



PACIFIC LIFE RE

# Beneath the Surface:

Building a sustainable protection market

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## 2023 REPORT

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# Contents

1. Introduction	4
Key findings at a glance	6
2. Customer expectations	8
3. Affordability	13
4. Medical advancements	16
5. Climate change	20
5.1 The effect of climate change on mortality and morbidity	21
5.2 Consumer behaviours in response to climate change	25
6. Regulatory developments	28
6.1 Right to be Forgotten	29
6.2 Consumer Duty	30
7. Conclusion	32
About Pacific Life Re	33



# 1 Introduction

The UK and Irish protection markets are always evolving and continually face new challenges. The past few years have been no exception with Brexit and the ongoing war in Ukraine creating economic headwinds, not to mention a pandemic and climate change adding to pressures in public health.

As the industry looks to the future, there will undoubtedly be new challenges and opportunities that will shape the long-term sustainability of the individual protection market in the UK and Ireland. In this report we explore some of the key drivers of sustainability for the market.

To explore the significance of these factors we conducted some consumer research which, combined with our medical and underwriting

expertise and our deep understanding of the market, has enabled us to create this report. We surveyed 1,000 respondents across the UK and Ireland, half of whom had protection product(s), the other half had no protection products. This research has given us an insight into customers' understanding and expectations of individual protection products, as well as their broader needs and views on topics such as climate change.

# Key findings at a glance...

Our research has highlighted that customer expectations around protection insurance are not always aligned with the reality today, and there are many misconceptions around the products and services provided.

For example, nearly 40% of customers believe Covid is a barrier to purchasing life insurance despite application form questions now only requiring disclosure where a person has been hospitalised as a result of Covid. And over 40% believe a history of mental health conditions will be a barrier to purchasing life insurance. In reality, 40% of applicants with moderate mental conditions are offered standard terms. The industry has done lots to improve access to insurance and the service it provides customers. However, this message is not always getting through to customers. There is also more to do in explaining the underwriting and claims process to customers, including why information is being requested, and the importance of customers providing accurate information. This will help manage customers' expectations and deliver better outcomes, and ultimately ensure the long-term sustainability of protection products.

**21%** of prospective customers do not think it reasonable to provide any medical evidence on application



**12%** of non-protection customers do not expect to provide any evidence for a claim



**40%** of customers believe that mental health and Covid are a **barrier to buying** protection



**81%** of protection customers expect life claims to be paid **within a month**



High inflation has driven up the cost of living, and while inflation expectations are expected to subside, the higher costs are now baked in. The squeeze is therefore expected to persist for some time, affecting customers' ability to purchase or maintain their current protection policies. Our research shows that nearly a third of existing customers are looking to make some changes to their cover (either up or down) in the next 5 years, reflecting changing affordability and needs. It shows there is real value in insurers giving customers the ability to adjust their cover.

Despite a general slowdown, with more recent reversals in mortality improvements and ongoing headwinds, developments in medical practices may yet underpin longer term improvements. These include new treatments and improved diagnostic capabilities and are a key factor affecting the sustainability of wider protection products.

Current issues like endemic Covid-19, its various indirect consequences, and challenges in the delivery and funding of public health services, are currently driving higher population mortality. This could mean that eventual benefits from improved medical practices and treatments are significantly offset.

**3,271** excess deaths during Jun and Aug 2022 in England and Wales were **linked to heatwaves**



2019, **300 billion** working hours lost due to temperature increases globally

Whilst many developments will be generally beneficial for protection, advances in diagnostic capability can be a double-edged sword for critical illness cover and will highlight coverage differentials between early and late-stage diagnoses. This could test the durability of policy definitions. Combined with treatment breakthroughs we may even come to question what is meant by 'critical' in the long-term.

Climate change is increasingly impacting our environment, but climate related natural disasters are unlikely to be a strong driver of extra claims in the UK and Ireland in the short term. However, the medium term is less clear with uncertainty around the trajectory of average temperatures as well as the ability to adapt infrastructure. The indirect impacts of periods of recession or austerity on health and healthcare may yet prove to be more material in terms of mortality and morbidity outcomes in the long term than the physical risks associated with climate change.

Our research shows that customers are worried about climate change, and this is filtering into their behaviours and buying decisions. Whilst factors such as price, cover and brand remain key to customers, an insurer's response to climate change is becoming increasingly important, and customers may choose against insurers who do not have an adequate response. It highlights the

importance for the protection industry to ensure it stays ahead of customer expectations and broader societal concerns. Being able to demonstrate more tangible actions that insurers have taken to manage their impact on the environment will allow insurers to stand out when customers are comparing sustainability credentials.

Another key factor affecting sustainability in the protection market is regulatory change. The introduction of Consumer Duty in the UK in 2023 is creating a renewed focus on how insurers deliver value to customers and could provide a new impetus to innovate on products and underwriting processes as well as looking more closely at distribution quality. While the Right To Be Forgotten (RTBF) in relation to the history of cancer continues to be an area of focus in Ireland, the extrapolation of these proposals to other conditions, or products, could place pressure on price sustainability and affect the overall viability of some protection products in the long term. This is particularly true if the measures were also extended to markets like the UK, where there is no compulsion to buy protection. This could have ramifications for broader access to insurance and protection for society.



**75%** of our food consumption is made up of only **5 animal sources** and **12 plant sources**

**90%** of respondents are **worried about climate change**



# 2 Customer expectations

## 2 Customer expectations

The purchase journey and claims process are the two main touchpoints customers have with individual protection products. So, if customers' expectations of how these processes work, or how the product delivers value do not align with reality, then this creates the potential for poor customer experiences and outcomes. To ensure the long term sustainability of protection products, it's therefore critical for insurers to understand customers' expectations and understanding of protection products, and take any steps required to better meet their needs.

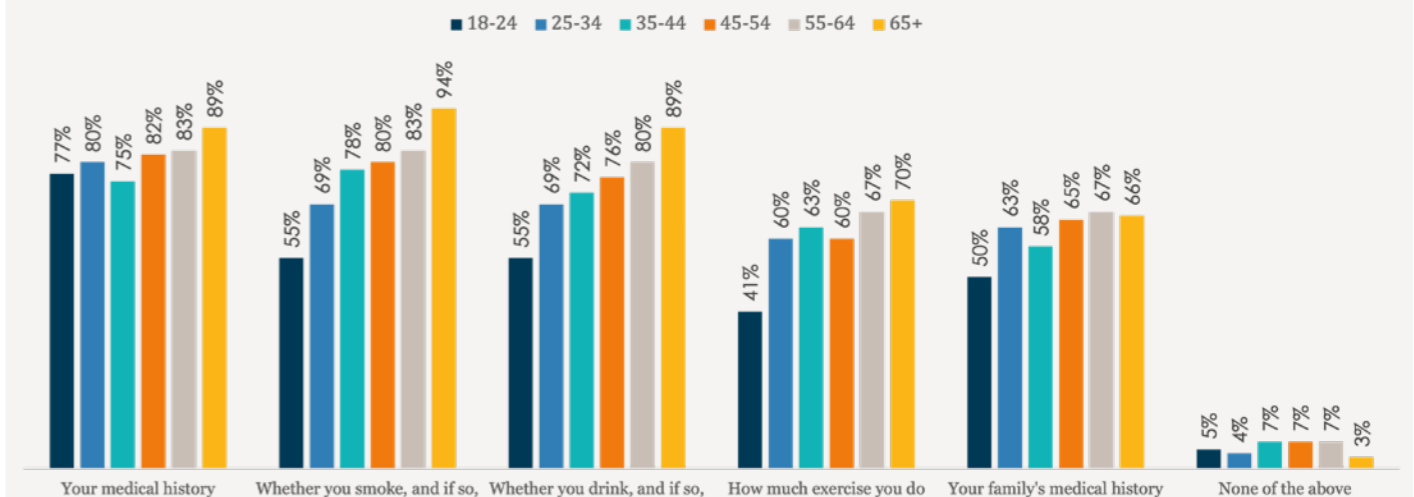
### Underwriting expectations vary by age

Buying protection is not like buying many other forms of insurance, where there is an annual renewal process, and customers therefore have a familiarity with the process and what they might be asked. With protection, many customers will not have bought these

products before, or if they have, it will likely have been a few years ago. Therefore, customers may not be sure what to expect about the process and what they will be asked. However, our research shows that most customers expect to be asked questions about medical history (75%+), but there is a distinct variation by age.

We found that older customers are more likely to expect questions about their health than younger customers, which may be driven by previous experience of buying protection insurance or just more prevalence of health risk factors. Fewer customers, as shown below, expect to answer questions around family medical history though. This may be because they do not see the relevance, or are just not comfortable sharing such information. This highlights the importance of explaining to customers all the key risk factors affecting health such as current health, lifestyle, age, medical history and family history.

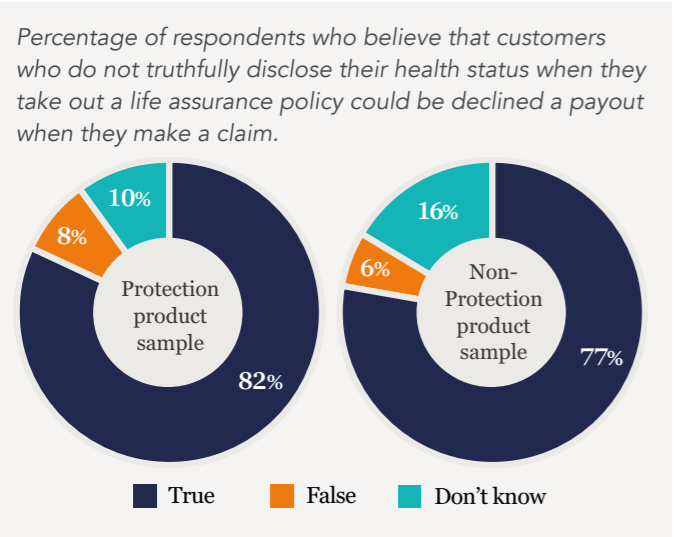
Percentage of respondents who expect insurers to ask for this information when they take out life assurance, critical illness cover or income protection to ensure a more accurate price



Younger generations are less likely to think that you need to tell insurers about whether you smoke, drink or exercise

Importance of accuracy should be highlighted

We know the vast majority of customers that go through the application questions will accurately disclose their health status. However, misrepresentation continues to be a challenge within the industry, with a small number of customers failing to accurately disclose their health status, either innocently, or in some cases where they had full knowledge of their health and should have provided these details during the application. We found that 8% of protection customers believe that a claim will still be paid even if they have failed to truthfully disclose their health status. A further 10% were unsure what inaccurate disclosures could mean when it comes to making a claim. Whilst most insurers do include confirmation packs, it appears there is still more work to be done in reminding customers of the importance of disclosing information accurately. This could help the industry to minimise cases of misrepresentation and improve customer outcomes by increasing the percentage of claims paid out.

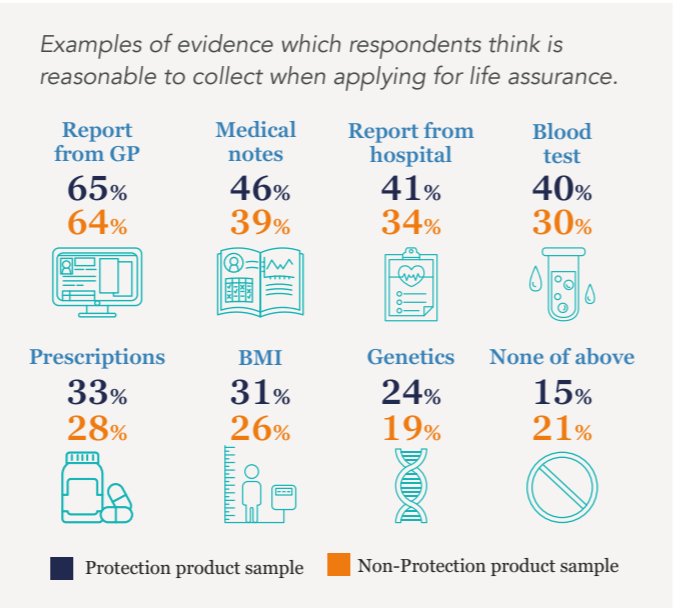


What medical evidence is it reasonable to collect?

Once customers have completed the application form, a proportion of cases will require further medical evidence to assess the risk. Whilst 65% of customers think it's reasonable to ask for a GP report, about 40% thought evidence of other medical notes and reports,

or blood tests were also reasonable. The fact that the amount of evidence expected by customers is higher than what is actually required means expectations are fairly well aligned at this stage. It is also unsurprising that only 24% of protection customers thought it was reasonable to ask for information about genetic tests. Although such tests have increased in prevalence, UK protection insurers do not ask for this information, and it's recognised the industry has taken proactive steps to establish a code on genetic testing via the ABI.

It is also interesting to see that 21% of prospective protection customers do not think it is reasonable to be asked for any medical evidence at all. This could be because either they are in good health and there is no evidence to provide, or they do not see the relevance to their application.

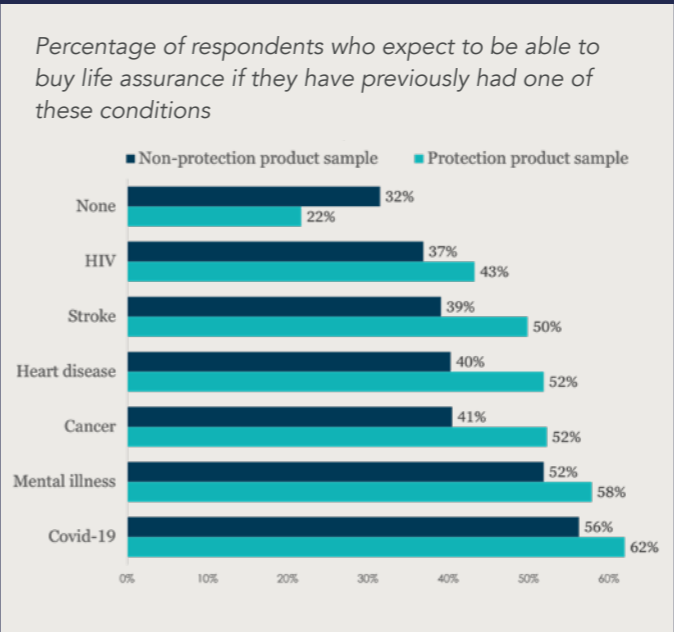


Customers believe Covid is a barrier to cover

Considering the medical underwriting performed is part of the overall buying journey, customers may expect prior health conditions will be a barrier to buying cover. We found that around 40% of those without protection believe that you would still be able to buy cover if you have previously had cancer, heart disease or stroke, and that rises to 52% for a mental health condition and 56% for Covid.

Conversely, it means that nearly 50% of prospective customers believe that mental health and Covid are a barrier to buying protection. In fact, application forms now only focus on an applicant who has been hospitalised as a result of Covid, not whether they have had the illness.

Mental health conditions is an area which the industry continues to review. Whilst there are a small number of customers that are not offered terms, most customers with prior mental health conditions are offered cover, and many of them on standard rates. So there appears to be a misconception amongst some customers that protection is only available to the healthiest lives, and there is a lack of awareness of the access to cover available. Some of this misunderstanding could be as result of customers' expectations being driven by experiences of buying other insurance products such as travel insurance, where there can be more barriers in relation to Covid or mental illness.



Is the industry managing expectations on how long claims can take?

The value of protection insurance is not just the peace of mind it provides, but the certainty of financial security if the worst happens. While there has been much focus and improvement on claim payment rates across the industry in recent years, there has been less focus on the time taken to process claims. Since the start of the pandemic there has been added pressure on claims payments processes in general, but it seems claims processing times have largely re-covered to pre-Covid levels. In our consumer research we explore customer expectations around how long it can take to make a payment.

We found that just 36% of existing customers expect it to take a week or less to process a life claim after submitting a claim form, while 81% expect it to be within a month and 93% expect it to be within 3 months. It's a similar picture for CI, with 91% expecting claims to be paid within 3 months. In reality, claim pay-out times vary considerably, with some small, simple, life claims being paid out in a matter of hours, but other more complex cases requiring medical evidence or probate taking weeks or longer.

There has already been a lot of work by the industry on improving the efficiency of claims processes and claim pay-out times seem broadly aligned with customer expectations. Any further work to improve turnaround times must be balanced with providing a good claims experience for customers that is supportive of their needs. What's clear is there is potential for significant misalignment between customer expectations around claim payment processing times and the reality, and it highlights the need for good communication before and during the claims process.

### Inclusive insurance resonates with customers

The advancement of new technology means there is ever more data generated about every one of us. Whether it's our phone tracking steps, or our watch measuring our heart rate, it means we're theoretically able to form a much better assessment of health and risk of future illness.

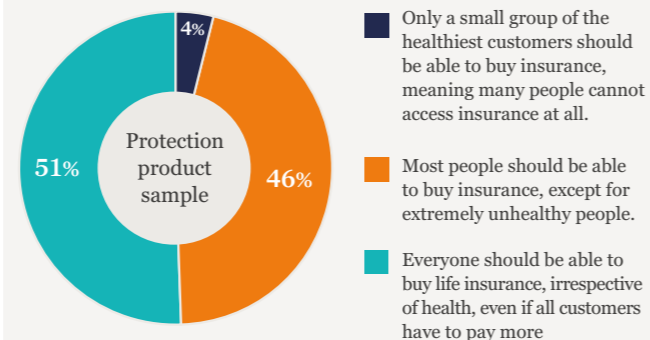
This increased data granularity is already proving to be a useful tool in helping to better understand health and drive change in behaviours, which is particularly useful in supporting prevention programmes, and there are several examples of this in the protection market today. More granularity in data can also present new challenges though and could result in smaller, more segmented pools of risk being formed. These smaller pools of risks reduce the level of cross-subsidisation, which is required to maintain access to insurance for less healthy customers.

Smaller, more segmented risk pools are not something we have seen happen in a material way to date, but we must be mindful as an industry that the pooling principle of insurance, which ensures relatively broad access to protection, does not necessarily sit well with new technology and the associated new data sources that are created.

Whilst we cannot expect customers to have a full grasp of the intricacies of how insurance works, we have sought to understand their preferences on the future direction of travel. We found that only a small number (4%) of existing protection customers believe that providing insurance to only the healthiest in society is desirable. Nearly half (46%) believe that most people should be able to have access to insurance, with less healthy lives playing a premium price. However, just over half (51%) think that insurance should be accessible to everyone even if all customers have to pay more. So the idea of higher accessibility resonates with customers. Of course, when it comes to buying protection, it remains to be seen how much more customers are willing to pay for an 'open to all' product.

Whilst smaller, more segmented risk pools can lead to challenges in maintaining access to insurance, creating additional, small risk pools are also important in helping to reach currently under-served customer segments, such as trans gender customers. This is an area where the industry will need to do more work to collect data and find pragmatic solutions where data is not available.

*The majority of those without protection products believe unhealthy people should not have access to health insurance*



### Our view

Our research has highlighted that customer expectations around the process of taking out protection insurance and making a claim are not always aligned with the reality today. Perhaps the most striking is the misconception that people who have had Covid or a mental health condition are not able to buy life insurance. The truth is that access is better than customers think it is.

There has also been a lot of work by the industry to make underwriting and claims processes efficient and it's encouraging to see that customer expectations of the need for medical evidence and claims processing timelines seem consistent with today's market practices. However, there is more work to do in reminding customers of the importance of accurate disclosures.

Overall, the main challenge for the industry is one of communication, to remove some of the misconceptions around barriers to insurance, and to manage customer expectations around the buying and claims process.

# 3 Affordability

### 3 Affordability

High inflation, driven in part by global supply issues after the pandemic, and the war in Ukraine, have contributed to a broader cost-of-living crisis which is affecting all consumers in some way or another. The issue is certainly multi-faceted, but ultimately many customers will have less income in real terms now than they have had in previous years. This will result in customers having to make choices about their spending and it affects how much they can afford to spend on every day costs, as well as on products like protection. Through our customer research we explored customer intentions in respect of buying and amending protection cover.

#### Product flexibility is important for existing customers

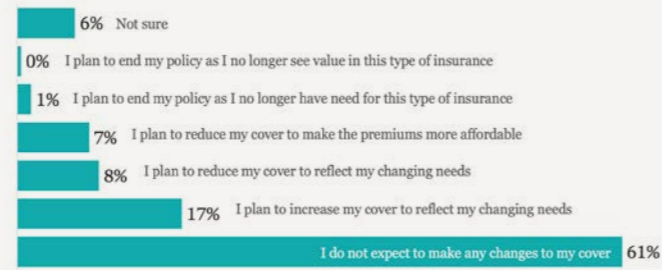
Our research shows that only 1% of customers said they definitely plan to cancel their cover in the next 5 years, underscoring the value they place on it. A further 6% were unsure what they would do. Of course, many customers will not plan to cancel their cover today, but events may force them to cancel it later, and explains why we might see higher lapse rates than this.

If affordability is an issue, of course, customers don't need to completely cancel their cover and product flexibility during the short term would be particularly important. Around 7% of existing protection customers said they plan to reduce their cover to make premiums more affordable. A further 8% plan to reduce their cover due to changing needs.

One positive finding for the insurance industry is that 17% of customers said they plan to increase their cover over the next 5 years, to reflect their changing needs. So although there are competing priorities, protection needs do remain at the forefront of customers' minds.

It also means with nearly a third of existing customers looking to make some changes to their cover (either up or down) in the next 5 years, there is value in insurers being flexible with their existing cover.

Ways in which respondents bought their protection policies (life assurance/critical illness cover/income protection)



#### Mortgage costs may dampen new protection sales

Protection sales in the UK and Ireland are closely linked to the broader health of the housing and mortgage markets. Whilst there continues to be a lack of housing supply in the UK market, prices have begun to fall in some areas of the UK at the start of 2023, driven by increasing interest rates and borrowing costs in 2022. It remains to be seen what impact there might be on protection sales in the short to medium term. This is, in part, due to the lag in higher mortgage interest rates feeding through to property completions, which happen some months later. The other aspect is that many existing homeowners are on fixed rate mortgages, providing some protection from increasing interest rates. However, approximately 1.4m of these fixed rates will come to an end in the UK during 2023, and the move to higher mortgage rates could create a shock for many households.

One difference between this downturn and previous downturns is the lending criteria introduced in the wake of the financial crisis that has ensured customers must demonstrate much higher resilience to increases in interest rates. Therefore, when it comes to renewing mortgage deals, fewer homeowners should be in a position where they cannot afford their mortgage and become forced sellers. However there remains a number of customers who will still feel the pressure when their mortgage rate comes to an end, and this

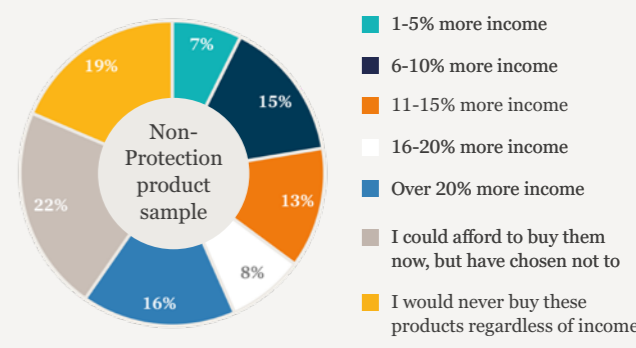
could act as a drag on house prices, and subsequently impact mortgage related protection sales. We note that when there is a slowdown in mortgage numbers, some advisers may choose to spend more time on providing protection advice instead, and so this could offset some of the effect of lower mortgage cases.

The other challenge will be for first time buyers who will find it more difficult to get onto the housing ladder due to higher borrowing costs. This is compounded by the fact that within the rental sector there is a lack of supply of available properties which is driving up rents and making it more difficult to save for a deposit.

For those consumers who do not currently have protection, whether they are renters or homeowners, we explored to what extent current affordability was a factor in their decision to not buy protection.

We found 22% said they could afford it now but have chosen not to purchase it. A further 19% cannot afford it now but would never buy protection products regardless of changes in income. This may highlight a lack of understanding of the value and relevance of protection products, and the need to get that message across to these potential customers. The remaining 59% would choose to buy protection if they earned more money, underlining the impact of affordability for many potential customers at this time. Approximately two thirds of these customers said they would need to earn at least 10% more before they could consider it. Given wage inflation continues to lag price inflation, the prospect of buying protection will remain out of reach for many families for some time to come.

Percentage of respondents who say they would need to earn more before buying a protection product.



#### Our view

The broader cost of living squeeze continues to be a significant headwind for protection, as it is for most other products and services. Our research shows that increased product flexibility will allow customers to manage their way through these challenges and help them maintain a financial safety net for them and their families that might be more important now than ever.



# 4 Medical advancements

## 4 Medical advancements

A key driver for the sustainability of protection products is advancements in the medical world. The use of new treatments, technologies or other practices can impact health and ultimately the claims arising on protection policies. In this section, we explore some of the key medical trends we have seen emerge.

It's well reported that life expectancy has consistently increased since the late nineteenth century. This significantly slowed recently, and period life expectancies even decreased in 2020 primarily due to Covid. Aside from the pandemic and its various after-effects, other current headwinds include demographic pressures on the NHS and adverse lifestyle changes amongst a proportion of the population. However, ongoing medical technological developments provide reasons to believe advancements in life expectancy may return in the medium and long term. At the very least there is reason to believe the composition of deaths i.e. what we die from, may change dramatically.

### Cancer is leading cause of death

When grouped together, cancers are the leading cause of death worldwide. In recent years scientists have increased their understanding of the specific causes of the disease, leading to the development of better-targeted treatments. Less direct and targeted treatment, such as chemotherapy and radiotherapy are increasingly replaced, or supplemented, by new groups of drugs including immunotherapies, which help the body's immune system to identify and fight malignancies.

These treatments remain relatively expensive and significant side-effects mean their current usage is mainly limited to the most advanced stages of cancers. However, for specific subtypes of cancer, these treatments have already shown signs of significantly extending life for many patients, some of whom

previously would have likely died within months. A healthy pipeline of drugs in development raises the prospect that the number of patients eligible for such treatments will grow substantially in the coming years.

While scientists are hesitant to talk in terms of a 'cure' for any cancer, these developments raise the prospect of significantly increased survival for many patients in future. For example, 2010 saw the first successful usage of CAR-T cell therapy in six-year-old Emily Whitehead in Pennsylvania, USA. Emily had a form of acute lymphoblastic leukaemia which was resistant to treatment and likely to kill her. However, doctors were able to extract some of her immune cells, genetically modify them and reintroduce them to her body. Now able to 'see' a protein on the surface of her leukaemia cells, her immune system fought off the cancer. Emily remains alive and well today. Late relapses can occur, but the long-term remission experienced by Emily, and

others treated more recently, seem tantalisingly close to what we would call a 'cure'.

Whilst the above example is less relevant to protection ages it is indicative of wider innovation in cancer treatment. One consequence of improving

**"While scientists are hesitant to talk in terms of a 'cure' for any cancer, these developments raise the prospect of significantly increased survival for many patients in future."**

treatments for protection customers is that some patients, currently considered eligible for early payment of life cover benefits due to terminal illness, may enjoy improved survival prospects to the extent that they fail to satisfy the strict policy definition of terminal illness.

Since long-term survival data emerges only slowly, we might not anticipate any initial reduction in actual terminal illness pay-outs but eventually determining claim validity would likely become more challenging. Policy wordings can be especially important, as some commit insurers to following the opinion of a treating consultant even if it is based on outdated data. Insurers will want to meet customers reasonable expectations whilst setting pricing assumptions consistently.

### Increases in earlier diagnosis

Other medical advances include attempts to diagnose cancer at earlier stages. While at present around half of cancers are diagnosed at early stages (1 and 2), there are hopes this could increase towards around three-quarters within a decade. Survival rates are typically much higher when cancers are detected early. New technologies are under development such as tests designed to spot cancer circulating in blood before the underlying disease has developed. This could essentially lead to screening for all cancers, whereas at present screening is only possible for a handful of types of disease. Early trials showed some promise though much work is required to improve the technology.

**“Policy wordings can be especially important, as some commit insurers to following the opinion of a treating consultant even if it is based on outdated data.”**

The ability to detect invasive cancer at an earlier stage (or even just earlier) would likely lead to an acceleration of some critical illness payments. If these technologies prove successful, then they could also lead to a material increase in the proportion of cancers found prior to meeting typical policy definitions for full payment. Offsetting this, we may find some cancers or pre-cancers which would have been destroyed by the immune system, which could increase the total number of cancers identified. Insurers will need to ensure policy wordings remain robust and relevant in the face of medical developments, and that coverage continues to meet realistic customer expectations.

Moreover, applicants or claimants may increasingly have positive tests which are difficult for insurers to interpret. Some of these may be false positives and others a sign of cancer that could manifest imminently. Either way, these would complicate the assessment process or generate an increased number of ‘grey’ claims, presenting new challenges for underwriters and claims assessors.

### Evolving critical illness cover product design

In the longer term, advances in both treatment and detection of cancer could lead to questions about the appropriateness of full payments on critical illness policies for an increasing number of cancers where treatment is relatively tolerable and the prognosis is excellent. The opportunity to build more affordable products better suited to customer needs could have to be weighed against public expectations of what should constitute a ‘critical’ illness.

### Beyond cancer – new treatments for diabetes and obesity

Besides cancer, the most common causes of death at protection ages are cardiovascular, especially for males. In the UK, ischaemic heart disease causes the most deaths among males aged 50-79, and is the second leading cause of female deaths in those aged 65-79, after lung cancer ([ons.gov.uk](https://www.ons.gov.uk)). Many of these deaths involve underlying obesity or diabetes. Since 1993 the proportion of adults in England who are obese has risen from 15% to 28%. Almost two-thirds of people are overweight.

While diet and exercise remain at the heart of public health advice, new treatments could help many who struggle to maintain a healthy weight. A drug called semaglutide was recently authorised ([nice.org.uk](https://www.nice.org.uk)). Designed to suppress appetite, people using it in trials lost 12% more body weight than those not using the drug. People using it inject themselves in the stomach once per week. The drug should become widely available this year, after initial supply problems caused in part by a surge in popularity among celebrities. Semaglutide could also improve blood glucose management in patients with type 2 diabetes, because the way in which it reduces hunger involves increasing insulin production.

A competing drug known as tirzepatide, which appears to have outperformed semaglutide in its own trials, may also soon be approved. It has already received approval in the US, where it too can be used for both obesity and diabetes. The various studies focus on the outcome during relatively short terms trials and sustained benefits

**“Designed to suppress appetite, people using it in trials lost 12% more body weight than those not using the drug.”**

rely on patients continuing to engage in improved diet and increased exercise. However, even modest benefits from these drugs could substantially improve health outcomes overall considering the large numbers of people eligible for treatment.

### Our view

Despite the recent slowdown in mortality improvements, developments in medical practices may yet underpin longer term improvements. These include new treatments and improved diagnostic capabilities and are a key factor affecting the sustainability of wider protection products. Current issues like endemic Covid, its various downstream consequences and challenges in the delivery and funding of public health services, are currently driving higher population mortality. This could mean that eventual benefits from improved medical practices and treatments are significantly offset. [See our report with more details on the current challenges in the NHS and impact on mortality.](#)

Whilst many developments will be generally beneficial for protection, diagnostic breakthroughs can be a double-edged sword for critical illness and will highlight coverage differentials between early and late-stage diagnoses and test the durability of policy definitions. Combined with treatment breakthroughs we may even come to question what is meant by ‘critical’ in the long-term.

**“Despite the recent slowdown in mortality improvements, developments in medical practices may yet underpin longer term improvements.”**

# 5 Climate change

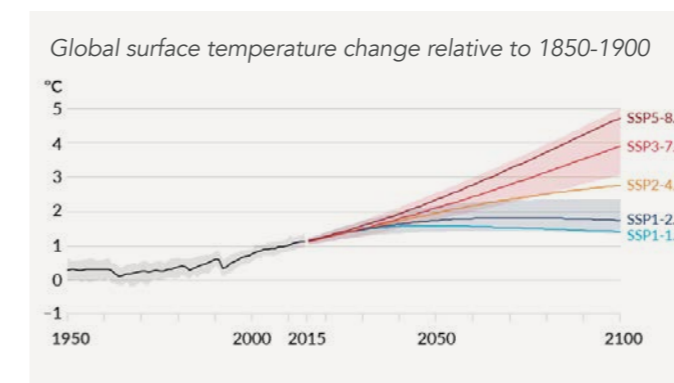
## 5 Climate change

Climate change has become more prominent in recent times, as we see more evidence of climate related events, and increases in political pressure for governments, businesses, and individuals to take action to protect the environment. The direct effects of climate change can have an impact on the health of individuals, while the response of government can impact customer behaviours and how they consume products or services. These factors could therefore have a bearing on the long-term sustainability of the protection industry, and we used both our consumer research and our own medical insights to explore this in more detail.

### Background on climate change

Climate change is the shift in average environmental conditions over a period, such as increased temperatures or rainfall. The U.N. estimates that global warming (from pre-industrial levels) beyond the 1.5°C limit by Year 2100 would bring catastrophic and irreversible effects of climate change.

Though we have made progress in recent years to bend the temperature curve closer to 2°C; it is projected that the world needs to halve emissions over the next decade and reach net zero carbon emissions by 2050 if we are to limit global temperature rises to 1.5°C. However, according to the global surface temperature projections based on IPCC AR6 Shared Socio-economic pathways (SSP) scenarios, the threshold is expected to be breached within the next 20 years under most emission scenarios (SSP2 – SSP5).



When it comes to understanding the impact of climate change, and specifically the financial risks of climate change, they are generally separated into physical risks, transition risks and liability risks:

- **Physical risks** of climate change refer to risks that are caused by the physical effects of climate change, including natural hazards. In the context of protection, it's the impact on mortality and morbidity that are likely to have the most effect on the sustainability of protection products and that we explore further in this report.
- **Transition risks** associated with climate change refer to risks created from the shift to a zero-carbon economy. This could be driven either by government policy designed to reduce emissions, or by changes in behaviour by businesses or customers. An area of focus for insurers has been understanding their exposure to high carbon producing sectors, and how they manage their investments in the shift to a zero-carbon economy. In this report we just focus on consumer expectations and behaviours relating the transition to a low carbon economy.
- **Liability risks** come from people or businesses seeking compensation for losses they may have suffered from physical or transition risks.

### 5.1 The effect of climate change on mortality and morbidity

There are numerous physical effects which could have a bearing on mortality and morbidity. We explore some of the more significant ones in this report, including extreme temperatures, viruses and pollution.

#### Extreme temperatures

One of the key demographic risks of extreme temperature is premature deaths in the population. In heatwaves, it is estimated that every 1°C increase in temperature is significantly associated with a 2.1% increase in cardiovascular disease-related mortality, and a 0.5% increase in morbidity due to arrhythmias,

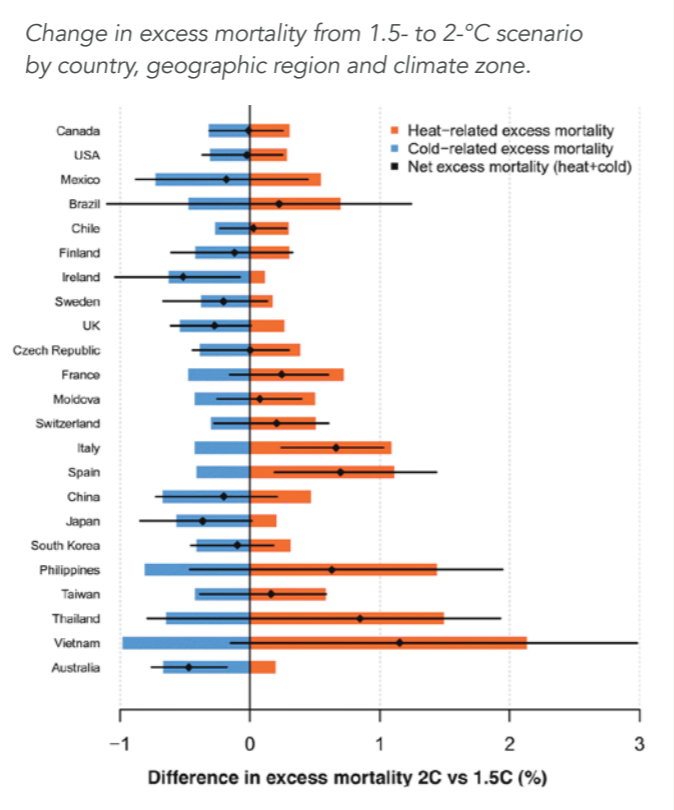
cardiac arrest and coronary heart disease. Whilst we don't tend to associate the temperate climate in the UK and Ireland as being at high risk of extreme temperatures, the maximum temperature records were broken in much of the UK in 2022, with some locations recording temperatures above 40°C for the first time. It meant that an estimated 3,271 excess deaths occurred between Jun and Aug 2022 in England and Wales. Relative risk (RR) of mortality due to extreme temperatures is estimated to follow an inverse J-shape, which is more prominent for older ages i.e. beyond 85.

This also means that global warming will continue to shape worldwide mortality patterns differently. It's estimated that keeping to the 1.5°C limit can curb deaths in warmer parts of the globe, such as Southeast Asia. However, in the case where global warming hits 2°C, reduction in excess mortality for countries with cooler climates during colder months can offset the increase during heatwaves.

Extreme temperature can also contribute to the reduction in workforce productivity, where workers become less productive, and have higher rates of absenteeism. It is estimated that in 2019, 300 billion working hours were lost due to temperature increases globally, which is 52% more than in 2000.

**Indirect effect of extreme temperatures**

Extreme temperatures have also indirectly increased the likelihood and intensity of other catastrophes around the world, including droughts, wildfires, floods and windstorms. Currently, natural disasters are estimated



to account for approximately 45,000 deaths per annum, representing 0.1% of total global deaths and have generally been decreasing over recent years. Studies suggest this is primarily due to climate adaptation, i.e., actions taken by impacted countries to limit vulnerability and exposure to harmful effects of climate change, such as infrastructure development activities and evacuation plans.

While the current very low proportion of climate related deaths limits the impact of any progression in the short

term, there is scope for more material localised impacts in the longer term due to much higher frequencies of climate events with larger severity.

Climate related events such as droughts exacerbate water scarcity issues by reducing the availability of freshwater resources to cope with water stress in populations. Rises in temperatures also contribute to contamination in freshwater supplies since water-borne diseases such as vibrio cholerae and typhoidal salmonella thrive in warmer conditions, which increases diarrhoeal disease transmission and deaths, especially in vulnerable groups such as the young.

**“Temperature, rainfall level fluctuations and other natural disasters are also expected to reduce crop yields and cause disruptions in global food supply chains.”**

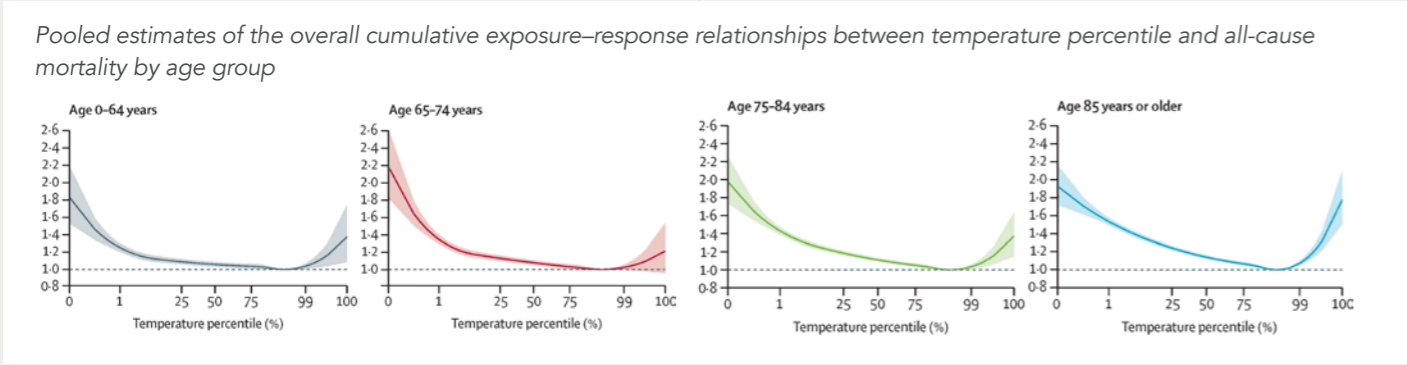
**Food supply and nutrition**

Temperature, rainfall level fluctuations and other natural disasters are also expected to reduce crop yields and cause disruptions in global food supply chains. Whilst this is likely to have most impact on less developed countries, supply chain disruption could explain some of what we are seeing in the UK and Ireland on food price inflation, and ultimately could affect diet and therefore long-term health.

To make things worse, higher atmospheric levels of carbon dioxide will also reduce nutrient levels in crops such as maize, wheat and legumes, especially in terms of protein, iron and zinc contents. It is anticipated that countries facing the highest levels of malnutrition and water scarcity issues will continue to be disproportionately impacted by climate change.

Higher temperatures encourage the growth of pests and weeds in crops which warrants increased usage of pesticides. Key by-products of the pesticide manufacturing process include the main greenhouse gases (carbon dioxide, methane and nitrous oxide) which further contributes to global warming. Pesticides have been known to have adverse effects on humans, including carcinogenic impacts and impaired hormonal or endocrinal function.

The loss of biodiversity and natural habitats has aggravated the issue of dietary monotony as well. It is estimated that 75% of our food consumption is made up of only 5 animal sources and 12 plant sources, 3 of which make up 60% of a typical human's plant-based calorie intake. This threatens the resilience of the food system and further increases its vulnerability to the effects of global warming.

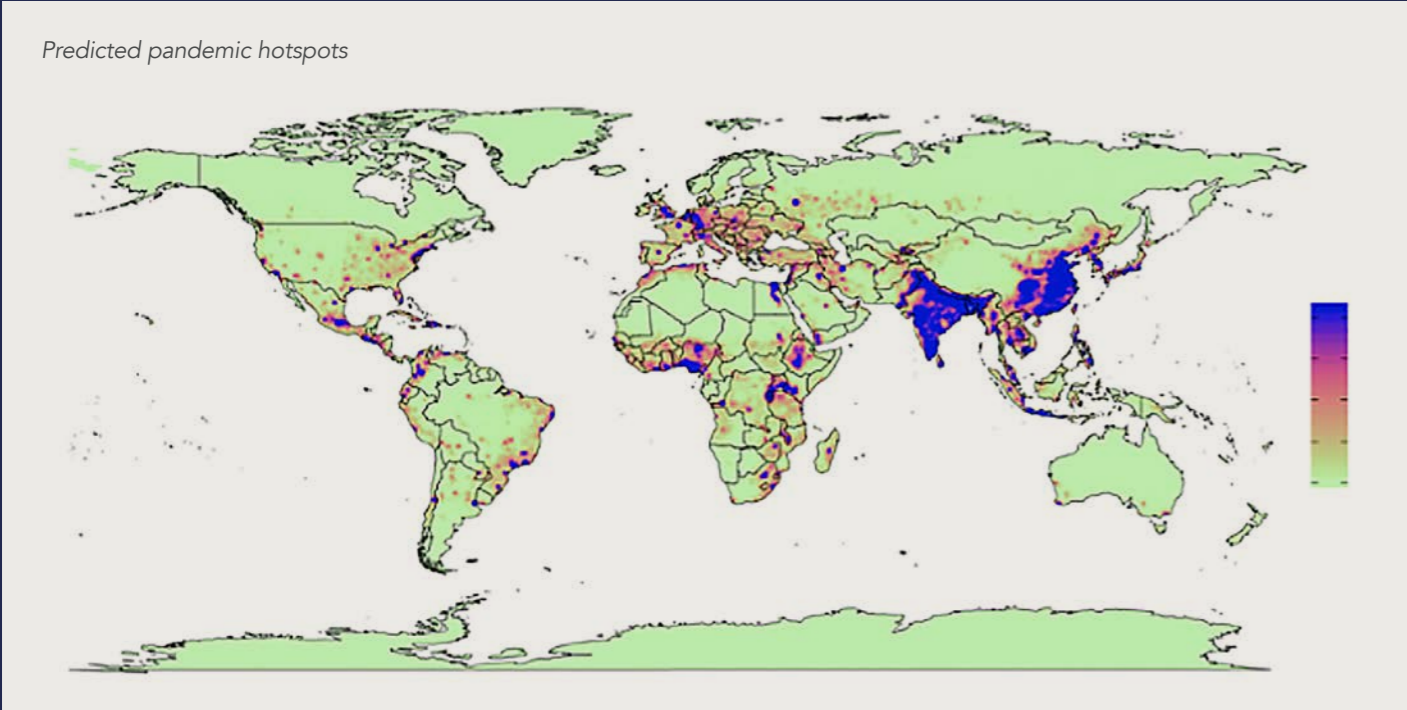


Viruses and pandemics

The last few years have highlighted the dangers of pandemics. There are an estimated 1.5 million viruses unknown to humans of which around half may be infectious to people. Many likely circulate in wild animal populations.

Changing land use practices associated with population growth have not only fuelled climate change but have also led to farmland encroaching on areas with wild animals. This increases the chance of new viruses reaching humans i.e. by spreading from wild animals to farm animals and onwards to agricultural workers.

New human viruses are currently identified at a rate of around three or four per year. Many emerge from animal reservoirs; bats are an especially common source, but other animals including birds, rodents and pangolin harbour viruses which could be dangerous to humans. There is reason to suspect new emergence events are increasing. The below map shows hotspots deemed at greatest risk of being the origin of a future pandemic.



Pollution

Emissions from human industrial activities not only drive global warming but also causes environmental pollution. Global warming further exacerbates the increase in allergens (e.g. pollen) and harmful air pollutants that increases both mortality and morbidity in populations. For example, outdoor PM<sub>2.5</sub> air particles generated through fossil fuel combustion is found to be strongly associated with cardiovascular mortality.

Our inability to recycle plastics has worsened air pollution through the incineration of plastic waste, as well as encouraging microplastics as a water pollutant into our rivers and oceans. Microplastics inhibit marine micro-organisms' absorption of carbon dioxide and release of oxygen through photosynthesis, exacerbating the effects of global warming.

“Our inability to recycle plastics has worsened air pollution through the incineration of plastic waste.”

Our view

Despite the undoubted increased profile of climate related natural disasters their impact on insurance claims in the UK and Ireland is currently negligible. They are unlikely to be a strong driver of extra claims in the short term despite likely increased frequency and severity of, for example, heatwaves.

The medium term is less clear with uncertainty around the trajectory of average temperatures as well as the ability to adapt infrastructure. Economic pressures can be exacerbated by the impacts of climate change e.g. inflationary pressure from increased costs of food due to climate related periods of scarcity. The indirect impacts of periods of recession or austerity on health and healthcare may yet prove to be more material in terms of mortality and morbidity outcomes in the long term than physical risks.

5.2 Consumer behaviours in response to climate change

Whilst the direct effects of climate change are amongst the most visible consequences on people's lives in the short term, it's the policies of governments and the behaviours of both businesses and consumers in response to climate change that could have as much, if not greater effect, on markets and protection in the medium term. Through our research we have sought to explore customer expectations and changes in behaviour in relation to climate change.

Government climate policy is increasing the cost of living

If we start by thinking about government policy, the UK government has committed to bring all greenhouse gas emissions to net zero by 2050, while the Irish government seeks to move to a low carbon economy over the same period. This will require extensive changes across the economy which are unprecedented in their overall scale,

and include; reducing overall demand for energy, lowering demand for carbon intensive activities, and wide spread electrification, especially for transport and heating.

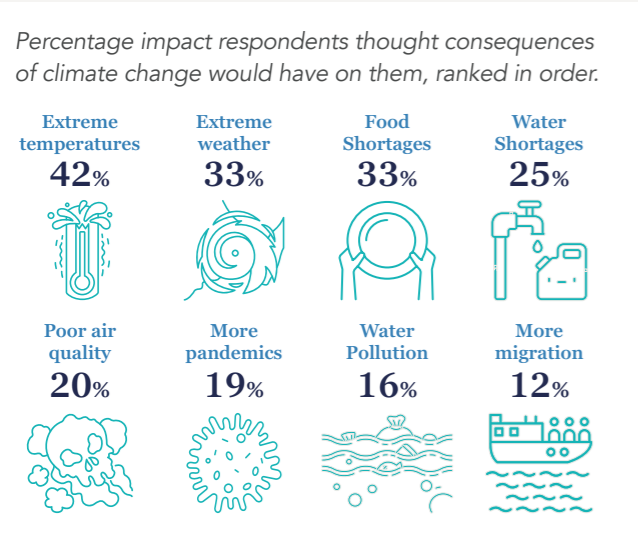
The Climate Change Committee in the UK found in June 2022 that only 39% of the required emission savings are backed by credible plans or policies. This means there remain significant risks in most sectors and if this is not addressed soon, it could require future governments to make more urgent and disruptive policy changes in the future.

Amongst some of the government policies announced so far in the UK are a ban on gas boilers installed in new homes from 2025, and a ban on the sale of new petrol or diesel cars from 2030. These, and other policies, could result in an extra financial burden on customers. Certainly, our research shows 81% of customers in the UK and Ireland expect climate related government policies to increase their cost of living over the next 5 years.



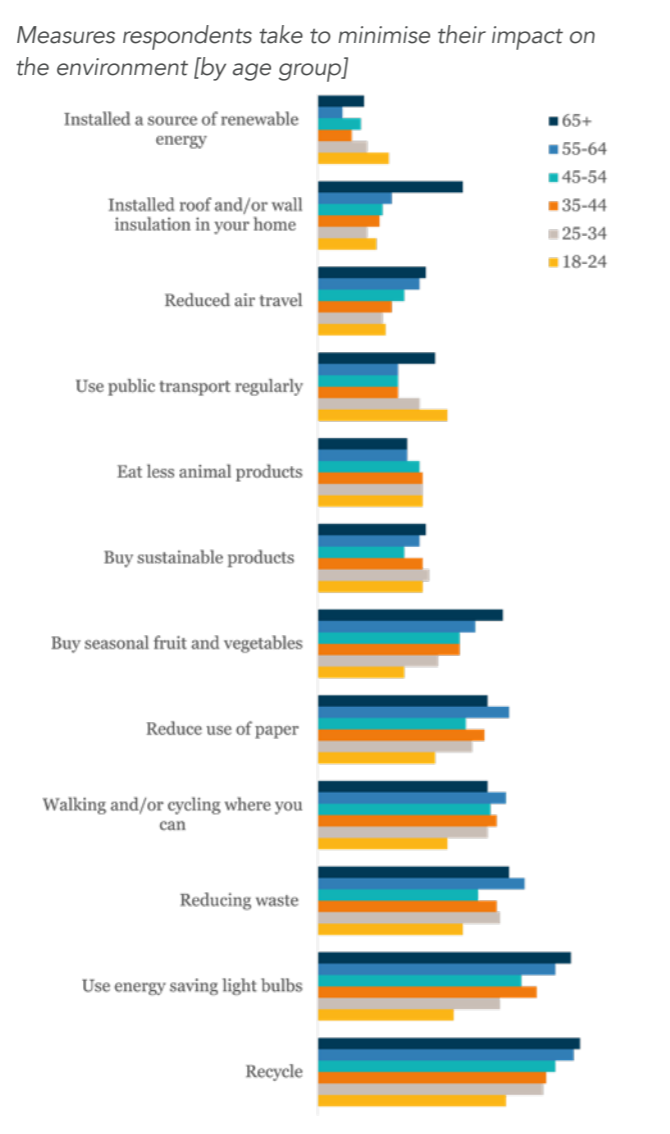
Customers are worried about climate change

Looking beyond just government policy, we wanted to understand to what extent customers are worried about climate change in general. We found the vast majority of customers (over 85%) are worried about it. These concerns are mainly around some of the weather-related impacts such as extreme temperatures. But also, some of the wider ramifications of weather related disasters that occur elsewhere in the world, such as shortages of food supply to the UK and Ireland (see chart below).



Customers are changing their behaviours, but need help

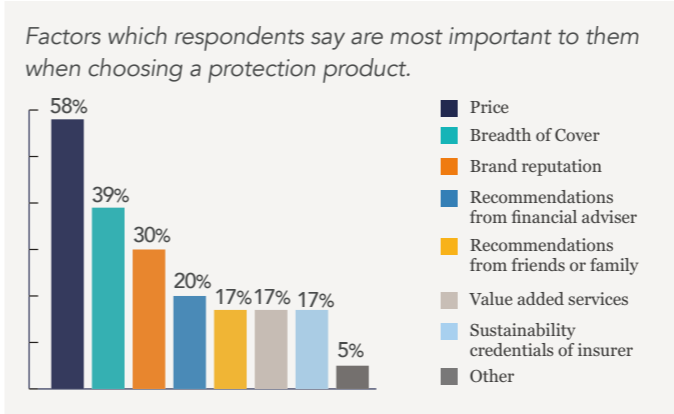
The increased awareness of climate change is also causing customers to reflect on and change their own behaviours, such as producing less waste, consuming more sustainable products, and using more environmentally friendly forms of transport. The chart to the right shows that, as expected, customers are more likely to make changes that have least impact on their lives, such as recycling, using energy efficient light bulbs or walking a bit more. Reducing air travel or making more costly changes to the energy efficiency of their homes was less popular. This suggests further government policy and financial support may be necessary to drive the changes required in these areas.



Climate response emerging as an important factor in choosing between insurers

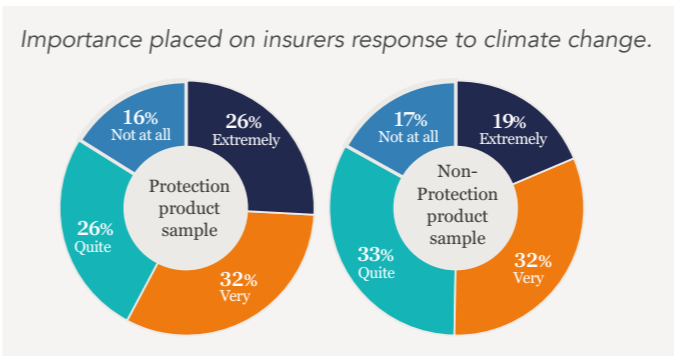
As customers become more aware about their own impact on the environment, we may expect to see it feature more in the buying decisions of financial products like insurance. We can see that amongst existing protection customers sustainability credentials are on their radar. While price, breadth of cover and brand are the most important to protection customers, sustainability credentials do feature, and could be a reason to discount insurers that do not demonstrate sufficient sustainability credentials.

Nonetheless, an insurer's response to climate change is important to most protection customers (84%). The fact it's important to customers but not at the top of their list suggests that customers see it as a hygiene factor for insurers to have an effective response to climate change and take steps to minimise their own carbon footprint. If they do not have an adequate response, it could be a reason for customers not to consider an insurer.



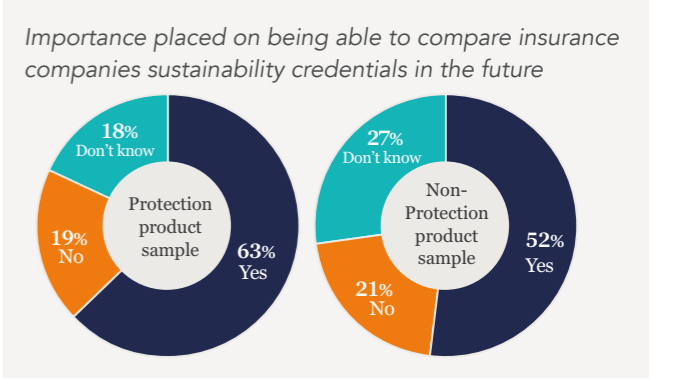
Our view

Climate change is increasingly on customers' radar, and our research shows that many will consider an insurer's approach to climate change when making their purchasing decisions for protection. Insurers already have a social responsibility as both providers of financial products and as institutional investors to support the shift to a low carbon economy. This research highlights it is also of growing commercial importance that insurers manage their response to climate change and ensure protection products and services remains relevant and appealing to consumers.

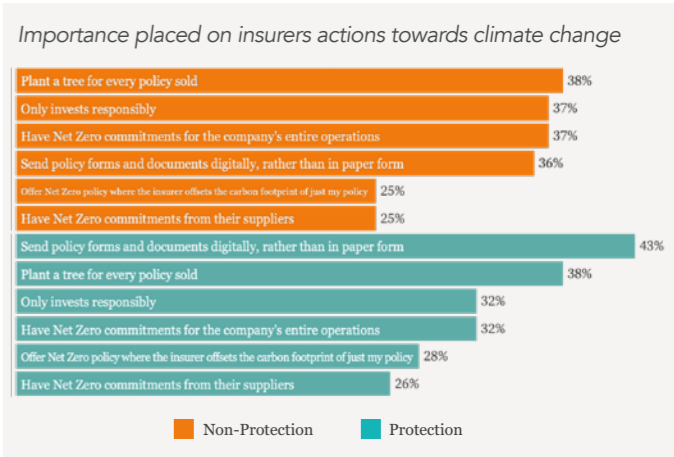


What next for insurers?

Whilst having a sensible climate response will be a hygiene factor for insurers, as they go along the journey to reduce their carbon footprint, we may see a need for customers and advisers to be able to compare companies' sustainability credentials more easily, with 63% of protection customers saying it will be important to them to do so.



Insurance companies are already making progress to reduce their impact on the environment, including; digitising activities, reducing the carbon footprint of operations, and also more responsible investment. Whilst many customers expect insurers to act, there seems to be a slight preference for those actions that are either more directly related to the service they receive (e.g. receiving documents digitally rather than in the post) or are more tangible (such as planting a tree). Such actions may allow insurers to stand out when customers are comparing an insurance companies' sustainability credentials.



# 6 Regulatory developments

## 6 Regulatory developments

There are several current regulatory topics that could have an impact on protection in the UK and Ireland in the near future. In this report we focus on just two of them; the first is the ‘Right to be Forgotten’ (RTBF) in the EU, and Customer Duty in the UK.

### 6.1 Right to be Forgotten

In February 2021, the European Commission presented it’s ‘Europe’s Beating Cancer Plan’ which focusses on the entire disease pathway from prevention to quality of life of cancer patients and survivors. As part of this plan, the financial services industry (including insurance) came under the microscope in order to ensure ‘fairness towards cancer survivors in long term remission’.

In line with the above, the European Commission introduced the Right to be Forgotten (RTBF) which is intended to ensure that patients who have recovered from cancer are not treated in a disadvantageous way when applying for insurance. This includes being declined cover or having to pay increased premiums.

The introduction of RTBF has triggered a flurry of activity across the European insurance industry, with nations responding in different ways. An example of some of the approaches taken are shown in table the below.

Although the approaches do vary by country, all national provisions state that the period beyond which no medical information relating to cancer maybe collected by insurance companies must not exceed 10 years. In some countries, the time since recovery has reduced since the legislation was initially introduced, for example, in France where it reduced from 10 to 5 years.

RTBF is an EU initiative and the UK government has no plans to introduce it in the UK. However, given the UK continues to mirror a lot of EU standards, it may choose to introduce something similar, or public pressure may build for it to do so.

However, the introduction of such legislation does raise some questions in respect of the sustainability of some protection products:

- Will this pave the way for further medical conditions to also be protected?
- Will this be extended to all products?
- Will other countries reduce the time period from 10 years to 5 years?
- Will a customer still need to disclose a family history, if they are not required to disclose personal history of cancer?

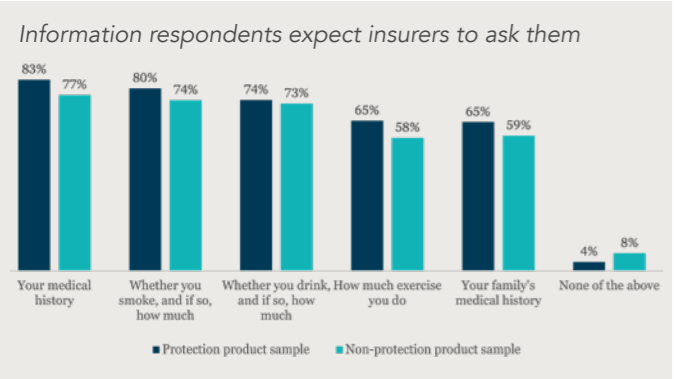
France	Netherlands	Portugal
<b>Applies to credit insurance policies:</b> <ul style="list-style-type: none"><li>• With end age before the 71st birthday</li><li>• For amounts up to: AERAS: EUR 420,000 no medical UW: EUR 200,000</li><li>• No information must be requested for conditions falling under the RTBF.</li><li>• Diseases to be considered under the special reference grid have to be declared and a capped maximum loading may apply</li></ul>	<b>Applies to life and funeral insurance policies:</b> <ul style="list-style-type: none"><li>• With end age before the 71st birthday for life insurance, 61st for funeral insurance</li><li>• For amounts up to EUR 278,004 (to be adapted to consumer price index every three years)</li><li>• The insurers are not allowed to ask about the conditions covered under the law and the applicant does not have to disclose them.</li></ul>	<b>Applies to house and credit insurance:</b> <ul style="list-style-type: none"><li>• No max. amount or end age defined</li><li>• No information on the condition can be collected and no extra premium may be charged for the conditions falling under the law.</li></ul>

**Most customers think premiums should reflect individual risk**

- From a consumer perspective, we found that:
- 83% expect to be asked questions about their medical history
  - 65% expect to be asked questions about their family history
  - 60% of protection customers agree insurers should ask information about their personal circumstances to assess if they are more or less likely than other customers to make a claim and charge an appropriate premium.

So whilst there is a desire for fairness towards cancer survivors, most consumers think that there ought to be some recognition of higher risk customers, and it's not clear how these two competing desires should be best resolved.

We may find that if RTBF is adopted it could lead to an increase in costs for protection insurance products or remove the viability of them completely, particularly in markets like the UK where there is no compulsion to buy protection. This could have significant ramifications for broader access to protection insurance for customers and society.



**6.2 Consumer Duty**

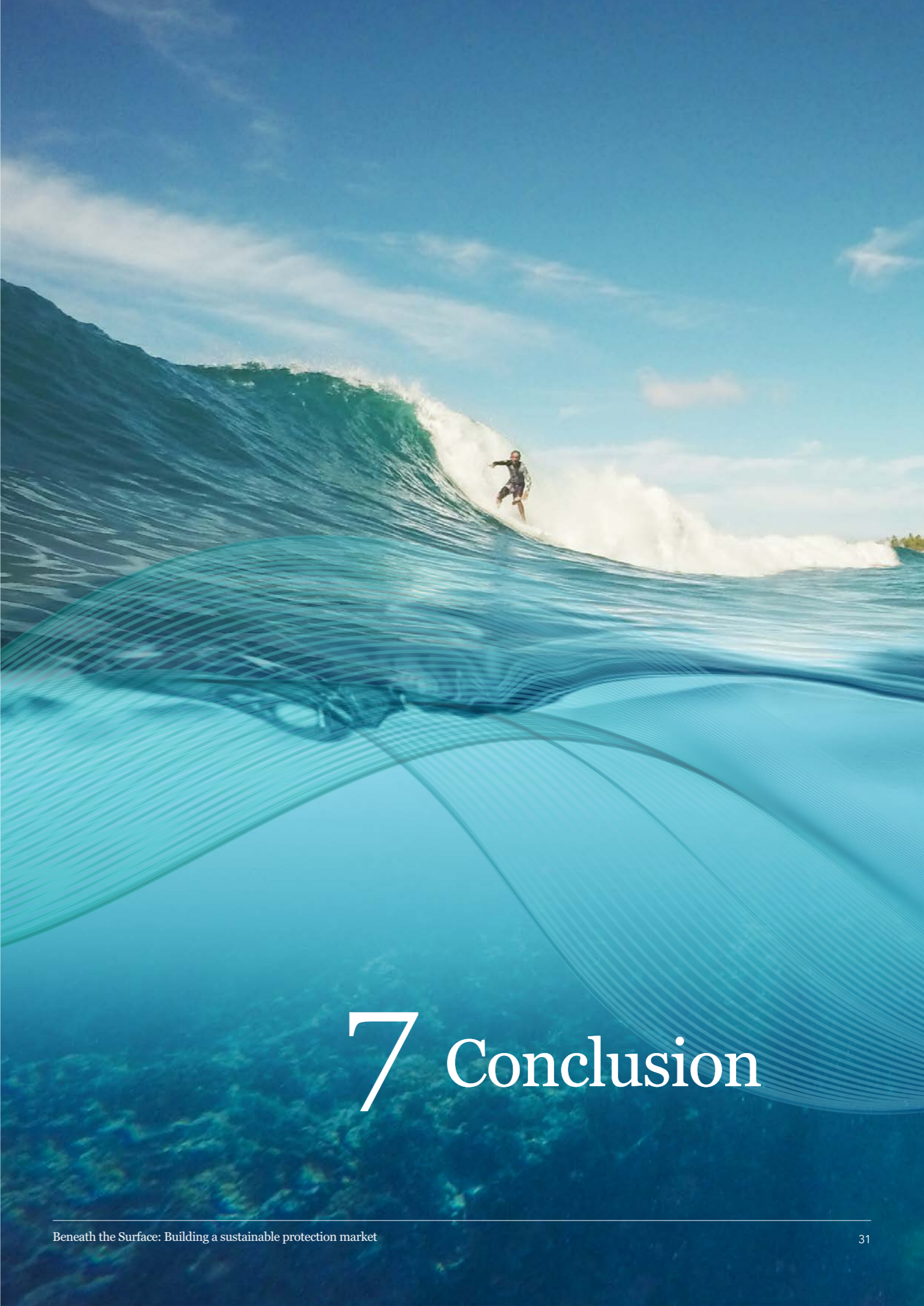
In the UK the Financial Conduct Authority (FCA) published its Consumer Duty Policy Statement at the end of July 2022 with the central tenet that “a firm must act to deliver good outcomes for retail customers”. It is implementing this in two stages, with a deadline of 31 July 2023 for ‘on-sale’ products and services, and July 2024 for ‘off-sale’ products. The essence of the regime is to demonstrate how insurers are delivering value for its customers.

It will require providing evidence of compliance, and in some cases has created new reviews of policies, processes, and products. The outcome of these reviews could lead to a renewed focus on product innovation as insurers look for better ways to deliver value to customers. This could be in the form of new product features, greater product flexibility, or more value-added services which have grown in use in recent years.

We may also see more focus on underwriting processes or differences in distribution and their impact on customer outcomes. Here we believe better understanding of the customer, including analysis of their underwriting journey or how they bought cover, will be key in measuring and demonstrating value.

**Our view**

Regulatory developments such as Consumer Duty in the UK provides an opportunity for the industry to review and improve on the value it already provides customers and therefore supports the long-term sustainability of the market. However there remains a balance to be had with other regulatory developments such as RTBF. Whilst these are intended to provide greater fairness for some customers, there is a risk of unintended consequences if they are extended, and this could affect the price sustainability and availability of certain protection products, potentially leading to lower overall access to protection for the population.



7 Conclusion

## 7 Conclusion

In this report we have explored some of the key drivers of sustainability for the protection market in the UK and Ireland. Amongst the most significant drivers considered are potential misalignment with customer expectations, affordability of protection, and medical advancements in the longer term.

“Our report also highlights the importance of keeping ahead of medical and regulatory developments. Both of which could affect the viability of protection products...”

It has highlighted the need for the industry to do more on communication with customers, to help remove some of the misconceptions around barriers to insurance, and to manage customer expectations around the buying and claims process.

Our report also highlights the importance of keeping ahead of medical and regulatory developments. Both of which could affect the viability of protection products and may require some re-thinking of the design of protection products and the pricing of them.

We found that climate change is also starting to filter through to customers’ expectations of insurers and could also have implications for mortality and morbidity trends in the medium to longer term. This has shown the need for the industry to think more about its own response to climate change and the role it can play in moving to a low carbon, more sustainable society.

### References

Please note that all external references are made as embedded links in the report.

## About Pacific Life Re

Our global team, comprised of the best minds in the industry, are not afraid to disrupt and challenge industry thinking to provide the best mortality, morbidity, longevity, and capital reinsurance products and services possible.

We pursue personalised, bespoke solutions for every one of our clients and our commitment to cutting-edge technology reflects our ambition to offer the most sophisticated answers to the most challenging reinsurance questions.

We are proud of our beginnings, and we celebrate our youth because it is what keeps us tenacious, agile and energised. We are equally proud of the security and freedom we possess from having the backing of our parent company Pacific Life. With a heritage of more than 150 years, Pacific Life provides strength and resilience to our business which enables us to bring our fresh and dynamic approach to the marketplace.

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