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LIFE INSURANCE MEGATRENDS - 10 TRENDS RESHAPING THE INDUSTRY

David Loader

Life insurance plays a vital role in modern life, supporting people during difficult times. But despite the social good that stems from it, the industry has a less than flattering public image and low levels of customer engagement.

A lack of transparency and trust continue to plague the industry. Arguably, life insurers themselves have been largely responsible, with many content to maintain the status quo; reluctant to invest in improving processes, product offerings and customer satisfaction.

In recent years, however, the life insurance industry has been spurred into action by intense scrutiny from the media, regulators and government. We are witnessing an industry entering a period of significant reform that is underpinned by a determination to catch up to its financial services peers; to ultimately instil trust in the industry as a whole.

Fast growing demand for innovative and targeted products and services, largely driven by millennials, has highlighted the importance of modernising and consolidating IT systems to improve efficiencies and open up new ways to engage with customers. The opportunities are infinite for those insurers that take this vital step towards modernisation.

As life insurers seek to redefine themselves in the digital age, there are a number of trends across technology, innovation, operations and consumer behaviour that will influence their future success. In this paper, we identify the 10 major trends that will reshape the life insurance industry in the years ahead and the role that technology will play as a key enabler during this period of transition.

1. Big data and analytics
2. Customer centricity
3. Online support and integration
4. Increased business and operational efficiencies
5. Legacy rationalisation
6. Market entrants and exits
7. Regulatory reform
8. Insurance through superannuation
9. Engagement of new markets
10. Targeted product development

Big data and analytics

The game changers bringing new digital frontiers

The term 'big data' has been used extensively in recent times, but how exactly does it represent an opportunity for the life insurance sector?

The Internet of Things is significantly redefining the Information Age. Modern technology platforms are facilitating the collection of unprecedented amounts of customer data, enabling detailed customer profiling and more personalised servicing of customers. As the use of big data becomes more sophisticated, insurers will begin to draw on information from other external data sources, such as social media, to gain a more intimate knowledge of their customers , leading to a reduced need for comprehensive underwriting.

Wearable fitness devices, for example, may provide life insurers with access to the personal health information of their customers. These devices are already being used to tailor product pricing and discounts for customers who adopt and maintain healthier lifestyles. Future applications of this data could see the monitoring of customers' health in real-time with alerts being triggered if any anomalies

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are detected – ultimately leading to reduced claims and improved books of business.

The use of data and analytics allow insurers to react faster to changing market conditions, which equates to greater profitability. Life insurers in some markets are now reacting on a weekly basis, changing premium rates for target sectors in much the same way that the general insurance market has done for decades. But to do this, a sufficiently agile technology platform is required so that these changes can be released with little effort or cost.

Yet despite the benefits that big data and analytics present, the life insurance industry has lagged in their adoption. A 2015 survey of life insurance CFOs, found that the biggest impediment to the use of big data and analytics was infrastructure limitations (71%), followed by financial constraints (54%). Having access to all the information in the world is not worth much if there is no infrastructure in place to analyse it. While it's true that addressing aging technology requires a substantial initial investment, the capabilities that modern enterprise architecture affords will significantly benefit the long-term bottom line.

The use of big data and advanced analytics will be game changing for the life insurance industry, serving as a key source of competitive advantage. The real value of big data lies at the intersection of gathering data and leveraging it. The longer big data sits untapped by life insurers, the greater the cost of the missed opportunities.

Customer centricity

Putting the customer at the centre of product design

The life insurance industry has been subject to an unflattering public image in recent years due to instances of questionable financial advice, highly publicised claim denials by some providers, and poor client communications. With such low levels of trust and customer engagement, what has followed – unsurprisingly – has been a raft of inquiries looking at ways that insurers can achieve greater transparency and accountability; to ultimately instil trust in the industry as a whole.

The industry has reacted with the introduction of the Life Insurance Code of Practice that now compels providers to adhere to a set of minimum standards when dealing with customers. Forward thinking life insurers will see this as an opportunity to fine-tune the way they develop products and interact with their customers. Research from McKinsey & Company suggests that historically rigid processes and cumbersome customer interactions are giving way to the prioritisation of transparency, speed and flexibility.

Life insurers will need to counteract their negative public perception by implementing new systems and processes that exceed their customers' expectations. Many are enlisting the services of dedicated customer advocates to drive change within their organisation. Reporting directly to the CEO or top level management, the prominence these positions are receiving reflects the importance the customer is now given. Life insurers are beginning to recognise that the way their customers want to interact with them is changing and so they are evolving to accommodate.

A new era for life insurance has begun, where the customer has become king. Successful life insurance companies of the future will put the customer at the centre of every decision and tailor their products and services accordingly.

Online support and integration

Sophisticated digital offerings for better customer service

In a Digital Age, consumers expect an elegant online and mobile service offering in almost every aspect of their lives. Unsurprisingly, they expect similar accessibility, simplicity and responsiveness from their life insurance provider. This has been largely driven by the rise of the millennials who are now the largest demographic in Australia. Research by Accenture demonstrates that while baby boomer customers value prompt and courteous service delivered in person, millennials expect the digital equivalent. Tech savvy and educated, this new generation demands doing things their way.

Expectations for more sophisticated digital experiences are only going to increase. However, the life insurance sector has lagged others in delivering an engaging, real-time digital experience within a seamless, integrated online environment. So why the lag? As research by EY states, aging technology encumbers an insurer's ability to develop the digital experiences demanded by its customers.

Customers are looking for online information to support them in determining their personal financial needs. Robo-advice tools are beginning to fill this gap, allowing customers to consider their life insurance needs before reaching out for further support from specialists.

The provision of a truly digital offering falls into the larger scope of a modernisation program. Online interaction must be 'intelligent', and this is facilitated by having consolidated, accessible data and workflow tools available through modern systems. Providers that fail to adapt to the rapid pace of change in the digital economy will run the very real risk of disruption from more agile players.

The most successful life insurers will transition their operations to open enterprise architecture that supports sophisticated digital experiences. Modern operating systems will enable high-quality, real-time, 'intelligent' interactions between customers, advisers and the insurer, and allow customers to move seamlessly between different distribution channels such as online and advised.

Increased business and operational efficiencies

Business process outsourcing and the rise of artificial intelligence

Ongoing regulatory change, low interest rates, as well as high lapse and claims rates have significantly affected the profit margins of life insurers in recent times. Life insurers have responded by increasing premiums – a practice that has been largely criticized by the media, regulators and government. With these pressures likely to continue, life insurers are looking inwards to find efficiencies and reduce costs.

Artificial intelligence (AI) is one area that is just starting to be harnessed by life insurers and beginning to show promise. Already, reinsurers are tapping into AI with the use of IBM Watson to assist in the underwriting risk assessment process. The use of cognitive computing to store policy documents is fast becoming a reality with future applications of this technology likely to enable real-time online 'conversations' with the system to receive policy information, amend policy details and commence the claims assessment process.

The outsourcing of administration and systems management to a third party has become common within the financial services industry. Deloitte research into third party administration has found that life insurers are particularly well positioned, with a unique opportunity to outsource closed books of its business. But, while third party administration for life insurers has become increasingly popular globally, it has long been considered unrealistic in Australia due to the small size of the market.

Rather than fully outsource their administration, many life insurers have chosen to go down the route of outsourcing individual business processes that are simple and repetitive in nature. Others have sought to drive efficiency through other initiatives such as installing stronger claims management systems. Unfortunately, these attempts at efficiency have been hampered by fragmented data, multiple legacy systems and complex integration issues. Efforts to streamline existing processes must first address disparate internal systems. Moving to a single modern system will allow the transition to integrated workflows that enable automated and efficient operations, ultimately leading to an enhanced customer experience.

In the years ahead, more insurers will seek to maximise operational and business efficiencies by taking the leap to rationalise and modernise their multiple legacy systems onto a unified enterprise architecture.

Legacy rationalisation

Modernisation for growth and innovation

Most large life insurance companies face a similar predicament when it comes to their operations and IT environments. Born from a series of mergers and acquisitions, they have inherited a complex web of legacy systems which they are reluctant to change.

While maintaining multiple legacy systems creates a medley of issues and stifles innovation, retaining existing business remains the priority. Inaction in this area is largely a result of concerns that rationalising heritage products and moving these valuable policies across to modern offerings may inadvertently result in 'shock lapses', adversely impacting profitability.

Most life insurers have found it difficult to justify the risks associated with such a major upgrade. According to the Boston Consulting Group, it is the very 'mission-critical' nature of these projects that explains why so few have taken the plunge towards rationalisation. The reality is that many life insurers have resigned themselves to maintaining costly and antiquated systems that are strangling their ability to innovate and grow.

This approach, however, might soon cease to be an option with increased pressure by industry regulators, in Australia and globally, for greater investment in systems and processes. For example, APRA's recent submission to the Parliamentary Joint Committee Inquiry into the Life Insurance Industry almost mirrors the FCA's thematic review (TR16/2) into the Fair Treatment of Long-standing Customers in the Life Insurance Sector in the UK – with both calling out technology investment as the key to delivering better customer outcomes.

Research firm Celent has cited technology renewal as a key trend for life insurance , meaning we are likely to see measures introduced that will make legacy product rationalisation easier. With the advent of next generation technology platforms allowing the migration of existing policies from various legacy systems onto a single unified platform, it is now possible to maintain historical books of business while ensuring growth and innovation into the future.

As successful implementations grow in number, there is mounting confidence that the risks of taking the leap towards systems modernisation are far fewer than the risks of inaction. While the initial effort and upfront cost of legacy rationalisation may be substantial, it will prove an essential step to ensuring true customer engagement, cost efficiencies, competitiveness and profitability in the long-term.

Market entrants and exits

A brave new world for life insurance

Traditional market participants – namely the banks – are exiting the life insurance space with increasing regularity. Complex business processes, increasing compliance requirements and low profit margins have provided banks with little incentive to invest in their life insurance business. For those companies inheriting these ageing books of business, a world of opportunities exists to invest and drive efficiencies to place the business into an advantageous position for the future.

Not all new market participants are entering the market through the acquisition of existing life insurance companies. Start-ups — free from the myriad of legacy systems synonymous with established life insurers — can innovate freely and easily, bringing new products to market rapidly and at relatively low cost that cannot be matched by traditional providers. One such example is New Zealand's Partners Life, whose 'if it's grey, we will pay' philosophy has seen it become one of the largest life insurers in New Zealand, valued at more than $400 million, in just six years.

Alternative distribution of life insurance is trending globally, with non-traditional firms tapping into the market through partnerships and alliances. We have seen the rise of consumer brands (such as supermarkets) offering insurance products through affiliation marketing. Retailers already have a profound knowledge of their customers and the analytics capability to personalise their product and service offering, representing a substantial threat to established insurers. Yet, for some they will also represent significant opportunities. Established insurers who possess the necessary technological and service capabilities will be well placed to enter into lucrative strategic partnerships with these players.

With new technologies making it easier for new entrants to break into the market at relatively low cost, there are many potential disrupters waiting in the wings for the right time to enter the life insurance market. Highly focused on their target markets, they have an eye for innovation and differentiation. In the years ahead – whether competing or partnering with new entrants or transforming via business acquisition – more providers will look to flexible modern systems that support highly engaging, yet cost effective digital experiences.

Regulatory reform

The journey to agility and flexibility

Life insurers face an ongoing raft of regulatory change, bringing with it an ever-increasing compliance burden. Most recently in Australia, the 2015 Life Insurance Framework – the changes from which will continue through to 2020 – and the Life Insurance Code of Practice, are requiring the allocation of significant resources in order for life insurers to comply.

Older legacy systems are struggling to keep up with the ongoing reforms, with many requiring heavy investment in piecemeal solutions to ensure they remain compliant. The catch-22 of regulatory change is that it creates a need for flexible systems but interferes with the actual ability to implement them - particularly where several legacy systems run concurrently, which further magnifies costs. Put simply, the cost and effort required to implement and accommodate regulatory change has pushed system modernisation further away.

Arguably, the system development associated with achieving regulatory compliance has occurred at the expense of product development to drive new business, as well as customer satisfaction and retention initiatives. Each new piece of regulation only necessitates further investment in these already complex systems. To enable regulation to be efficiently accommodated, systems need to be easily configurable so that changes can be implemented quickly with limited costs so that resources can be better targeted to more productive developments.

As the legislative landscape continues to shift, savvy providers will equip themselves with the agility and flexibility to respond cost effectively to ongoing regulatory change. Those that make the move to modern technology systems will have a significant competitive advantage over others. These systems offer the flexibility and configurability to manage ongoing regulatory changes at a fraction of the expense of legacy systems. Early adopters will be able to invest in innovative initiatives that drive customer satisfaction and ultimately, profit.

Insurance through superannuation

A rising star in a falling market

In Australia, superannuation has played a prominent role in life insurance distribution and advice through default insurance within superannuation, advised insurance funded by superannuation wrap platforms, and risk-only superannuation mastertrusts. Today, more than 70% of Australian life insurance policies (that is, more than 13.5 million policies) are held through superannuation funds.

While insurance through superannuation has undoubtedly fuelled growth in the life insurance sector in recent years, it has not been smooth sailing. As an example, the Stronger Super reforms, which made it possible for insurers to offer ongoing partial rollovers from external superannuation funds as a payment method for policies held within risk-only superannuation mastertrusts, proved challenging for some insurers to implement. Many providers saddled with older legacy systems were forced to implement inefficient manual processes to support the new payment method. With further rules imposed by some external superannuation funds, the complexity of these arrangements continues to create havoc for life insurance administration.

The popularity of insurance held on superannuation wrap platforms continues to grow, with advisers and customers alike valuing the benefits of holding both investments and insurance in a single consolidated place. However, these platforms bring with them a raft of integration issues for life insurers. Customer data is often updated in overnight batch processes resulting in data discrepancies. Legacy administration systems were never designed with the real-time integration that is required for these products. To fully embrace the opportunities that superannuation platforms present, life insurers require an administration system that is designed to integrate in real-time with external systems.

In the years ahead, demand for insurance through superannuation is likely to remain high. Yet, the challenges around the administration of insurance through superannuation will continue. Life insurers seeking to make the most of this market segment will proactively transition to robust and flexible enterprise solutions that are capable of cost effectively managing the complex rules, compliance requirements and benefit structures associated with insurance through superannuation. Such systems enable a high degree of automation to achieve much-needed efficiencies within high volume processing with architecture to support real-time integration with external systems. They must also possess the agility to respond rapidly, easily and effectively to ever-changing regulations.

Engagement of new markets

Building customer engagement

There are signs that growth in the Australian life insurance space is slowing. According to Plan for Life research, although risk premium inflows increased 6.2% for the 12-month period (to 31 March 2016), this represents a downturn from 9.4% for 2013-14, and 13.3% for 2012-13. Whether this growth is in fact 'real' or a reflection of continued churn or 'creative counting' of premium increases on existing policies remains unconfirmed.

Much of the current life insurance coverage in Australia can be attributed to default insurance within superannuation. While it is true that this practice has increased cover for those who may previously never have been insured, superannuation trustees find they must balance appropriate levels of cover with the protection of members' retirement benefits. This typically leads to members not being adequately covered, resulting in a life insurance need that must be fulfilled outside of the superannuation environment. According to recent Rice Warner research, the median level of life insurance in Australia currently only supports 38% of the amount required to maintain a family's existing standard of living. Cover for total and permanent disability (TPD) and income protection is even less effective, meeting just 13% and 17% of insured needs respectively.

This continued high level of underinsurance represents a significant opportunity for the life insurance industry to drive new business sales. Life insurers can no longer afford to cycle through their existing customer base with the same tired product offerings. The challenge for insurers will be in how to engage a population who have little knowledge or interest in their insurance needs. Robo-advice, direct to customer (D2C) offerings and affiliation marketing will play a significant part in increasing engagement by targeting customers at the right time, with the right product, at the right price.

Reinvigorating growth within the life insurance space will involve a shift from a provider-driven model to a customer-focused approach. In the years ahead, successful insurers will have systems in place that support agility, flexibility and speed-to-market so they can respond and transition individuals over time to personalised products that best suit their insurance needs.

Targeted product development

Turning the tides on an old adage

Complex technology systems coupled with a general level of conservatism have stifled innovation, resulting in little true product development in the life insurance space. New products have traditionally been targeted at the mass market to ensure their profitability given the large technology implementation costs. This has resulted in the needs of specific groups going unfulfilled.

But the tides are changing. According to a 2015 KPMG international survey of insurers, 26% of respondents regarded new product and service development as the primary growth strategy for their organisation in the next two years. However, for the same period, 33% of respondents considered new product and service development to be the greatest challenge.

Increasingly, life insurance is being bought rather than sold, with customers demanding simple, modular products that can be tailored to individual needs and easily adjusted throughout their life as their circumstances change. By eliminating the need for new applications for each new product, providers will keep customers within their ecosystem, increasing retention and opening opportunities to upgrade or cross-sell. Products will be seamlessly linked across product lines and distribution channels for the benefit of the customer.

Life insurers will continue to look for ways to reign in claims costs by way of product design, with a greater focus on rehabilitation and retraining. Some total and permanent disability (TPD) definitions have already introduced retraining requirements and we are starting to see more instances of TPD benefits being paid in instalments, rather than a single lump sum.

Future product development will be heavily influenced by the aging population. As more baby boomers move into retirement, we are seeing demand for more diverse and flexible retirement income solutions such as annuity-style products, long-term care options and reverse mortgages, as well as combinations of each. This represents a unique opportunity for life insurers to expand and diversify their product range.

Conclusion

In a highly digital world, life insurers cannot afford to drag their feet in embracing modern technology platforms. Big data and analytics is laying the foundation of a new empire – with customer-centricity sitting at its throne.

Demand for highly personalised product offerings combined with increasing regulatory reform is spurring insurers to act. In a world already boasting highly technologically enhanced services, failure to do so would be catastrophic.

The life insurance industry stands at an important junction. New technology platforms are enabling a new reality, opening up opportunities for those who take the step towards system modernisation. Ever slowly, manual processes and complex, outdated legacy systems are beginning to bow down to more sophisticated policy administration systems that allow true game-changing innovation.

Forward thinking life insurers are already taking steps to modernise, consolidate and rationalise IT systems, with rising popularity of alternative distribution channels opening up new ways to engage with consumers. For many others, however, there is a still a long way to go.

Life insurers seeking to remain relevant in the digital age cannot afford to wait any longer – the time to act is now. Given the rapid pace of change in the life insurance space, continued underinvestment in technology poses the greatest risk— not just to future business success but ultimately, to business survival.

Life insurers must embrace modern technology to remain relevant to the consumer. This can only be achieved by looking beyond the 'what is', to imagine the 'what could be'. **FS**

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