Distribution & Marketing

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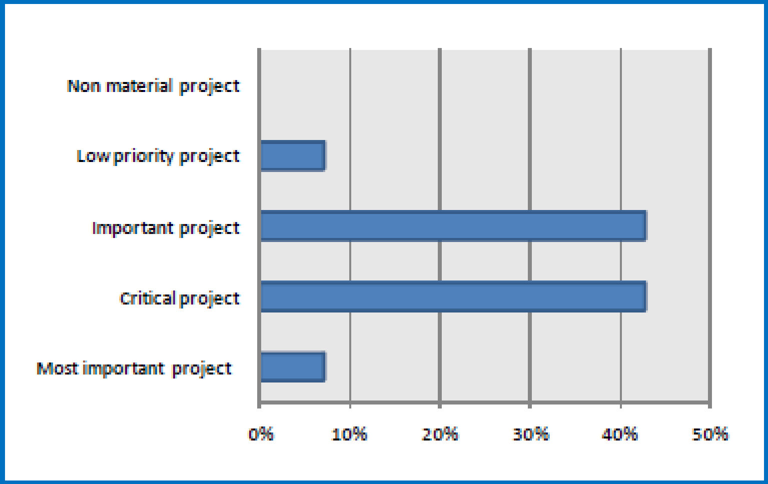
General Advice Warning!

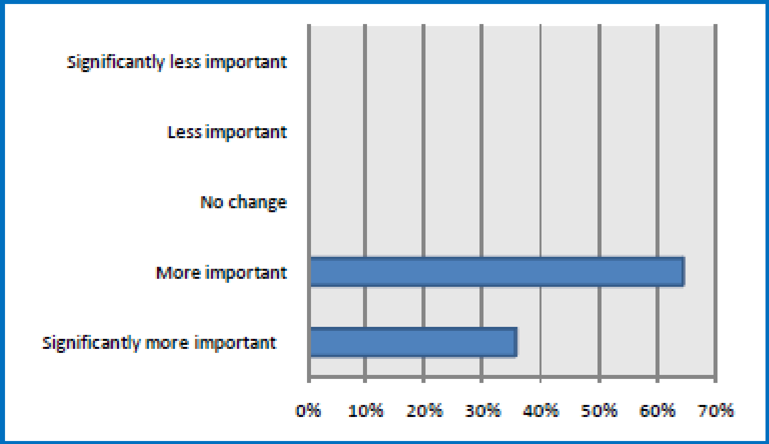
Industry Context

- Industry reporting increasing impact of lapses
- Is there a GFC impact still being felt?
- Study of 9 of top Life Companies* reports that customer retention is a significant project and is gaining more importance
- Furthermore, most life companies are committing resource and dollars to addressing the issue

Importance of customer retention



Prioritisation change over last 18 months



*Source: GenRe 2010 Life Insurance Retention Survey

Distribution Conundrum

- As an industry we rely on strength of advisers to get customers, explain the product and match to people’s needs
- As an industry we have agreed to allow up front commission, replacement terms and cannibalistic behaviour
- As an industry we have focussed on volume today, incremental product innovation and less on “whole of life” solutions that make it easier and more logical for adviser to keep customers with same product

Distribution Issues

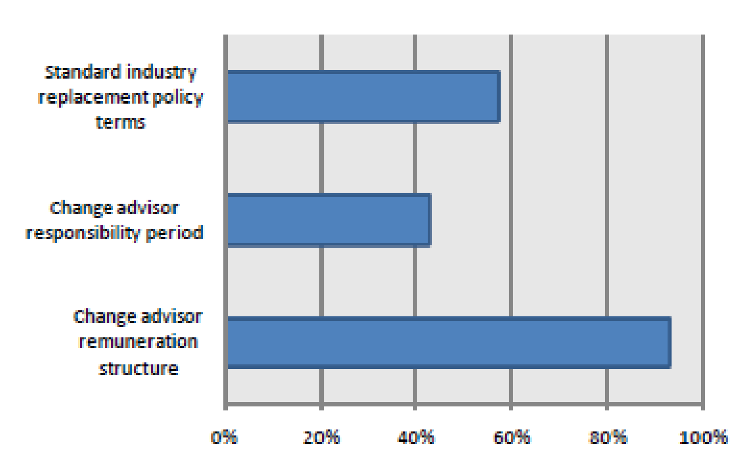
- Are we growing the market?
- Are we cutting each other's lunch?
- Are we showing regulators; current and future that we have our house in order?
- Are we continuing to build and maintain a sustainable business model?
- Does the current remuneration model help or hinder the growth of long-term relationships?
- What is happening in direct and do we have a future view of it?
- Do we truly have partnerships in this industry?
- Have we considered the role and needs of the end customer?

More Industry Feedback

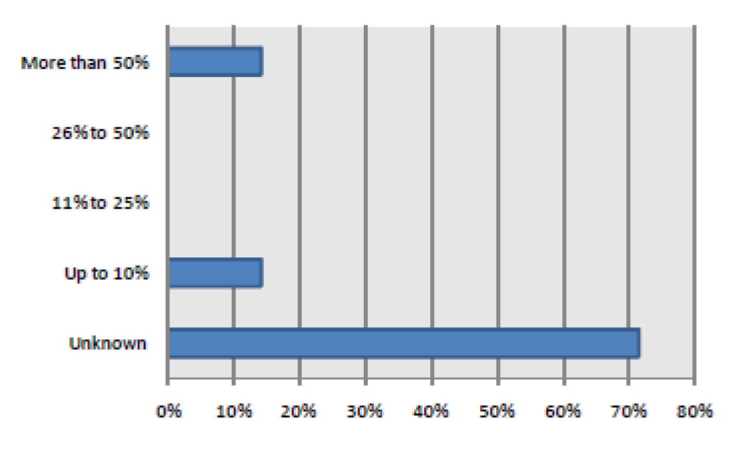
Three “connected factors at play:

1. There is unanimity of belief in the need for change to rem structure
2. There is inertia / interdependency on making changes
3. There is a lack of insight into where business is going to and the extent to which replacement is the issue

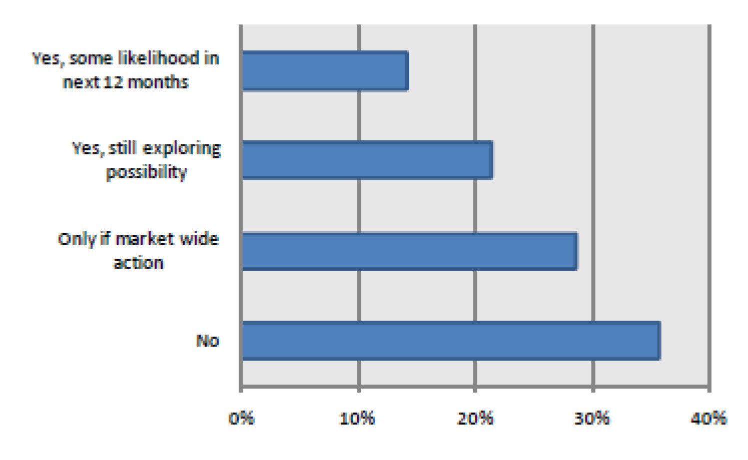
Most effective levers to reduce churn in the industry



Percentage of lapsing business that is replacement business to other insurers



Are you considering changing commission terms on replacement business?



*Source: GenRe 2010 Life Insurance Retention Survey

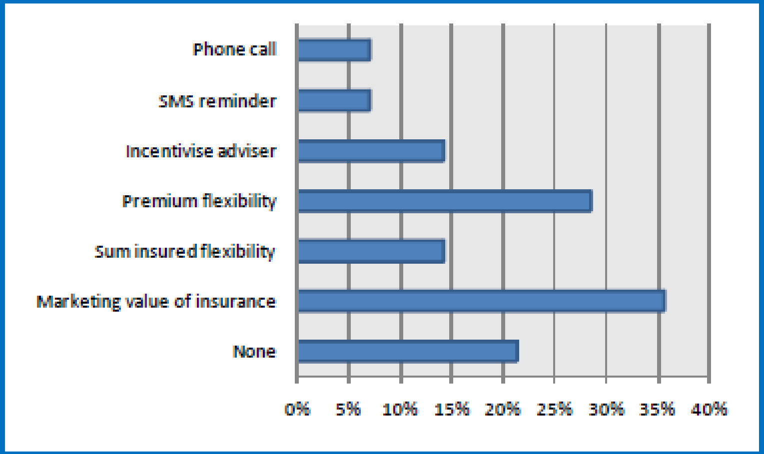
Distribution: A Partnership Model

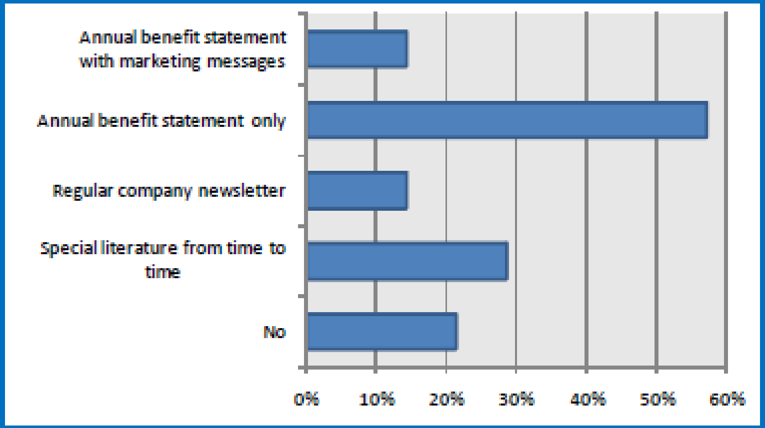
- The critical strength of the adviser is bringing people into a dialogue about our products and providing solutions
- In all intermediated businesses there is a dual role for manufacturer and agent / adviser with a set of shared goals and common purposes
- Service we provide to customers is the ongoing embodiment of the advice they received – this is a serious responsibility

Customer View

More Industry Feedback

- Disconnect between what we say is important and what we do
- There is acceptance of the idea that we need to market the value of insurance
- Does not seem to be much activity or use of touchpoints





*Source: GenRe 2010 Life Insurance Retention Survey

Customer Experience

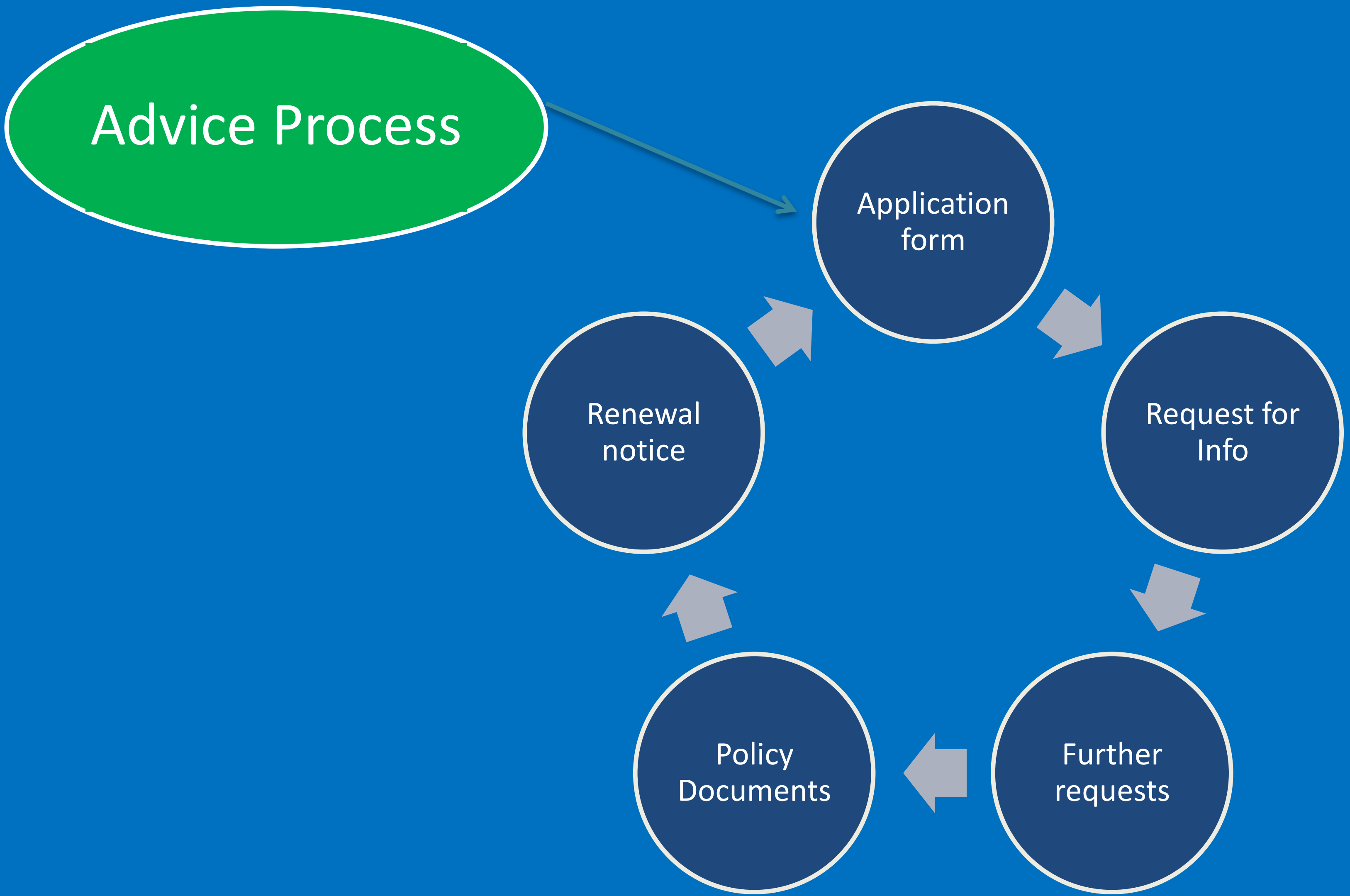
Consumers Point of View

"A great customer experience is about the way you feel as a result of an interaction or multiple interactions
It's about the creation of an emotional bond between the business and the customer at every touch point – that is repeated time and time again"

Our role

Customer experience is the sum of all experiences a customer has with a supplier of goods or services, over the duration of their relationship with that supplier

How Do We Rate?



Insight	Implication
Change in customer focus requires a change in approach	Place new emphasis on value and this needs reinforced by all parties
Flexibility and a demonstrated interest in retaining the business	Work together to customise and target the offer
A relationship component might have improved the situation	Continue to work to revalidate the advice they received
Reassurance around claims	Make contact more meaningful by showing the benefits on ongoing basis

MACQUARIE

Macquarie Life

Managing lapse rates

Product issues

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Head of Underwriting and Claims

April 2011

MACQUARIE

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What constitutes a lapse

- Policy that has been fully underwritten, one or more premiums have been collected and the policy ends due to:
    - Cancellation
    - Non payment of premiums
- The provider has incurred full acquisition costs and has paid commission
- Prior to premium collection – regarded as not taken up or not proceeded with and not a lapse

Who lapses?

- Cancellation is often adviser driven and associated with a replacement with another provider due to:
    - Best advice
    - Commission
    - Dealer group APL's
- Non payment of premiums is often client driven and mainly due to affordability issues. Poor perceived value post claim can also result in a client driven lapse

How can product design influence lapses?

- Price – base premium rate
- Premium type
- Benefit design
- Other

Price

- Based on actuarial tables and experience e.g. IAD 89-93, KPMG data for mortality and morbidity – use age, gender, smoking status, occupation to calculate base premium
- Each company alters basic mortality or morbidity curves at various ages to create price competitiveness.
- Increased cost as client ages – allows adviser to move business to another providers ‘sweet spot’
- Ability to fund through Super
- Older investment type products disincentivised lapses due to build up of an investment asset in life product – all fine if investment markets are doing well

Price continued

- In South Africa – use of Integration models across Life, Health, Investment and Credit Card products – the more products, the greater the Life discount – exceptionally difficult for competition to undercut on price
- Payback options dependant on claims history
- Underwriting loadings can add to the base premium – health, occupation and avocation – these are normally static and remain for the life of the policy even if client manages risk

Premium types

- Australia has stepped and level - pros and cons to both, but increased lapse experience with stepped premium due to affordability issues
- Other international options provide a hybrid funding structures, which allow various percentage increase on contributions and benefits e.g. ACI/ABI 8%/5% - allows for smoothing of stepped rates
- Ability to ‘lock-in’ or prepay premiums
- Premium guarantees – 10 year rolling with 15-25% cap on future increase
- GIB options

Benefit design

- Much overlap between certain benefits and criteria e.g. TPD and disability income or certain Trauma definitions and TPD (e.g. cognitive loss)
- Client pays two premiums when they might only get one payout, especially with linked benefits
- Decreased client and adviser value in occupational definitions – own and any
- Minefield that is income protection – indemnity, agreed, endorsed agreed – confusion for both client and adviser
- Research house product design not always relevant to the client

Benefit design continued

- Need for both real and perceived value beyond the first claim – multiple claim facility
- Evolution of blended product design
- Broadest range of cover needs to be available
- Criteria for specified conditions that need to be kept up with medical technology
- Advisers will move business if claims aren't paid, especially if they appear to be valid
- Clients are aware of some product flaws via word of mouth and media

Other

- Underwriters need to make advisers aware when it is not in the best interest of the client to cancel an existing policy e.g. change in health
- How do we maintain super lives on our books?
- The claims experience needs to be real – trust in a company will reduce lapses
- Direct client communication can increase provider loyalty – new technology?
- Wellness programs
- Mandatory replacement advice process across all providers?

Life Discussion Group
Retention - Customer Experience

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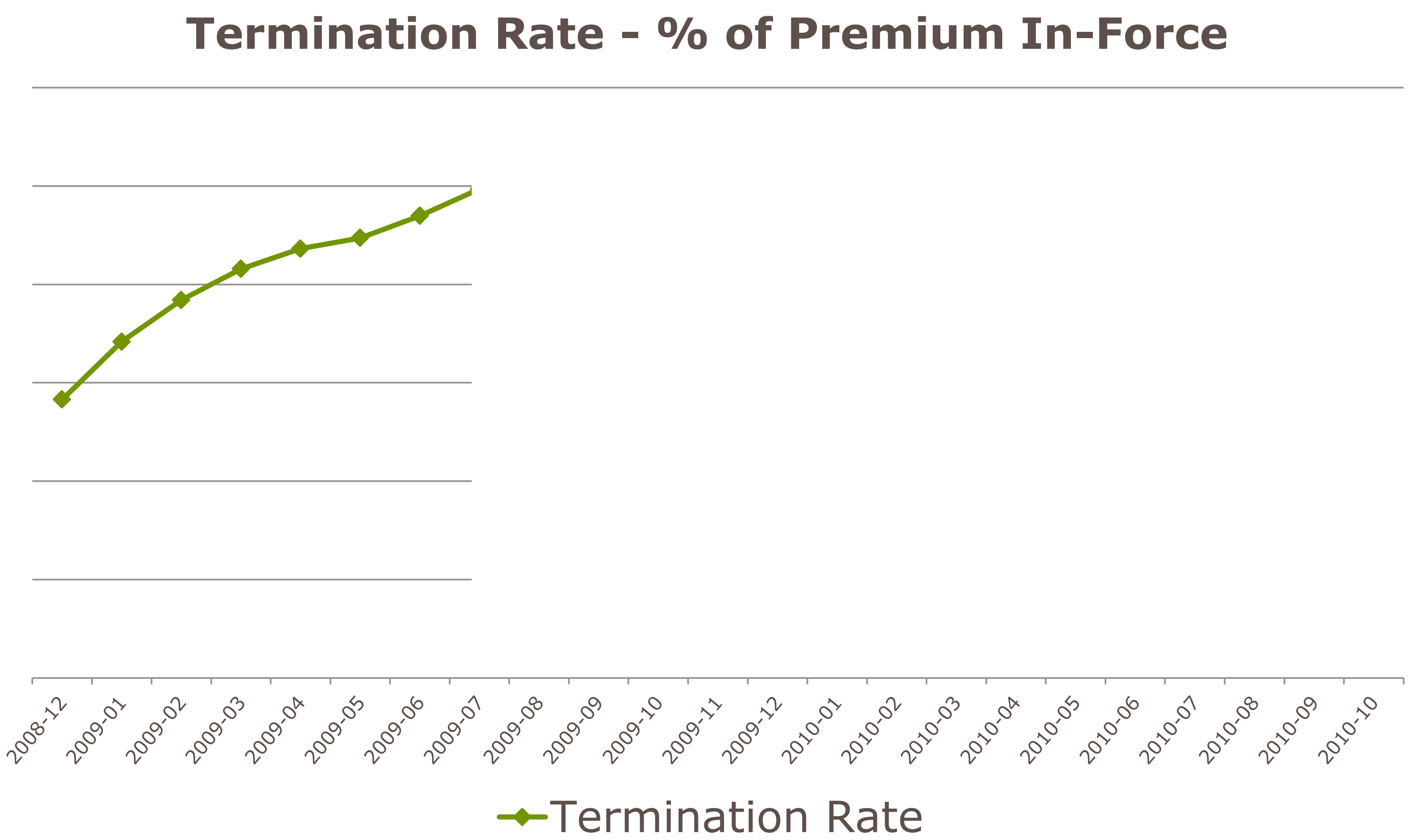
OnePath

April 2011

Agenda – Retention (customer experience)

- Why do we do it?
- How do we know where to start?
- Where did we start & what did we find?
- What was the strategy
- What are we doing …
- What have we learnt …

Why did we do it? … it became fairly obvious



Why did we do it?

- Lapses were a concern
  - rate of increase was significant over a short period and not limited to Term/Trauma or IP.
  - GFC
  - single point of ownership
- We wanted to know where to start
- It was like an 'onion'!?
  - Peel back each layer and you find another issue
  - The more you looked the more you kept crying!
- No single lever – multiple reasons and areas

Where did we start?

- Why not ask our clients?
  - help us prioritise
  - don't assume you know why they cancelled
- We undertook ex-client research
  - 300 cancelled clients
- We wanted the answers to 2 simple Questions
  - Why are they ex-clients?
  - What could have been done to retain them?

… and we found that

Big eye-opener …

25% of ex-clients surveyed didn’t know they were **ex**-clients or didn’t realise they were a client and had left

- Data quality
- Correspondence clarity

Core termination reasons

- **Financial reasons – 35%**
  - Budget, work reduced, premium rise
- **Adviser recommended - 35%**
  - Unprompted rate was lower but when you read through the report it was clear many “cannot afford” unprompted responses was “cannot afford… because my Adviser told me if was cheaper at XYZ Life so I went there”
- **Product not needed, not understood or other – 30%**
  - Super fund insurance, no real need, employer cover, business ended

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We went deeper – what else did we find ….

- **Financial reasons – 35%**
  - Perceived lack of affordability rather than actual lack of affordability meant client regretted their decision to cancel
- **Adviser recommended – 35%**
  - Only half of the policies terminated through Adviser Recommendation ended up successfully replaced with a new policy
- **Product not needed/other – 30%**
  - 12% - My circumstances have changed
  - 6% - Haven't had a claim – don't see the point
  - 5% - My Adviser hasn't spoken to me since I purchased the product
  - 4% - Don't understand what my policy covers
  - 3% - Other

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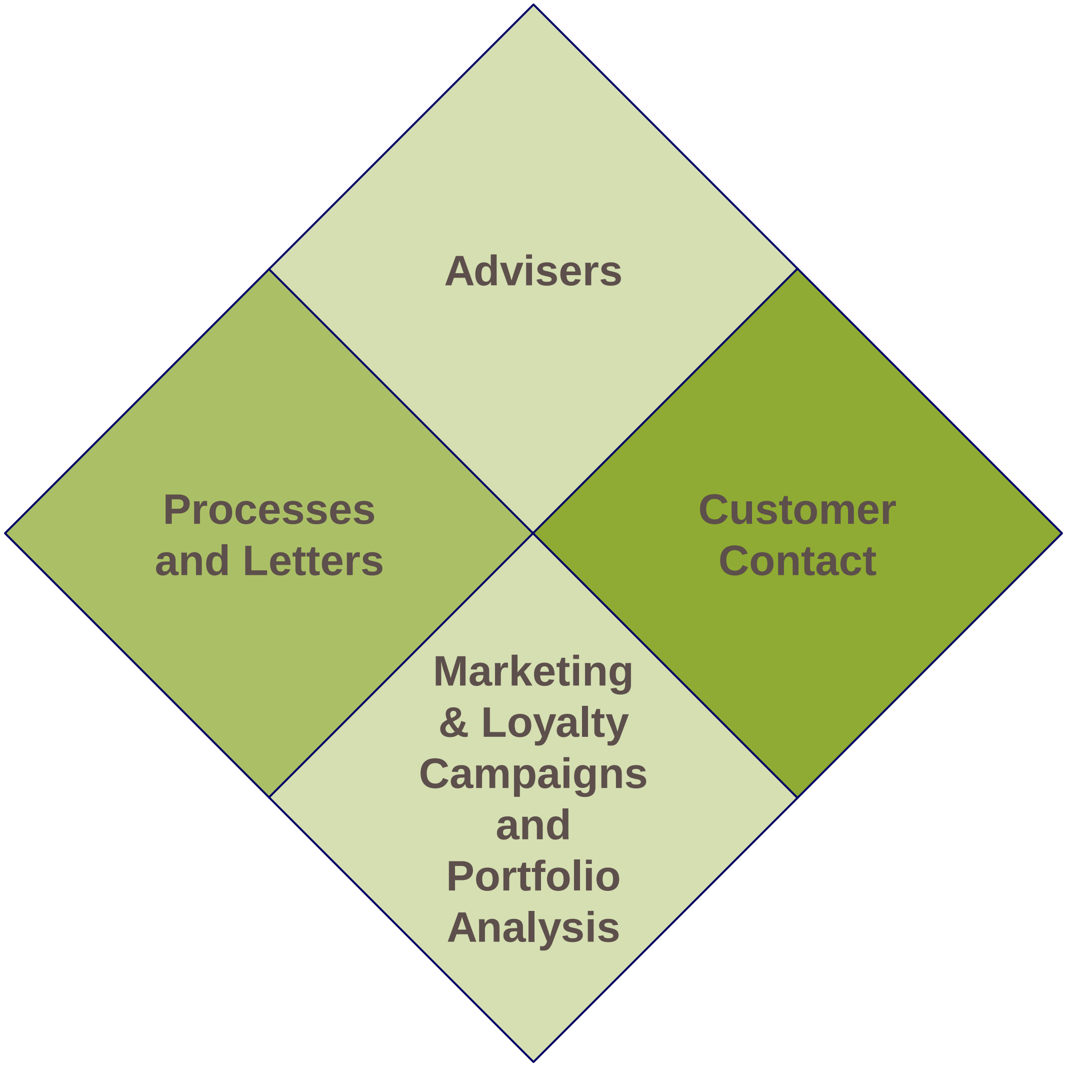
Where did we start ….

- **“Call me”**
  - 70% who terminated would have welcomed a call during week day business hours to discuss options.
  - 40% would have been likely to reconsider termination if they were made aware of reduced premium/benefit options.
  - Noted that clients who responded with ‘Product not needed’ were less likely to welcome a call than ‘Financial reasons’ or ‘Adviser recommended’.
- **“Reward me”**
  - 25% of clients said a reward program would have made them likely to reconsider their termination.
- **Needs based sale and client maintenance**
  - Clients aren’t sure why they should have the product

What was the strategy?



Multiple Levers to pull

- Advisers
  - Identify and manage high termination rate Advisers
- Processes and Letters
  - Improve our lapse, dishonour and reinstatement processes and letters
  - Invest in your rear end!
  - Provide clear actions for clients to take to ensure continuity of their insurance cover
- Customer Contact
  - Contact customers inside the lapse cycle to assist them to pay their premium due.
  - Provide cancelling customers an opportunity to discuss their intention to cancel
- Marketing Campaigns and Loyalty Program
  - Target discrete groups of clients with high termination rates and convert them to an alternative structure with acceptable termination rates
  - Offer a loyalty program to retail life risk clients to improve retention through points for premium

What are we doing ….. customer contact

- **Preventative measures**
  - ***Outbound Retention team***
    - "Calling to ensure you keep your cover"
    - Called clients who dishonoured or had an overdue premium within a few days of the event
    - Most clients called arrange payment
    - Some referred back to Adviser for action and even up-sell
    - An opportunity for the client to talk
    - Often unsure what they have
    - Most unaware they can change their cover to suit circumstances
      - Fact based product information
    - Some unaware they have an Adviser
  - ***Inbound Retention team***
    - Specialist team to manage customer cancellation calls
    - "TVC Insurance" – we just asked a few more questions
    - Good success rate
    - Some referred back to Adviser for action

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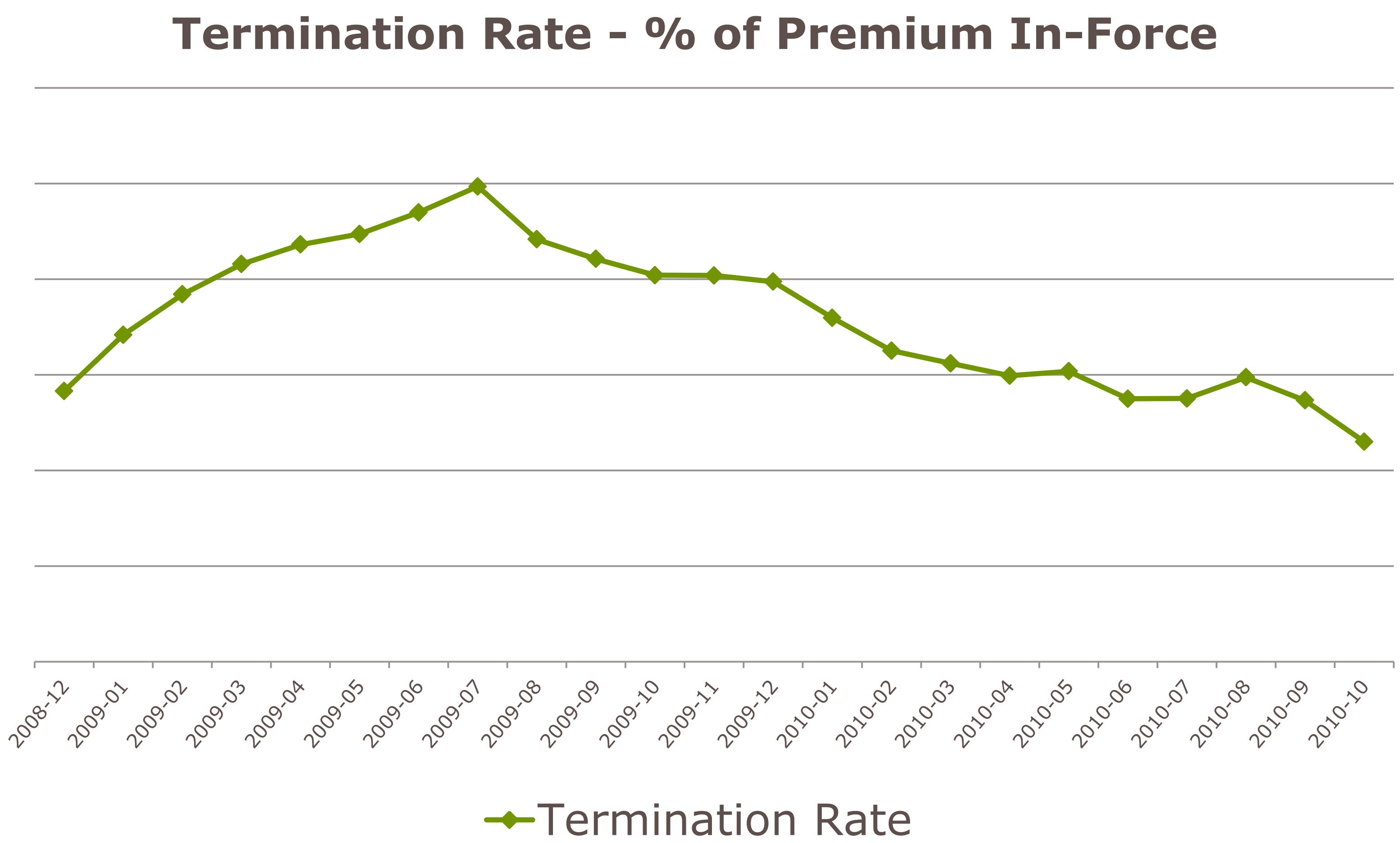
What are we doing ………

- **Proactive measures**
  - 25% of clients on cheque payment method terminate every year
    - Offer them Direct Debit / Credit Card option – excellent take-up rate
  - Clean up our data quality
    - Phone numbers – significant improvement in being able to call a client
  - Major re-vamp of Lapse, Dishonour and Reinstatement processes and letters
    - "we've always done it this way"
    - Ask your people – they know what to do
    - Try something different
    - Ask Advisers and their back office teams
  - Qantas Frequent Flyer Points
    - A tangible reward for being a policy holder
    - Loyalty generation
    - Early insights look good
  - Covered magazine and Covered online
    - Regular communication
    - An opportunity to remind people why they need insurance

Multiple activity … it's helping



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Learnings and next steps .....

- **Remind clients 'regularly' why they have the product or purchased it in the first place**
  - if sold to a need, they probably still have that need
  - if not sold to need remind them they have a need
- **Clients want to be called**
  - most happy with week day business hours
- **Clients want options in time of financial stress**
  - reduce cover/benefit, CPI increases, freeze
- **Most feel worried after they terminate their policy**
  - Particularly when they terminate for perceived financial reasons
- **Only started ....** plenty more to do
- **Continue to improve the culture**
- **If it's measured it gets done => New Business + Retention**

$1m retained equivalent to $8m in new business

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