

Learning outcomes: 1. Which clients PMI may be appropriate for 2. The key considerations when creating a PMI advice process 3. How to compare PMI products 4. How to generate PMI business

PRESENTER: In this learning module on Akademia, we're going to be looking at private medical insurance, PMI. Our tutors are Karl Hewstone, who is Head of IFA Health Sales, and James Baker, who is Technical Insight Manager at Vitality Health. Let's run through what they're going to be covering. First of all, we'll be discussing the need for PMI and who buys it. Where there is a need in small businesses and the self-employed. How people perceive value for money. Who currently sells PMI and what are the requirements for non-specialist financial advisers. Developments in making products in this area easier to understand and sell, commissioned sales, and then we're going to be looking statistically at the current market: who's buying at the moment, small and medium-sized enterprise usage of PMI, and why people have traditionally used PMI. Then we're going to look at regulation, the need and the opportunity to train advisers and prospecting for new clients. I began our discussion by putting to Karl the fact that many advisers don't seem to be interested in this area because they don't have the clients. In fact why should they bother? KARL HEWSTONE: I think that question you've come up with is the first question that we get every time we talk to brokers that are new to the health insurance market, and as our Head of Insight will show later on the reality is that 10% of working age customers actually have health insurance already, so the very nature of those people is that they are probably already seeking financial advice from IFAs in the industry. But if we come at this from a point of view of need, if you actually ask customers what is their number one priority on life, the reality is they're probably going to say it's the health of them or the health of their family. So if we're selling to need, then very much wellness and health is really important to them. And of course in most IFA client banks there's the self-employed people, which of course health is really important, and then if there's directors they have SMEs, so now they need to start thinking about their employees as well. And maybe just turn it round the other way round actually, most brokers are actually looking for new clients. Well potentially selling to a health insurance group scheme could actually give you access to new employees that you've never spoken to before. So actually I would see it more of an opportunity than a barrier. PRESENTER: If I've already got critical illness cover, and I've already got life insurance, why on earth should I need this extra level of insurance as it were? Or do you see it as the other way around that this should be the basics? KARL HEWSTONE: I think ultimately that depends on the needs of the customer and their protection needs. But certainly if they've got health insurance already, then there may well be an opportunity to look at the cover that they've got in comparison to the insurance that you may already have put in place for them. And maybe that means that you can vary the cover they've got, and maybe reduce the premium for them and save them some money. But certainly the health of an individual should be right up there in terms of their protection needs. And for many people actually you could argue, particularly the self-employed, that actually the health is their business, and maybe that's a more pressing need than life assurance might be. PRESENTER: OK, all right, but for many clients financial advisers would say they're focused primarily on a budget. How does this work? KARL HEWSTONE: So if I've got cover already, then there may be an opportunity to review the cover that they've got and see if there's an opportunity to make some savings for them. But equally if they don't have cover many insurers now are looking at new ways of giving value back to customers. So the most obvious example for it could be gym. So many insurers are now offering quite significant gym discounts to encourage people to be healthy. For those customers that have perhaps full priced gym membership elsewhere, here could be an opportunity to save themselves some money. Now I can only talk on behalf of Vitality but last year we returned just over £52m worth of value to our customers, which obviously can be offset against the premiums that they're paying. And in fact for many customers they extract more value out of us than they actually pay in premiums. And that's taking aside any claims that they may have or may not have. PRESENTER: OK. It therefore has to be a pretty segmented market, because not everybody is

going to be bothered with the gym membership. Are you not talking really as cover for young people and young people only? KARL HEWSTONE: No, I mean I guess I was using that as an example of how to save some money. Certainly if you look at the marketplace the average age is, as you'd expect it to be, somewhere between say 40 and 60. The bulk of these people are people that may have had cover in the past. So certainly all insurers want to bring new people into the marketplace, but the reality is the vast majority of customers are in that segment who if you look at that segment compared to who gets financial advice, you'll find as James will show later on, there is a significant crossover with those two customer segments. PRESENTER: It's a pretty specialist area is it not? Is this not going to put off a lot of financial advisers, really they would see this as the preserve of the PMI broker? KARL HEWSTONE: Yes, and look this is a common misconception. And of course the specialist PMI broker would be happy if you remained thinking like that. The reality is that these customers already have healthcare, have got an IFA, so many of these cases you're already speaking to them every single day, you've just never asked the question whether they actually have health insurance. So yes, those customers are certainly there. And I think from my perspective customers are happy to buy a product from somebody that they trust. Now they trust you for their mortgage and their pension and their wealth benefits, so why wouldn't they trust you for your health insurance? PRESENTER: Karl, one of the things that, one of the reasons why somebody may go to a PMI broker is that it seems that it's quite difficult to compare particular products in the marketplace. So what from your point of view are the key things to help a financial adviser compare different products and different offerings? KARL HEWSTONE: So, as a starting point what I'd say is once you have the renewal terms for their policy, if you send that to any other insurers they will happily quote with benefits that they have which is comparable. So they will do a lot of the work for you in terms of comparing what they would consider to be a product which is similar to what the customer already has. I guess the challenge there is we need to make sure that we're selling to the customer's needs as at today, rather than the needs when they originally bought the policy, and that certainly has to be taken into consideration. But the key things that you would certainly need to be looking at is the cover that they've got, and obviously considering the price but making sure that the price is not the primary factor for making a decision, because different insurers will have different approaches. For example how much they will pay for a consultant, and we'll cover in another session about reasonable and customary fees. PRESENTER: And different conditions would be one thing yes. KARL HEWSTONE: And certainly different conditions of course. And each insurer no doubt has, as we do, will have guides that they can share with their brokers that will show their product and compare their product to other insurers. And equally there are independent tools such as Defaqto that allow you to compare different insurers' products and how they work in slightly different ways to try and make that process a little bit easier. But as we said before it's a little bit down to experience, and the first time you sell any new product it will require a little bit of investment of learning. PRESENTER: It's a pretty complicated market from what I see. And what I hear financial advisers tell me. Do you concur that it is a complicated market? KARL HEWSTONE: I think what I concur is that is a common question that comes up. And my response would be the first time you wrote a mortgage is was probably complex and confusing and there's a lot of jargon. And the second time you did it you thought hang on a minute, I'm starting to get the hang of this. And the third time it was a bit of a breeze. So in simple terms anything you do for the first time probably appears that way. I think you'll find that all insurers will go out of their way to try and make it easier and easier for new to market brokers because that is where the growth opportunity is. And certainly insurers are challenging ourselves to say what can we do to make it easier and easier for the broker who's taking those first steps in selling health insurance? PRESENTER: So are you really doing something about busting the jargon that surrounds this area? KARL HEWSTONE: Yes, certainly, so I can only speak obviously on behalf of Vitality, but we've done a lot of work around looking at the terms that we use to try and use terms that actually make more sense, rather than jargon

that we've got used to using. We do a lot of training, both in the field and online, including things such as these events. And from our perspective we have 160 field-based broker consultants to sit in a broker's office and literally hold his hand through the first and his second and his third sale to make it as easy as we possibly can for them. PRESENTER: Karl, I don't mean to bludgeon you but I am putting to you some of the common questions that are picked up when people go on roadshows around the country, and many financial advisers simply say I'm not going to bother with it because in fact there's no money in it. Back to almost that first question where I said why should I bother if I'm not going to make any money out of it? KARL HEWSTONE: Yes, and I think look, it's a totally fair question. And if you look at it on the basis of how much commission do you generate, then of course a selling of a health insurance product will generate the total commission which is less than selling other products. I guess may challenge back to you would be is that if you turn this on its head and look at it from a point of view of how much commission do I earn per hour, then you start to see a slightly different picture emerge. So if you take a health insurance product, say an average premium of £1,100, I would estimate that would take when you know what you're doing no more than two hours. And certainly all the insurers out there will help you with reason why letters and the like. Average commission is going to be around about £450, so you're looking at £250, £260 per hour for the time that you've spent. So if you sold a life insurance product at say £45 a month, and then you took let's say four hours with chasing the underwriting and the medical and all the other tos and fros that go with that product. Now you could end up earning somewhere around £270 to £300 per hour. So actually when you break it down per hour it actually starts to become quite attractive. And of course look, we're not saying stop selling what you sell now and start selling health insurance only; what we're suggesting is that this is an incremental sale to drive additional income from customers that you already have. PRESENTER: You make it sound relatively simple, and you make it sound financially attractive. Why, what's the principle reason do you believe that financial advisers seem to want to avoid this area? KARL HEWSTONE: I think it does boil down to those things that you've said, which is there's a concern that they don't have the customers, they're concerned they're not sure where to start, and it is around those financial points that you raised. And look, those questions that you've asked me today we have every single day, and we've done lots of roadshows and we very much start with a flipchart, list all the issues that you can think about why you don't write health insurance, and it boils down to those three. We've got a very long track record as an insurer of helping those brokers into the marketplace. In fact if you look at the sales from the non-specialist PMI brokers, that's gone from 25% of our total broker sales five years ago to just over 40% now. So it is a very important part of our business, and we like other insurers see a huge growth opportunity in non-specialist brokers. PRESENTER: Karl, for the moment let's go over to James Baker who's the Technical Insight Manager to put some flesh on the bones to give us some facts and figures. Over to you James. JAMES BAKER: Thank you. One of the questions we often receive from intermediaries is do I actually have the client base to sell health insurance to? And our answer to that is quite simple. If your clients look like this then yes they do. We understand customers in terms of some very simple customer segments. These are basically segments based around experience, segmentation, and as you can see from pre-family to young family then mature family, retired people, these are the key individuals that buy health insurance. The question I guess is if they look like your clients then yes you do have that opportunity to sell health insurance to them. Ultimately this sort of client base makes up around 28% of households, 29% of adults and around 50% of the health insurance customer base. So as you can see there's a real opportunity there for you to sell health insurance. And if we cross match what these customers and these clients buy in terms of other protection products, you can see straightaway they are really engaged in terms of looking after their health and protecting their health in terms of both lifestyle, impact of ill health, and also being treated as well. You can see bright futures, growing rewards, accumulated wealth, all of these customers buy protection products as well as health insurance

products. So the good news is some of you may already be selling protection products, pension products and wealth products to them. The good news is the clients that buy health insurance are equally as likely to buy pension products and wealth products as well, so again just reassurance that you have that client base. Now what's interesting is that there is obviously an opportunity to sell to individuals in terms of health insurance, but also there's a company paid opportunity as well, and there's some real drivers as to why companies buy and invest in health and wellbeing products. First and foremost recruitment and retention: people or employers want to recruit the best and retain the best staff as well. Health insurance is seen as one of those benefits over, well probably after a pension, one of those most desired employee benefits. There's also a direct link to productivity and engagement, employee engagement in terms of investing in their wellness in terms of investment in employee wellness. And finally health insurance and investing in wellness can reduce sickness absence costs for individual companies as well. So, again, as you can see from these slides this is a real driver for buying health insurance. So, what's the opportunity in terms of that SME market? Well you can see number one from the smallest and smallest of companies the sole trader: 3½m sole traders are out there, around 10% have health insurance. Micro SMEs, that's two to nine SMEs, there's over a million, around 9%. As you can see, all the way to the large corporate market where you have around 6,000 employers out there, around 56% of which have health insurance. So you can see number one there's an opportunity to tap into existing business. There's also an opportunity to create new business opportunities there as well. Why do they invest in health insurance? Why do they purchase health insurance? Well the reasons are manifold, and obviously there's no one fits all approach to this, but there's some clear drivers. So number one, a sole trader. The equation's quite simple. If you're ill as a sole trader then your business is ill. If you're off sick and you cannot operate then your business is sick. If you look at those smaller micro SMEs, often we see the key decision maker is really purchasing as an individual. But again they're also looking at recruitment and retention and using health insurance as a benefit that can attract in the best and the most efficient staff. Moving on to slightly larger SMEs, again, recruitment and retention is a key driver there, but again they're looking at offering a competitive benefits package, and they're beginning to show interest in employee wellness as well. So you hit the mid corporate market, that 50 to 250 employee market, when it's about offering a competitive employee benefits package. It's also looking at beginning to create a culture of wellness within the organisation, and again looking at how they can reduce sickness absence. Finally in those larger large corporate organisations they may already have an established wellness programme, a culture of wellness. They're looking to reduce sickness absence; they're looking to improve productivity and also employee engagement. So hopefully I've given you a good overview of the types of clients that look to buy health insurance, whether they're individuals, whether they're companies and the reasons why they would purchase that product. Now we're just going to talk a little bit around the reasons they care so much about their health and wellness as well. So why do these clients buy health insurance? Why do they want to invest in health and wellness? Now we'll see one thing, whether it's a bright future all the way to a retiree, one thing we've seen from research time and time again, when you ask people what is their biggest concern over the next five years, invariably it's all about staying fit and well. And of course it is, because when you look at those other concerns, whether it's having enough money, having a lifestyle that's comfortable, whether it's looking after their friends and family, you cannot really achieve that unless you have good health. So of course the one big priority to them is looking after their health. When you look at these clients' attitudes to healthcare and what they expect from healthcare, well the news is they expect the very best in healthcare, whether it's keyhole surgery, robotic surgery, all the way to regenerative medicines and cancer drugs, the very latest in gene therapies as well. And indeed as a nation we expect the very best of our healthcare provision. So 72% of us believe that actually the NHS should provide any treatment, any drugs no matter what the cost. You can see the expectations are very high. And in terms of what health insurance does, it looks to

cover all of these treatments and all of these drugs. But the costs involved with these treatments are fairly significant, and we'll just give you a few examples. Just something very simple like a chest x-ray, you're looking at about £100 just for one. The reality is you're probably going to have a couple of different versions of that chest x-ray, it's going to come to £400 or £500. If you look at something like an MRI just to find out what's wrong with you, you're looking anywhere between £500 and £800, and then diagnostic procedures. These are still surgical procedures but we're looking to find out what's wrong with you. You can look for example at a colonoscopy, the best part of £2,000. All the way through to surgical procedures, something like a heart bypass, we're looking if you were to pay for that privately you'd be looking at around £14,000. And then finally it's well documented, we hear about it day in day out on the news. Those lifesaving, life prolonging drugs such as Herceptin and Avastin, if you look at the annual cost of those drugs along with all the other drugs you have to take with them, you're looking at anything between £70,000 and £90,000. So we can see the cost of paying privately can be quite significant. So there is value in purchasing health insurance and covering those costs and you can see the reasons why. So no wonder that one in ten of us now benefit from health insurance, whether we pay for it ourselves or through a company paid scheme. And the reasons why we look for health insurance are quite clear. No waiting lists, health insurance will get you treatment at a time and a place that suits you. No waiting for diagnostics. One thing you want to know when something's wrong with you is what's wrong with you. With health insurance you have that reassurance that you can see a consultant, you can have those necessary diagnostic tests straightaway. Also choice of hospital and choice of consultant, with health insurance you can choose through talking with your GP which consultant, and which hospital you can go to as well. And more importantly again reflecting back on some of those costs we've just showed you, the one benefit of health insurance, those cancer drugs, those new drugs coming out, you're guaranteed that you have cover for them, as well as within a private setting having privacy and cleanliness around where you're treated. So you can see a myriad of reasons why people invest in health insurance, and why employers invest in health insurance for their employees as well. Now we're conscious that we as health insurers, we understand the market, we understand the language. You as intermediaries perhaps investing in the health insurance opportunities for the first time, there's a lot of confusion or areas you may not understand about the product. So just as a clear reminder of some of the benefits available through health insurance, clearly one of the big core benefits is hospital cover, and that's covering accommodation costs, surgeons, anaesthetists fees, and god forbid in the case where treatment for cancer is required, covering all those costs that we've just overviewed as well. On top of that you'll see many health insurance products also cover outpatient treatment, mental wellness. This can be part of the core proposition, this can also be an optional add on as well, so just to be aware of the options available to you and your clients. To give you an idea of the sort of treatment it's going to be covering, we've mapped out a very simple example. I'm a great believer in just making things simple. So if you look at the patient journey. There's something wrong with me, I feel something wrong in my stomach area. I go and see my GP. The GP refers me to a consultant. That consultation could be anything between £150 to £200. Invariably that consultant is then going to recommend me for scans on an average cost of around £800. He's then going to talk to me about those scans, another follow-up consultation at £150. And then finally I find out I've got gallstones. The treatment is going to be about £2,500, and there'll be another consultation at the end of that as well. So as you can see for something very simple like gallstones you're looking at a £4,000 bill, something that the health insurance would cover. The outpatient benefit here, obviously a lot of that cost is sitting in outpatients, so again just to remind you of the importance of having that outpatient cover. Finally just to really map where health insurance sits within the whole protection product matrix as well. As you can see health insurance is really about offering holistic cover, all the way from initial symptoms through to diagnosis, investigations and treatment. So as we've shown that entire patient journey health insurance is there to

cover it all. As you can see with life insurance pretty much that does what it says on the tin, it's there for you in the event of death. Critical illness, income protection, yes they fit in within that healthcare journey, but whether they pay out or not is dependent on whether the complexity or the severity of the condition or the time off work if it's income protection. What we're trying to show you here is how health insurance can actually fit in with that sales process, fit in with being able to cover clients from the very beginning of an illness to the very end. So you see with health insurance from symptoms all the way through to diagnostics and treatment and terminal illness god forbid, that insurance policy is there for you; whereas life insurance, it's there for you in the case of death. It's there to recompense and look after your loved ones in the case of death. In the same way that critical illness and income protection, yes they will pay out when you're ill, but they're very much around covering you for the financial impact of that condition or that treatment,. So as we can see where we believe health insurance really fits into the protection sell is giving that holistic approach to health and wellbeing of your clients' loved ones and indeed your clients as well. Thank you and back to you. PRESENTER: Thank you James, some really interesting facts and figures there. Karl, of course we need to talk about regulation, what's the regulatory regime that covers this particular product? KARL HEWSTONE: So health insurance is a general insurance product, and it's regulated under the ICOB rules for the FCA. So in simple terms if your business is regulated to sell non-investment products, then by its very nature you're regulated to sell a health insurance product. The only caveat I'd put on that is if you use a network, some of the networks do have some additional licensing rules to allow you to sell health insurance. So I would urge you that you go and talk to a network if that's the case to check if there's any processes that you need to go through. PRESENTER: It is important though, we may have made it sound simple, it is quite a complex area, and it is important for a financial adviser to understand it. What do you say about training and support in this area? KARL HEWSTONE: So in our experience what we've learned is there's a key set of elements that you need to understand. And when you've done that it unlocks the key for the rest of your learning. And we'll cover that in a session another time. But certainly we spend a lot of time as an insurer, and I'm sure our peers do the same, of making sure that the broker has a good base understanding of those key terms and terminology and things like underwriting. And then once they've done the product suddenly becomes a lot simpler. And we can do that through training courses such as these, or face-to-face training, or many insurers run seminars around the country as well. PRESENTER: So there's quite a lot of support out there. KARL HEWSTONE: Absolutely. PRESENTER: In that case you having done a number of these training sessions and met a lot of very successful financial advisers who were selling this product, from your experience how should they go about prospecting for new clients and creating a new client base in the first place? KARL HEWSTONE: Yes, so the first thing I'd say, and it's a bit of a cheeky response, but the first one is ask, when you're doing your fact find ask them do you have health insurance, and if you do when does it renew is a pretty good starting point. I think secondly it's really important to establish that need of wanting to be well, because the reality is nobody wants to be sick and nobody wants to use a private hospital. So if you've established that as a need, then obviously that's something that you can come back to either during the sale of the product you're talking about or maybe subsequently down the line. So that's certainly an important part. PRESENTER: And that is face-to-face with your existing cadre of clients. KARL HEWSTONE: Yes, absolutely, so I think all brokers tell us that what they're looking for is to cross to their existing customers, because they're a lot easier to find existing customers than it is to try and establish and create new ones. PRESENTER: The 80/20 principle. KARL HEWSTONE: Absolutely, so what we're doing here is giving an opportunity to sell additional products to an existing customer bank. And then ultimately I'd perhaps break that down into the retail and the group market. So for your retail customers there are lots of different ways in which you can approach them. We've talked a little bit about self-employed individuals. Equally in the group marketplace group employers have needs in terms of their

staff to make sure they retain the best staff, they attract the best staff, that they keep them at work, and equally look, here's an opportunity potentially to cross sell into the business protection market and vice versa. So certainly leads into additional conversations. PRESENTER: If you're starting from scratch as it were, where can you go in order to get databases of potential interested parties? KARL HEWSTONE: So as we've already uncovered for many IFAs actually customers already exist in their existing customer bank, either that have health insurance or that could well buy. And some insurers like ourselves will actually take broker's database and put it through a profiling tool and tell you which one of your clients are most likely to buy to help target your efforts. So certainly that's a conversation that's worth having with insurers. PRESENTER: And targeted communication, things like newsletters actually work in this area. KARL HEWSTONE: Ultimately a broker will know their client bank better than any insurer, but certainly I think you'll find most insurers will be keen to help them. So if you came to us with "look, I'd like to write to my customers about this particular topic", then we're not exactly short of marketing material. So certainly we would have a marketing angle to help, whether it's a printed or an email approach, or maybe a calling campaign. PRESENTER: And quotes are easy to come by, difficult process. You end up talking to an actuary in the end. KARL HEWSTONE: Luckily you don't have to talk to an actuary to get a price, because you're right, that would be quite a painful experience. But no, again insurers have spent a lot of time and effort to try and reduce some of the jargon to make it easier to get a price as quickly as possible. And again from Vitality's point of view we've developed a quick quote tool, which is very much designed for non-specialist brokers, and even I can get a quote in 12 seconds. So if I can do it I'm sure most brokers can as well. PRESENTER: OK and for business customers does this form part of an integrated package would you say that a financial adviser may be looking to provide for a business customer? KARL HEWSTONE: Yes absolutely. If you look at the directors that they've probably got on their client bank, the directors clearly have needs for themselves in terms of key man and business protection and relevant life. But at the same time as we've said they have employees, and employees are probably the most important asset for any business. So it's important they protect them and that naturally leads into group life products or group income protection, and of course group health insurance. So lots of opportunities to cross sell more than just the conversation we're talking about today. PRESENTER: So if people, if financial advisers become interested in this, what are the next steps they should take? KARL HEWSTONE: So I think you'll find that all insurers will have, the starting point will be on their website, and most of them have dedicated pages aimed for people that are taking the first steps into health insurance. Certainly from our point of view as I say we have 160 field based consultants. They either need to contact their local consultant, or if they email us at salesupport@vitality.co.uk. We'll make sure that a consultant contacts them and arranges a face-to-face meeting. PRESENTER: On that note Karl, thank you very much indeed. Stay with us for a review of the learning outcomes from this session. In order to consider the viewing of this video as structured learning you must complete a reflective statement to demonstrate what you've learned and its relevance to you. By the end of this session you will have been able to understand and describe the need for PMI and who buys it; where there is a need in small businesses and the self-employed; who currently sells PMI and what are the requirements for non-specialist financial advisers; developments in making products in this area easier to understand and sell, and regulation. Please now complete the reflective statement in order to validate your CPD, and don't forget to watch out for the other Akademia learning modules.