +44 (0)20 7709 1853
E: ian.rowe@pacificlifere.com

PLRECCR0417