Quotemonster

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Value-based insurance research why methodology matters

How does value-based research work?

We think that using real-world data to make our research value-based makes it a lot easier to see which features and benefits really count, and which are just bells and whistles. When we launched in April 2012 we were alone in that view. More recently, ratings agencies in Australia have been criticised for not following the kind of 'value-based' approach we have been using from the start.

We do our research by the numbers.
This is how four-factor research works:

Definition x Incidence x Amount x Frequency = Insurance Quality Score

For each item of value in an insurance product, for example, Cancer in a Trauma product:

Definition – means the quality of the wording

How can you tell the difference between two cancer definitions? Even for financial advisers with decades of experience it can be useful to get a quantified view of the difference between complex policy wordings.

We take the policy documents and look for differences. A starting score of 100 is commonly assigned to a benefit and scoring variations are usually deductions to the score for restrictions on the cover.

Incidence – means how likely the benefit is to be claimed

The second stage is to identify how likely each benefit is to be claimed on; the incidence. So, as you would expect, cancer has a high incidence, Creutzfeldt-Jakob disease, very low. For all the conditions covered under Trauma insurance, incidence adds up to 100%. We allow an additional score for 'policy features' like the ability to add to your cover without medical evidence.

Amount – means how much would be paid

Then we weight the score by the amount actually paid. In Trauma insurance, for example, some companies pay the full benefit for an item, others only make a payment of 10% or 20% of the sum insured because the condition was not severe enough to warrant a full payment. Our score is varied according to how much would actually be paid. Strangely, although we think this is obvious some research companies give the same score to benefits that pay different amounts.

Frequency – means how often the benefit would be paid

If a claim can be made more than once for an item a frequency higher than 100% will be applied here. For example, in rating Medical insurance we allow a claim frequency of two or three times for certain tests in our 'model' of how the policy will be used while the client has the cover. For benefits that may apply only to small groups of people under special circumstances we can apply a frequency of less than one.

Talk to a Financial Adviser

Whatever your attitude towards risk, we recommend that if someone – you, your partner, your children or your business partners depend on you somehow, then you should discuss the financial impact of the risk with a financial adviser who understands insurance.

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