

# STREAMLINING AND ENHANCING YOUR OFFERING

— THE DEVELOPMENT OF NEW NICHE PRODUCTS

by Linda Scarborough

**T**hey used to say that if it ain't broke, then don't fix it. But that was then, and for insurers to keep their premiums attractive and successfully manage risk in 2010 and beyond, their products need to keep up with the times. In our fast-paced industry, product development is crucial to growth.

Underwriters that operate solely via the broker market need their products and services to support and further expand the business of such intermediaries. Therefore the offerings need to be marketable, sustainable and deliver ease of service and administration, according to Adrian Hofman, managing director of Health & Accident Underwriting Managers.

#### Finding the niche

First and foremost, however, these products need to meet a demand in the market. There are a number of factors that play a role in identifying where new products will fit in, including legislation and specific requirements of client or industries, explained Herman Schoeman, MD of Guardrisk. For example:

- The Consumer Protection Bill: this legislation will have a profound impact on retailers and manufacturers as they will require sufficient covers to cater for any potential increased liability exposures.
- The Road Accident Fund Amendment Act of 2005, promulgated in August 2008: this act left an enormous shortfall in medical and disability cover for all road users and their dependants.
- Legislation regarding property ownership and rentals.
- Legislation regarding sporting bodies and associations providing cover for injuries to participants.

Once a need is identified, according to Schoeman, in-depth research is initiated to determine the needs analysis for a particular client or industry. The financial viability of the proposed product is assessed: actuarial support is sought to determine its rating and profitability, and level of sustainability. Brokers are involved to assist with the design of the product, the legal requirements are determined and the policy wording is agreed upon. Then an appropriate risk carrier is sought. A marketing strategy is created after ascertaining the precise target market, the expected take-up and the distribution channels.

To put it simply, the fundamental factors to consider when creating a product are the following:

- Does it meet the client's requirements?
- Does it add value and reduce risk?
- Will it be affordable?
- Does it comply with all legal and legislative requirements?

However, according to Hofman, another factor to consider is a sensitive topic for brokers. He explained, "Health and Accident has learnt that if the product does not result in a premium which offers sufficient commission for the broker, then although the premium/cover ratio may be correctly casted, the broker will not market the product.

"For instance, if a product offers acceptable levels of healthcare cover for only R40 per month,

the broker probably will not market the product as the commission (reward) is not sufficient. It takes the same effort (cost of time) to approach a prospective client, explain the cover, write up the client, forward it to the underwriter and subsequently forward the policy documents to the client – whether the cost of the product is R40 or R400 per month."

The exposure draft (ED) on proposed changes to insurance contracts recently published by the International Accounting Standards Board (IASB) will cause concern in this regard. One controversial aspect of the proposals, which applies to life and short-term insurers as well as reinsurers, is the requirement that no profits may be recognised at the inception of a contract.

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According to Times Live, some South African insurers do not always account for the full value of all the options and guarantees contained in some policies. The proposal is, however, that all embedded options and guarantees would be treated in the same way, on a basis consistent with market prices.

Victor Muguto, insurance leader for PricewaterhouseCoopers Southern Africa, advised that, given the profound impact of the changes proposed, insurers should assess the implications of the ED on their existing contracts and business practices. Management of insurers is encouraged to comment by 30 November 2010. A final standard is currently expected in mid-2011.

#### The role of the broker

Aside from being integral to its marketing and sales success, the broker plays a fundamental role in the product development process.

Schoeman commented, "The broker must be satisfied that product is comprehensive and meets the actual needs of the client. The success of

niche products is enhanced by larger distribution channels provided through the broker network. Generally, the broker has the relationship with the client and must believe in the product before he can sell it. It is important to involve both corporate brokers and brokers dealing with SMME markets to ensure the widest possible distribution of the product."

Hofman agreed, "We have found that ... various products have been developed as a result of broker participation. These products may either be developed as a result of numerous broker queries for a particular type of cover, or may be due to active participation of a broker."

#### Stick with the specialists

It's a collaborative effort, however. As Hofman explains, "The majority of our products are developed by us, as specialist operators in our specific field. Health and Accident has a great overview of the entire spectrum of health insurance, which may span from workman's compensation, road accident fund cover, medical aid cover, group personal accident cover and dread disease cover to international medical insurance cover.

"This broad understanding of all the various healthcare funding mechanisms often allows us to develop products that mesh with the core business of a particular broker," Hofman said.

An example of this may be a medical aid broker who is knowledgeable about medical aids, but does not fully understand how gap cover, co-payment cover, international medical travel cover and international medical cover for expatriates operate, despite these various aspects being related to his own product.

Hofman also revealed that the FAIS criteria have been a challenge in terms of multi-product marketing. "Although a medical aid broker is probably the best distribution channel for our product offering, they do not always have the necessary licence extensions which allow them to market short-term or life healthcare insurance products."

It is becoming increasingly clear that a one-size-fits-all approach is no longer acceptable to the client, or desirable for the insurer. Better consumer education and a wider selection of new and updated products means that clients now demand a tailor-made solution with a competitive premium, making the role of the broker more important than ever.