Life Insurance at the Cross Roads
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Executive Summary

• Our working party believe that the life insurance industry’s basic value propositions – guarantees, protection and efficiency with which these are provided – are at risk

• Our working party believe that the challenges are not only due to the difficult macro-economic environment following the financial crisis, but also more importantly due to some leading technological advances and disruptive business models that the traditional life industry have not seen before

• Our working party discuss these potential “megatrends” and possible points of action so that the industry and the profession can more pro-actively adapt with them
Contents

- Life insurers’ traditional value propositions
- Megatrends in life insurance
  1. Asset gather and manage
  2. The return of with-profits
  3. Defined ambition in pensions
  4. Insurtech
  5. Separating underwriting from funding
  6. Customer centricity for all
- Conclusion and next steps
Life insurers’ traditional value proposition
Based on a business model that is a dying breed

1) Meaningful long-term guarantees
2) Have the most expertise to price biometric risks
3) Substantial assets and capital resources
4) Security and value-for-money
5) Ease of doing business

Meet the savings needs of policyholders
Meet the protection needs of policyholders
Business soundness and tax advantages

*Insurance and the big data technology revolution, FT 24 February 2017*
Same old challenges, new customers
Require a change in the mindset

The “millennials” and the ‘Gig’ economy are facing headwinds from all directions:

- Low interest rates, sluggish salary growth
- Rising property prices, university fees and cost of public services
- DB pension schemes have been phased out and replaced with DCs
- NHS cuts and potential privatisation; limited state benefits on death
- Political uncertainty, instability
- Lack of growth in ‘real’ economy

On the other hand, their ability/desire to pay for insurance premiums is drained

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1 More evidence of difference in experience by young working adults vs pensioners becoming more pronounced over the past decade – see A Good Retirement, Claudia Wood, Simone Vibert December 2017
An unprecedented period of change
Insurers’ agenda is being set by other than themselves

1Morgan Stanley, Sustainable Signals, 2017
An unprecedented period of change
And the birth of the new ‘life partner’ model...

1World Insurance Report 2017, Capgemini, Efma
1. Question to the audience

Are the life insurance industry’s basic value propositions being threatened and therefore it is facing disruption?

A. Yes

B. No
Q1 Are the life insurance industry’s basic value propositions being threatened and therefore it is facing disruption?

Answered: 41  Skipped: 0

Yes

No

Other (please specify)
Contents

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  1. Asset gather and manage
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• Conclusion and next steps
Asset gather and manage
A better deal to the customer

Megatrends in life insurance: Asset gather and manage

Meaningful long-term guarantees

Asset managers are cheaper
Asset managers are more flexible

Consumers go to asset managers
2. Question to the audience

Do you think that long-term investment guarantees are dead and therefore it is the end of annuities and participating products?

A. Yes, low interest rates are here to stay so these products are not value for money to customers

B. Yes, Solvency II is driving a hard bargain, guarantees will continue to be expensive for the consumers

C. No, the only way interest rates can go is up, so spread products will make a comeback

D. No, Solvency II is the necessary evil, which will lead to the development of new ‘hybrid’ products with higher upside potential to consumers
Q2 Do you think that long-term investment guarantees are dead and therefore it is the end of annuities and participating products?

Answered: 41  Skipped: 0

- Yes, low interest rate...
- Yes, Solvency II is driving...
- No, the only way interest...
- No, Solvency II is the...
- Other (please specify)
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  1. Asset gather and manage
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• Conclusion and next steps
The return of with-profits
Take the lessons learnt and ‘guarantee’ to make it better

- Suffered from unsustainable expectations and complex charges
- Future surplus arising was used to make up for past losses
- Can we revamp it with transparency and sustainable guarantees?
- New profit sharing mechanisms where smoothing is formula based
- Customers’ expectations managed with ‘personalised’ real time communications using digital tools
- .... based on behavioural economics such as ‘framing’
- Loss absorbency capacity of technical provisions can help in product design
- Finally, look at the continental European experience of new hybrid products

¹For a detailed review of latest customer opinions on with-profits, see Value of with-profits for consumers working party update, 20/11/2017, Jonathan Welsh et al
3. Question to the audience

Do you think that some form of the with-profits proposition will make a comeback in the next 5 years?

A. Yes

B. No
Q3 Do you think that some form of the with-profits proposition will make a comeback in the next 5 years?

Answered: 41   Skipped: 0

Yes

No

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• Life insurers’ traditional value propositions
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  1. Asset gather and manage
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Defined Ambition in pensions
Solidarity in a personalised world

- A Dutch invention of a ‘cheat’ DB scheme where the indexation and even guaranteed benefits can be taken back in bad times
- Cross-subsidy exists between younger and older members
- Highly controversial, but solves some problems – investment, cost savings and risk pooling – of DC and DB schemes
- However, doesn’t change the fact that the existing contribution rates are insufficient...
- May not be suitable for all schemes
- Potentially higher expected returns due to the inflow of joiners extending the investment return horizon

4. Question to the audience

Do you think that Collective Defined Contribution can be the preferred structure for employers in auto-enrolment?

A. Yes

B. No
Q4 Do you think that Collective Defined Contribution can be the preferred structure for employers in auto-enrolment?

Answered: 39  Skipped: 2

Yes

No
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Did it happen already?
Big machine life partner company
You’ll never walk alone...

Have the most expertise to price biometric risks

Underwriting questionnaire vs Big Data
Actuarial theories vs Machine learning

Life insurers become a thing of the past

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1 More detailed discussion on this topic can be found in FT Series Artificial Intelligence in real workplaces: Insurance – Robots learn the business of covering risk, May 2017
2 Physical activity tracking in private insurance, Lisa Altmann-Richer, 6 July 2017
If you can’t beat them, join them
But need bold steps...

• Introduce latest data science, AI models and programming techniques into the actuarial examinations system

• Open up high quality underwriting and reserving data (not only mortality) to industry and academia, FREE OF CHARGE

• Set up centralised actuarial modelling platforms that can be updated with the blockchain and AI advances

• Otherwise, actuarial statistics and modelling practice risk becoming dinosaurs of the digital age

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1 In a Univ. of Oxford working paper The Future of Employment by Carl Benedikt Frey & Michael Osbourne, underwriting work is deemed one of the high at-risk jobs to be replaced by robots
5. Question to the audience

All life insurance companies open to new business will become insurtech companies in the next 10 years?

A. Yes

B. No
Q5 All life insurance companies open to new business will become insurtech companies in the next 10 years?

Answered: 40  Skipped: 1

Yes

No

Other (please specify)
6. Question to the audience

Who would you be relying most on getting health advice?

Please order from highest to lowest in terms of preference.

I. Your life insurer
II. Health companies set up by FAGA (Facebook, Amazon, Google, Apple)
III. Your GP
IV. Family, friends
Q6 Who would you be relying most on getting health advice? Please order from highest to lowest in terms of preference.

- Your life insurer
- Health companies services
- Your GP
- Family, friends

Answered: 40  Skipped: 1
Contents

• Life insurers’ traditional value propositions
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  1. Asset gather and manage
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  6. Customer centricity for all
• Conclusion and next steps
Separating underwriting from funding

Alliance of the players

• Traditionally, insurers play the dual role of underwriter and capital provider, leading to high barrier-to-entry

• Having a centralised, credible underwriting platform can enable more capital providers with no prior insurance expertise, or even pooled personal capital, to enter the arena:
  – Less “knowledge overheads” for both the capital providers and the policyholders
  – More transparent, flexible and well-benchmarked product designs
  – More competition and potentially better prices for consumers
  – More motivation for timely product innovation
New capital and new competitor?
Depending on tech capacity and willingness/attractiveness

Substantial assets and capital resources

Insurance barrier-to-entry lowered by technology and regulatory approval

Pooled personal capital, private equity or other non-insurers enter competition

New giants with mass funding methods beat traditional players

“How do you compete with not-for-profit entities?”
7. Question to the audience

Would you be willing to share your company’s mortality data in a centralised environment for better customer outcomes assuming full confidentiality both for the company and the customer?

A. Yes

B. No
Q7 Would you be willing to share your company’s mortality data in a centralised environment for better customer outcomes assuming full confidentiality both for the company and the customer?

Answered: 39    Skipped: 2

Yes

No

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Contents

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  1. Asset gather and manage
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What the millennials desire in buying policies

... where consumer experience is everything and nothing

Insurance consumers especially millennials now expect on demand, high touch and rapidly innovating services

24 hours online chat/helper to answer any questions customers may have

Fewer questions, fewer pages to read through and instead tick box questions so cover can be arranged in seconds

Easy access to insurance products e.g. via apps on smart phones

Regular updates to consumers on cover e.g. text, WhatsApp, emails

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1 How technology and data are reshaping the insurance landscape, EIOPA InsurTech Roundtable 05 July 2017
Contrast with life policy writing practice
A reflection of old systems and processes...

- Opaque terms, clauses and caveats
- Advisors need to be booked far in advance
- Boilerplate leaflets
- How can I see my policy worth today, Mr Actuary?
- Mis-selling
- Helpline forever busy
- Tax implications

Megatrends in life insurance: Customer centricity for all

1World Insurance Report 2017, Capgemini, Efma
Megatrends in life insurance: Customer centricity for all

Return on capital, returns to consumers

Focusing on the customer outcome...

Value-for-money

? 

Policyholder money wisely spent?

Sales and marketing costs\(^1\)
Bid/offer spread to possibly cover distribution channel bonuses
Admin overheads (especially actuaries)\(^2\)
Investment manager’s fees
Shareholder and regulatory cost of capital
Costs of cover for biometric risks and investment guarantees
Maturity payout

\(^1\)Admittedly, life insurers are making progresses following the RDR review; see Financial Times commentary Life Insurers Save £6bn thanks to advisory fee changes, May 2016
\(^2\)Equitable Life hires Goldman Sachs to examine possible sale, FT, 1 March 2018
Potential solution: Modularised products
Mix and match to create your own insurance cover

• Modular product means customers can:
  – Have a say in the format and constituents of an insurance contract (build them in a LEGO manner)
  – Think about life insurance and non-life insurance at the same time
  – Reduce the number of contract purchases to meet needs, ie one product

• Potential consumer value:
  – Potential savings in broker/IFA commission if executed through D2C
  – Less chance of an “unfair” surrender value
  – Cover can be tailored to individual needs which might translate to a more favourable pricing for the consumer
  – Plan and add what you need later on rather than now

1For example of innovative products in a modularised design, see The Future of Financial Services – How disruptive innovations are reshaping the way financial services are structured, provisioned and consumed, World Economic Forum and Deloitte, June 2015
Possible solution: Efficient hybrid distribution
Enabler of the new insurance model

• Price comparison websites:
  – Mature solution, powerful for comparing simple, short term covers but not so for long-term, high value and potentially complicated contracts
  – Opportunity to leverage the life insurance proposition

• Robot advisors:
  – Good: charge less commission and is available 24/7; usually reasonable advice given
  – Bad: not really understood what you said, but just guessing by keywords or forcing you to follow its routines; tend to specialise in fund selection and weak in contemplating long-term insurance considerations\(^1\)

• Traditional distribution channels
• And the new hybrid distribution model, ie Omni-channel

\(^1\) For discussion on the shortcomings of robot advisors and why digital strategies fail, see Transforming Life Insurance with Design Thinking, McKinsey & Co, Markus Berger-De Leon et al
8. Question to the audience

Who would you be relying most on getting financial advice?

Please order from highest to lowest in terms of preference.

I. Your life insurer
II. Financial advisory companies set up by FAGA (Facebook, Amazon, Google, Apple)
III. Your IFA
IV. Family, friends
Q8 Who would you be relying most on getting financial advice? Please order from highest to lowest in terms of preference.
Consider the lower socio-economic groups

The real measure of success...

• Under-marketed because of presumed low premiums unsuited to face-to-face selling by IFAs or company representatives

• New marketing approaches needed: perhaps building on awareness created by auto-enrolment pensions

• Execution-only is crucial but product information needs to be provided in an accessible and attractive way

• Medical questionnaires for low benefits/premiums likely to be a turn-off – new underwriting approaches need to be explored

• Key phrase: micro-insurance

1https://www.actuaries.org.uk/learn-develop/attend-event/microinsurance-making-it-work
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Conclusion:

• Our working party believe that “Megatrends” due to socioeconomic environment changes and technology advances threaten to invalidate the traditional value proposition and business model of life insurers.

• Our working party believe the industry and the actuarial profession must treat these trends seriously; we wish to raise awareness and have suggested points of action for the industry and the profession to possibly adapt with these trends more pro-actively.

Next steps: A paper on deep-dive megatrends
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