



Institute of Actuaries of India

The value in „Value for Money“

A practitioner's view

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The big question?

“do life insurance products give good
value?”

What is value?

Value to whom?

Value relative to what?

Value by when?

Agenda

1

Value for Money (VfM)

Is it a pure price consideration?

2

VfM – A practitioner's view

How could it work?

3

VfM as a competitive advantage

What could VfM frameworks give us?

Question & Answers

Value for Money (VfM)

1

Is it a pure price consideration?

Price vs. Value

Price and Value - are the two necessarily the same?

Price

Price is the amount customer pays for a product or service



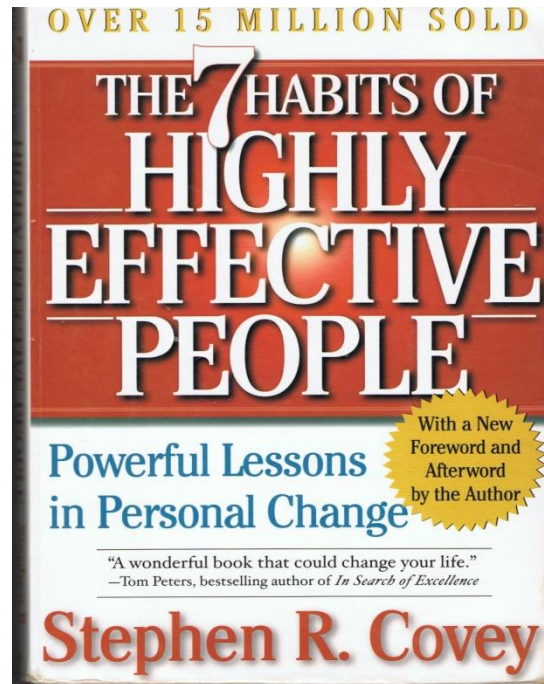
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Value

Value is what the customer derives from product or service



Increased efficiency leading to a better personal & professional life



When is it not just about price?

Urgency



Convenience



Trust



While purchasing - price is one of the several variables customers evaluate to assess the value of a product

When is it only about price?

Nails & Hammer



Vs.

Local handy-man



Vs.

Turn-key Solution



Customers assign value to the service and experience -- even when buying so called “commodities”

Voice of Customer

Is price the only factor?

What do customers say ?

I am ready to pay if someone explains the benefits of this product

The gold coins I buy gives me better returns than insurance

I will pay if someone keeps in regular touch rather than just chasing me for premium

I will buy insurance if I understand how it helps meet my goals

Willing to pay extra where I trust I won't be cheated

I don't trust agents, how do I know my claim will be paid if something happens to me?

the language is confusing and there is too much fine print so I don't know what I am buying

Customer Says*

Factors beyond price

perhaps better expressed as “Expectations mismatch”?

Context Is King – the “who”

“Value lies in the eyes of the beholder”

Link to salary inflows,
24-7 convenience from
own location

Call centre time
difference?? Local
and self-service
options

UMC

**Urban Mass
Customers**



USP

**Urban Salaried
Professional**



BO

**Business
Owner**



RI

**Rural
Individuals**



ENR

**Empty
Nesters**



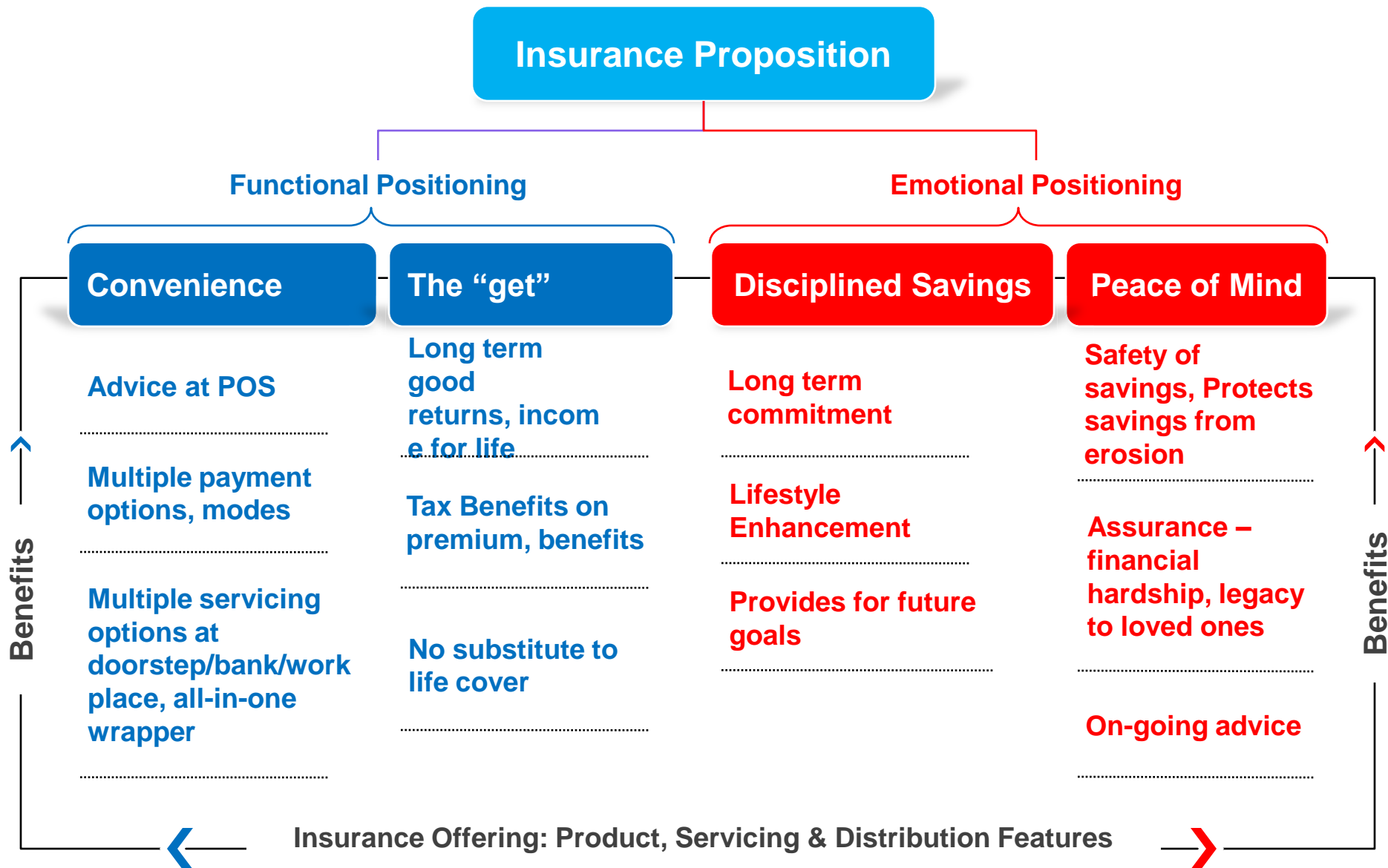
NRI

**Non Resident
Indians**



Easier
documentation, flexi
ble premium
payment?

Going beyond product – the “what”



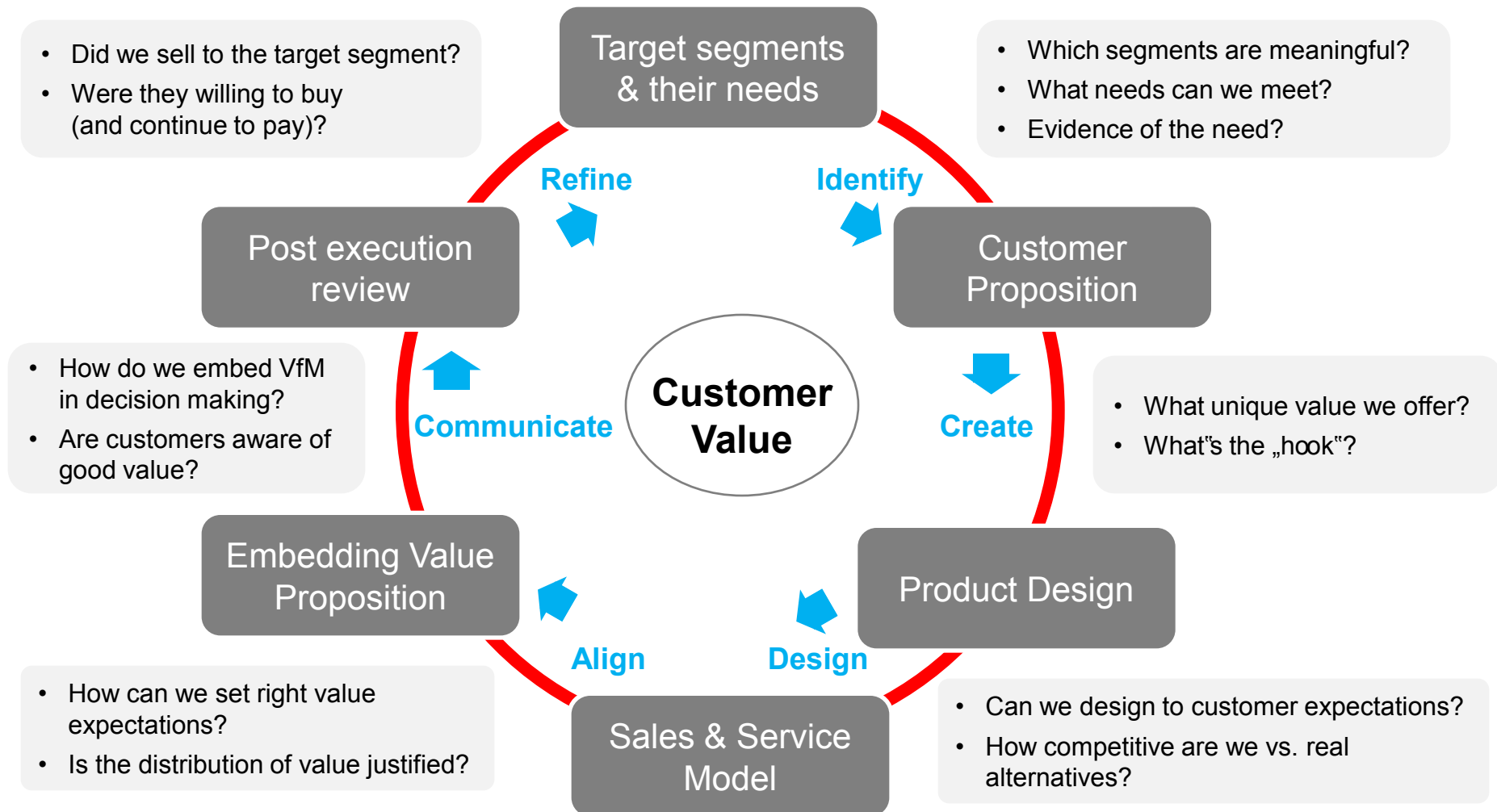


2

Value for Money - Framework

How could it work?

The Circle of Value



Start with customer needs...

Needs → Propositions

Managing Wealth with
Protection

Child

Guaranteed Savings and
Life style Enhancement

Retirement

Legacy Planning

Protection

Propositions → Products

Account based/ variable

ULIPs

Single pay bonds

Child Plans

Traditional Endowments

Money Backs

Regular Income Plans

Pension/ Annuities

Whole Life

Credit Life

Term

Health

- Create propositions for your target segments; then develop products to meet those needs
- Believe in & rigorously conduct primary market research

Why would your customer buy this

We use checklists in the development process to focus on customer needs and not just product features

CHECK LIST

Who? What? Why?

- ☒ Who are we targeting? (Target customers)
- ☒ Why buy it? (Customer needs being addressed)
- ☒ Why is this product needed on our shelf?
- ☒ What is the product?
- ☒ What are its competitive advantages?
- ☒ Who are the key competitors in this product market?

Why would your customer buy this

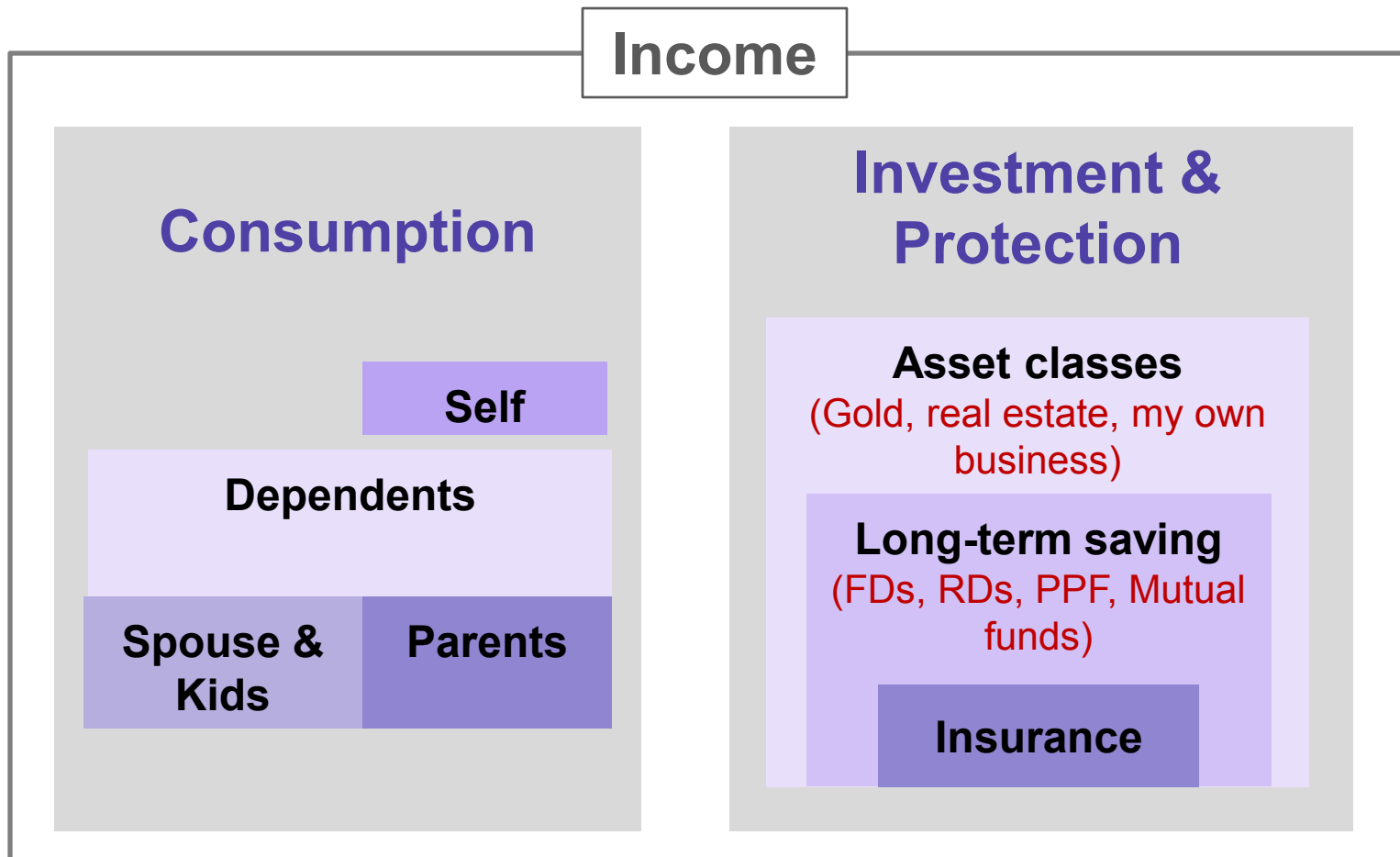
We use checklists in the development process to focus on customer needs and not just product features

CHECK LIST

- ☒ Do any customers within the target market warrant an extended duty of care and, if so, how will this be addressed?
- ☒ How has the target market been validated? Customer research, competitors
- ☒ How have we ensured that the pricing is transparent and fair to the customer throughout the product lifecycle?
- ☒ Describe how we have tested the product for representing value for money to the customer throughout the product lifecycle?
- ☒ What are the scenarios that result in significantly different or adverse outcome to which the customer might reasonably expect?

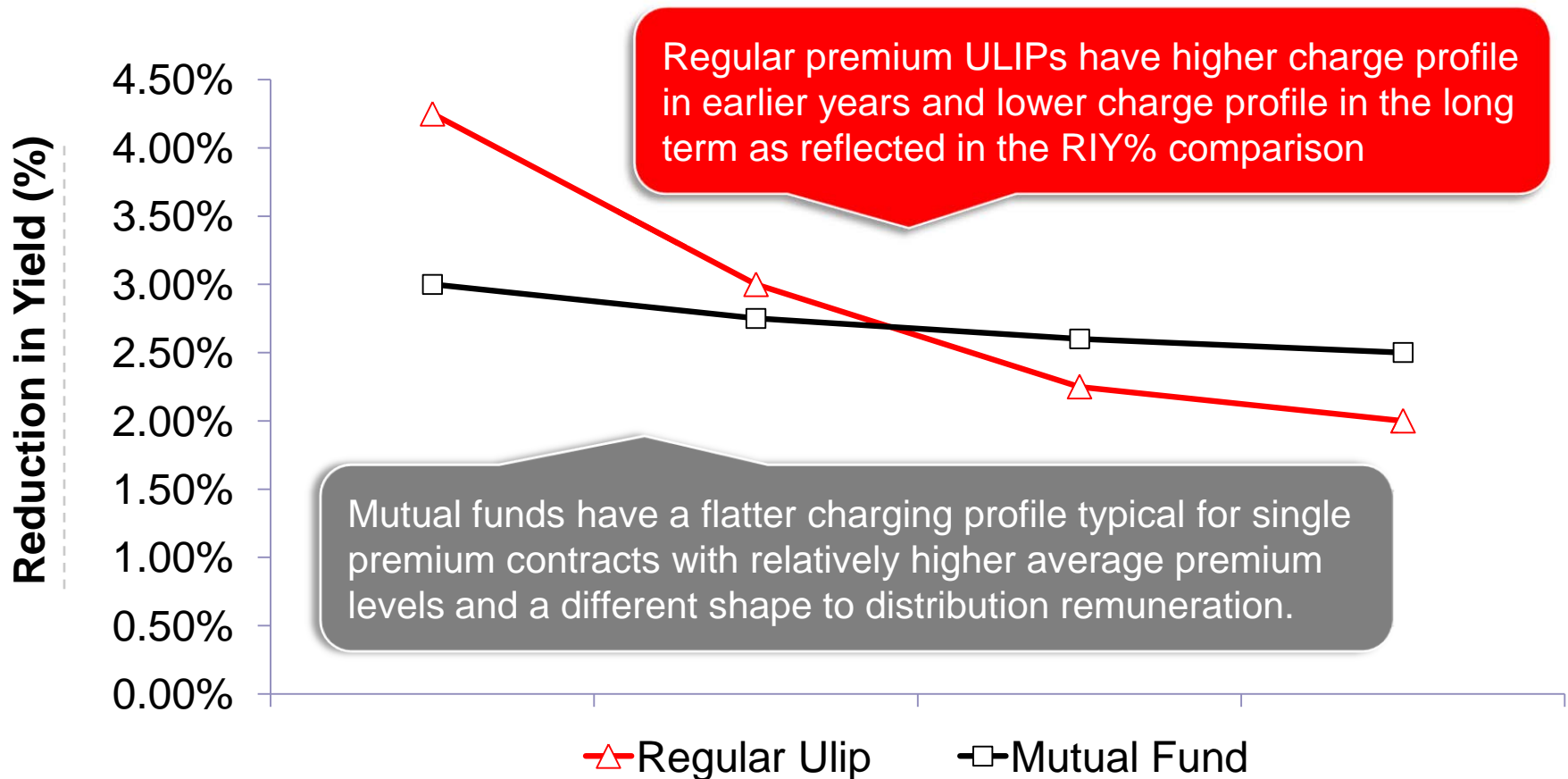
The real alternatives

Within this context, we must still recognize we compete for share of wallet and mind...



Value for Money assessment

Can a regular pay ULIP provide more value than an equity mutual fund SIP along with term cover?



Value for Money assessment

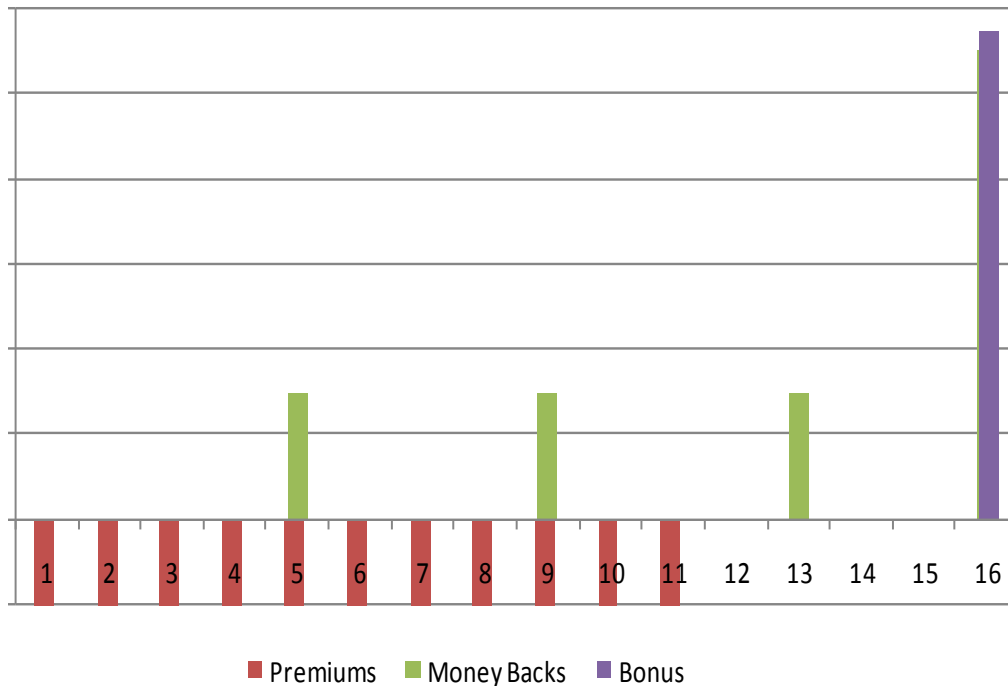
Regular pay ULIP vs. equity mutual fund SIP plus term cover – important considerations in the process

- The value of zero/ low cost switching options between investment classes
- Expense ratios vary based on the size and reach of the mutual fund. Which options would my customer be able to access easily?
- Is it relatively simple for the customer to create the (Term + SIP) bundle? Are low Sums Assured easily available in pure term plans?
- The cost-convenience trade-off : advised vs. direct/online options in mutual funds and pure term plans
- Is the decreasing life cover (higher of SA, FV) valued by my target customer?
- Is the tax advantage real, for the customer? What if there is a significant debt component? Impact of service tax is different for MFs and ULIPs.

Value for Money assessment

Can a Money Back Plan provide more value than a sequence of bank Fixed/ Recurring Deposit investments plus term cover?

Money Back Plan cash flows



Creating a replicating portfolio with Fixed/ Recurring Deposits:

- Regular deposits
- + Interest - cumulated
- Tax on interest
- + Withdrawals/ redemptions for Money Backs
- Level term premium

= Lump sum @ maturity

Value for Money assessment

Bank FD/RD plus term vs. Money Back – important considerations in the process

- Tax treatment of interest earnings for the target customer
- Re-investment risk – long term interest rate lock-ins not available even with RDs
- Does the target segment value „certainty“ enough to give up potential for upside from better investment performance in par
- How critical is mid-term/ early exit liquidity to the target customer? What exit penalties are perceived as reasonable?

	Bank FD/RD plus Term	Money Back
Different segments may perceive different alternates as valuable	<ul style="list-style-type: none">• Older customers with higher need for liquid funds• No tax advantages or not paying tax• Sensitive to the “current nominal rate”• Willing to put together 2-4 products and self-trigger redemptions	<ul style="list-style-type: none">• Mid-age customers saving for planned long-term milestones• Highest marginal tax rates applicable -- value tax-free payouts• Convenience – need one solution with no need for liquidating FDs etc• Conscious of reinvestment risk (e.g. in declining interest rates scenario)

Where can we add real value?

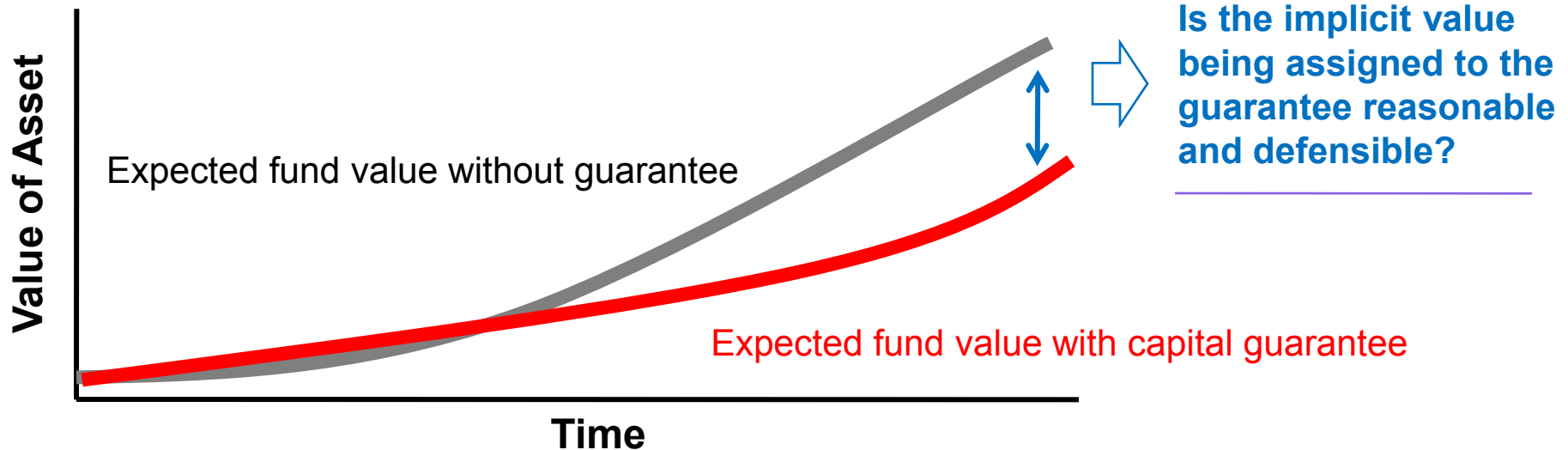
Life Cover

Long-term guarantees

Payouts for life

Discipline of saving

Unique benefits only available from life insurance



Check which of your customer segments value the long-term guarantee and are willing to pay for it

Sum of parts is not the whole

Pizza at your doorstep \neq base + ingredients + cost of cooking



Are you not paying for convenience + skill + taste + the guarantee of 30 minutes delivery?

Summary – evaluating real alternates

- Going through the process is key... helps uncover the real alternatives and costs/ benefits specific to your target segment
- Evaluate alternates at design stage and communicate value at the customer's point of decision i.e. point of sale
 - Is comparison of performance in hindsight relevant/ fair?



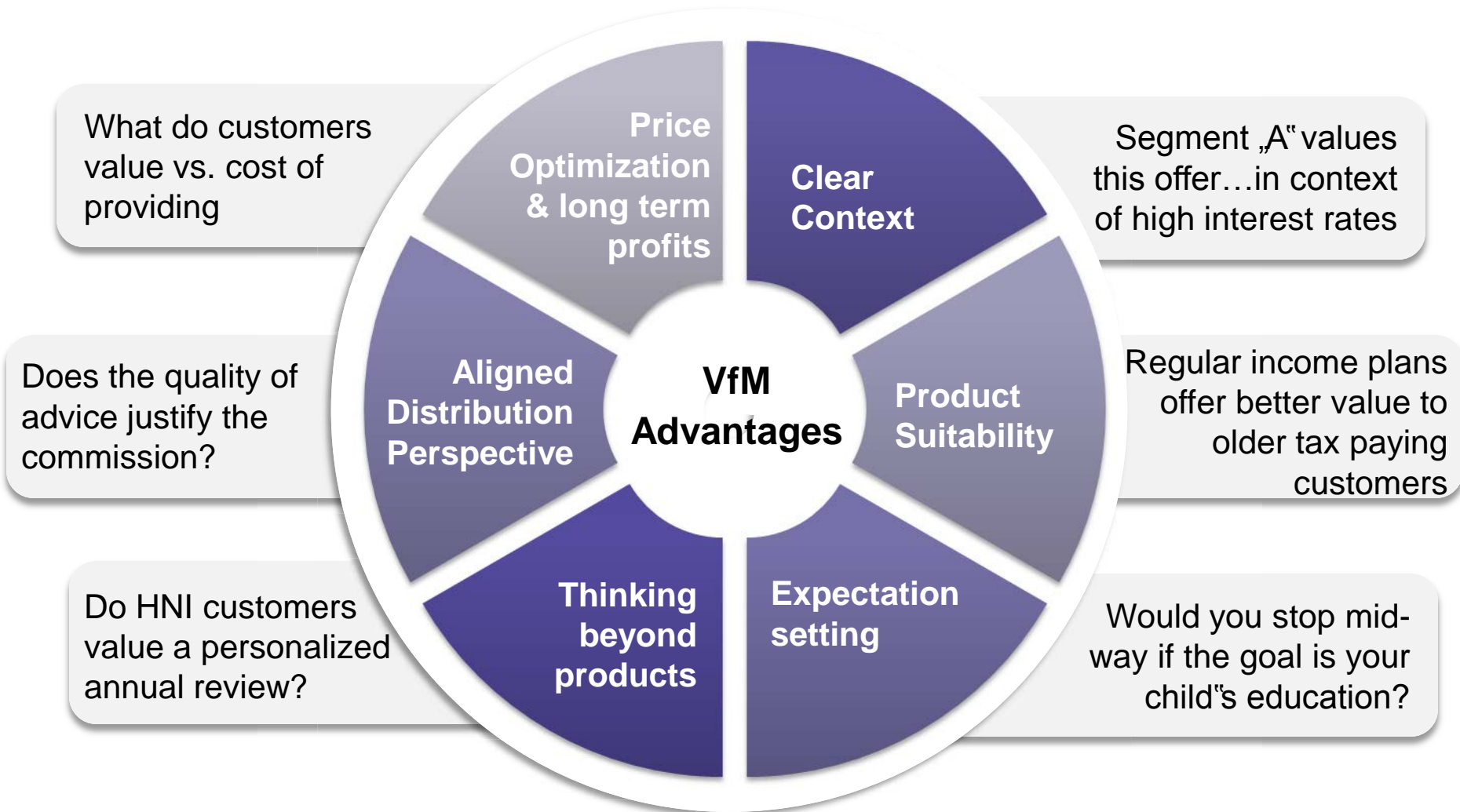
They just launched an updated smart-phone. I bought the older version 6 months ago for Rs 5k more - can I have the difference please?

3

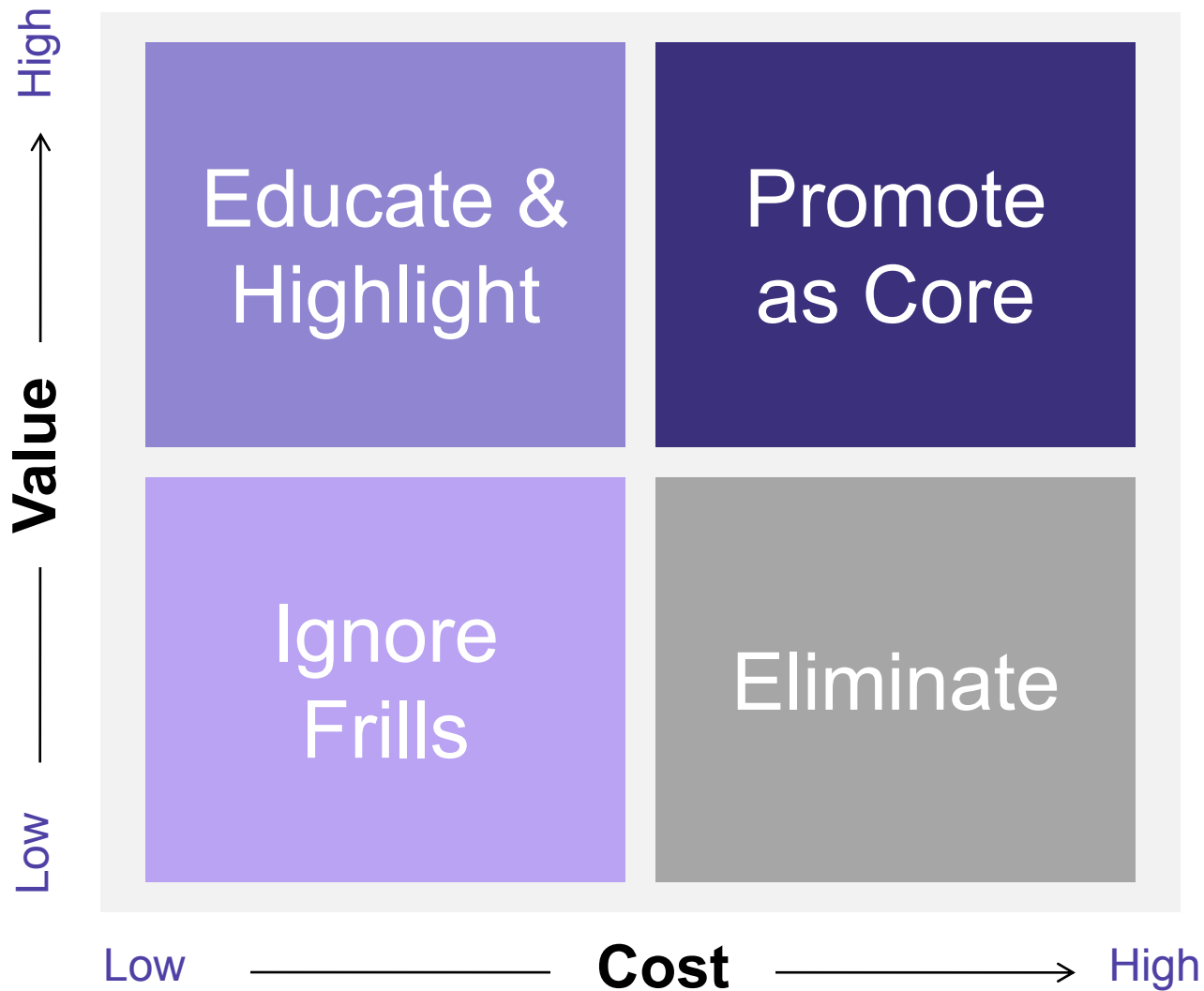
Value for Money – as a competitive advantage

What could VfM frameworks give us?

What does VfM offer you?

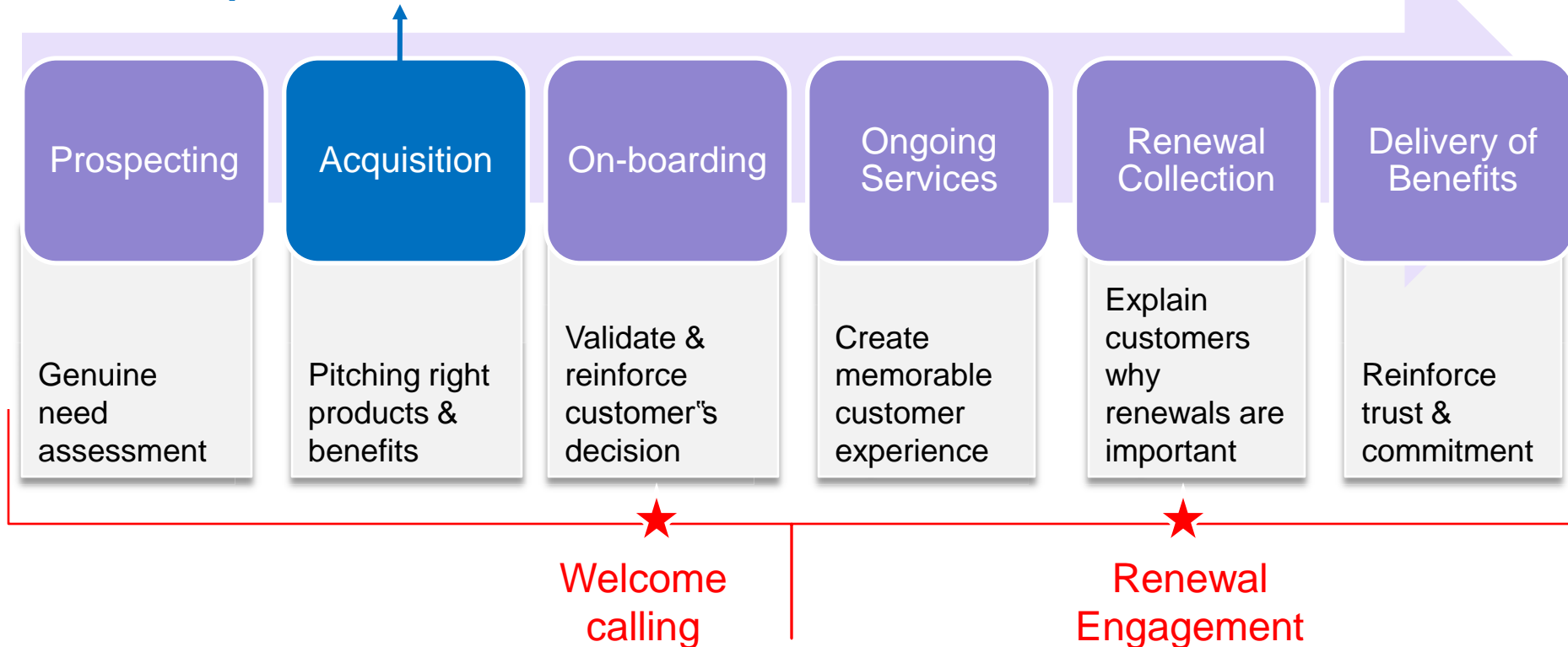


Price Optimization



Customer Communication – the “when”

Most value expectations are set at the point of sale



[You have the chance of fine tuning these expectations]

**Communicate “Value for Money” proactively at these opportunities...
choose your medium & messaging options wisely**

Concluding thoughts

Let's get away from the notions that a product can solve all the problems for all customers

- **Value means different things to different people**
- **Value extends beyond product design and pricing**

As actuaries, let's participate in holistic questions starting with:-

- ? Cost and commission assumptions first OR**
- ? Customer value requirements first**



Thanks!

Question & Answers