



PACIFIC LIFE RE

Beneath the Surface

Navigating the ocean of Value-Added Services

By Richard Purcell

2022

REPORT





Contents

Bringing clarity to Value-Added Services

3

A consumer's perspective

4

A provider's perspective

8

A buoyant market now and in the future

10

Bringing clarity to Value-Added Services

The UK & Irish protection markets continue to innovate, and while a lot of this has centred on the core products and their distribution, more recently we've seen a greater focus on Value-Added Services (VAS). This is particularly due to their increased usage during the Covid-19 pandemic. These services can take many forms, and provide a way for insurers to give more value to customers, and engage with them in a way not previously possible. VAS can also provide a way for the protection industry to transform itself from a market focused on commoditised products that historically are infrequently used, to one that's characterised by highly beneficial services that are regularly used by customers.

In this report, we'll:

- › Analyse the current VAS landscape in the UK & Irish protection markets.
- › Look to understand the views and experiences of customers, with the aim of assessing how much value these services are really adding today.
- › Look at what insurers say, and consider what the future might hold for the development of VAS.



A Pacific Life Re Perspective – Sarah Teehan, Head of Protection

As a mutual, we believe it's important to continually look for ways to do better by our customers, and we believe VAS can offer an exciting way for the Protection industry to provide more value. Not only this, but VAS can also help transform the whole protection experience, from a product to a service, and ultimately help to grow the market and ensure more people benefit from protection.

We know that many insurers share our ambition to provide more value to customers and grow the market, and we hope that through this research we can help lead the debate on how VAS could evolve in the future.

Navigating VAS today

There is a wide range of VAS available, but they can be broadly categorised into three areas:



Support if you are ill or injured (reactive)

- › 24/7 GP consultation
- › 24/7 nurse support
- › Physiotherapy
- › Prescription delivery
- › Second medical opinion
- › Counselling support
- › Mental health support



Support to keep you fit or healthy (proactive)

- › Health check
- › Nutrition consultation
- › Healthy food rewards
- › Fitness programme
- › Discounts on sportswear/fitness trackers
- › Discounts on gym/home fitness
- › Discounts on insurance premiums



Other rewards or support

- › Weekly rewards linked to physical activity
- › Cashback with other brands
- › Discount on other insurance lines
- › Career support
- › Financial/legal helpline
- › Estate administration
- › Charitable donation
- › Website/portal/digital app

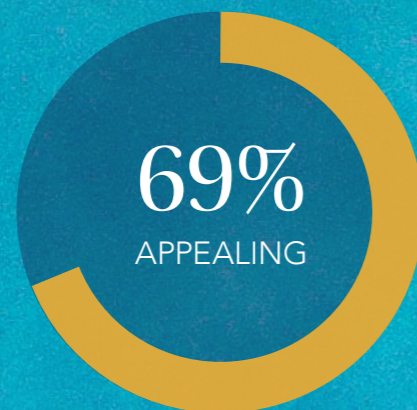
The majority of UK protection insurers provide a subset of these services to their customers, and over the past few years we've seen more and more services being added. In Ireland too, we've also seen some providers add VAS to their propositions.

A consumer's perspective

To help understand the value consumers place on VAS, we commissioned an online survey of over 1,000 consumers across the UK & Ireland in the autumn of 2021. About half of responders were existing protection holders, and the other half were people who said they would consider protection in the future.

VAS is making waves with customers

Considering the overall appeal of VAS as an add-on to a protection policy, we found the majority of customers found them appealing.

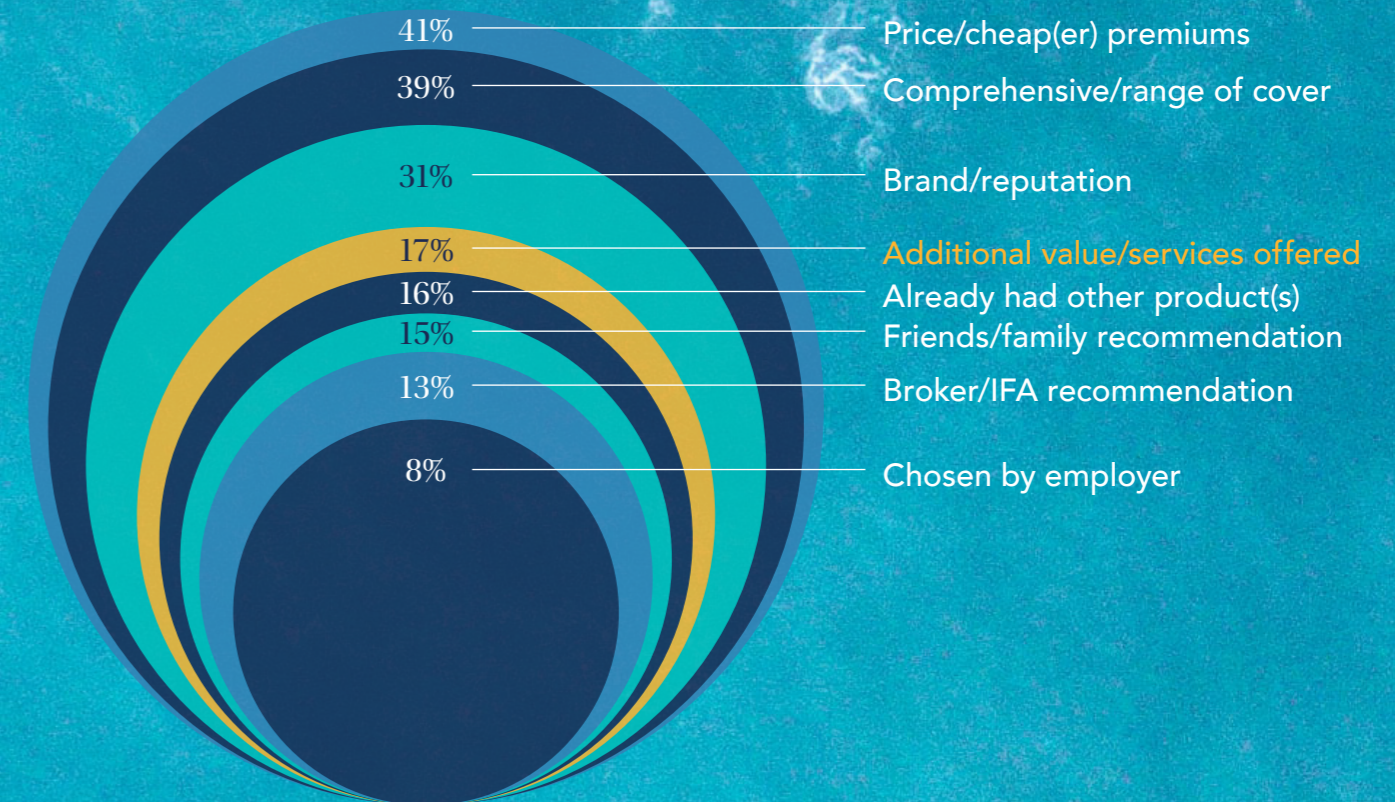


However, we must acknowledge that VAS are not for everyone. This seems to be due to the additional cost customers expect to be added into their protection policy premium. Others simply didn't expect to use the services. Since VAS are clearly not for everyone, we should consider if it's right they are automatically added to all policies.

Price is important, but VAS are close on the horizon

It's no surprise that, when choosing a protection product, price is important, with 41% of existing protection holders stating it's their priority. This is followed by comprehensiveness of cover and brand. However, 17% of existing protection customers still said VAS were an important factor.

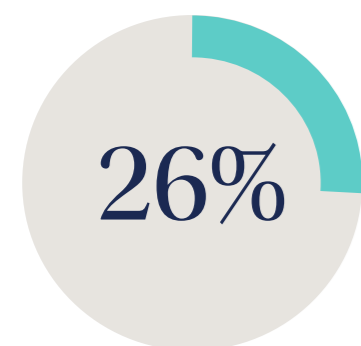
Most important factors when choosing (UK holders)



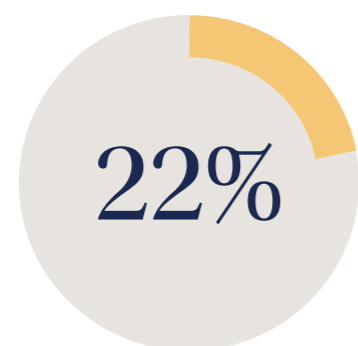
A key audience: younger, affluent customers with families

When we dug a little deeper, we found that more people said VAS were important when choosing a policy if they were younger (26% of 18 to 30-year-olds), more affluent (22% of AB band), or had a family (31%+ for those with children).

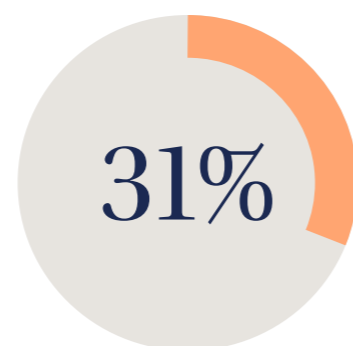
We also saw that those who bought through an IFA, were much more likely to say VAS were important when it came to buying protection. This could be because advisers are talking to customers about these services during the advice process, and they see them as a way to demonstrate more tangible long-term benefits to customers.



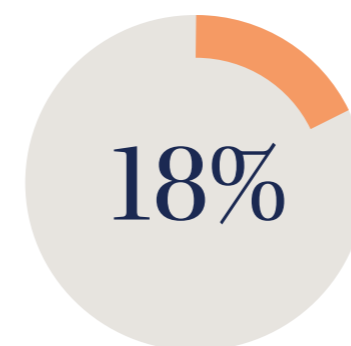
18 to 30-year-olds



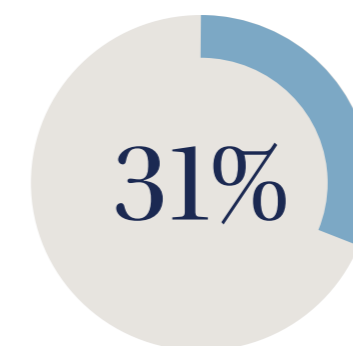
AB band (affluent)



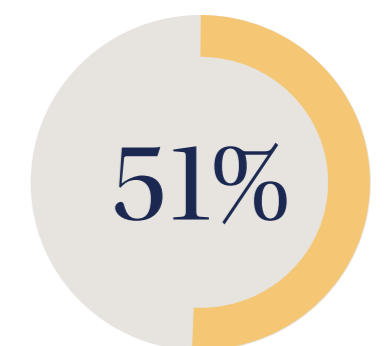
Respondents with family



Yes, definitely



Yes, I believe so



Not sure/don't know
No, I don't believe so
No, definitely not

Awareness and clarity of VAS is needed

When we asked existing UK protection customers whether they were aware of VAS being included in their policy, only 18% said they definitely had VAS on their policy. A further 31% said they believed they did, but were not certain. In reality, all major UK protection insurers offer some form of VAS to new customers. So why were over 50% of protection customers either unaware or unsure if they had VAS on their policies? This suggests there's a lot more work to be done by the industry, in order to raise awareness of VAS and ensure customers are benefiting from them.

Does your policy offer VAS? (UK holders)

Is overall experience choppy?

The other key question is: are VAS really providing value to customers? Are they being used and what's the experience like? We found that there was a mixed picture. The chart below shows a sample of these services, and indicates which ones protection customers used vs their overall experience.



As you can see, some of the standout services include a virtual GP, which sits in the top right-hand quadrant. They were well used during the pandemic, most likely as many people struggled to access their own GPs.

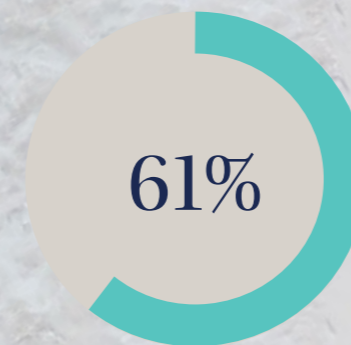
Proactive services (triangles), including fitness programmes and nutrition consultations, were generally clustered in the top left-hand quadrant. An explanation for this low usage could be that customers are simply unaware of these services, plus they're less commonly available across the market.

The chart also shows the positive experience for preventative services contrasts with customers trying to make basic changes to their policy details or change their cover via an insurer's website or portal. Here there was high usage, but the experience was relatively poor. It points to the need for the industry to make sure it is getting the basics right, and improving the experience of the core protection services.

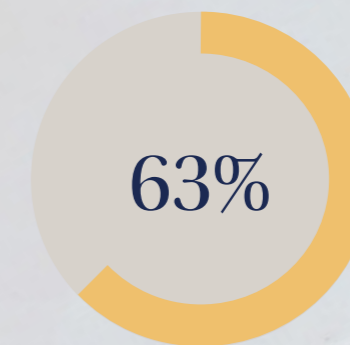
The relatively poor experience these basic services provide could also be preventing customers from going on to use other VAS. If that's the case, it may be worth carefully considering what services providers include in their VAS packages.

Bringing prevention to the surface

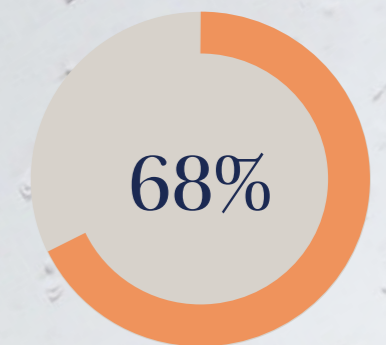
The relative success of preventative services does invite the question: should preventative services play a bigger role in the overall VAS offering?



believe insurers should help prevent customers becoming ill/unwell



believe insurers should help customers live active and healthy lives



believe insurers should reward customers for living healthy lives

It's useful to see how this compares to the role of an insurer at the point of claim. Unsurprisingly, three quarters said insurers should support them, if they are ill. This further reinforces the fact that customers feel there's a bigger role for protection providers to fulfil.

VAS can help customer loyalty rise

There are many reasons why insurers may wish to provide VAS as part of their overall protection proposition. It could be simply finding new ways to give more value back to customers, a way to differentiate themselves in the market, or as a way to retain more customers. Certainly, 43% of existing customers said VAS were important in remaining a customer, and given the low awareness of these services, it suggests that with greater awareness, they could prove to be even more beneficial.

A provider's perspective

There are several third-party providers that insurers can use to create and further develop their proposition. These providers have seen a change in service usage during the pandemic and, in this section, we'll look at some of their insights.

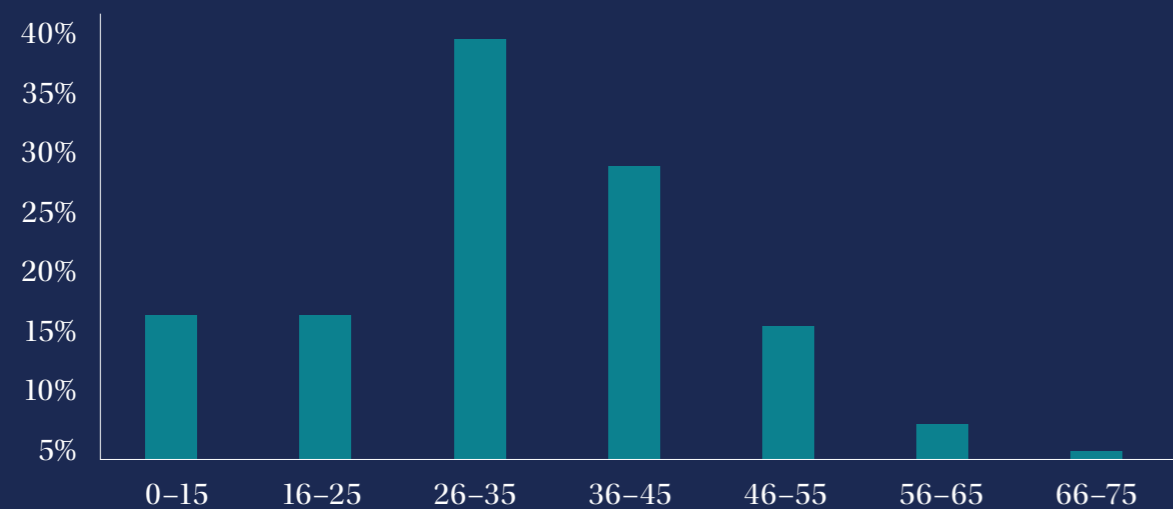


Steve Casey, Marketing Director – Square Health

Square Health has been providing a range of services since 2016, and has seen a huge increase in take-up recently.

Digital GP services have been the most sought-after, with people aged 26-35 using the services the most. Understandably, it's been used not only by the policyholder, but by their spouse/partner and children too. Additionally, since the middle of the pandemic there's been a huge uptake in repeat prescription services, suggesting individuals are still uncertain about going to a pharmacy and mixing with others.

Age profile of customers accessing Square Health VAS (2021)



Consultations have truly been 24/7, with skin complaints being the number one reason for a consultation. There's also been a more equitable balance between males and females accessing the services than would traditionally be seen in the NHS, perhaps reflecting the accessibility and ease of the services. The oldest individual to date to use the service was a sprightly 94-year-old.

Mental health support services, digital physiotherapy and health MOTs all saw increases close to 50% over the past 12 months, with women accounting for nearly two thirds of those seeking mental health support.

Many of the results from health MOTs showed irregularities: which customers were able to discuss with a GP, and develop a plan with nutritionists, dieticians or personal trainers to help combat these problems. Again, 26 to 35-year-olds were the largest group using this service.

Ultimately, we found that where a provider has a well-thought-out and documented communications strategy with customers, it leads the field with take-up and use.

“Research revealed that customers want help understanding and monitoring their health, with over two thirds saying they would value a health check as part of their insurance cover.”

Jonathan Benton

“With a large number of Value-Added Services available, advisers have a key role in educating customers on the level of value they’ll truly receive when using the services.”

Christine Husbands



Jonathan Benton, Managing Director –
Medical Screening Solutions

This latest research from Pacific Life Re highlights the pivotal role protection insurers can play in helping their customers manage and improve their health. Insurance customers clearly welcome this support, with over three fifths agreeing insurers should help them live healthy and active lives.

The benefits of this approach are immediately apparent. For insurers, not only are health-conscious customers less likely to claim, but if they do become ill, they’re more likely to seek medical advice early, and over the long term, less likely to lapse. At the same time, customers gain immediate access to valuable health and wellbeing services, which can help them live longer, healthier lives. The net result is a win for everyone!

So, going forwards, where should insurers focus? As the research reveals, customers want help understanding and monitoring their health, with over two thirds saying they would value a health check as part of their insurance cover. The message from insurance customers is loud and clear. Prevention is as equally important as cure!

As a leading provider of health checks and laboratory services, Medical Screening Solutions believes there’s a significant opportunity for protection insurers to enhance their health and wellbeing propositions, through the provision of home testing and digital screening services.



Christine Husbands, Managing Director –
RedArc

As the first company to address the non-financial needs of claimants and their families, RedArc has a wealth of experience in providing tailor-made support through a wide range of individual and group protection.

We’re frequently told our services make a huge difference to customers, who are often going through the worst time of their lives. This was particularly apparent during the pandemic, when many vulnerable people were struggling to get advice, support and treatment.

Customers are usually surprised by the amount of help available to them, covering a wide variety of circumstances such as critical illness, chronic conditions and long-term mental ill health. In our annual surveys, over 95% of customers say our service enhanced their view of the insurer. As a service, independent of the insurer, customers benefit from confidential support outside the financial claim, and as clinical professionals we can continually develop the service offering.

With a large number of Value-Added Services available via protection products, the amount of value actually added varies. With that in mind, advisers have a key role in educating customers on the level of value they’ll truly receive when using the services.

A buoyant market now and in the future

Overall, it seems the UK & Ireland protection industry has made a good start when it comes to VAS, but there's also room for improvement. There's more to do across the whole industry to raise awareness and improve use. Insurers also need to look at the user experience on some services. By doing so, more of these services could move into the top-right quadrant of high usage and very positive customer experience, and in doing so ultimately ensure that Value-Added Services help deliver more value to more customers.

Building awareness

We've seen that there's relatively low awareness of VAS among existing customers. But awareness can be built in a variety of ways, primarily through insurers and advisers. Some insurers already use welcome letters and annual statements to remind customers that these services are available, and we anticipate others will also increase their marketing activities during 2022 and beyond. Some advisers are already talking about VAS in their client conversations, and some are utilising dual-branded mailing communications. No doubt more advisers could be introducing VAS into their client conversations though, and may need more help from insurers or comparison services to understand and compare the value they offer.

Improving user experience

Our analysis showed there was a variation in user experiences, and there's more work to be done to improve the overall experience of very basic, core protection services. Many services, however, are provided by third parties using new technology platforms, which make for a relatively good customer experience. So insurers are likely to benefit from utilising technologies and services provided by specialist third-party providers.

One challenge for insurers, is to guarantee that by adding more and more services, they do not end up with a long list of separate apps that make for a very disjointed user experience, and this will likely be a key challenge for their VAS proposition.

Casting the net too wide?

Our research shows that customers think one size does not fit all, and that we need to tailor VAS to be more specific to the individual customer's needs, and ultimately ensure the VAS offering is meaningful.

“ Comments from customers

“I think that insurers should have access to a wide range of options for help and options to encourage healthy living, and that customers should be able to tailor their policy as they feel appropriate without undue pressure from the company.”

“I think they should add meaningful things rather than just tokenistic gestures.”

“Add services that are useful to people, not ones that sound good but wouldn't actually be used.”

“I think offers should be tailor-made to the customer for the personal touch, to make the customer feel valued.”

However, with a 'one size does not fit all' approach, there's a danger the industry just adds more and more VAS to create a more tailored offering, and we end up with a long list of services that are hard to navigate and increase complexity.

To manage this, we need to think about how VAS can be tailored to meet customer needs. This could be achieved in several ways, including:

Customer choice: Rather than give every customer the same list of VAS on their policy, insurers could ask customers to pick a selection from a basket of VAS options to add on to their policy.

Targeted marketing: Rather than changing the VAS proposition, targeted marketing communications could help to carefully curate the VAS on offer, and highlight the most relevant services to customers at their given life stage. Plus, by using more sophisticated marketing techniques, it could create a more tailored feeling overall, and it's likely to drive greater awareness and engagement.

Another argument could be to say that one size actually does fit all. Because, if the VAS proposition is well designed and actively managed, with regular reviews of which services are adding value and which are not, this may stand the best chance of giving value to the biggest proportion of customers. To achieve the optimal proposition, better management information on individual services may be required, and insurers should also be prepared to remove, as well as add, services. They should also consider how the services all work with each other to ensure a seamless customer experience.

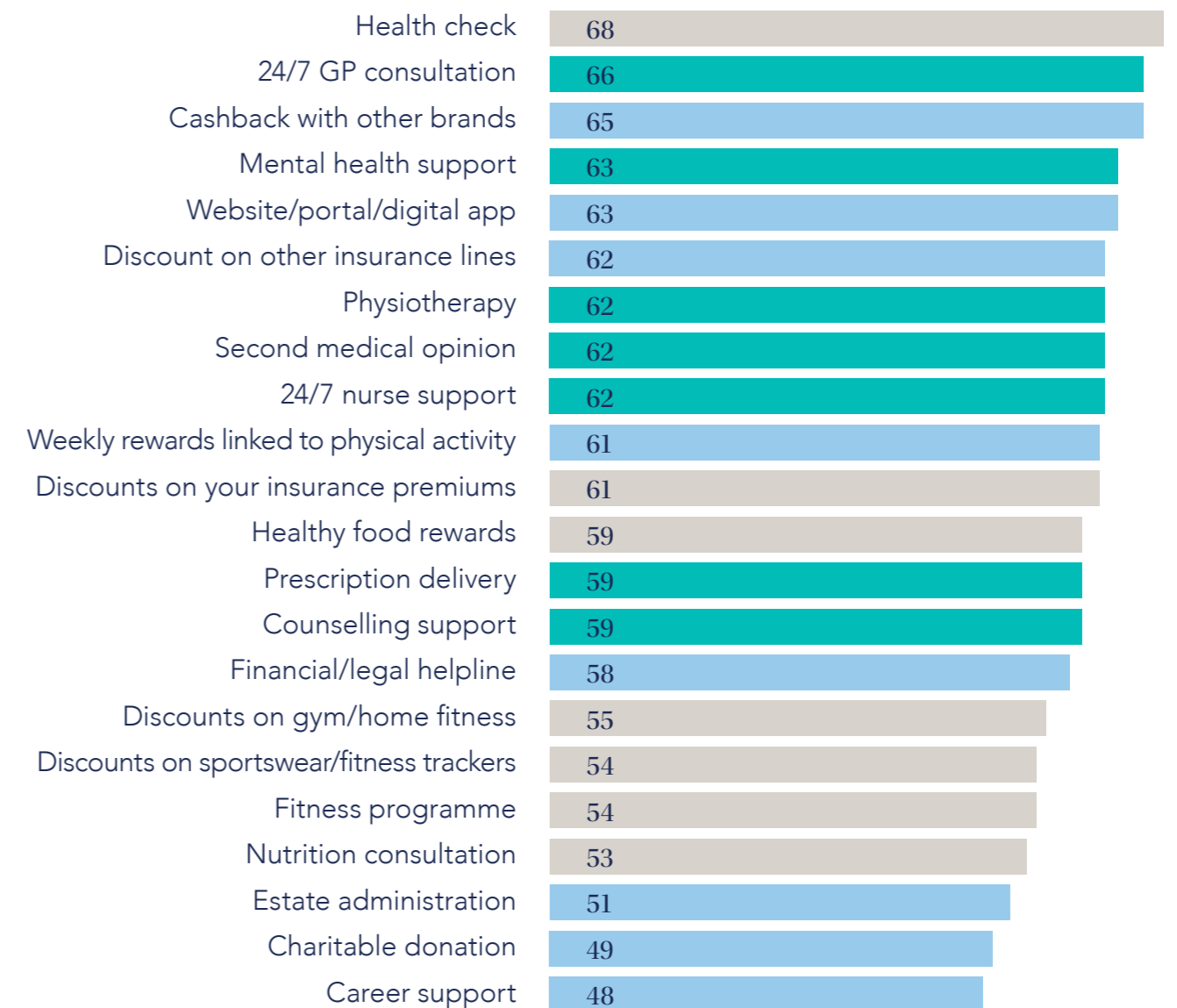
What services are key to a VAS proposition?

Our recent survey also showed that most insurers expect to increase the breadth of their current VAS proposition. So we asked customers to tell us which services appealed to them, from a long list. The results can be found in the chart opposite and, given our research so far, it's unsurprising health checks and virtual GP services came out on top.

One customer explains why:

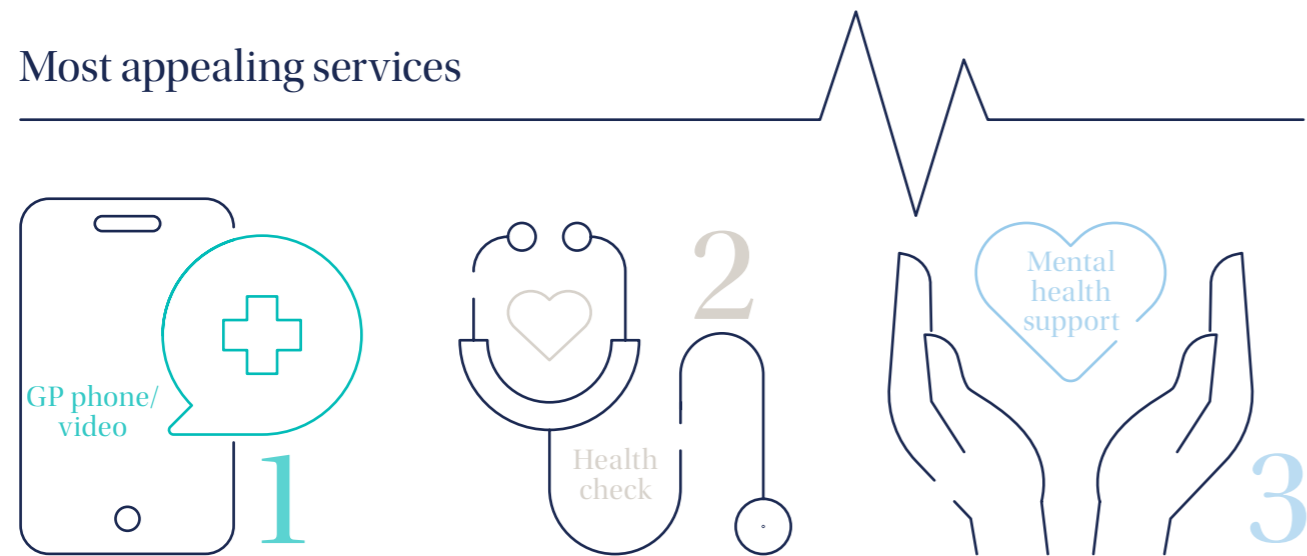
“A free health check every year while you have a policy would be a great idea. Nothing wrong with being looked at by a doctor as you get older.”

Services customers found appealing:



However, when we asked customers to choose which service was the most appealing, then virtual GP services were consistently top across all customer segments. Health checks and mental health support featured second and third.

Most appealing services



“Because it’s so difficult to find mental health support without having to wait forever to see someone, it’s so important to be seen quickly with all (my) health issues.”

“It’s really helpful when you can do a video call and not have to take time off work to go to the doctor.”

We may find that, over the long term, the popularity of these services declines as the NHS begins to add more digital GP services and develop better mental health support. However, this may be a few years off yet.

We also saw that second medical opinions came further down the list, despite the fact they are one of the most common VAS insurers say they offer. So it seems there’s a gap between what’s on offer and what customers say is appealing. This insight, along with analysis of what services are actually used, could help to identify services that should be scaled back or removed.

When we asked customers what other services insurers could add, they suggested services like access to chiropractors, osteopathy, private mammogram cover or dental health check-ups. They generally seemed to be services that customers had used recently, or could see themselves as very likely to use in the future. If insurers were to add such services, they’d need to consider whether they’ll be used, and the overall cost. The other question to ask, is whether these additional services would align with core protection cover.

The depth of distribution

Another consideration in the future development of VAS, is for insurers to consider how distributors incorporate them into their advice process. While it was outside the scope of our research for this report, we believe it will be critical to understand when advisers typically discuss VAS with their clients, and how they might compare VAS across providers.

And what role do they play in non-advised channels? Well, we anticipate that VAS will take a more prominent role in client conversations in the future, and insurers may have to help some advisers see the benefits of VAS.

Also, as VAS propositions develop, there will also be greater demand among advisers to compare and contrast these services. This will no doubt drive the need for product comparison services to create more sophisticated scoring of VAS.

Should prevention play a bigger role?

Widespread use of prevention programmes could help reduce the strain on the NHS, and allow others who need help to get it sooner, reducing the incidence of other claims. This could create a second-order benefit from prevention.

The question is how we make prevention programmes more effective. There is a variety of ways insurers could do this:

Natural moments of receptiveness

By engaging customers shortly after organic milestones, for example: policy inception, policy anniversary, new year, birthday, or a new month. Insurers can utilise these natural moments of receptiveness to increase engagement.

Pre-commitment

Helping customers to set goals can also help drive changes in behaviour. These could be based on the outcome of regular health checks, or other personal circumstances.

Provide better benefits

Thinking about benefits that give customers short-term rewards can help them to both engage initially and stay on track, increasing the chance of meeting their goals.

Provide on-going maintenance

Insurers can also maintain engagement in preventative services, by:

- › Giving customers autonomy through choice.
- › Making services relatable.
- › Helping customers drive change, by tracking their progress.
- › Giving their behaviours a purpose (this could be through rewards or measurable changes in health).
- › Considering gamification to provide enjoyment.

Making costs clearer

VAS clearly come with a cost, which is generally factored into the premiums of protection policies, with a few exceptions that allow customers to add VAS for an additional premium. But there are various approaches to funding VAS, and in reality, insurers could use a blend of these approaches.

No explicit charge – freemium model

Right now, insurers can incorporate the cost into the premium. Of course, not all customers will use VAS, so arguably not all customers are getting value from this model. This can create a question of fairness. However, most customers can derive value from VAS, and so they can at least get value from their policy without claiming.

Should insurers charge?

By making services elective and charging for them individually, this could reduce the number of customers that access them, and could mean there's a smaller pool of customers who must share the cost, potentially increasing the price overall.

We also know that price is an important factor when choosing a protection policy, and adding to the cost may put some people off. However, we found that 50% of customers said they would pay more for policies that offer additional services. So it seems a significant proportion of customers are prepared to pay more, if they can see demonstrable value.

Worth the extra?

Our research also looked at how much more customers would be prepared to pay for these services on top of their protection policy. Perhaps surprisingly, the services customers are prepared to pay more for do not correspond with those they find most appealing, with physiotherapy coming out as the service they would pay most for, at £6.07 extra per month. This may be driven by the first-hand experience customers have of using and paying for these services, and influencing their view of how much extra they would pay.



Self-funding

Another model is to make them self-funding i.e. that the increase in engagement in preventative services results in improvements in health or improvements in retention, which can be used to effectively fund the cost of the services in the first place.

The key challenge with self-funding is having the data and evidence to show it works, and especially that any changes in behaviour that are as a direct result of interventions made through the services offered, rather than being changes that customers would have made anyway through their own efforts. Quantifying this change can take a long time, as data and evidence will need to be gathered. Therefore, it may require some up-front investment and commitment over the long term.

Whichever funding model is used, insurers will also need to consider whether the services are contractual or not, and even if they're not, whether customers expect they'll continue in the future. These considerations should also be factored into how these services are funded.

VAS: our conclusion

In the shorter term, we expect VAS will become increasingly important in product development activity and, as outlined in this report, there are lots of ways the industry can build on the success to date.

In the longer term, insurers will need to think carefully about the design of their VAS proposition, and how it delivers value to customers. It seems that **VAS with an element of preventative care, will have the greatest relevance and financial sustainability over time.**

Overall, we believe VAS provide an exciting opportunity for the industry to increase value for customers, as well as the relevance for protection.



PACIFIC LIFE RE

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About this report

This report was developed by Pacific Life Re, drawing on independent research among over 1,000 adults across the UK and Ireland, and conducted in autumn 2021 by Immerse.

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