



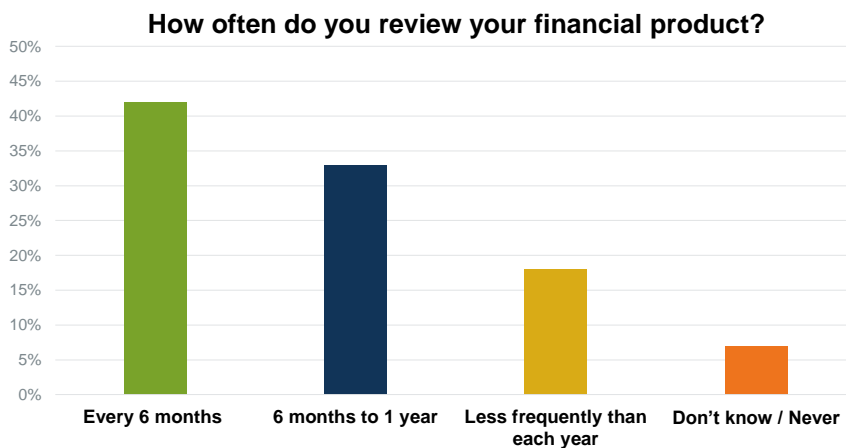
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Value of with-profits for consumers Working party update

Tim Bateman (Chair),
Ross Thompson, and
Catherine Thorn

5 March 2018

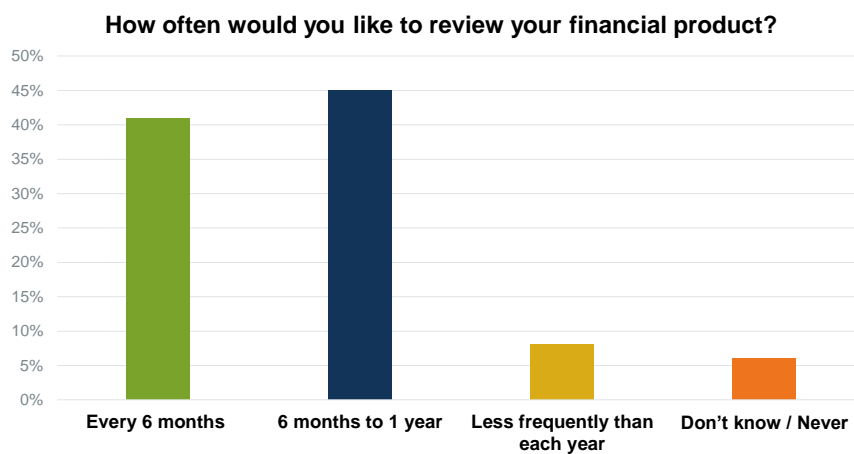
How often do consumers review their financial product?



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2

How often would consumers like to review their financial product?



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3

Agenda

The value of with-profits for consumers working party.

Scope: Do consumers understand the value of their with-profits policies?

Background

- Tim Bateman – Mazars LLP

Customer Engagement

- Ross Thompson – Standard Life

Customer Sentiment

- Catherine Thorn – Prudential

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Background

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With-profits funds continue to make negative headlines...

Savers should plot their escape from zombie funds

The Times – 9 July 2016

Help! Why has my 'with profits' pension fund shrunk 11% in two years as stocks hit record highs?

www.thisismoney.co.uk – 20 May 2015

Savers see with-profits pensions slashed by 87%: Thousands promised annual payments of £30,000 now set to receive just £3,700

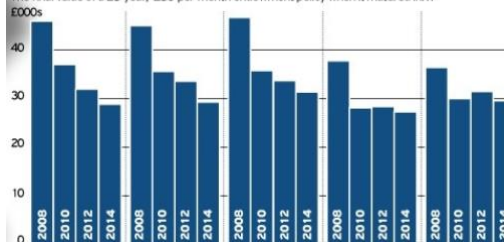
www.thisismoney.co.uk – 12 July 2016

Endowment Scandal! The endowment scandal gets even worse: 70,000 face selling homes as plans expected to pay £110,000 are now worth just £24,000

Daily Mail – 16 November 2017

Six years of falling returns

The final value of a 25-year, £50-per-month endowment policy when it matured in...



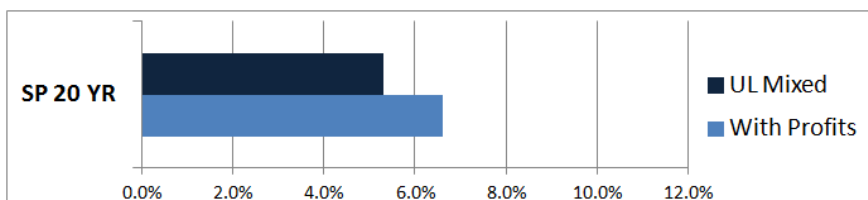
The Telegraph – March 2014

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With-profits funds have performed comparably to similar unit-linked funds...

Single Premium Pensions – 20 Year Return Comparison

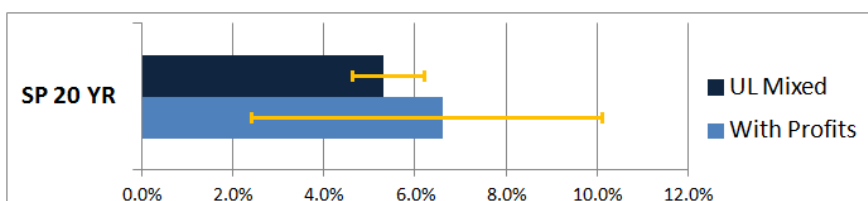


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Source: Money Management surveys – values typically as at 1st Jan 2016. 1 March 2015 where PRA returns have been used. 7

With-profits funds have performed comparably to similar unit-linked funds...

Single Premium Pensions – 20 Year Return Comparison



... But performance varies by fund

And “performance” depends on customer expectation

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Source: Money Management surveys – values typically as at 1st Jan 2016. 1 March 2015 where PRA returns have been used. 8

Phase 1 Summary

- With-profits performance has been comparable to similar UL funds ...
 - On average
 - But it is highly variable, dependent upon the fund
 - Information provided on benefit statements varies:
 - Content
 - Terminology
 - Unclear how communications regarding changing investment mix have been handled
 - There is little existing consumer-specific with-profits research
-

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Survey

Purpose

Better engagement with consumers and **improved communications**.

Objectives

- Do consumers understand the value of their with-profits policies?
- What information about their products do consumers value?
- Do with profits consumers understand the changing nature of their policy?

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Survey methodology

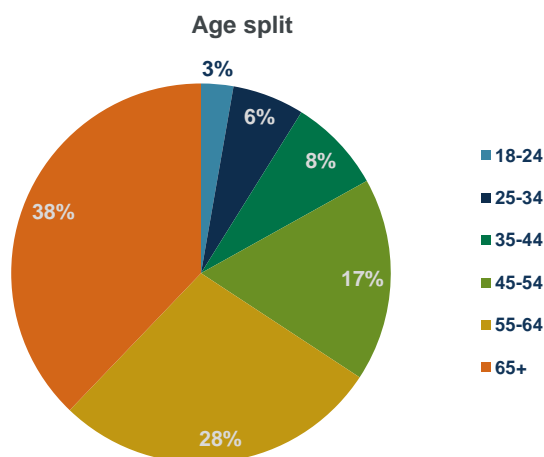
- Method – **online survey** carried out by **YouGov**
- Numbers of respondents:
 - At least one financial product: 2,851
 - With-profits product: **473** (17%)
- Fieldwork was undertaken between 2nd – 6th November 2017
- Analysis split by categories

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Survey population

With-profits financial product (sample size 473)



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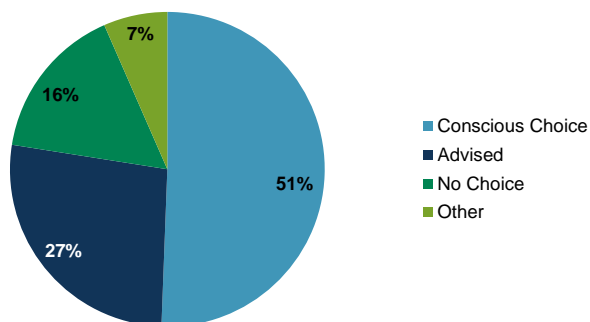
All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 4,585 adults, of which 473 held a with-profits financial product. Fieldwork was undertaken between 2nd - 6th November 2017. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

Customer Engagement

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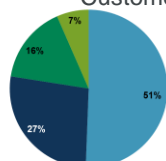
Why with-profits?

Customers were asked the reasons for choosing a with-profits product

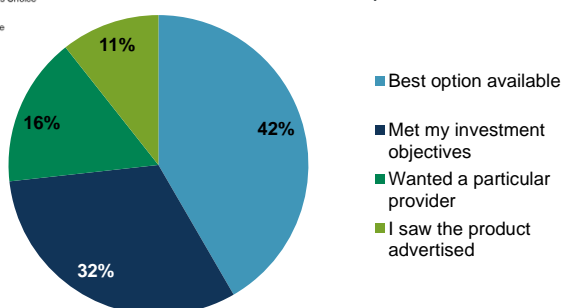


Why with-profits?

Customers were asked the reasons for choosing a with-profits product



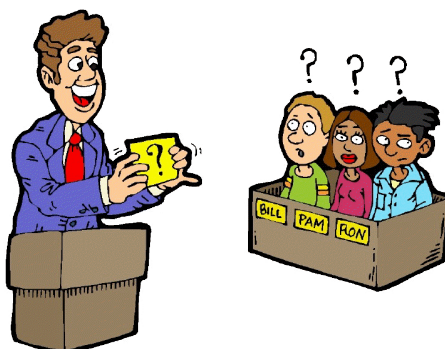
Conscious Choice responses in more detail:



Customers appear to have been engaged with the product originally!

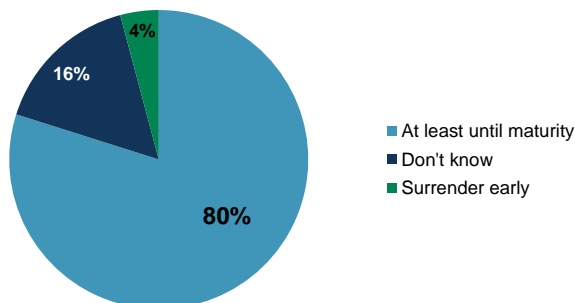
Customer loyalty / apathy?

Customers were asked how long they were likely to hold on to their with-profits product ... Any guesses how many would stay until/after maturity?



Customer loyalty / apathy?

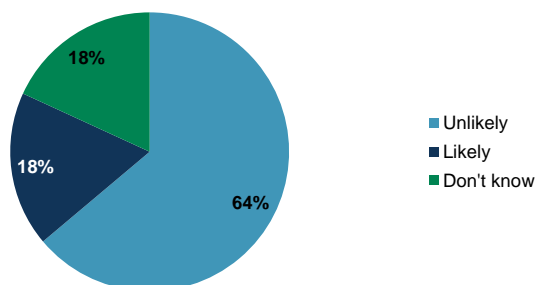
Customers were asked how long they were likely to hold on to their with-profits product ... Any guesses how many would stay until/after maturity?



Is this customer loyalty, apathy or a fear of exit penalties?

No exit penalties?

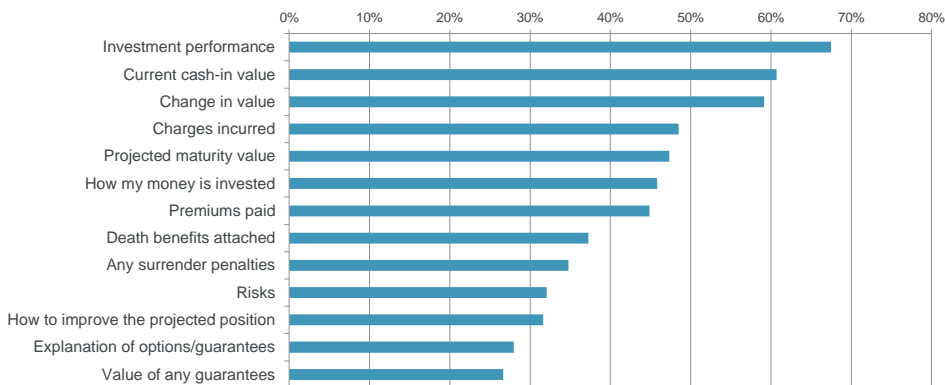
Customers were asked how likely they would be to surrender early if there were no exit penalties



Customers do seem to be loyal to their investments or reluctant to part with them! Are they still so engaged with their products?

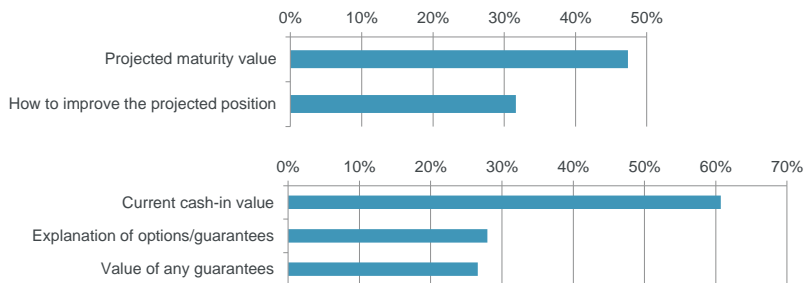
Are customers engaged?

Customers were asked what info they would like to receive **in annual statements**



Are customers engaged?

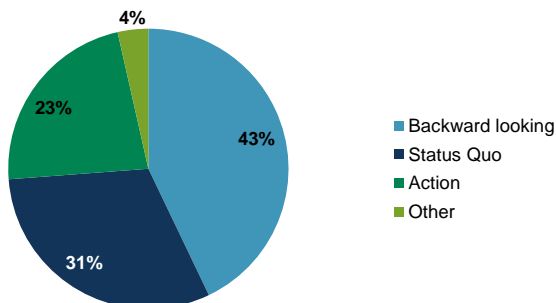
Customers were asked what info they would like to receive **in annual statements**



Customers don't seem to want to know what they can do about it, or what risks and protections they should be aware of!

Are customers engaged?

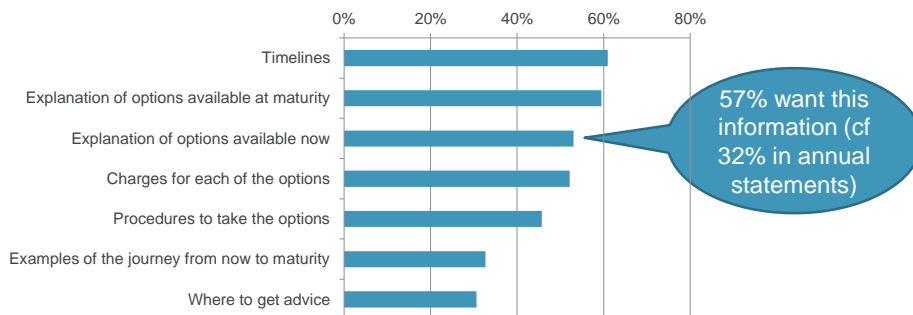
Customers were asked what info they would like to receive **in annual statements** – classified differently:



Customers don't seem to want to know what options they have **NOW** to improve things in future!

Are customers engaged?

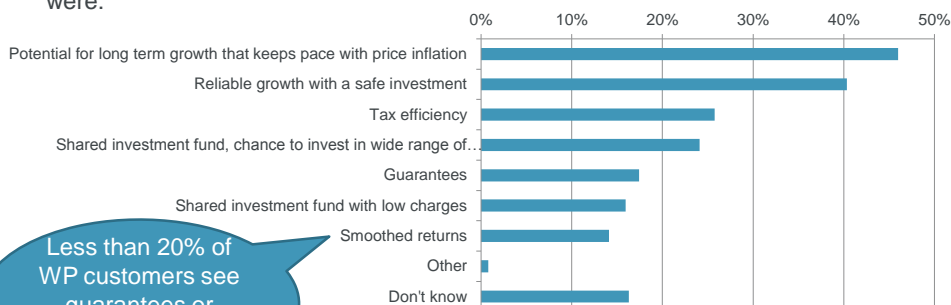
Customers were then asked what info they would like to receive **when approaching maturity**:



Suddenly customers become interested in what they can do about it (fund switches etc) – will this make a difference?!

Customer understanding - Benefits

Customers were asked what the benefits of having a with-profits product were:



Less than 20% of WP customers see guarantees or smoothing as a benefit!

Guarantees and smoothing are what we think of as two of the main benefits of WP over other investment types. Are we so out of line with customers' thinking?

Customer understanding – Value and Options

Customers were asked if they understood how the cash-in value of their WP product could change and if they understood all of their options and guarantees

53% did not understand how their cash-in value could change

59% did not understand all of their options and guarantees

What does this mean for customer communications? What more can we do to try and land the message and the important features of products?

What do customers value about with-profits?

The survey produced some other surprising results:

- High reported understanding of with-profits terminology
- Understanding of the options available doesn't increase with age
- 40% of people don't understand the implications of cashing in early
- 18% review their product 'never'

Customers chose with-profits for a reason and seem to be keen to stick with it to the end.

What more can we do to help increase **customer engagement and understanding** or help us **improve communications**?



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Customer Sentiment

An alternative analysis

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Tools to look at customer sentiment

- Survey included options about free text answers to questions *'What do you like or dislike about your annual statement?'*
 - Positive and negative feelings expressed – how do we measure?
 - Analysed with deep neural network
 - Measures sentiment of text
 - Can be used even on small amounts of data
-

Sentiment value character by character

This is one of Crichton's best books. The characters of Karen Ross, Peter Elliot, Munro, and Amy are beautifully developed and their interactions are exciting, complex, and fast-paced throughout this impressive novel. And about 99.8 percent of that got lost in the film. Seriously, the screenplay AND the directing were horrendous and clearly done by people who could not fathom what was good about the novel. I can't fault the actors because frankly, they never had a chance to make this turkey live up to Crichton's original work. I know good novels, especially those with a science fiction edge, are hard to bring to the screen in a way that lives up to the original. But this may be the absolute worst disparity in quality between novel and screen adaptation ever. The book is really, really good. The movie is just dreadful.

Radford A, Sutskever I, et al, 2017 "Unsupervised sentiment Neuron System"
available at <https://blog.openai.com/unsupervised-sentiment-neuron/>

Customer sentiment in survey responses *'What do you like about your annual statement?'*

(+1.11) [My provider] has done an excellent job for me with my SIP and I get full annual info from [my adviser] who provides my monthly income.

(+1.10) Clear and concise; everything I need on one page.

(-0.77) Nothing. Don't know enough

(-0.76) No, waste of paper

??? They are obliged to send them. Like is not a useful word in this context

Customer sentiment in survey responses *'What do you like about your annual statement?'*

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(-0.67) They are obliged to send them. Like is not a useful word in this context

Customer sentiment in survey responses *'What do you dislike or would change about your annual statement?'*

(+0.45) Being jargon free; easier to understand

(-1.62) Too long and complicated and does not explain anything relevant in plain English

(-1.52) Waste of paper, for which I am paying.

??? Too lengthy; too wordy; too much legal waffle ; lay out very boring ; small font; incomprehensible explanations; poor definitions; too repetitive

Overall sentiment (all responses) -0.096

Customer sentiment in survey responses *'What do you dislike or would change about your annual statement?'*

(+0.45) Being jargon free; easier to understand

(-1.62) Too long and complicated and does not explain anything relevant in plain English

(-1.52) Waste of paper, for which I am paying.

(-1.91) Too lengthy; too wordy; too much legal waffle ; lay out very boring ; small font; incomprehensible explanations; poor definitions; too repetitive

Identification of themes

Grouping (clustering) does not rely on customers using identical language, or even spelling correctly!

Ease of understanding

'Easy to understand; informative'

'Clear;concise;up to date'

'No, its hard to understand'

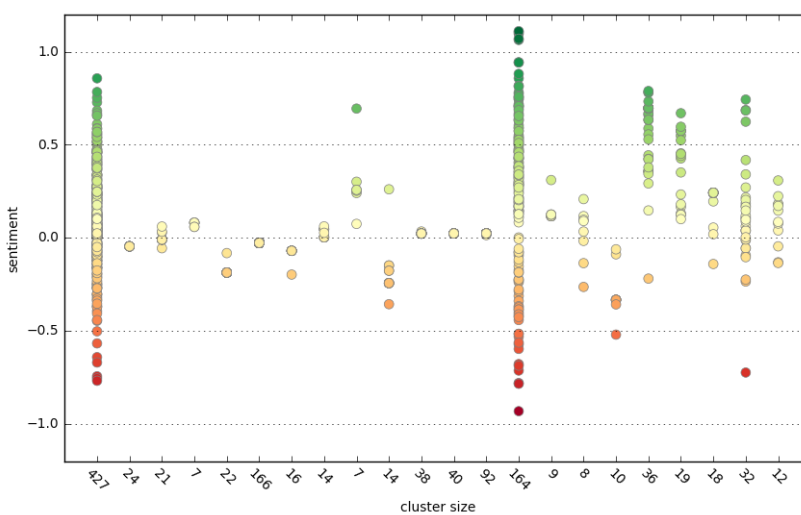
Value

'Clear about its overall value.'

'Comparisons of value now against 1 year previously'

'They remind me I still have them, and tell me the current value'

Sentiment value of clusters



Key themes important to customers

- Clarity
 - Easy to understand
 - Keeps me informed
 - Value
 - Available online
 - No particular view
-



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Conclusion and next steps

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Summary and Conclusions – 1 of 2

- Returns are competitive, but we could do more to “advertise”.
 - With profits can change over the lifecycle - ongoing engagement is important.
 - Consumers want regular and detailed information – maybe more as they nearer to maturity
 - Consumers state they have a reasonable understanding of the information being provided...
 - ... And better relative to holders of financial products generally.
-

Summary and Conclusions – 2 of 2

- However, certain key issues are not well understood...
 - ...And there is a substantial proportion who will not actively manage their policy.
 - Clearer communication is key, but only one part of the solution.
 - There is some evidence of a transition towards a preference for digital communications
 - Will evolve as younger generations engage with with-profits?
-

Next steps

- Second survey planned to get deeper understanding of with-profits customers
 - Use sentiment measures – including open questions with free text responses, like a product review on an e-commerce website
 - Grouping allows meaningful analysis of unprompted replies
- Inviting companies to participate
 - Potential for benchmarking
- Engagement with FCA

Please contact us if you have any further feedback or comments.



Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

Should you require any further information, please do not hesitate to contact:

- **Chair:** Tim Bateman (Mazars LLP) tim.bateman@mazars.co.uk
- **Deputy Chair:** Jonathan Welsh (Wesleyan) Jonathan.Welsh@wesleyan.co.uk
- **Secretary:** Ben Stroud (ReAssure) Ben.Stroud@reassure.co.uk

Further working party details, including our Life Conference 2017 and CILA 2017 presentations can be found here:

<https://www.actuaries.org.uk/practice-areas/life/research-working-parties/value-profits-consumers>

5 March 2018

Working party members:

- **Chair:** Tim Bateman (Mazars)
- **Deputy Chair:** Jonathan Welsh (Wesleyan)
- **Secretary:** Ben Stroud (ReAssure)
- Andrew Fraser (Standard Life)
- *Rebecca MacDonald¹ (PwC)*
- Kris Overlund (PwC)
- Rosalind Rossouw (Sun Life Financial of Canada)
- Ross Thompson (Standard Life)
- Catherine Thorn (Prudential)
- Catherine Zhang (Abbey Life)

5 March 2018

1. *Currently on maternity leave – thanks for the support Rebecca!*

Contributors

Our special thanks go out to the following contributors to Phase 1:

- Mazars
- Wesleyan
- ReAssure
- Standard Life
- NFU Mutual
- Sun Life Financial of Canada
- Aviva
- LV=
- Equitable Life
- PwC
- KPMG
- Healthy Investment
- Kingston Unity
- Royal London
- AEGON
- Phoenix Life
- Legal & General
- Scottish Widows
- ABI
- MAS

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Appendix

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Survey – Representative sample

1. The survey has been done by YouGov and a key reason they were chosen is their experience of finding a representative sample
2. They have a UK panel of 800,000 and using a 2,000 nationally representative sample gives a margin of error of +/- 2%
3. The final data is statistically weighted to the national profile, using key sources such as the census and ONS population data
4. We were told anything above 50 people with with-profits would be sufficient - we got 473 (16%) out of 2,851.

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Survey questions

At least one financial product (sample size: 2,851)

1. Which, if any, of the following financial products do you personally currently own?
2. Which, if any, of the following are reasons why you purchased any financial product?
3. Which ONE of the following BEST describes the reason why you initially took out this product?
4. In general, how often, if at all, do you review any of your financial products?
5. And how often, if at all, would you like to receive information from your provider about your financial products?
6. Which, if any, of the following statements describes the information you currently receive about your financial products?

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Survey questions

At least one financial product (sample size: 2,851)

7. How easy or difficult to understand do you find the information you currently receive?
8. In which ONE of the following ways would you most like to receive/ view your annual financial product statements?
9. Which ONE of the following statements best applies to your financial products in general?
10. Which, if any, of the following do you currently receive as part of your annual statements?
11. Is there anything you like about your financial product statements?
12. Is there anything you dislike/ would change about your financial product statements?
13. Which, if any, of the following types of information would you like to receive in order to understand the options available to you?

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Survey questions

At least one financial product (sample size: 2,851)

14. How likely, if at all, do you think you would be to cancel your life insurance policy early?
15. Which, if any, of the following phrases would you say you understand the meaning of?
16. Would you say you fully understand the charges that might incur if you cash in early on this financial product?
17. How likely, if at all, are you to hold this product through to its maturity date (i.e. the end date of the policy)?

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Survey questions

With-profits financial product (sample size 473)

1. How easy or difficult do you currently find the information you receive about your with-profits policy to understand?
2. Which, if any, of the following describe any of the financial products that you own?
3. Which, if any, of the following types of information would you like to receive?
4. Which, if any, of the following are reasons why you purchased a with-profits financial product?
5. Which, if any, of the following do you think are benefits of holding a with-profits product?
6. Does the with-profits financial product pay both regular and final bonuses on the policy?
7. Do you understand the difference between regular and final bonuses?

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Survey questions

With-profits financial product (sample size 473)

8. If you had to choose, which ONE of the following best describes what you would prefer?
9. Which ONE, if any, of the following statements best applies to you?
10. Which, if any, of the following actions would you take?
11. Through which, if any, of the following ways would you be likely to seek further information?
12. Which, if any, of the following types of information would be important for you?
13. In which, if any, of the following ways would you like to receive/ be able to view your annual financial product statements?
14. Which ONE, of the following statements best applies to you?

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Survey questions

With-profits financial product (sample size 473)

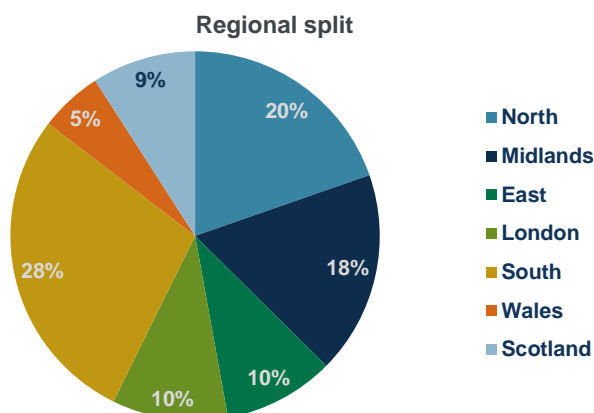
15. Would you say you would know all of your options and guarantees and understand how the cash in value of your policy can change?
16. Is your with-profits product you are invested in open or closed?
17. Has your with-profits financial product changed any of its investments over the last 5 years (e.g. reducing the proportion of the fund which is invested in equities)?

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Survey population

With-profits financial product (sample size 473)



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Key Survey Results

Hold to Maturity?

What percentage of the with-profit policyholders we surveyed said they would **hold their policy to maturity?**

A. 50%

B. 65%

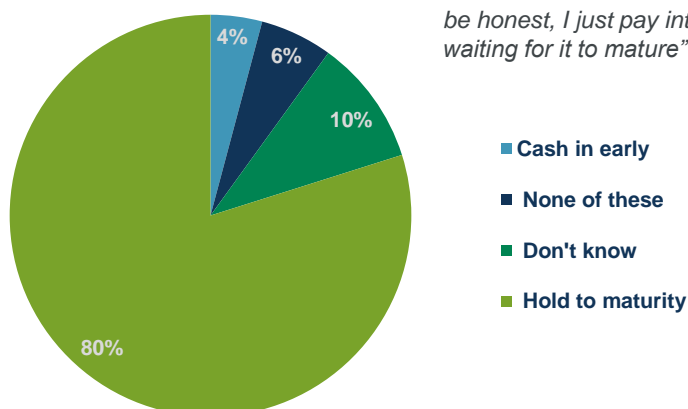
C. 80%

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Key Survey Results

Hold to Maturity?



"Don't take too much notice to be honest, I just pay into it waiting for it to mature"

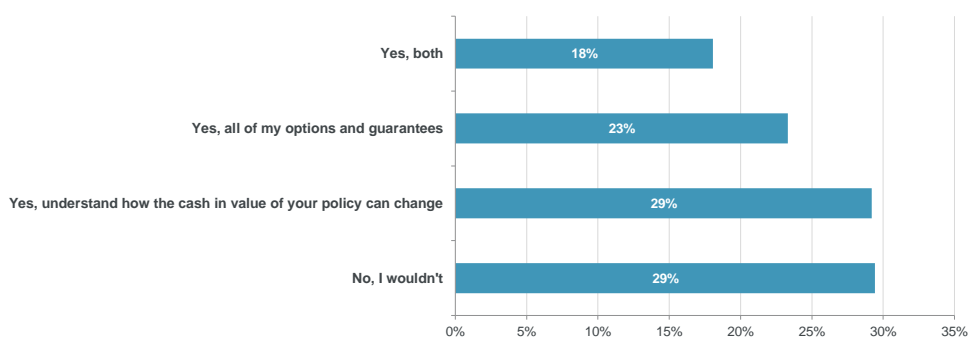
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Key Survey Results

Cash in value

Would you say you would know all of your **options and guarantees** and understand how the **cash in value** of your policy can change?



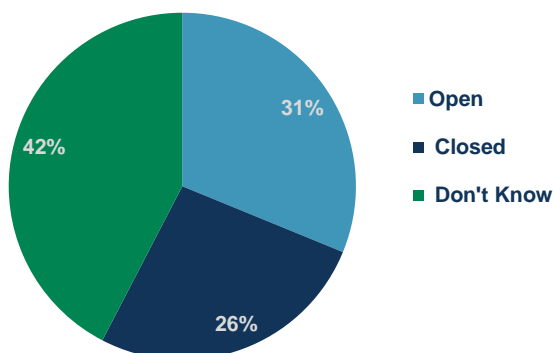
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Key Survey Results

Open or Closed

Is your with-profits product **open or closed?**



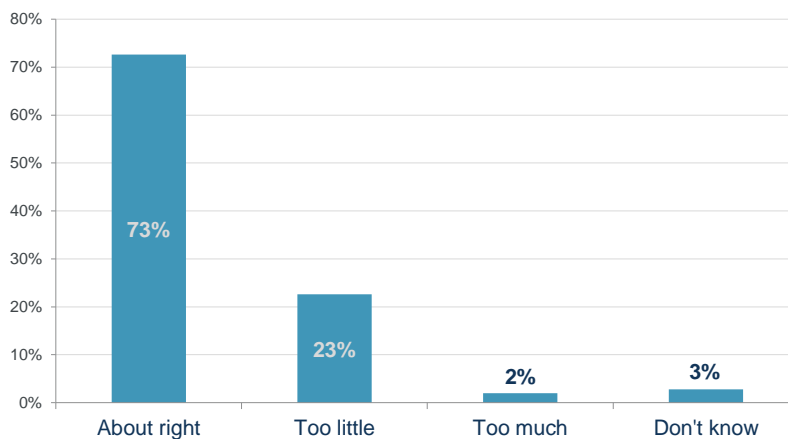
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Key Survey Results

Engagement

Financial Statements Received



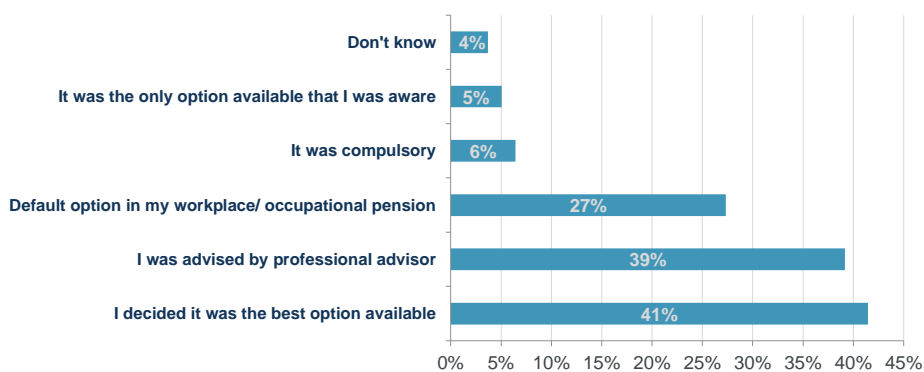
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Key Survey Results

Engagement

Which were the **reasons** why you **purchased** your with-profits product(s)?



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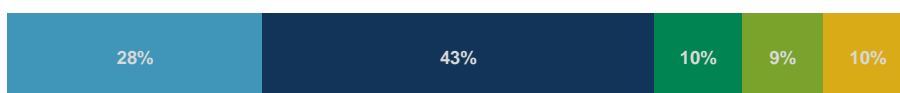
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How often do consumers want information?

Providers should communicate **“early and often”**

MAS review of retirement language

Information frequency



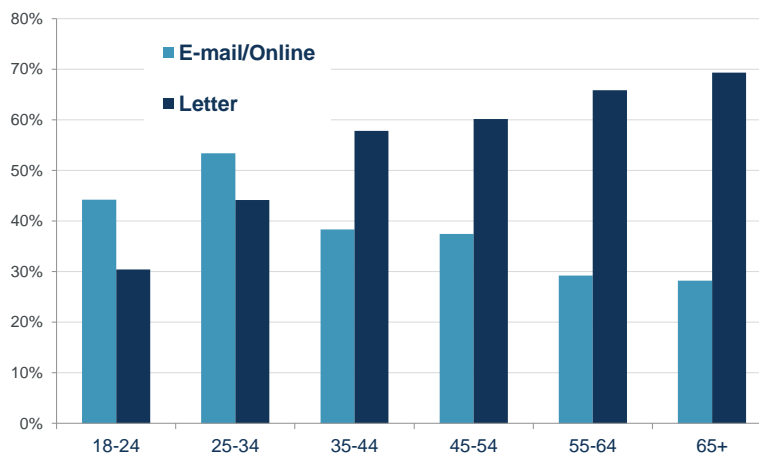
- At least once every 6 months
- Every 6 months to once a year
- Once every 1 to 5 years
- Less than once every 5 years / never
- Don't know

“The problem with all the information is when to read it all”

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Key Survey Results Correspondence



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Communications

Identifying the problem

With-profits annual benefit statements...

- Provide **lots of** 'useful' information
- **Bespoke** and can be very detailed
- Lack consistency

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Communications

Identifying the problem

Provide lots of 'useful' information

Q: How much information do you receive for your policy?

- I feel I receive too much information
- The amount I receive is about right
- I feel I received too little information

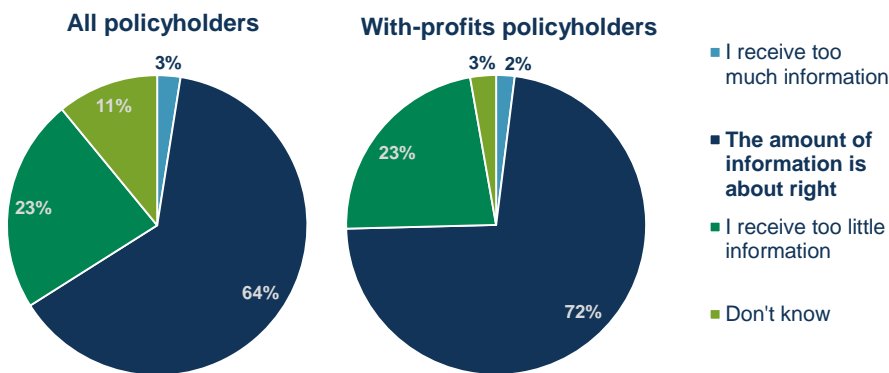
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Communications

Identifying the problem

Provide **lots of** 'useful' information



Policyholders think it is **'about right'**

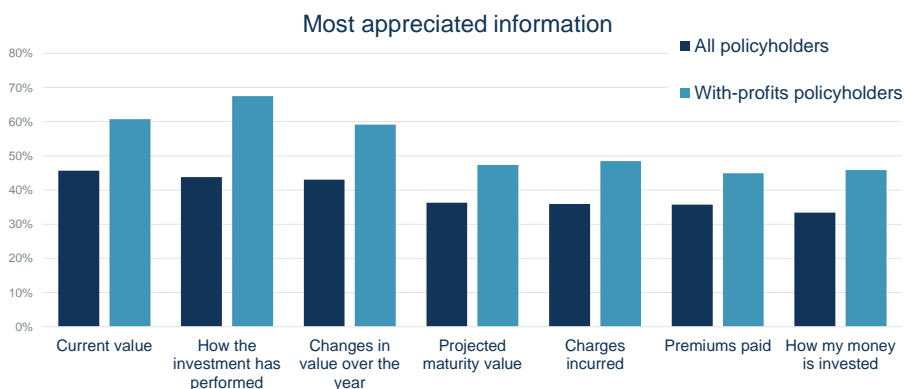
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Communications

Identifying the problem

Provide lots of **'useful'** information



With-profits policyholders want the **'difficult to provide'** information

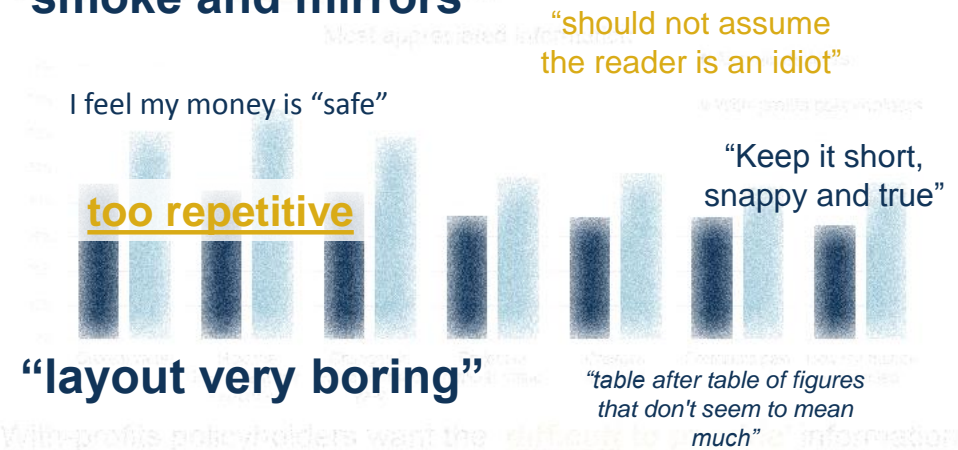
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Communications

Identifying the problem

“smoke and mirrors”



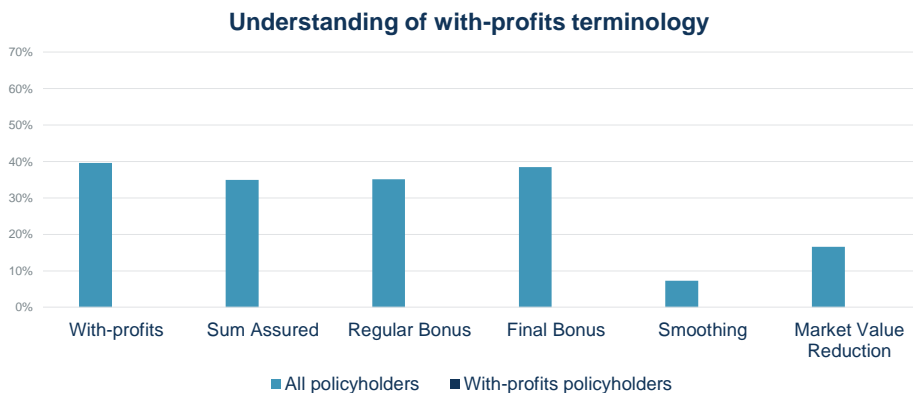
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Communications

Consumers understanding of terminology

Providers have identified a lack of **understanding** of terminology, but ...



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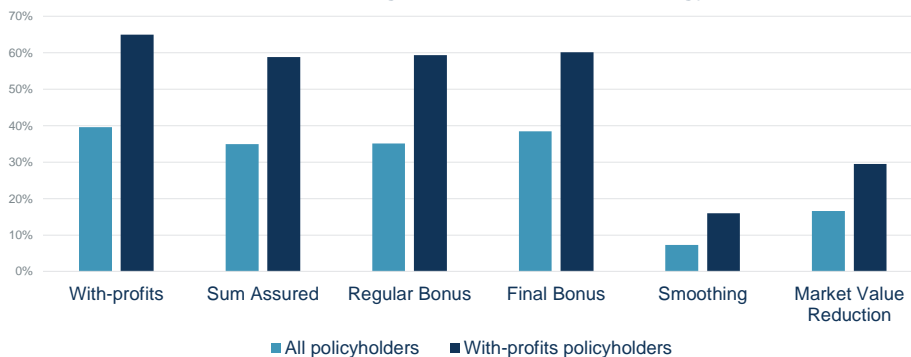
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Communications

Consumers understanding of terminology

Providers have identified a lack of **understanding** of terminology, but ... many believe they understand

Understanding of with-profits terminology



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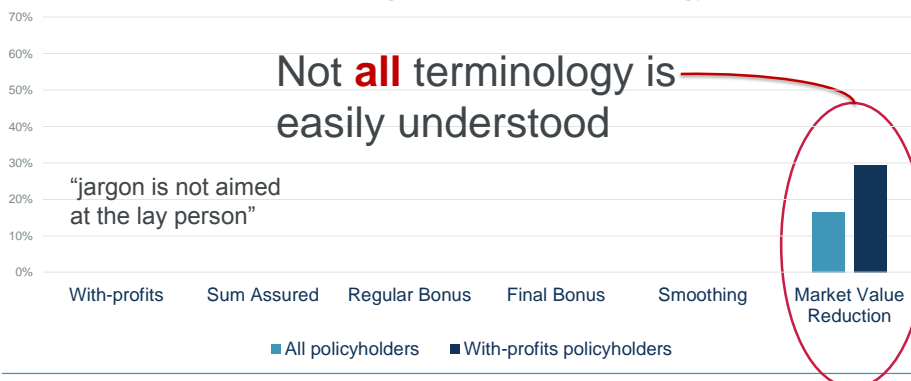
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Communications

Consumers understanding of terminology

Providers have identified a lack of **understanding** of terminology, but ... many believe they understand

Understanding of with-profits terminology



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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

09 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
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PwC



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SDA Actuaries

Life Research Board Representative: Colin Dutkiewicz



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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



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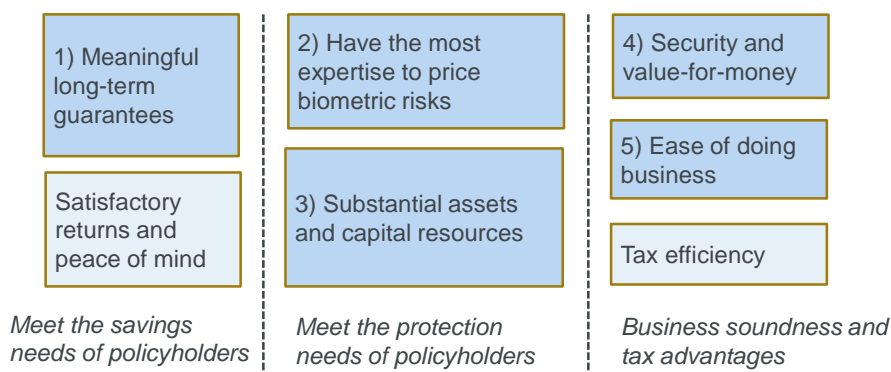
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Life insurers' traditional value propositions

Life insurers' traditional value proposition

Based on a business model that is a dying breed



¹Insurance and the big data technology revolution, FT 24 February 2017



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Life insurers' traditional value propositions

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



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Life insurers' traditional value propositions

An unprecedented period of change

Insurers' agenda is being set by other than themselves

EIOPA
 EUROPEAN INSURANCE
 AND OCCUPATIONAL PENSIONS AUTHORITY

Pension
 wise
 Your money. Your choice.

RETAIL
 DISTRIBUTION
 REVIEW

GDPR

PRI Principles for
 Responsible
 Investment

MiFID II

Insurance
 Distribution
 Directive

PRIIPs

automatic
 enrolment

IFRS™

HM Treasury
 Lifetime ISA

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¹Morgan Stanley, Sustainable Signals, 2017

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Life insurers' traditional value propositions

An unprecedented period of change

And the birth of the new 'life partner' model...

maestro health

flatiron

Oscar

American Well

wealthify

Padoa

UnionMed

QARE

Vanguard

Munich RE

Allianz Life Ventures

AXA Strategic Ventures

charles
 SCHWAB

BIMA

AVIVA
 Ventures

TRANSAMERICA®
 VENTURES

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¹World Insurance Report 2017, Cappgemini, Etna

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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



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Megatrends in life insurance: Asset gather and manage

Asset gather and manage

A better deal to the customer



Megatrends in life insurance: Asset gather and manage

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



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Megatrends in life insurance: The return of with-profits

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



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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



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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 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





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Megatrends in life insurance: Insurtech

Did it happen already?

aLife




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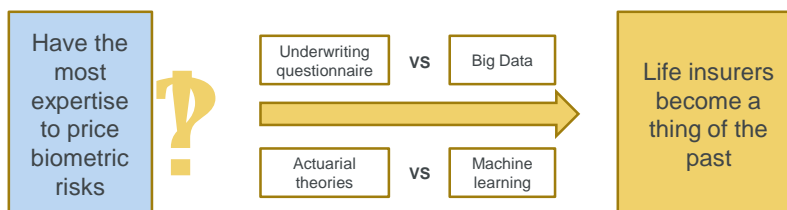
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Megatrends in life insurance: Insurtech

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



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Megatrends in life insurance: Insurtech

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



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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



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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



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Megatrends in life insurance: Separating underwriting from funding

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



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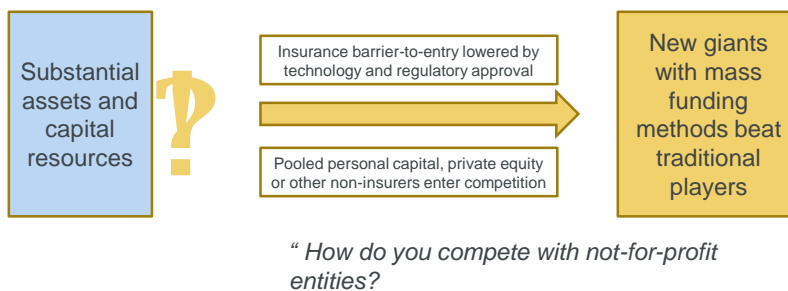
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Megatrends in life insurance: Separating underwriting from funding

New capital and new competitor?

Depending on tech capacity and willingness/attractiveness



Megatrends in life insurance: Separating underwriting from funding

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



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Megatrends in life insurance: Customer centricity for all

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



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¹ How technology and data are reshaping the insurance landscape, EIOPA InsurTech Roundtable 05 July 2017

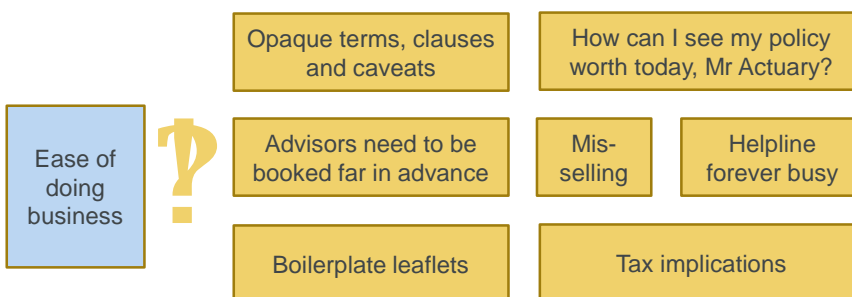
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Megatrends in life insurance: Customer centricity for all

Contrast with life policy writing practice

A reflection of old systems and processes...



¹World Insurance Report 2017, Capgemini, EYma



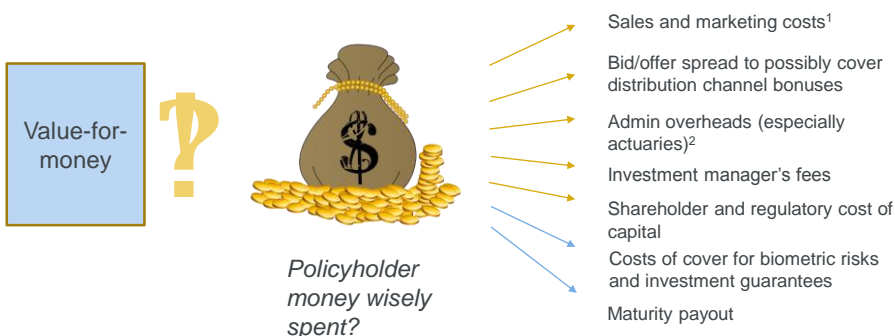
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Megatrends in life insurance: Customer centricity for all

Return on capital, returns to consumers

Focusing on the customer outcome...



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



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Megatrends in life insurance: Consumer centricity for all

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



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Megatrends in life insurance: Consumer centricity for all

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



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Megatrends in life insurance: Consumer centricity for all

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



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Megatrends in life insurance: Customer centricity for all

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



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

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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



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Questions



Comments

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