PART II - LIFE INSURANCE: THE CASE FOR CHANGE

How do we make life insurance sustainable and fit for purpose in a world of technological change and evolving risks?

ANZ Wealth

Focusing on health and wellbeing

The changing face of wellbeing

New technologies and social trends are redefining approaches to healthy living and inspiring an upsurge of interest in personal wellbeing.

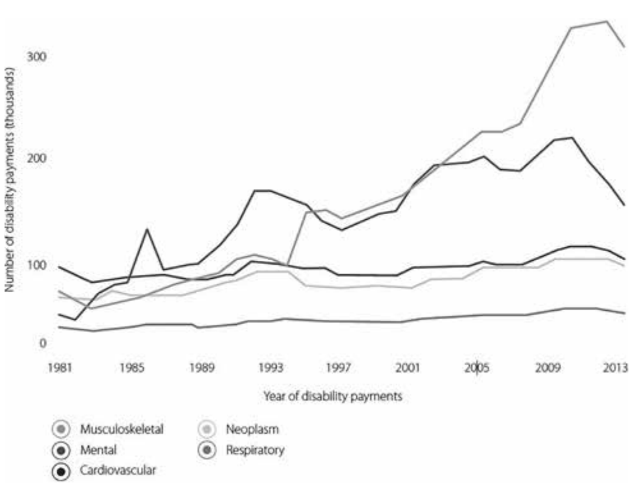
Medical diagnosis and treatment continue to improve, bringing benefits to patients but creating challenges for underwriters and insurance product designers.

Developments in analytics, wearable devices, connected health and artificial intelligence are increasing the range and depth of insights for insurers in assessing and supporting clients. The challenge for insurers is in determining how to access this wealth of data and use it most effectively.

A growing awareness of mental health has also brought challenges of a different kind. Recent years have seen a significant rise in recorded mental illnesses across the developed world.

In the US, mental illness has become the second most common cause of disability, while in Australia, mental illness claims have played a significant part in the rising cost of disability insurance. This suggests insurers need to proactively cater for mental health issues with targeted support programs and clear and accurate definitions, avoiding what advocacy group Beyond Blue has described as a one-size-fits all approach that "conflates mental health symptoms with mental health conditions and lumps all mental health conditions together as a homogenous group".

Figure 1. The US experience: mental illness claims have increased



Source: Australian Bureau of Statistics, Population projections, Australia, 2012 (base) to 2101, Australia, November 2013 (Release 3222.0)

Australian insurers and healthcare providers will also be increasingly confronted with the impacts of an ageing population. By the end of the century, one in four Australians are projected to be aged

65 or over, up from just 14 per cent in 2012. Along with declining birth rates, a key driver of this trend is a welcome rise in life expectancies, accompanied by improved healthcare that has helped to deliver Australians a higher quality of life in old age, including a significant rise in disability-free years.

Nonetheless, an ageing population will inevitably bring an increased prevalence of people living with multiple chronic and potentially disabling conditions. This underscores the need for insurers to actively support ageing customers with wellness initiatives designed to extend healthy lives and reduce the ongoing impacts of disability.

Customers can be persuaded to share data – if they are rewarded

The success of existing wellness programs is proof that certain customer segments are willing to share their health-related data in return for reduced premiums. This insight can be translated into a compelling customer proposition; for example, "Let us help you lower your blood pressure to lower your premium".

This concept empowers customers to reduce risk and engage positively with their insurers. Insurers who run these types of programs build loyalty by visibly supporting customers' healthy goals, while learning more about their customers. This allows them to better design products and claims processes that prioritise the right benefits while minimising costs.

As the number of people who track their own health data increases, so too will the demand for insurers to use that data in developing policies. However, research also suggests these offerings need to be carefully positioned to persuade customers to provide access to personal data. When global market researcher GfK asked Australians whether they would be willing to share their data in exchange for a reward, only 17 per cent responded positively, while another 56 per cent were neutral.

Leveraging personal health data for product design

Lifestyle-based, reward-for-fitness insurance programs are increasing in popularity, powered by wearables such as smart watches. This approach uses technology to establish an ongoing dialogue between insurers and customers, with benefits for both.

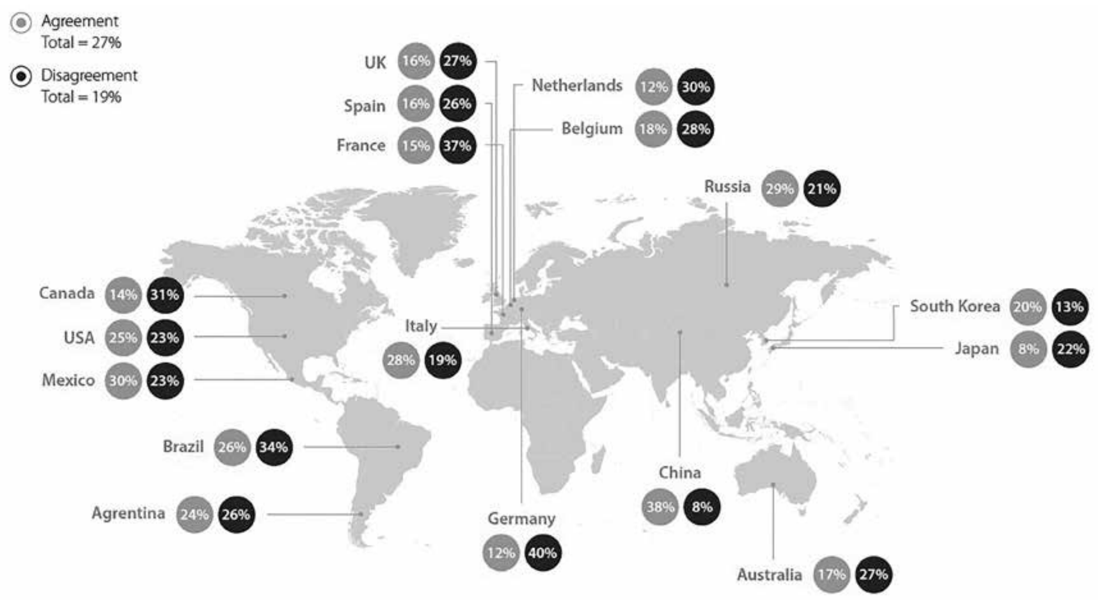
Case study: wellmo

Founded in 2012 by two veterans of Nokia's discontinued wellness division, Wellmo is one of a new wave of cloud-based platforms helping insurance companies leverage wearables and wellness apps to reduce health risks and encourage positive behaviours.

As at December 2016, Wellmo had partnered with 20 international insurers servicing more than 7 million customers, allowing it to draw on data from a widening ecosystem of wearable products, coaching services and content providers.

By combining insurance cover with health tracking and coaching, then rewarding healthy lifestyle behaviours, Wellmo's insurance partners help to drive positive change and create stronger relationships with their customers. This can result in a measurable improvement in customers' wellbeing. For example, Finnish insurer LocalTapiola has harnessed Wellmo to power its Smart Life Insurance product, with 80 per cent of users saying they have achieved a positive lifestyle change.

Figure 2. Willingness to share personal data in exchange for rewards, by country



Source: GfK Market Research, 2017

European economic think-tank Bruegel has called personal data the "oil of the 21st century"– the fuel that powers richer and more meaningful customer interactions. By using that data to focus on wellness, both physical and mental, insurers can add value for customers, help them to avoid injury, and create better return-to-work outcomes for claimants.

Opportunities for change

- By focusing on wellness (mental and physical), insurers can add value for consumers and lead claimants back to work, thereby lowering costs and bringing insurance back to its core purpose – providing a pathway to health, rather than funding disability.
- Insurers can use technology to simplify transactions and participate more meaningfully in the lives of customers – both when they are well and when they are injured.
- Insurers can offer discounted premiums and other incentives based on customers' health activities, encouraging engagement and loyalty and supporting customers' health goals.

The Millennial Challenge

The opportunity

Australia's ageing population and marked disparity in wealth between the old and the young make it all too easy to focus on Generation X and the Baby Boomers, ignoring the potential of Millennials as an influential customer segment.

But that would be a mistake. Millennials are a large and growing market that presents unique challenges to insurers seeking to adapt to the evolving market.

And Millennials have numbers on their side. In 2014 they overtook Baby Boomers as the largest global demographic group and emerged as the number-one source of global income, spending and wealth creation.

5 Key considerations in designing products for millennials

- Recognise that there is valuable, untapped potential within the 18–24-year-old segment.
- Learn to engage with these younger customers through modern, digital channels – it's your future as well as theirs.
- Use new types of data to create personalised offerings that are relevant and helpful throughout life.
- Address the knowledge gap by educating young adults about insurance, but avoid puncturing their optimism.
- Overcome traditional stereotypes and operational barriers.

Millennials expect high-quality digital experiences

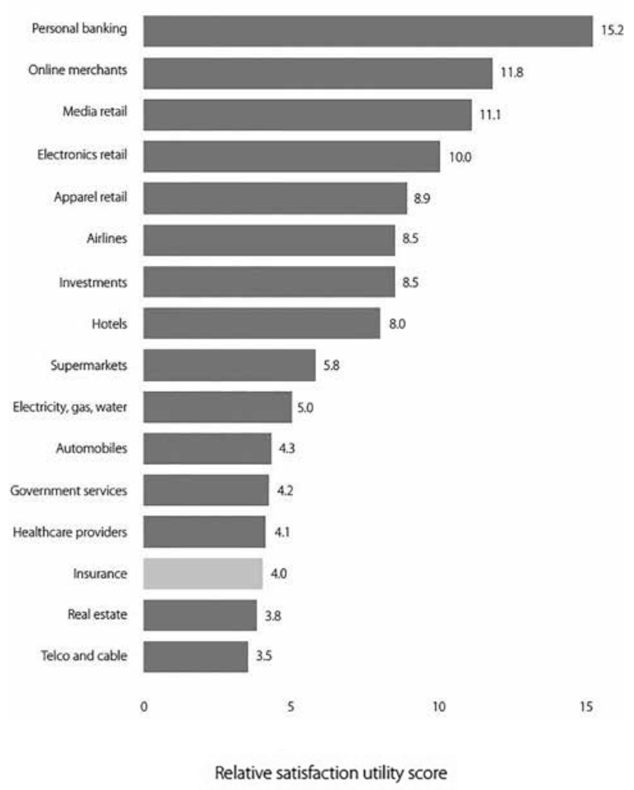
Born between 1980 and the mid-2000s, Millennials are digital natives and the first generation to grow up with the internet. Their willingness to engage online provides insurers with a highly efficient, cost-effective channel for creating greater engagement and capturing new business. But while Millennials are open to the use of their data by product providers, they also have an expectation that brands will adapt to their preferred ways of communicating and provide a high-quality online experience.

That's something insurers across all categories have sometimes struggled to provide. Research from Boston Consulting Group found US insurers lagging behind most other industries for online customer satisfaction, with negative scores for both research and post-transaction activities.

That creates a particular challenge for insurers seeking to reach out to the next generation of Millennial consumers, while fending off the competitive threat of insurtech innovators.

Millennials are least likely to say they have had positive experiences with their current insurer (for life and other insurance), and most likely to buy new insurance offerings from high-tech companies entering the industry through partnerships, alliances, join ventures and acquisitions.

Figure 3. Consumer satisfaction with online experience, by industry



Source: BCG, 'Delivering digital satisfaction', 2013

Turning complex conversations into simple online processes

This isn't to underestimate the extent of the challenge. Life insurance underwriting can be a complex process, with risks to both consumer and product provider if information gathering is incomplete or inaccurate.

The good news is that Millennials are accustomed to making complicated transactions online and are willing to exchange personal data for better-designed products. They're also keen to access financial services information, but aren't sure who to trust or where to find it.

In fact, recent research from Telstra found that 67 per cent of all Millennials and 70 per cent of affluent Millennials prefer to receive financial advice on digital platforms.

This could be a clear opening for financial advisers, who can address the lack of certainty among Millennials by offering services through the channels that appeal to them.

By meeting Millennials on their terms, digitally savvy financial advisers can expand their market and be an effective intermediary for insurers to this generation.

This suggests that product providers can best appeal to Millennials by leading with a tailored online experience, supported by personal interactions in instances where an adviser can add extra value. The resulting step change in digital capabilities has the potential to benefit all insurance customers, no matter which generation they belong to.

Figure 4. Preferred delivery platform for financial advice on products and services

Source: Accenture, 'The challenge of making life insurance ageless: Selling the prospect of death to invincible 18–24-year-olds', 2016

Opportunities for change

- Insurers can increase their appeal to Millennials by leading with high-quality online interactions and refocusing the role of advisers where they can provide most value. That means the advice proposition needs to evolve.
- Modern customers' demands for products are geared around their preferences and how they live – which means insurers need to build products around those lifestyles, not around risk processes.
- As a result, business strategies need to be more customer-centric, promoting ongoing engagement across the entire customer journey – before and after transactions.
- That means using sophisticated technology to deliver a simple and seamless customer experience, with transparent products focused on the core promise of insurance – helping consumers return to wellness and prosperity in times of need.

The Data and Analytics Advantage

Accessing richer data sources

High-quality, personalised underwriting relies on accurate data. Yet traditional data gathering methods are cumbersome for insurers, and invasive and time-consuming for customers. Currently, it can take up to six weeks for an underwriting decision to be made – a common pain point highlighting a clear opportunity for a better customer experience and efficiency for the life insurance sector.

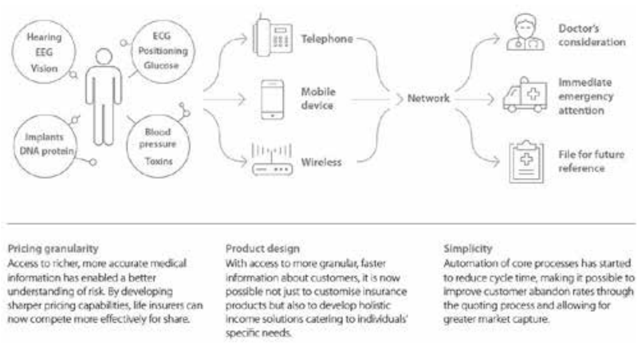
Disruptive medical technologies have the potential to overcome these problems. E-health innovations such as mobile apps, m-health devices, wearables and rapid genetic testing can all generate an ongoing stream of data that insurers can use to reach underwriting decision more rapidly and confidently, delivering a better customer experience.

By combining big data with predictive analytic models, insurers can also better understand insurance risks and personalise their products, with individualised pricing based on a confident assessment of the risk each individual represents.

Four potential uses of predictive analytics in insurance underwriting

1. Segmentation of insurance risks by identifying new relationships between variables
2. Improved and more consistent underwriting and pricing decisions
3. Improved results from marketing efforts
4. Enhanced claims management and fraud detection

Figure 5. Underwriting decisions can be made using unstructured data from multiple sources



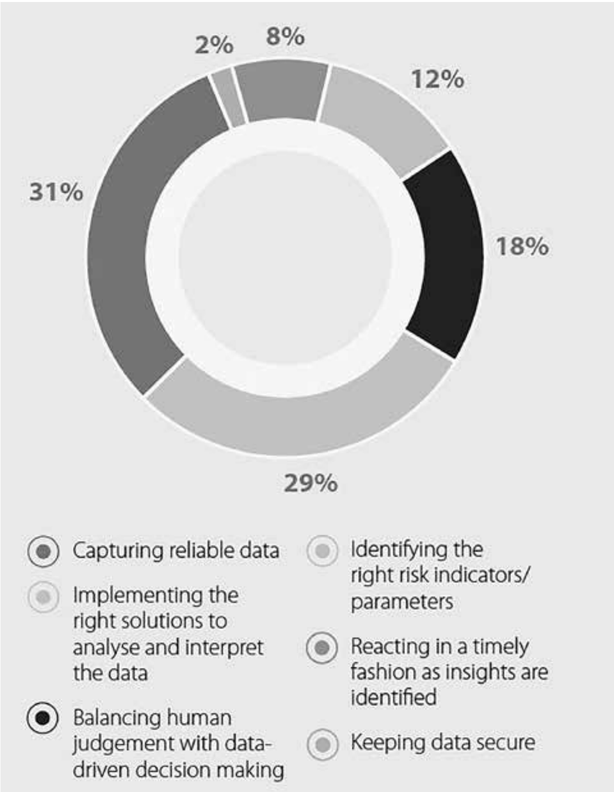
Source: PwC, 'Life insurance 2020: Competing for a future', 2012

Developing improved analytic capabilities

Traditionally, many insurers have had relatively limited data quality and analytic capabilities, making it difficult to achieve meaningful backend efficiencies. When KPMG asked global insurers about the challenges preventing them from making more effective use of data analytics, they were most likely to cite problems capturing reliable data, then analysing and interpreting it. As large volumes of customer data become more freely available, problems of analysis and interpretation are likely to come into sharper focus.

Faced with a constant stream of unstructured and undifferentiated information, insurers will need to develop significant analytic skills to identify the data points that matter most, then use them to generate actionable insights. They will also need to be transparent in explaining the methods they use to access, analyse and harness data, respecting individuals' legitimate privacy concerns while offering them access to the tailored products and enhanced support data-driven underwriting can bring.

Figure 6. Challenges faced by companies using data analytics



Source: KPMG International, 'Digital technology's effect on insurance', 2014

Case study: creating a predictive life insurance policy based on big data

In 2015, South African insurer Absa Life offered 700,000 qualifying Absa Bank clients automatic life insurance without filling in a lengthy questionnaire or undergoing a medical examination.

Part of the Barclays Group, Absa used the Group's bancassurance model and big-data technology to create a predictive underwriting solution, eliminating the need for traditional underwriting processes. By correlating claims data and banking transaction records, Absa was able to pre-qualify selected customers using just three questions and no medical tests.

While available only to selected customers, the successful pilot and in-market launch means the company can make more accurate long-term decisions without prejudicing policyholders.

Creating tailored products and services

Big data offers the potential for insurers to develop a more granular understanding of customers, so they can create genuinely personalised products and services.

Predictive modelling can help shape processes that are easier for customers to navigate, with opportunities to improve customers' digital experiences across every step of the value chain – from product design and underwriting to interactions with intermediaries, treatment service providers and claims processing.

Developments in data, devices and artificial intelligence all represent opportunities to engage with customers. Advances in interface and user-experience design represent new ways to build trust by giving customers seamless, intuitive ways to interact and be rewarded for ongoing engagement and data provision.

Just as importantly, improved pricing capabilities offer the potential for insurers to create a genuinely sustainable product offering – ensuring that they will continue to be there to support customers, now and in the future.

Opportunities for change

- Rich customer data can speed up the underwriting process, delivering pre-approval in minutes.
- Technology and superior digital experiences can capture data that can be used to simplify underwriting, reduce premiums and manage risks efficiently. This enables insurers to provide affordable and transparent insurance products through a seamless customer experience that makes it easier for consumers to secure the protection they need.
- The key for insurers is to develop effective analytics offering a consistent view of customer, operational and financial data from a range of sources – including third parties, transactions, personal interactions and wearables.
- The insurers of the future will recruit and nurture analytically minded staff who are able to collaborate with data teams and confidently leverage insights and predictive models to make sound business decisions.

Conclusion

It's time for insurers to focus on their core purpose: helping customers in their time of need.

There is enormous promise and challenge for life insurers in the years ahead.

In the short term the pain points of a damaged reputation and loss-making insurance products must be addressed. Both of these factors continue to erode the ability of businesses to operate well in the marketplace.

Fortunately, the solution is straightforward: clear, core-purpose products that provide genuine protection against the financial impacts of disability at an affordable price.

For consumers, this will meet their demand for simplicity and affordability in life insurance, helping to restore the sector's credibility in their eyes and encouraging take-up, which will go some way to addressing the problem of underinsurance. For financial advisers, it gives them more choice in what they can offer, expanding the markets they can reach.

The quote

Tech-savvy Millennials are both a challenge and an opportunity for insurers, demanding a high-quality digital experience from them underpinned by a deep understanding of their needs.

For the sector, such products will support what should be insurers' overall objective: to restore the individual to the position they enjoyed before they had need to claim, and particularly to support their return to work, while not overpaying for minor events or inadvertently discouraging claimants from re-entering the workforce after they have recovered their capacity to work.

If the sector continues on its current path, the risk is that some products will become unsustainable. This will force up premiums, making cover unaffordable for customers and depriving them of the opportunity to protect themselves and their families.

Even worse, the continuation of lossmaking policies could threaten the ongoing financial health of the insurance providers that consumers rely on to cover them for years into the future.

By creating a more sustainable sector, this approach leads directly to the medium to long-term objectives of insurers – wholesale adaptation to technological developments and changing customer expectations to produce more personalised products, improve customer experience and efficiency of operations.

Using the many sources of customer data becoming available will revolutionise how insurance policies are underwritten, making premiums more manageable where appropriate and making policies more precise, reducing risk and drastically improving the speed and efficiency of the underwriting process.

This will directly feed through to consumers' front-end experience of a simpler, seamless (usually digital) interaction with their insurer – of particular appeal to Millennials. More data and better understanding of policyholders means insurers can be much more customer-centric, at a personal level, with policies built around customers' lifestyles. This will also flow through to improve the services that advisers offer.

Life insurers have already started on this journey with their increased focus on health and wellbeing. Using customers' health data enables them to offer rewards for fitness, which increases customer engagement and therefore their ongoing relationship with their insurer, manages risk and pricing of premiums, and enriches the data available to insurers so they can get personal with their customers.

By meeting the challenges posed by emerging technologies, changing consumer sentiments and the evolving economics of the sector by proactively making the changes these challenges demand, insurers will reap tremendous rewards, principal among them being a strong and sustainable future. **FS**