Gazing into the Crystal Ball: Tomorrow's Consumer Needs

Institute and Faculty Working Party

Predicting the future is hard…

2005

- YouTube was launched with the first video was uploaded at 8.27pm on the 23rd April…

- It would still be 2 another years before the iPhone was invented...and another 5 years before the IPad…

- Facebook was 1 year old and limited to users at Harvard and other elite universities…

- Twitter would launch next year….

- No-one had heard of cloud computing…

- Or worked as a 'Data Miner' or 'Social Media Manager'…

- Tony Blair wins a 3rd term in the General Election. In December George Osborne became Shadow Chancellor…

What we've done

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Purpose

- Consider the market environment 10 years from now
- Identify tomorrow's consumers' needs
- Think about how the actuarial profession and industry could meet these

Approach

- Customer need **triggers** are going to be similar to today: family, housing, occupation, health, leisure

- A number of **drivers** that are going to influence and shape the needs of tomorrow's customers.

- External **Expert Panel** used to bounce ideas off

What were our drivers

Demographics
- Our population is changing all the time and at a speed that was unexpected (e.g. migration, aging population)

Technology
- Technology is changing what is possible, what people expect, data analytics but also economics of business and services

Society
- Consumer attitudes, behaviour and expectations across different generations

Economics
- Many future jobs and industries don't yet exist. Some that exist today will become redundant

Political
- Political decisions can create opportunities, shift responsibility and change behaviours but also disrupt or constrain

Regulation
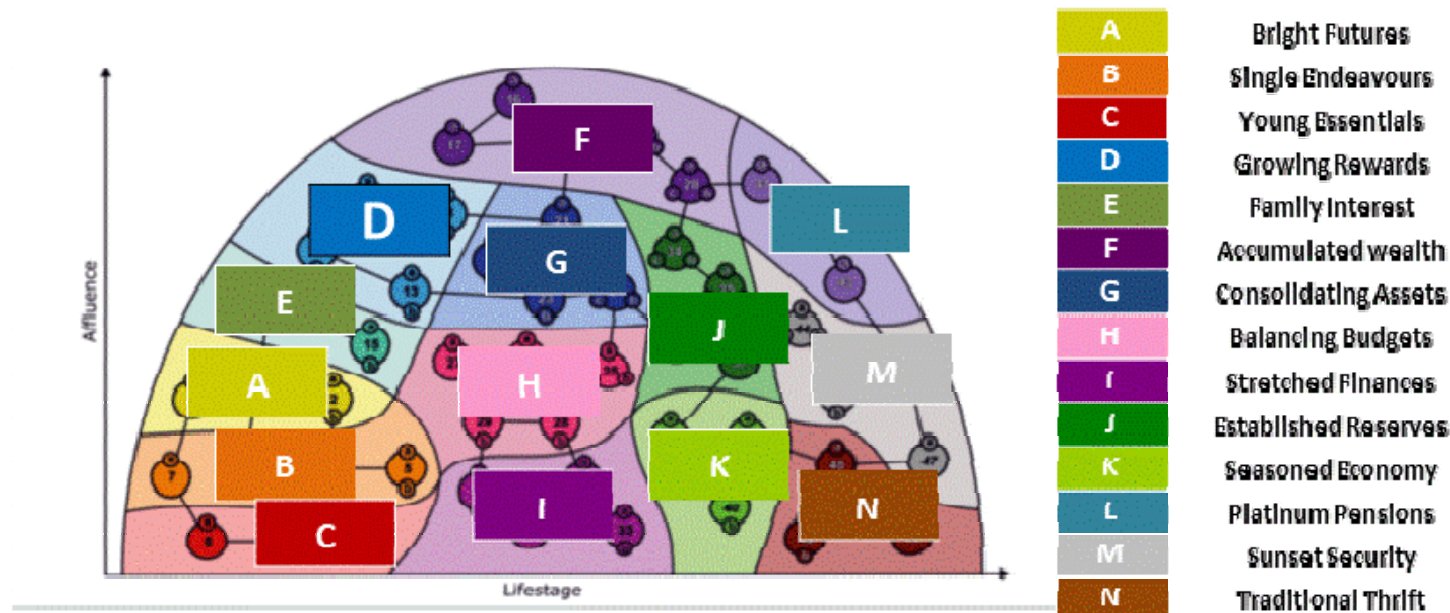- Can control or free but needs to keep pace

Different paths of affluence

Peoples affluence through life will vary but many of the features are common

We positioned the 14 FSS segments by Lifestage, Affluence and Purchasing Behaviours to help us understand who we are attracting today.

A	Bright Futures
B	Single Endeavours
C	Young Essentials
D	Growing Rewards
E	Family Interest
F	Accumulated wealth
G	Consolidating Assets
H	Balancing Budgets
I	Stretched Finances
J	Established Reserves
K	Seasoned Economy
L	Platinum Pensions
M	Sunset Security
N	Traditional Thrift

Level Of Affluence	FSS stengths	% of population
High	D, F, G, L	22%
Average	A, E, H, J, M	44%
Low	B, C, I, K, N	34%

Customer Lifestyle journey

There are many different financial paths that people can take through life. To simplify our analysis and to spot trends we have focussed on three distinct ones. In practice life events mean that people can jump between these or take a different path entirely:

Affluent
(E/D - G –J - L)

- Wealthiest amongst their peers with clear disposable income
- **Irrespective of incentives will tend to save for the future**

Middle Income
(A/B-H-J-M)

- A middle earning group, money to spend but often constrained with their spending choices.
- This is a very broad category – the choices this group can make has a large impact on outcome. **Critical life mid – point will determine ultimate path - H-J-M or H-K-N**

Getting by
(C-I-K-N)

- The lowest income group we considered. Heavily dependent on government support or provision.
- **State dependency will continue to retirement.**

Customer Lifestyle journeys Common Themes

| **Sure start**	• The path that someone follows can be determined early by education attained, and early financial education.
Jobs for Life	• Younger generations starting work now have no concept of a job for life. They expect to move jobs regularly during their careers and perhaps between careers too.
Delayed Life Stages	• There is a theme of delaying key life steps by choice or necessity. These choices have a ripple effect through life. Delayed house purchase, marriage, kids, retirement
Generational Deal	• Where available, younger generations are relying on parents for financial support for longer, towards key life stages, free childcare and potentially an inheritance windfall. • Reciprocally as people live to older ages they will increasingly look to family for support to enable them to stay in their home (if this is forthcoming).

What does the future hold?

Demographics

Estimated and projected age structure of the United Kingdom population, mid-2010 and mid-2035
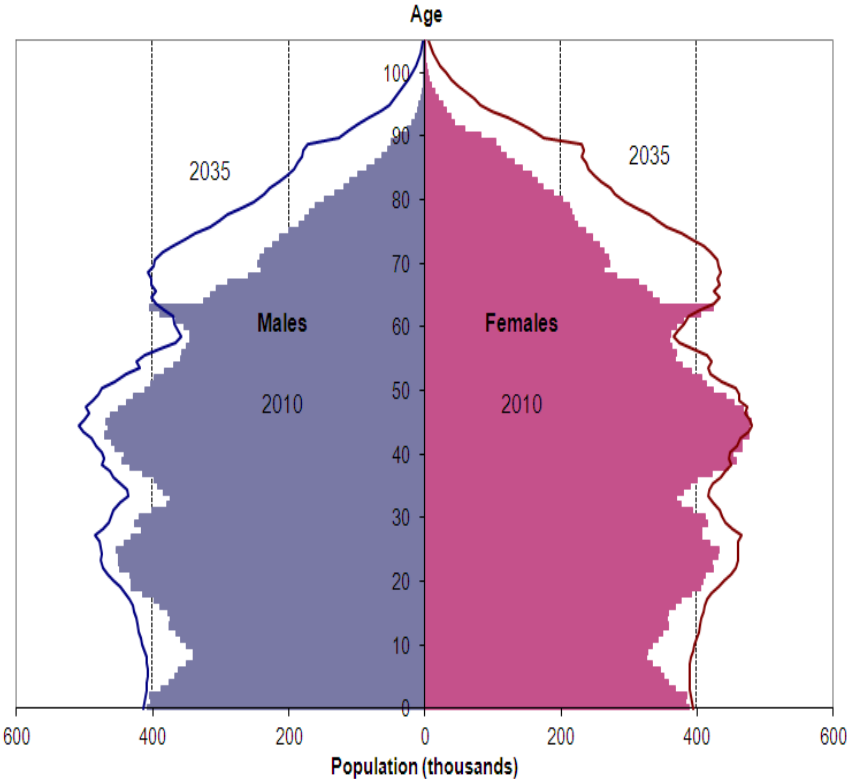
Growing Rapidly

Estimated to be 70m by 2025 and 73m by 2035 from more immigration and natural births exceeding deaths

Ageing

- Median age, 39.7 likely to be 39.9 by 2020, 42.2 by 2035
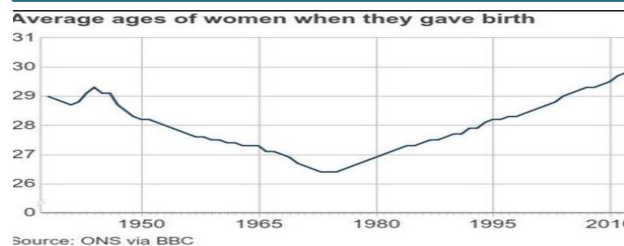- Persons at SPA 12.2m to 15m by 2035

Living Longer

Life Expectancy has improved by 7 years is this likely to continue?

- Obesity issue
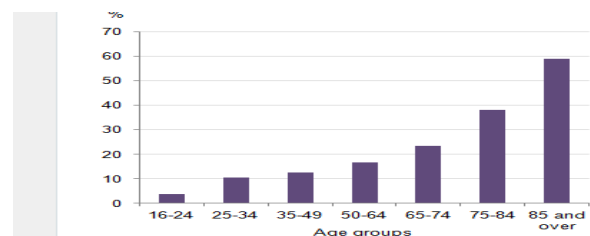- How will the NHS be funded and operate?

What does the future hold?

Demographics

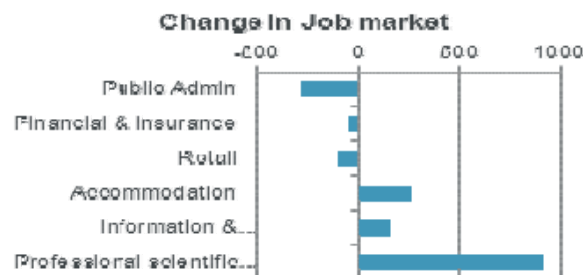Average ages of women when they gave birth
Source: ONS via BBC

Family Size

- Families starting later
- More young adults living at home
- Likely to continue into future as job market is less certain

Living Alone

- 13% of the resident population of England and Wales living alone in 2011.
- Likely to increase as population ages

Change in Job market

Jobs

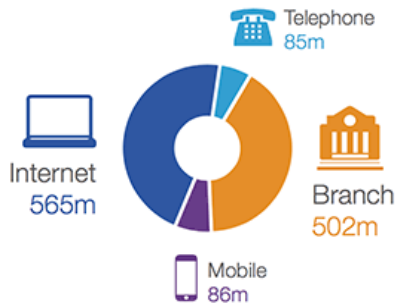- Major change in job market, shift to more automation:
  - No job for life
  - Seen major shift in areas of employment from finance to IT
  - More self employed
  - More Zero hour contracts
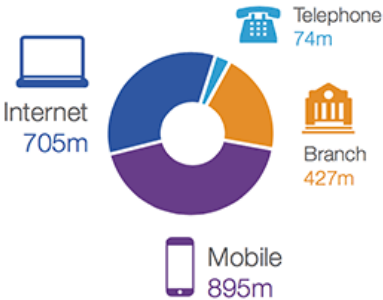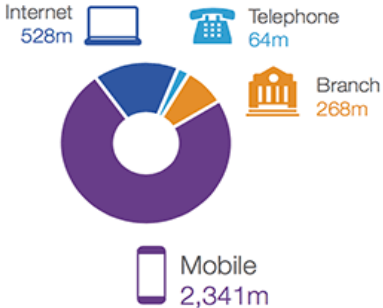
What does the future hold?

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Technology

2010
- Telephone 85m
- Internet 565m
- Mobile 86m
- Branch 502m

2015
- Telephone 74m
- Internet 705m
- Mobile 895m
- Branch 427m

2020
- Internet 528m
- Telephone 64m
- Branch 268m
- Mobile 2,341m

		2005	2014
Any device	E-mail	70%	79%
	IM	30%	58%
Mobile device	E-mail	5%	52%
	IM	70%	90%

But the most common means of communication is…..

What does the future hold?

Health

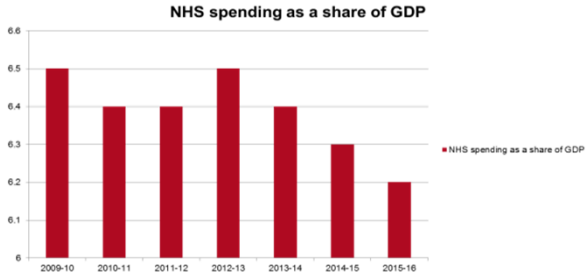### Improved Healthcare

- Smoking ban.
- 50% now 'surviving' cancer
- By 2025 likely to see *more* cancers as survival rates improve and population ages

Multiple Illnesses

- Someone aged 85 will typically have multiple chronic illnesses
- Increasing costs in health care and drug costs

NHS Resources

- Stretched at time of aging population, improved (costly) treatments.
- Expectation is NHS will exist to cover emergency health issues with insurance covering day to day medical issues.
- Insurance cover to pay for treatments (drugs)

What does the future hold?

Political /Regulation

Political

- Encouraging more self dependency, welfare benefits will reduce
- More auto enrolment of life as well as pensions
- Generate guidance / education

Regulation

- Seen biggest change in industry
- Expect more !
- Merging of product types e.g. Pension and ISAs
- Move to industry wide pension schemes across employers
- Merging investment companies and possible removal of life assurance tax basis.

Data

- Currently companies amass data on client.
- What use are they making of this data   Little or Big data ?
- More regulation
  - to protect customer
  - create level playing field with client owing their   data

Summary of Consumer Needs

Pressure on government spending	• Increased personal responsibility for financial provision • Pressure on NHS spending may lead to greater need for private healthcare
Financial education	• Engaged consumers will need affordable advice, or information / guidance • Disengaged consumers will need to be told what to do or have good defaults • Financial education will be needed throughout (and before) career
Attitudes	• Recession will affect decisions by current generation ("recession children") • Austerity may lead to consumers feeling increased personal responsibility / no safety net
Healthcare	• Consumers may want more specialised healthcare solutions • Consumers may become more active in their choice of healthcare provision
Ageing population	• Increased need for long-term care products • Demand for protection products at older ages • Retirement planning/needs will become increasingly complex
Employment changes	• Consumers may not want pensions / protection tied to employer • Increased need for products that allow for changing circumstances
Data and technology	• Consumers will be more comfortable with sharing personal data • Consumers will expect providers to know about them • Consumers will expect integrated solutions across providers

Industry response: Q&As

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| Personal responsibility	• Will the Financial Advice Market Review help close the advice gap? • How should the profession support financial education?
Attitudes	• How will the 'recession' generation be impacted in their decision-making? • Will auto-enrolment help or hinder engagement?
Complexity	• Will 'robo-advice' become the centre of a new default distribution route? • How does this impact insurers and asset managers? • How should actuaries get involved here?
NHS & private healthcare	• Will a two-tier health service emerge? • Will more tailored insurance products bridge the gap cost effectively?
Later life care	• How can this be funded? How will the new pension freedoms help? • How does increasing later-life debt make a difference? • Should actuaries get more involved?
Employment changes	• Will the employer remain as a viable mass market channel? • How do products and solutions adapt to frequently-changing work patterns?
Data and technology	• How can we use abundant personal information at the point-of-sale? • How will technologies drive down claims and hence the cost of insurance? • Are actuaries under threat from data analysts?

Open for discussion

- Do you agree with the needs that have been identified by the working party?

- What else do you think will be a key customer requirement in 2025?

- How would you like to see the profession and industry react?

Working Party

Thanks to everyone who put in so much time and effort
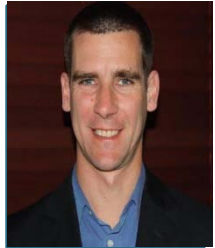
Colin Dutkiewicz

Life Actuary

Aon

Nigel Mead

Marketing Actuary (Annuities)

Scottish Widows

Pankti Parikh

Financial Reporting Manager

Foresters

Russell Beaumont

Independent Consultant

Ashish Ranjan

Chief Actuarial Manager

SBI Life Insurance Co Ltd

Andrew Daniels

Head of Reporting & Analysis

Standard Life

Ed Hall

Actuary

Royal London

Appendices

Data

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Key Drivers

- Personal ownership used for personal advantage
- Ubiquitous, from things as well as people
- Understand behaviours and motivations, not just facts
- Countervailing regulation e.g. privacy, discrimination, competition

Future uses

- Just-in-time content delivery
- Individualisation of products and pricing
- More detailed reserving and capital management
- Claims prevention and management
- Compliance and fraud management

So what?

- Robo-advice with human backing to fill advice gap
- New skill areas for distributors and vertically integrated insurers
- Data viewed as a separate asset, data management and predictive analytics as a core competencies
- Increased price competition for commodity component items
- Continued rise of data aggregators and data intermediaries

Technology

Key Drivers

- Consumers expect full digital experience
- Websites optimised for mobile phones and tablets
- 24/7 access to policy information

Future uses

- Aggregation of all bank / savings / protection policies on one screen
- Used to give timely nudges for consumers. Engaging ways to reach customers, and not just wait for customers to look for insurance
- Underwriting using results of wearable technology could be developed, like telematics in motor insurance
- Can wearable technology also be used throughout the lifetime of the policy?
- Faster underwriting (SARs) and claims processes

Long term savings

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Key Drivers

Culture
- Multiple employers
- Competing financial priorities
- DC Provision only
- Delayed life stages

Political
- Burden passed from state to individual but ..
- Government top-ups targeted for the many
- Pension and ISA lines increasingly blurred

Regulation
- Minimum contributions and compulsion revisited

Tomorrow's Customer Needs
- Pre workforce education – in a DC world must be in schools
- Pension follows you – no reason to leave it behind
- Ability to access 'pension' savings pre-retirement – no regret
- Simplification of ISA vs pension – simplicity encourage savings
- Government top-ups targeted to those who need it, richer benefit from gross roll-up
- Merging with spouse's pot - a joint retirement 'account'

Long term care

Needs to be considered as distinct from health provision

Key Drivers

Culture
- Competing financial priorities
- Living longer with more than one disease
- Delayed life stages, elderly funding more of their children's needs

Political
- Burden is with individual
- Government assistance reducing
- Need for individual to meet future cost

Regulation
- None, Minimum contributions and compulsion ?

Tomorrow's Customer Needs
- Move to more suitable housing
- Who will provide care as sibling living far away from home.
- More clarity on what state provision for elderly
- Link costs of care to:-
  - Offsetting against home rather then immediate sale
  - Linking with long term savings, e.g. pension and ISA pots
  - Insurance to provide cover for possible LTC costs
    - Nurse visits / care home costs
- Greater demand for pre workforce education to fund care

Protection

Needs the same, but deliver mechanism improvement

Key Drivers

Society
- Insurance gap increasing
- No obvious change in consumer behaviour to grudge purchase
- Behaviour economics + digital facilitation -> supply driven sales to get users at optimum moment

Regulation
- Protect consumer
- Post-PPI risk aversion hangover

Demographics
- Immigration, delayed life stages, debt burdens

Tomorrow's Customer Needs
- Same needs as always: protect family lifestyle and businesses
- Protection from aggressive sales tactics
- Appropriate advice that adds (perceived) value
- Adaptable solutions
- Most cost effective products (buy term, invest the rest)
- Most efficient take-on process
- Improved health – rewards for healthy behaviour

Health

Private Insurance to compliment reducing NHS

Key Drivers

Society
- Waiting time demand
- Increased cost of medical advances
- Demand for available and effective primary care

G'vment
- Austerity, requiring reduced NHS spending
- Private/Public partnership on provision and funding

Demographics
- Ageing population, immigration

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