



Institute
and Faculty
of Actuaries

Life Insurance at the Cross Roads

Presented by: Burçin Arkut, Ziling Jiang

Consumer Impact Working Party members:

- Burçin Arkut
- Chris Harvey
- Jennifer Osoata
- Jignesh Mistry
- Waqar Ahmed
- Ziling Jiang [chair]

Sessional Research Event, Edinburgh

05 March 2018

People of our working party



Ziling Jiang
Solutions Manager
Lombard Odier IM



Burçin Arkut
Chief Actuary
AvivaSA Turkey



Chris Harvey
Retired



Jignesh Mistry
Senior Manager
PwC



Waqar Ahmed
Contracting
Consultant



Jennifer Osoata
Consultant
SDA Actuaries

Life Research Board Representative: Colin Dutkiewicz



Institute
and Faculty
of Actuaries

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

Satisfactory returns and peace of mind

Meet the savings needs of policyholders

2) Have the most expertise to price biometric risks

3) Substantial assets and capital resources

Meet the protection needs of policyholders

4) Security and value-for-money

5) Ease of doing business

Tax efficiency

Business soundness and tax advantages

¹Insurance 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

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...



American Well®



Institute and Faculty of Actuaries

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?

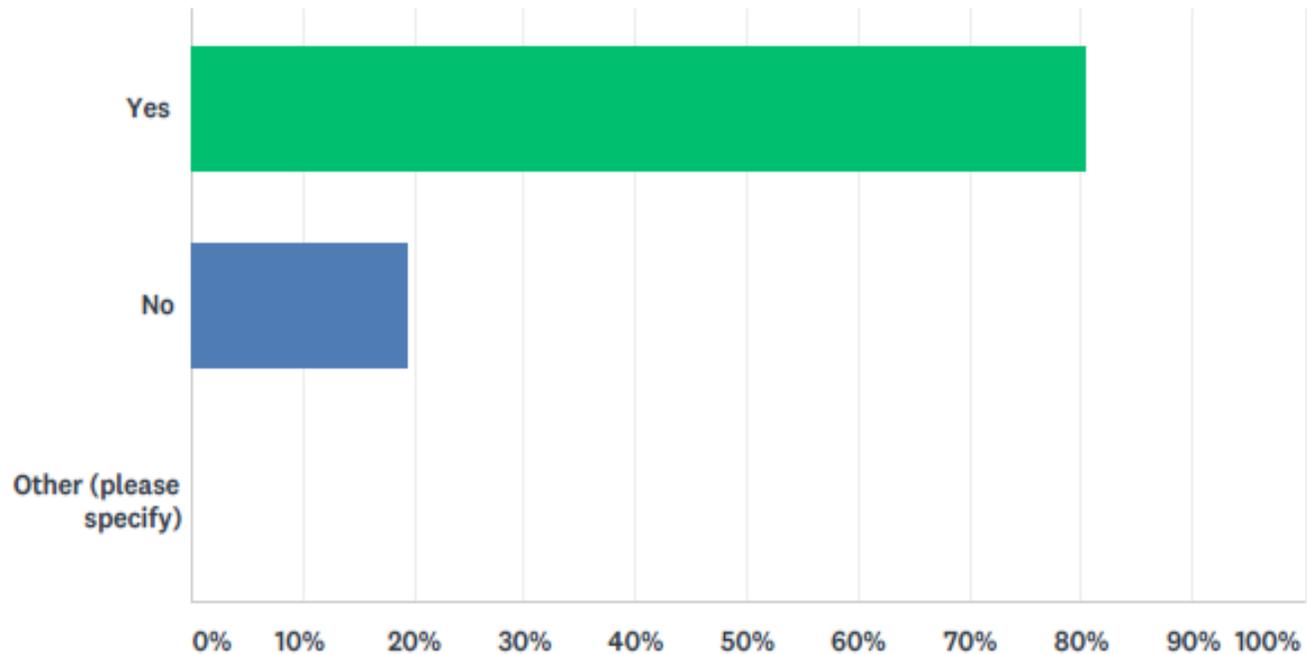
A. Yes

B. No



Q1 Are the life insurance industry's basic value propositions being threatened and therefore it is facing disruption?

Answered: 41 Skipped: 0



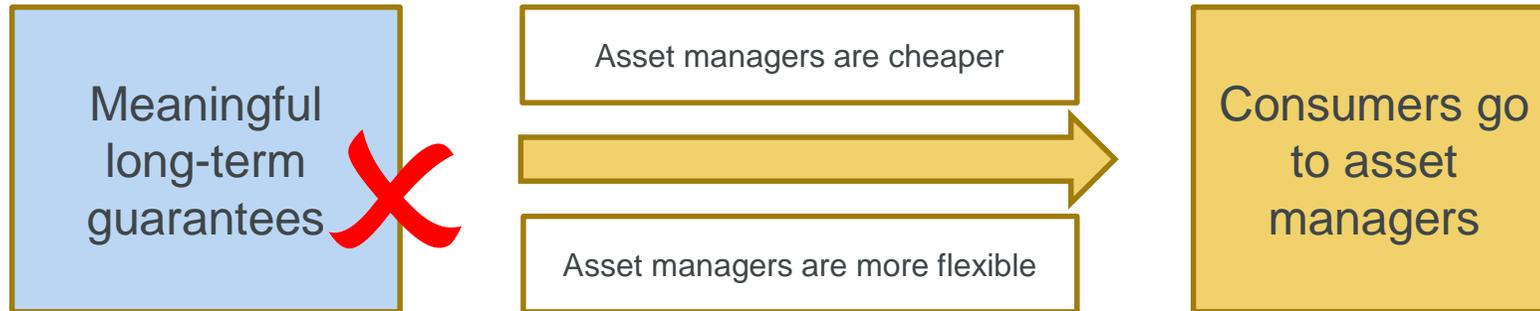


Contents

- 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

Asset gather and manage

A better deal to the customer



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

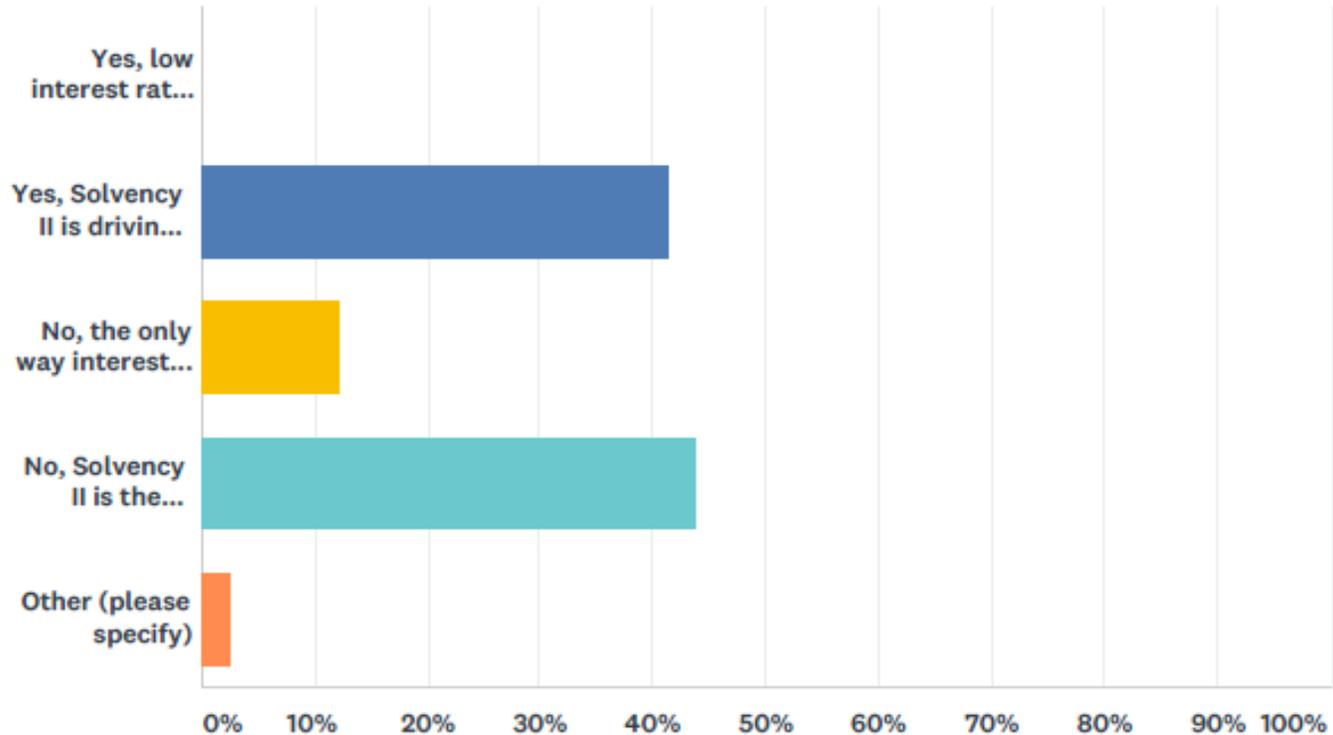
C. No, the only way interest rates can go is up, so spread products will make a comeback

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





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

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?

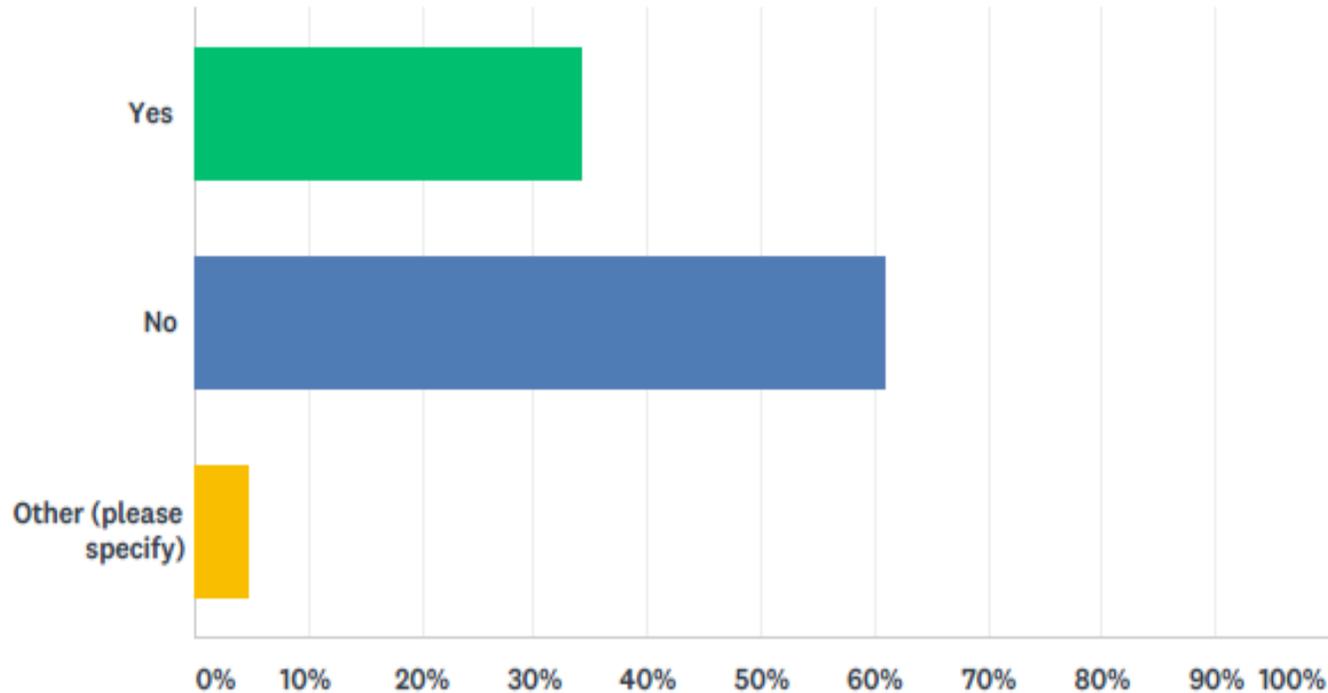
A. Yes

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





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

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 schemes¹
- 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

¹ Parliament hearing on CDC Feb 2018: <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/work-and-pensions-committee/collective-defined-contribution-pension-schemes/oral/78948.pdf>



4. Question to the audience

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

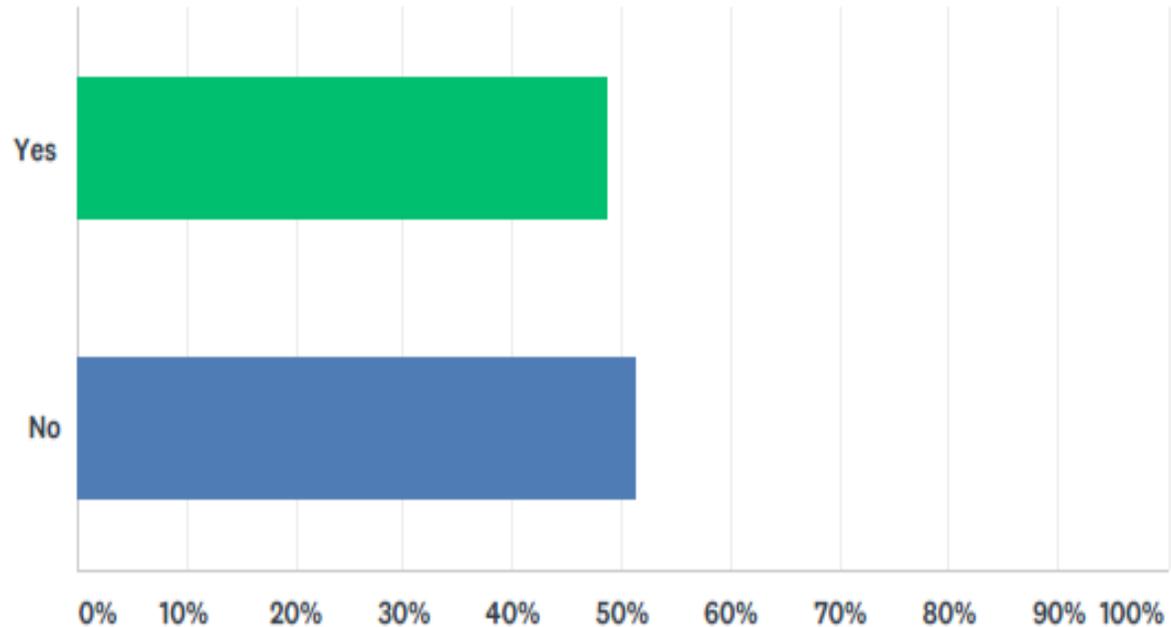
A. Yes

B. No



Q4 Do you think that Collective Defined Contribution can be the preferred structure for employers in auto-enrolment?

Answered: 39 Skipped: 2





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

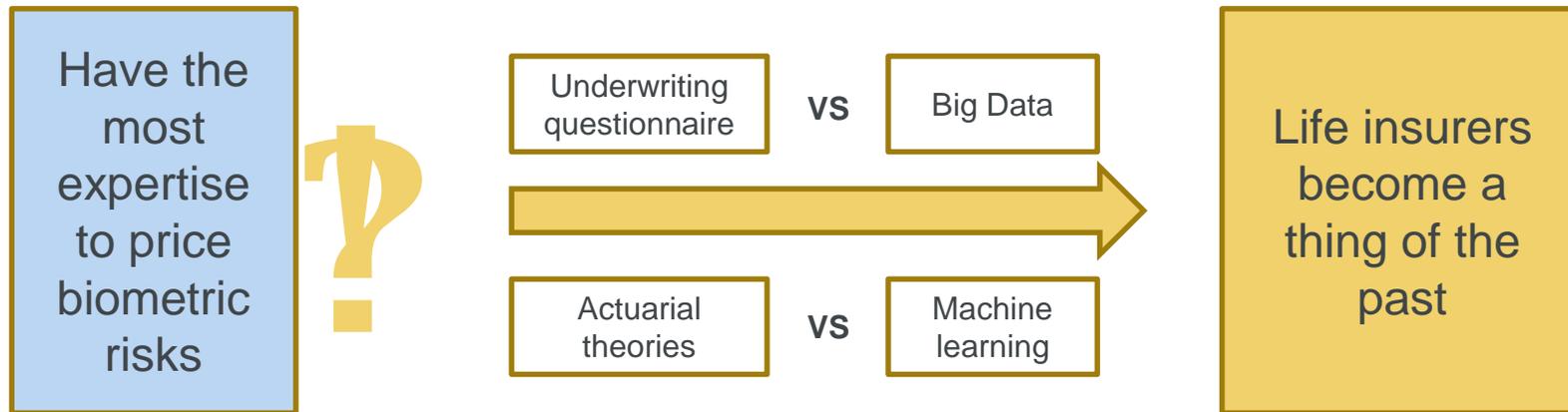
Did it happen already?

aLife



Big machine life partner company

You'll never walk alone...



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 age¹

¹ In a Univ. of Oxford working paper The Future of Employment by Carl Benedikt Frey & Michael Osborne, 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?

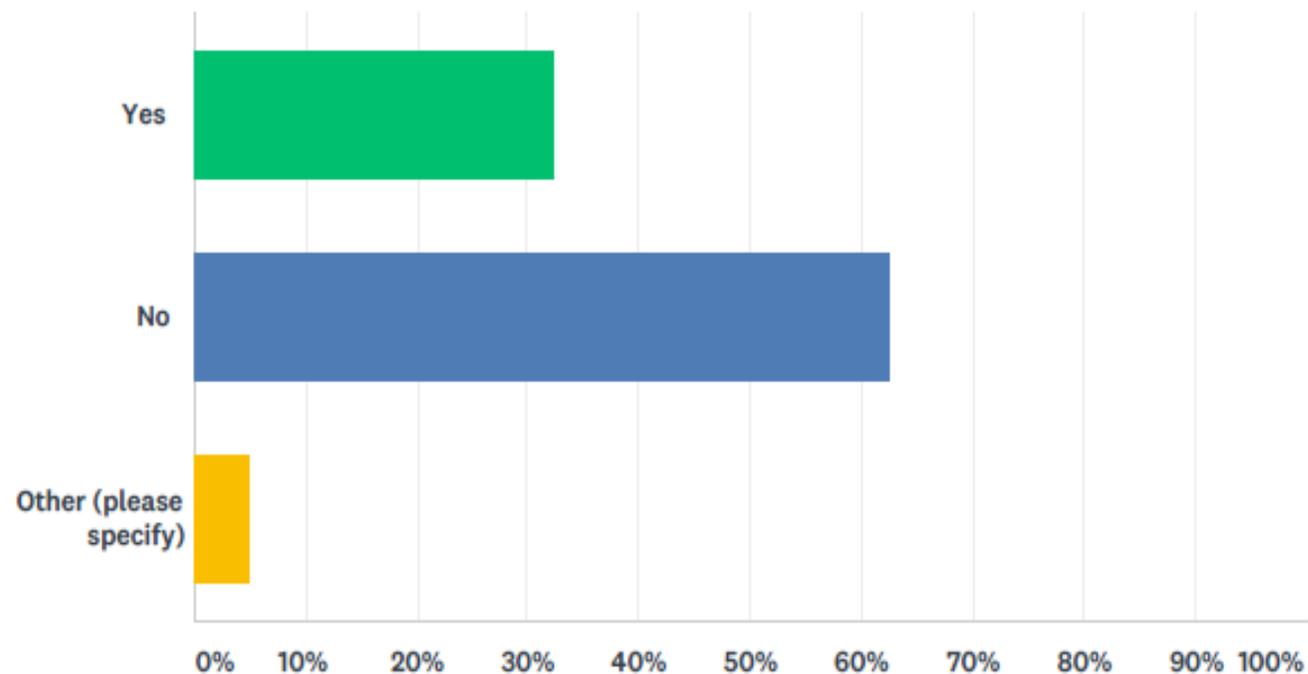
A. Yes

B. No



Q5 All life insurance companies open to new business will become insurtech companies in the next 10 years?

Answered: 40 Skipped: 1



Institute
and Faculty
of Actuaries

6. Question to the audience

Who would you be relying most on getting health advice?

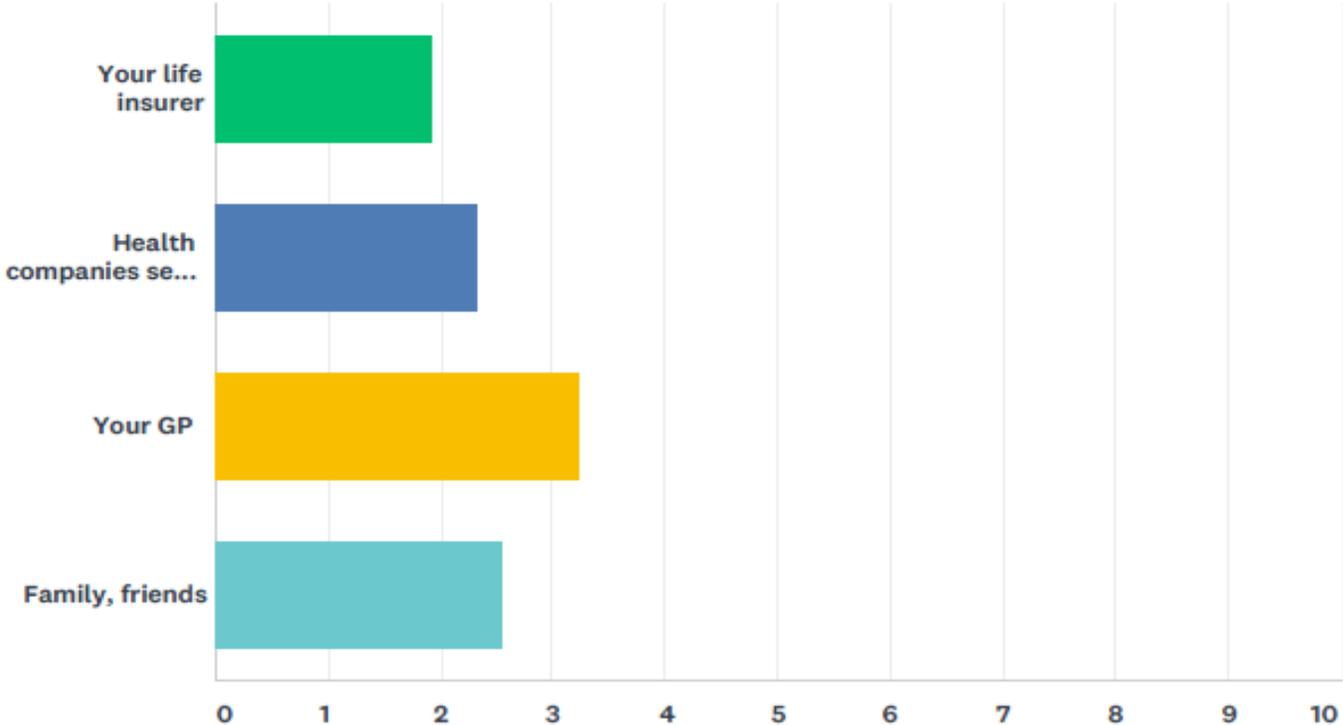
Please order from highest to lowest in terms of preference.

- 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.

Answered: 40 Skipped: 1





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

Separating underwriting from funding

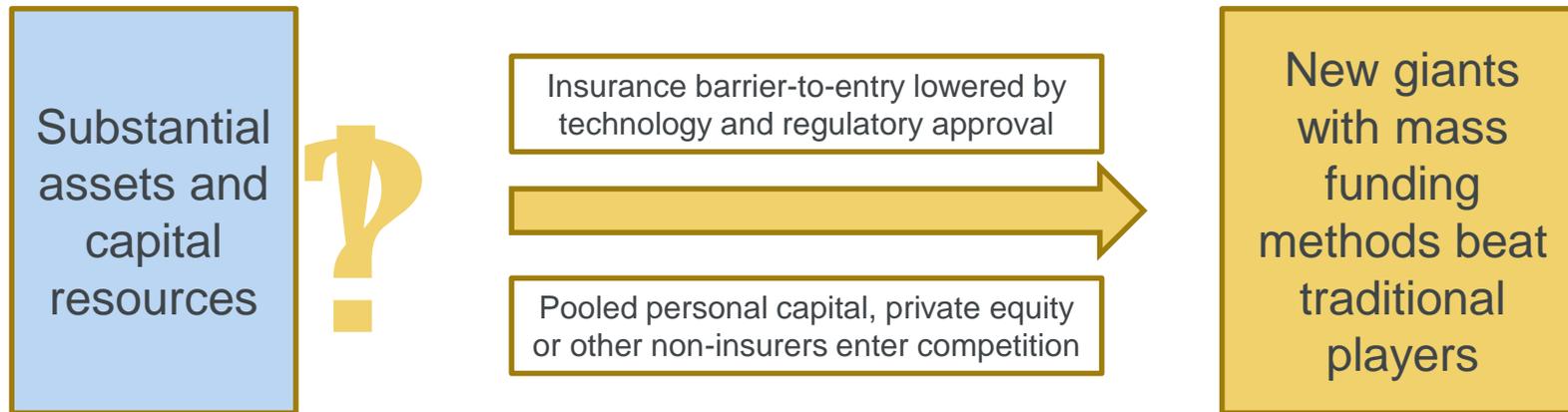
Alliance of the players

- 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



“ 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?

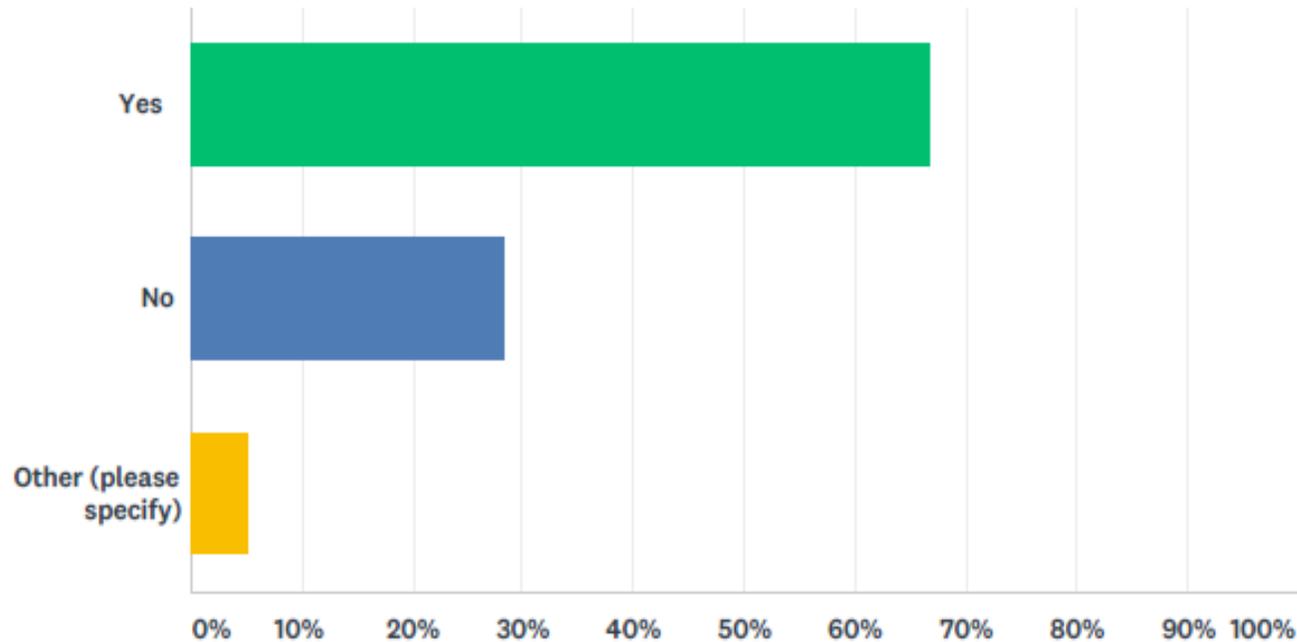
A. Yes

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





Contents

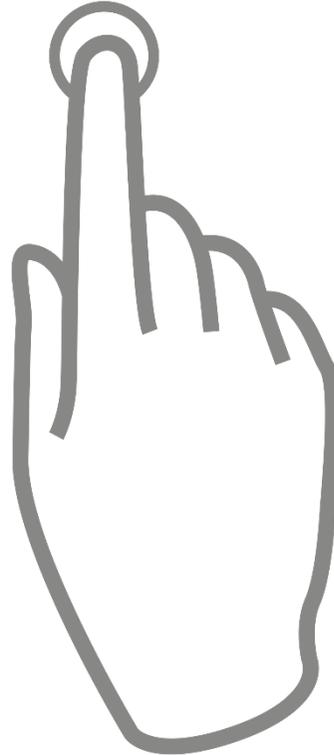
- Life insurers' traditional value propositions
- Megatrends in life insurance
 1. Asset gather and manage
 2. The return of with-profits
 3. Defined ambition in pensions
 4. Insurtech
 5. Separating underwriting from funding
 6. Customer centricity for all
- Conclusion and next steps

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

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



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

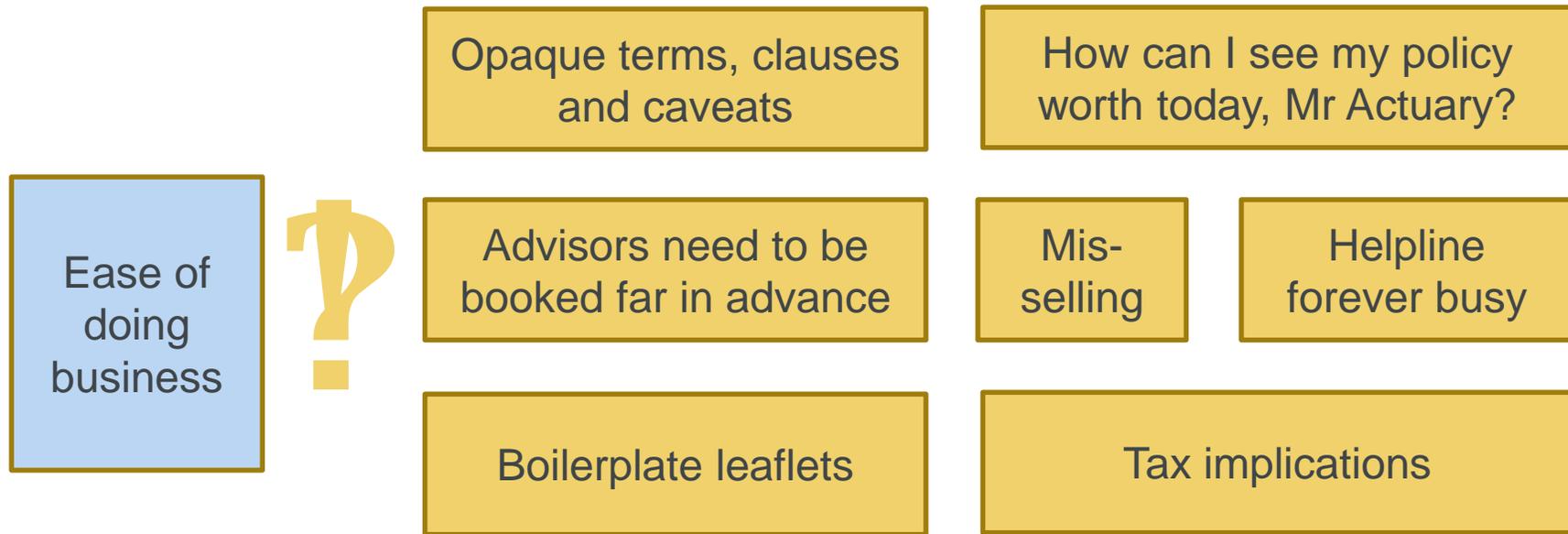
Easy access to insurance products e.g. via apps on smart phones

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



Contrast with life policy writing practice

A reflection of old systems and processes...



¹World Insurance Report 2017, Capgemini, Efma



Return on capital, returns to consumers

Focusing on the customer outcome...

Value-for-money



*Policyholder
money wisely
spent?*

- Sales and marketing costs¹
- 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

¹Admittedly, life insurers are making progress following the RDR review; see Financial Times commentary Life Insurers Save £6bn thanks to advisory fee changes, May 2016

²Equitable 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 considerations¹
- 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?

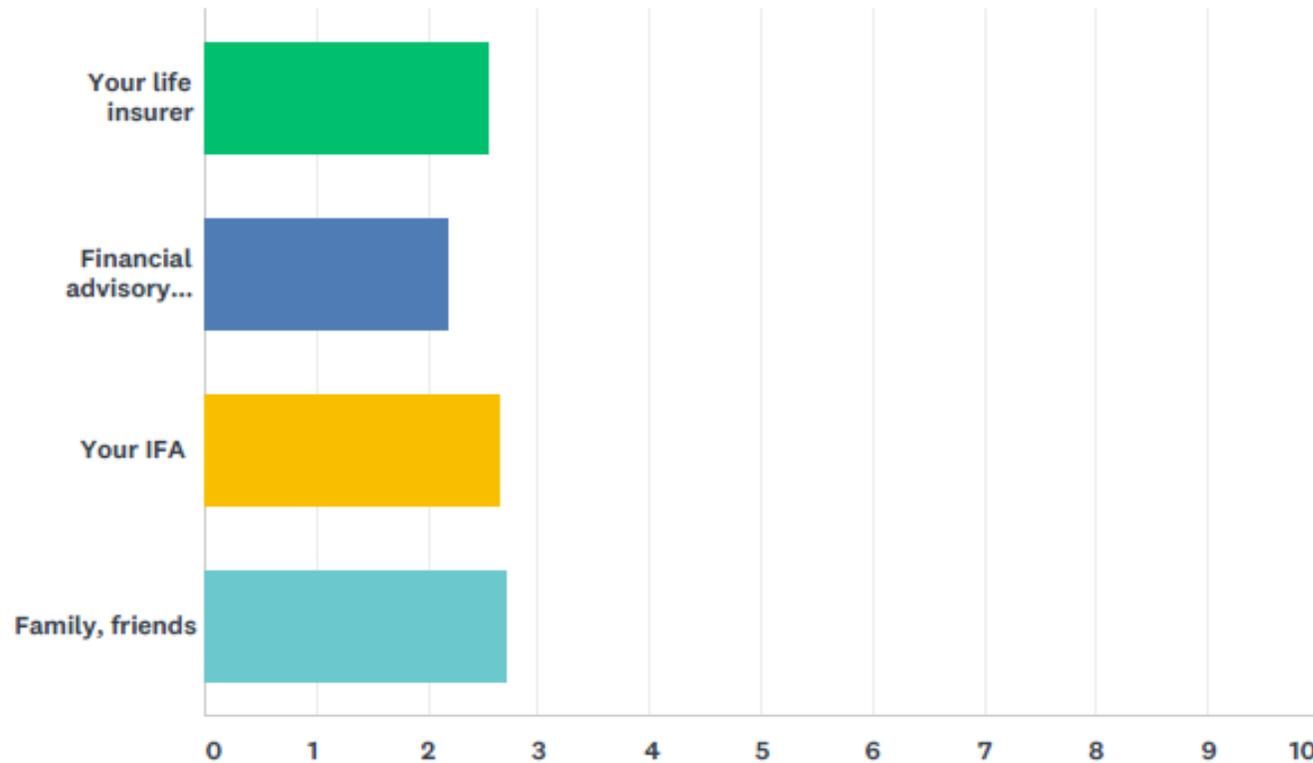
Please order from highest to lowest in terms of preference.

- 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.

Answered: 40 Skipped: 1



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

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





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

Conclusion and next steps

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



Institute
and Faculty
of Actuaries

Questions

Comments

The views expressed in this presentation are those of invited contributors and not necessarily those of the IFoA. The IFoA do not endorse any of the views stated, nor any claims or representations made in this [publication/presentation] and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this presentation.

The information and expressions of opinion contained in this publication are not intended to be a comprehensive study, nor to provide actuarial advice or advice of any nature and should not be treated as a substitute for specific advice concerning individual situations. On no account may any part of this presentation be reproduced without the written permission of the IFoA.



Institute
and Faculty
of Actuaries