Servicing a Life and Health Insurance Policy over its life time

Life and Health Insurance policies are by their very nature, designed to be long-term. They are designed to capture a client's health status at application and then to provide guaranteed protection to that client for the term of the policy, irrespective of any deterioration in the client's health in the interim. Most of the Life and Health benefits offered by Partners Life provide coverage for as long as the client continues to pay premiums (i.e. for life). The key exception are products which are designed to protect income/expenses during the working life of the client.

To be effective at protecting clients over the long-term as their lives change, Partners Life's products are designed with a great deal of flexibility to clients. Benefits can be added, removed or amended. Policies come with non-underwritten increase opportunities for key, life changing events. Affordability options and loyalty benefits are provided to all clients.

Partners Life is only able to offer clients such a complexity of flexibility because each of our clients is individually advised by an intermediary. For a client to understand what changes in their lives could and should prompt a review of their existing coverages, would require a great deal of insight on their part about a subject they are unlikely to have a close interest in or knowledge of. Even if a client had an awareness that their coverages require reviewing as their lives change, it is very unlikely that they would understand on their own, what changes could or should be made to their inforce benefits. Without an expert adviser working with a client over the life-time of their policy, it would be probable that the coverage bought at application date, would be inadequate or incorrect for their circumstances after a relatively short number of years.

Partners Life relies on its advisers to provide our clients with ongoing advice over the life of their policies and to take the actions to amend the client's policy accordingly as their lives evolve. The renewal commission asset, potential opportunities for new upfront commission on increased premiums, and the referral opportunities that satisfied clients provide, are the key ways in which advisers benefit from providing this ongoing service to their clients.

It is important to understand that many of the changes that need to be made to policies over time will result in reduced premiums to the client, and consequently reduced renewal commissions to the adviser, despite potentially requiring a significant amount of work of the adviser. There has been a lot of commentary in the market over recent times of the potential for advisers to receive renewal commissions for "doing nothing". There has been virtually no commentary about the nature of the work many advisers do on behalf of their clients, and for which renewal commissions on their own provide minimal compensation.

Outlined in the table below are examples of:

- The work involved in providing initial advice to a client; and
- The type of changes that an adviser can help a client to understand need to be made to their policies over time; and
- The work involved in assisting a client with those changes; and
- The impact on an adviser's commission earnings of those policy changes.

Process Step	Possible Work	Background Information	Commission Earned
Approaching consumers to educate about what advice is and why that could be of value to them. The intention is to have the consumer agree to a first appointment	• Referrals from existing clients/referral sources • Trade shows • Local Events • Community Groups • Business Partnerships • Door-knocking • Social Media advertising • Above the line advertising • Purchasing leads from lead generation companies/call centres • Buying client bases	This is one of the most difficult, time consuming and expensive tasks an adviser must undertake. Generally there is a significant amount of rejection that an adviser must accept during this process.	**None**

Process Step	Possible Work	Background Information	Commission Impact
First Appointment – to get to know the client, understand their current life style, help them consider their future life aspirations and identify the risks to their current and future lifestyles	• Disclosure • Scope of advice • Fact-find	The generally accepted average conversion rate of lead to first appointment is approximately 20%. The average conversion rate of first appointment to policy issue is only 50%.	**None**
Subsequent appointment(s)	• Needs analysis calculation • Recommended product types and levels of cover determined • Provider comparison for recommended covers • Individual analysis of any existing covers and their ongoing suitability • Provisional quotes • Recommended plan • Options for affordability • Final agreed plan	This appointment is where the adviser is educating the client about the financial impact of health unexpectedly interrupting their current life plans, about how life insurance works, what the use of each product type is, how to understand the differences between product provider offerings, how ownership structures work in respect of where the proceeds are intended to go, and how much the client can expect to pay for this coverage. Effectively the adviser must increase the financial literacy of the client to enable them to make informed decisions and they must prove they have done so, just in case the client is disappointed with the decisions they have made at some point in the future.	**None**
Subsequent appointment(s)	• Assist client to complete application form(s) [there may be more than one provider involved in the recommended solution] – and educating the client about disclosure risks during the application completion process • Discuss any potential underwriting implications that become apparent during application completion e.g. likelihood of additional medical information being required, potential loadings or exclusions that might be applicable • Gather application requirements e.g. ID, bank account details, financial evidence etc.	The adviser becomes privy to some very personal and detailed information about the client. They must establish with the client trust that they will respect their privacy. They must also make sure the client understands the need to make full and complete disclosures. They must be able to prove they have done so, just in case a client does not disclose fully and implicates the adviser in the non-disclosure.	**None**
Submit application(s) and progress through underwriting	• Transmit applicable quote, application and accompanying requirements to Insurer(s) • Respond to new business and/or underwriting queries and requests which may involve gathering additional information/requirements from client or organising for client to undergo medical screening • Keep client informed of the progress of their application and ensure they are aware of the need to disclose any changes to their health or financial circumstances in the interim	The average rate of applications that never proceed to policy issue is 20%. Reasons for this can be buyer's remorse, outstanding requirements not being received by the insurer, clients not completing required medical screening, clients not accepting special acceptance terms, terms offered not being as good as the existing terms on the benefits to be replaced, client being found to be uninsurable etc. The longer the application remains in the process before being issued, the higher the likelihood that they will never become an issued policy.	**None**

Process Step	Possible Work	Background Information	Commission Impact
Underwriting result- special terms	Where special acceptance terms have been offered by the underwriter: • Consider the terms offered and the impact on the client's risk outcome • If any existing benefits are being replaced consider whether the offered terms change the recommendation to replace • Consider whether better terms could be achieved with another provider, and whether that would represent a better overall outcome for the client taking into account product value and pricing • If so, repeat the application process with another provider • Otherwise, discuss the offered special terms with client and explain the impact on their cover • Where affordability or cover restriction requires it, amend cover types and levels in conjunction with the client to deliver the best coverage for the premiums being paid • Once the client confirms that they understand and are comfortable proceeding with terms (and any consequential amendments to their covers), then proceed to policy issue	This is a very difficult job, effectively convincing a client that their risks are not standard, and that they therefore cannot have access to the same cover/price offering that other clients can, but that given their health is already compromised, that if they don't proceed with the cover that they can obtain now, they may not have the option to purchase that cover on as favourable terms (if at all) in the future. They must be able to prove they have done so, just in case a client becomes disaffected at claims time with the restrictions applied at underwriting and wish to blame the adviser.	**None**
Issue policy	• Contact client to ensure all the details of the policy are correct and that the client has no questions or concerns about their cover.	Up to 5% of all policies issued are cancelled within the contractual free look provisions contained within the terms and conditions. 100% of upfront commissions are clawed back for free look cancellations.	**Upfront new business commission paid (subject to 100% claw-back for cancellations within 6 months and then pro-rata claw-backs between 6 and 24 months)**
Annual review	• On each anniversary of the commencement date nearly all policies undergo a contractual change in the nature of premium reviews, inflation adjustments to benefits, and/or benefit expiries, as examples. • For indexed benefits, sums insured will increase in line with the Consumer Price Index, and the premiums for those benefits will also increase accordingly. In addition YRT premiums will adjust for age at each anniversary, and any underlying premium rates increases that the insurer has applied to its book since the previous policy anniversary, will also be applied. If benefits have also expired since the previous anniversary, the premiums for these benefits will cease. • A new premium is then calculated based on all of these parameters and an anniversary communication will be sent to the client outlining all of these changes.	• Anniversary communication advising the client of changes to their benefits and premiums can be a catalyst to the client considering cancellation of their benefits due to increasing premiums. • The work required of an adviser to complete an annual review with a client can be as extensive as the work required to provide initial advice. Unless the advice provided is to replace the existing policy, the adviser will only receive upfront commissions on any non-contractually increased premiums. • The renewal commission asset, the future opportunity for increase commissions over the life-time of the policy, and the referral opportunities from a satisfied client, provide the value drivers for the adviser in doing this review work.	**Contractual premium increases generally do not result in any upfront new business commissions for advisers, irrespective of whether the total premium payable has increased or not.** **Likewise contractual premium reductions (for example if a benefit expiry means the total premium reduces on anniversary) do not result in upfront commission claw-backs.** **However the ongoing renewal commission received by the adviser will be impacted by any changes to the total premium payable from the anniversary date onwards.**

Process Step	Possible Work	Background Information	Commission Impact
Annual review (cont.)	• Advisers are acutely aware of the potential for clients to react negatively to anniversary communications which notify them of a premium increase. To avoid clients making ill-judged cancellation decisions, many advisers contact the client at anniversary date, to explain these contractual changes and to reiterate the value of the covers that the client has in place – essentially to remind the client of what their policy benefits are designed to achieve for them in the event of an unexpected health catastrophe. • If required due to affordability issues, the adviser may need to help the client with adjusting inforce covers to meet their new financial circumstances. • At the same time, the adviser will also review the client's policy to ensure it still meets their needs taking into account any life changes that have occurred since the benefits were last reviewed. This can involve anything from minor cover amendments to a full repeat of the advice process, effectively moving back to step 3. • If the client has experienced any of the special events which trigger non-underwritten increase opportunities within their existing benefits, the adviser must also help the client understand the opportunity this might present, particularly for clients who have become health compromised, but also to determine whether such an increase in cover is warranted based on the client's full circumstances.		**Should a client reduce their existing benefits as a result of their circumstances changing, the adviser might be subject to claw-back of any upfront commissions still in the claw-back period.** **Should a client add or increase benefits (in addition to contractual increases) as a result of the review, then new upfront commission may be payable on the increased portion of the premium relating to those non-contractual alterations.**
Policy maintenance	Beyond annual reviews, during the life of a policy there can be multiple occasions where advisers are required to provide further "maintenance" assistance to their clients which have no impact on the amount of premium payable by the client. From time to time some clients miss paying premiums when they are due. This can be because of changing bank account details which have not been communicated to the adviser or Partners Life, because of affordability issues, or because a client has made a conscious decision not to pay their premiums.	• Change of payment method, frequency, premium deduction date, bank account or credit card details, payer etc. • Change of contact details e.g. address, email, phone numbers • Lost policy documents • Change of Ownership	**None**

Process Step	Possible Work	Background Information	Commission Impact
Arrears	From time to time some clients miss paying premiums when they are due. This can be because of changing bank account details which have not been communicated to the adviser or Partners Life, because of affordability issues, or because a client has made a conscious decision not to pay their premiums.	Where affordability is an issue an adviser might negotiate a payment plan to help collect the missed premium(s) in instalments over time. If affordability issues are likely to be more long-term, an adviser might have to help the client amend their existing benefits to reduce the cost of those covers. For Partners Life the adviser can offer premium suspension or premium holiday options for clients who have undergone a life change which will impact on their ability to pay premiums for a defined period of time. If a client has decided to let their policy lapse, the adviser will attempt to conserve the policy by effectively restating or re-working their advice to that client. Where the client is cancelling in order to replace on the advice of a new adviser, the existing adviser will attempt to identify whether the client has been properly advised before deciding to replace their existing covers.	**None assuming the adviser is successful in retaining the existing policy.** **If the policy lapses, or the premium is reduced, then the adviser's renewal commission will be impacted and the adviser could also experience a claw-back of upfront commission, depending on how long the policy has been in force.**
Cancellation/ Lapses	A policy cancelation is a written directive from a client to cancel some or all of their policy benefits. A lapse occurs when the policy is cancelled due to the client not paying three or more monthly premiums (or the equivalent).	There are a number of reasons for a cancellation/lapse – one of the more common is affordability. The work for an adviser in these circumstances is explained above. Another common reason for cancellation/ lapse is that the client has been advised to replace their existing covers with another provider. Where there is a new adviser who has made the replacement recommendation, the existing adviser's work is described above. Other reasons might be that the client no longer believes the cover is required, that they have been provided similar covers by an employer that they are emigrating to another country, etc. In each case, the adviser must identify the underlying reason for the client's decision and then work with the client to determine whether the cancellation/lapse decision is the correct one for the client based on their current circumstances (including their current health and how that might impact their ability to repurchase covers in the future).	**None assuming the adviser is successful in retaining the existing policy.** **If the policy lapses, or the premium is reduced, then the adviser's renewal commission will be impacted and the adviser could also experience a claw-back of upfront commission, depending on how long the policy has been in force.**
Reinstatement	Once a policy has lapsed due to non-payment of premiums, the client has thirty-one days from the date their policy has lapsed, to reinstate their policy, without further underwriting.	Advisers will work hard to try to have some or all of the covers reinstated within this time-frame to ensure the protection against any deterioration in the client's health since the cover was last underwritten, remains covered.	**If the adviser is successful in re-instating cover, any commission impact from the lapse will be reversed.**

Process Step	Possible Work	Background Information	Commission Impact
Policy alterations affecting benefits and premiums	There are a large number of alterations that can be made to policies that will have an impact on the premiums payable by the client. These can arise from annual reviews, affordability issues, marriage or divorce, changing jobs, changing income, births or deaths, changing debts, employee benefits, emigration etc. Examples of the types of amendments that are possible under a policy are: • Policy splits (common in relationship breakdowns) • Policy mergers (common when new relationships form in order to save policy fees) • Change in status to non-smoker • Review existing special acceptance terms if health has improved or become more certain • Adding or removing lives assured (commonly spouse, children or business partners) • Adding or removing benefits • Expiring benefits • Changing benefit parameters such as excesses, waiting periods, payment terms, expiry ages, sum assured acceleration, buy-back options, future insurability options, etc.	In each case the requested alteration is likely to have been confirmed as appropriate following work the adviser has done with the client to understand their new circumstances and to provide advice on how the existing covers could/should be amended to better match their current needs. Changes can be minimal in terms of the impact to the client's premiums and, or they can be so extensive that the policy is significantly changed. The work required by the adviser is relative to the extent of the advice given, and on the extent of the changes to be made. An adviser may provide extensive advice and spend a significant amount of time processing the required changes (including underwriting where required), even when the total premium payable by the client might not change significantly.	**If premiums increase as a result of the required alterations, the adviser may earn a new upfront commission on the increased portion of the premium, and the renewal commission will increase along with the increased premium.** **If the premiums reduce as a result of the work, the adviser's renewal commission will reduce, and a claw-back of upfront may apply to the reduced proportion of the premium (depending on how recently upfront commission was last paid on that premium).**
Claims	The time in a policy lifecycle where the adviser can provide the most value to a client is when a claim is made. The adviser can help the client complete their claim forms, obtain the relevant medical documentation or evidence to support a claim and manage the relationship with the insurer's claims team to ensure a smooth process for their client, who likely has suffered a serious adverse health event.	While an adviser can provide a lot of value to their clients in the case of a clear-cut claim, where they really provide value is in contentious or 'grey' claims scenarios. There is an inherent knowledge imbalance between a client from outside of the life and medical insurance industry, and a claims professional. Having an expert adviser provides an independent advocate in the client's corner, bringing knowledge and experience to argue points of contention to ensure the best possible outcome for their client. Assisting clients at claims time can be an extremely emotional and time-consuming element of an adviser's job, but is the work that most advisers take an enormous amount of pride in. Doing a great job for claimants often results in endorsement and referrals, which are extremely valuable to advisers.	**Advisers do not earn commissions for managing claims.** **Most commonly the only commission impact of a claim is a reduced (or ended) renewal commission.**