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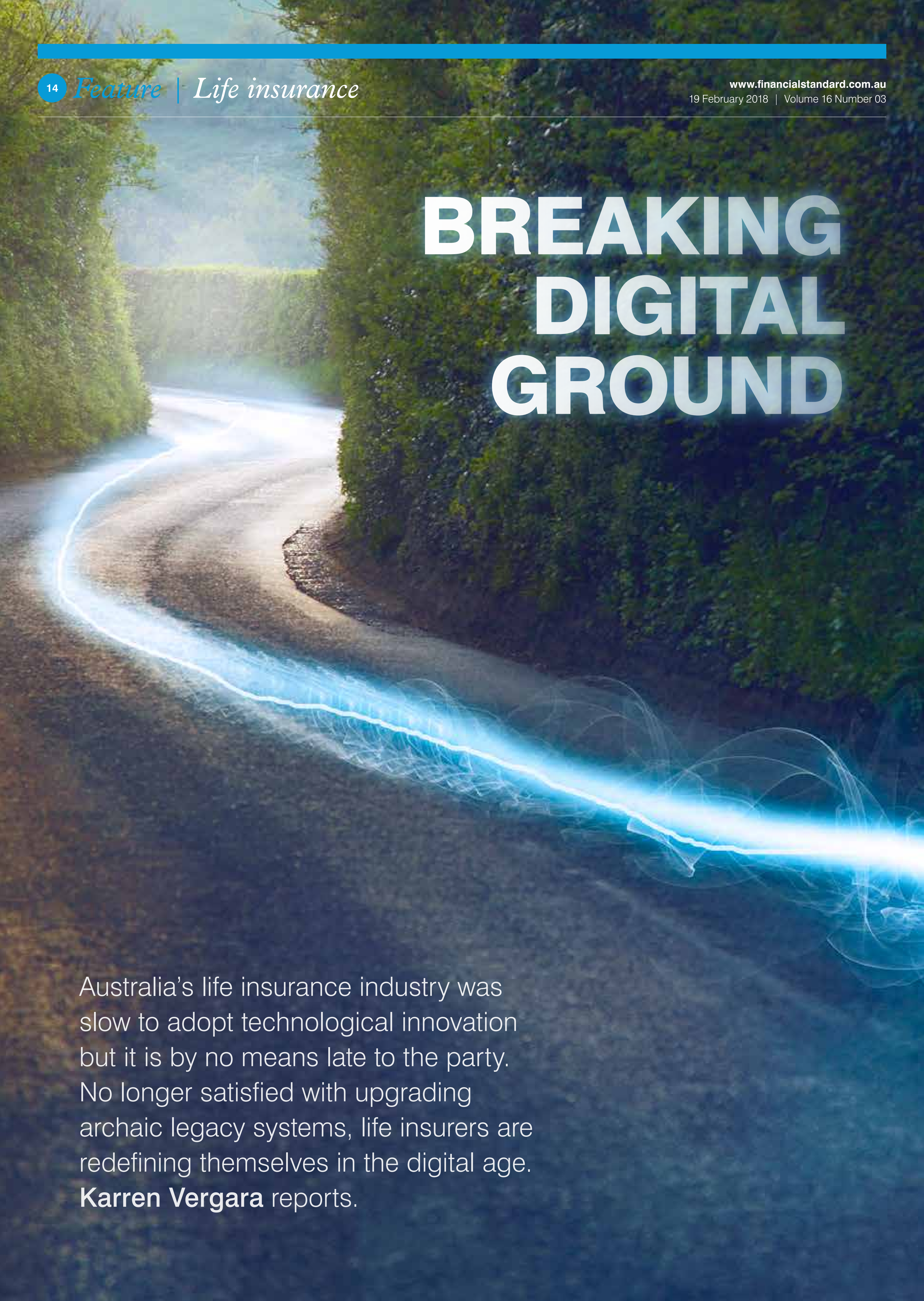


BREAKING DIGITAL GROUND

Australia's life insurance industry was slow to adopt technological innovation but it is by no means late to the party. No longer satisfied with upgrading archaic legacy systems, life insurers are redefining themselves in the digital age. **Karren Vergara** reports.

01:
David Loader
product manager of
life insurance
Bravura Solutions

02:
Chris Powell
managing director
Integrity Life

Technological innovation has taken many industries by storm but life insurance, until recently, has been largely insulated from the digital phenomenon.

Turn to 2018 and Australia's $97 billion life insurance industry is experiencing an unprecedented digital facelift. Workflows and job functions have been disrupted and in turn it's creating faster and richer customer experiences.

The evolution comes at a time when arguably there have been more pressing priorities: Increased regulatory scrutiny, a parliamentary inquiry flowing from several scandals, and the improvement of profit margins (see Figure 1). Then there's the industry consolidation.

After acquiring Macquarie Life in 2016, Zurich recently bought ANZ's life insurance arm; AIA Group purchased CommInsure; NAB sold 80% of its life business to Nippon Life about three years ago; while AMP and Suncorp are courting potential buyers.

Yet among these large movements are some new, smaller players which are seeking any opportunities left behind by the institutions.

In early January, Integrity Life acquired QBE Life for $21.7 million. The local start-up raised $165 million of capital and currently offers group risk products with plans to launch in the retail space by mid-2018.

Online shopping marketplace Kogan also launched its life insurance brand, Kogan Life, via a distribution partnership with Greenstone Financial Services.

Bravura Solutions product manager of life insurance David Loader[01] says this recent flurry of activity has perhaps delayed the industry's modernisation.

The past 10 to 15 years alone have held back insurers' ability to come up with digital solutions because of legacy systems, he says.

"It's not uncommon for an insurer to have five to seven systems administering all their policies. To come up with a digital system for all of those can be quite expensive and not economical because the business on each platform isn't that big," Loader says.

When the consolidation dust settles, large insurers will need to upgrade many of the back-end systems, he says, but more importantly, those without a modernisation program in place will be left behind.

"Many life insurers are looking for ways to be more efficient for their advisers by servicing customers online or customers to service themselves," Loader adds.

Integrity Life managing director Chris Powell[02] says as leader of the country's newest full-blooded life insurer, his most important achievement will be to "not build a legacy system of the future."

"We're trying to bring some fundamental changes to the life insurance industry in Australia. We think that the life insurance industry is institutionalised and we think that it's about time people started focusing on the consumer rather than on the needs of the institution," Powell says.

> *If you think of incremental innovation, it's not always a silver bullet, it's always striving to be better tomorrow than what you are today.*
> **Jeremy Simmons**

He says several large institutions currently rely on antiquated systems using cobalt mainframes in many places and it's these technologies that prevent them from being agile and adaptable. The imminent replacement of these systems will be expensive and labour intensive, Powell says.

The life industry expert adds it is socially irresponsible to build any system that will only become a legacy product in less than a decade.

"We will use the latest technology to automate our processes; to not have the large manual processes that a lot of the traditional institutions have," Powell says.

"I don't want to create manual processes only to automate them in a few years' time and then have to make people redundant. That's not socially responsible."

He foresees Integrity Life creating a "plug and play" system so that if technology becomes outdated or if something better comes along the business can easily adapt.

"Technology is an enabler. It's not the be all and end all," he says.

"For us it will be an enabler to write a different retail product offering and to provide a level of service to financial advisers who are engaging with us."

Incremental innovation

In September 2017, ANZ produced a white-paper which argues the case for sustainable change in life insurance and forewarns how important transparency will be in product design, particularly as insurers introduce innovative, technology-driven solutions for underwriting and product delivery.

That approach will "go some way to re-establishing trust," positioning insurers in a more positive light to the market and authorities, it says.

As the high level of regulatory activity is "set to intensify," there is a growing need for life insurers to invest in innovation amid rapid technological change and declining margins at the same time, ANZ warns.

"Heightened compliance requirements have the potential to absorb valuable resources that could otherwise be dedicated to product innovation.

"Regulation may inhibit another important aspect of innovation in the sector: The ability to leverage alternative data sources for underwriting, allowing insurers to create personally tailored policies at more affordable rates, and reduce the risk of declined claims due to non-disclosure," the white paper notes.

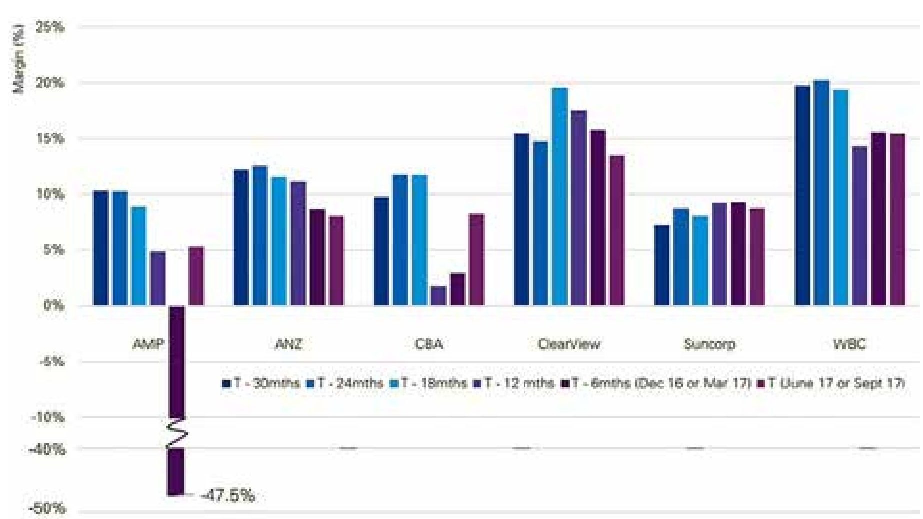
Hence the opportunity for life insurers is to accept "not just the letter but the spirit of regulatory concerns" by creating transparent, core-purpose insurance products that are clearly communicated to the market.

MetLife Australia's recent analysis of members' level of engagement with insurance inside their super also highlights the public's trust in insurance companies as an issue.

Six in 10 respondents are concerned about insurers paying out in the event of a claim – in reality more than 90% of claims are actually paid, the report shows.

To help tackle this misperception, MetLife is aiming for greater transparency over the claims experience by building a process that not only directs customer to the appropriate contact at the fastest possible time; but also helps them understand and track the claim that could be with the administrator, the fund or the insurer.

Figure 1. Listed life risk insurers' actual profit margins



Source: KPMG Life Insurance Financial Results: November 2017

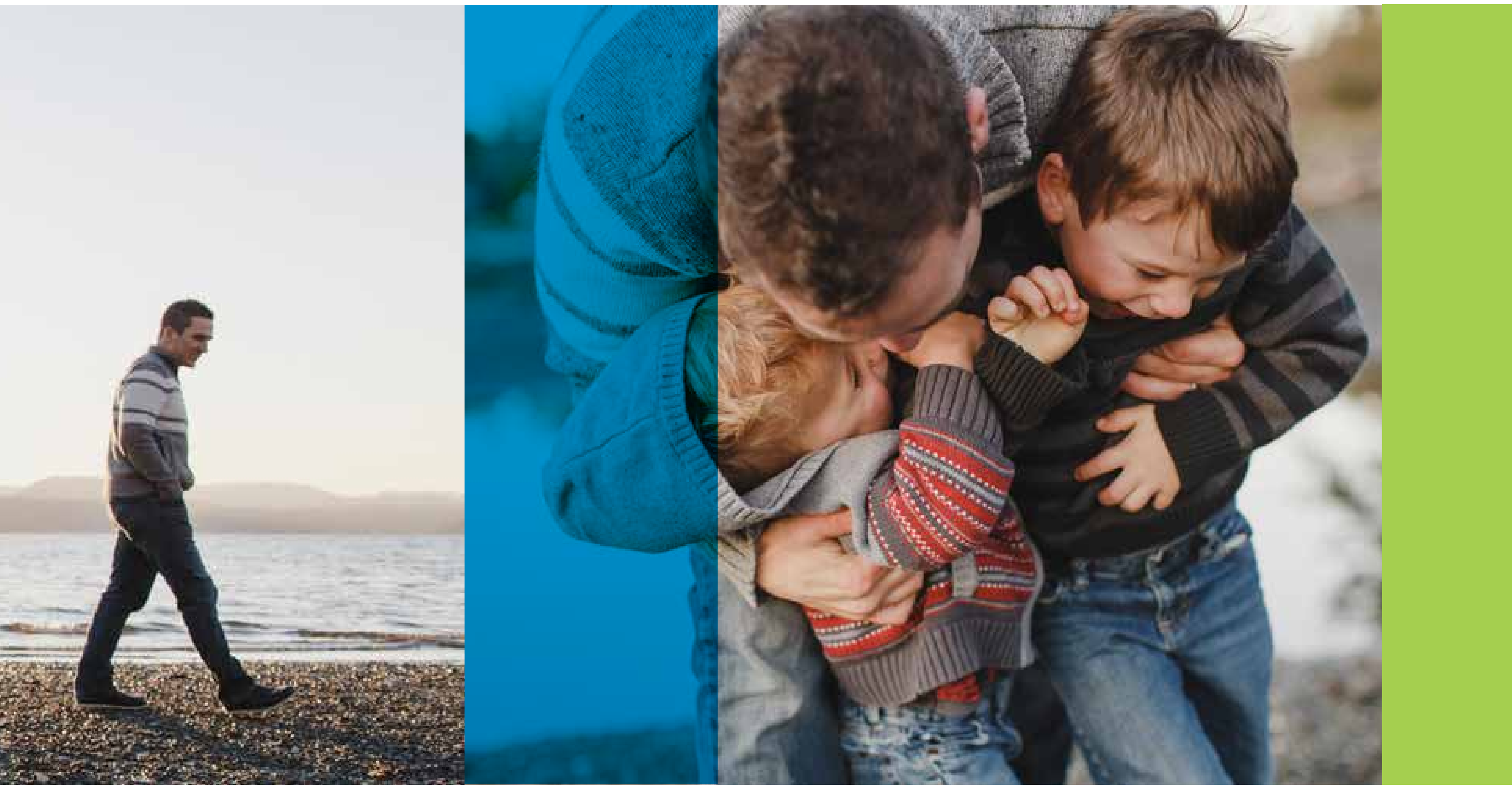
Insurance Inside Super - Protecting the protectors

MetLife's mission is to ensure every working Australian is not only aware of their insurance inside super, but is empowered to act and make sure their cover provides the right level of protection throughout their lives.

MetLife conducted research to assess the attitudes and engagement amongst working Australians aged 18-64 with insurance inside superannuation.

The research highlights several key areas where we as an industry can help to improve consumer knowledge and engagement with insurance inside super, communicating simple, actionable steps at key points in time and promoting the benefits of this invaluable protection.

Awareness for all benefits is less than 50%



Suggested actions to increase engagement with Insurance inside Super

1 Simplify communications

What is clear from our research is that many super fund members find insurance through super confusing, therefore delaying obtaining the right cover or putting it off altogether.

Providing more opportunities to review, using simple jargon-free language and offering easy steps for members to adjust or opt out of insurance could increase engagement with insurance inside super.

2 The right message at the right time

As many people who change their default level of cover do so at key 'trigger' times, such as changing jobs or getting married, the timing of member communications is also important.

At these key times, super funds can proactively engage with members whose circumstances have changed to discuss the benefits of reviewing their insurance inside super.

3 Focus on the benefits

MetLife tested awareness and appeal of benefits of insurance inside super.

The findings show that many of the benefits with the highest appeal had fairly low awareness levels. This presents an opportunity for super funds to educate their members on some of the key incentives for holding insurance inside super, such as tax advantages and cheaper cover.

For more information on our campaign and how we're helping Super Funds support their members with sustainable protection that is both easy to manage and caring, visit **metlife.com.au/insidesuper**

MetLife
Navigating life together

03:
Jeremy Simmons
AVP Customer Strategy and Innovation, MetLife Australia

04:
Dan Taylor
general manager innovation TAL

05:
Rafal Walkiewicz
global chief executive Willis Towers Watson Securities

MetLife Australia head of innovation and customer strategy Jeremy Simmons[03] says the life insurer has been on an innovation path for some time – a process that uses customer insights and data to create a customer-centred approach to solve certain pain points.

"If you think of incremental innovation, it's not always a silver bullet; it's always striving to be better tomorrow than what you are today," Simmons says.

He says interaction with customers around underwriting applications and at claim time are the two largest and most critical touch points on the value chain. The firm aims to "reimagine the future" in these key areas by using digital solutions at the front and back end to make it easier for customers to simplify their experience, and to make it the most engaging, friendly and fastest to use.

To achieve this, MetLife has invited customers, members, partners and financial advisers to tell the insurer about which pain points and frustrations they're experiencing in the current environment.

"We build a journey map of what actually happens when a person comes to us and why they come to us. We're interested in understanding not just what happens when they interact with us, but why are they coming to us is also critical," he says.

After spending time with them and understanding that pivot moment in their lives, it's a matter of collating the focus group feedback, data and insights before Simmons and his team start building and testing solutions.

TAL general manager of innovation Dan Taylor[04] says it can be easy "to get seduced by trendy innovation labs and cool technologies."

He says TAL focuses on practical and simple innovation in creating its online policy quote product CoverBuilder, including the introduction of free skin checks via SpotChecker.

It has also invested in a dedicated health services team to guide all areas of the business with the latest medical advances that incorporates mental and financial support.

Launching HealthSense in 2016, the premise had to be simple. It rewards customers with a healthy body massindex through significant discounts on premiums. "The effort, reward and exchange have to feel right for them," Taylor says.

Industry disrupters

Despite insurtech investment reaching a record high of US$2.3 billion in 2017, up 36% on 2016, the dynamics between start-ups and incumbents has taken "a decidedly sober turn," latest Willis Towers Watson (WTW) global research warns.

Industry experts remain unanimous in urging collaboration rather than competition, but WTW Securities global chief executive Rafal Walkiewicz[05] says incumbents have "assumed a semblance of control."

> *Many life insurers are looking for ways to be more efficient for their advisers by servicing customers online or customers to service themselves.*
> **David Loader**

Incumbents sent a clear message to disrupters: "They have no intention of handing over their business to the start-ups," Walkiewicz says.

"The conversation has shifted from disruption to tame notions of efficiency and incremental innovation. This does not mean however that the party is over; big changes are on the horizon from within or externally.

"Improving back office efficiency for example, a key focus from within, may yield technology that can be applied to more visible aspects of the insurance value chain. And venture capital is still betting on radical new products that could do to the insurance industry what Henry Ford did to the horse," he adds. (See Figure 2).

Simmons says MetLife embraces exploring, finding and delivering the right solutions for customers – whatever channel that may be.

MetLife's global parent recently launched two insurtech investment programs at its North Carolina campus, backed by a US$100 million venture capital fund.

It aims to identify and mentor start-ups with promising new technology that can add value to customers. Start-ups selected will undergo an intensive 13-week program to bring ideas to life.

Simmons notes that a large part of these initiatives is ensuring the solutions built are "highly reusable" and cascade down regionally and locally. They must also render a customer experience that is consistent and supports the MetLife brand.

Closer to home, there is an innovation think tank centre MetLife runs in Singapore called LumenLab. In collaboration with its India operations they recently developed conVRse, an experiential virtual reality headset that connects customers to an insurance expert virtual avatar.

Anorak, a UK life insurance advice-based start-up, recently secured £4 million ($7.1m) in seed funding to bolster its mission to remodel customers' experience and to be "the world's smartest insurance companion," according to co- founder and chief executive, David Vanek[06].

After collecting customer data on family, home, income and finances, Anorak analyses how much cover they need, for how long and why by using rated policy documents of major insurers.

With the help of data science and machine learning, hundreds of pages of small print are then scanned to match the best policy to suit customers' circumstances, Vanek says.

He adds the UK's life insurance is "stuck in the dark age" and current distribution channels have failed to make life insurance accessible.

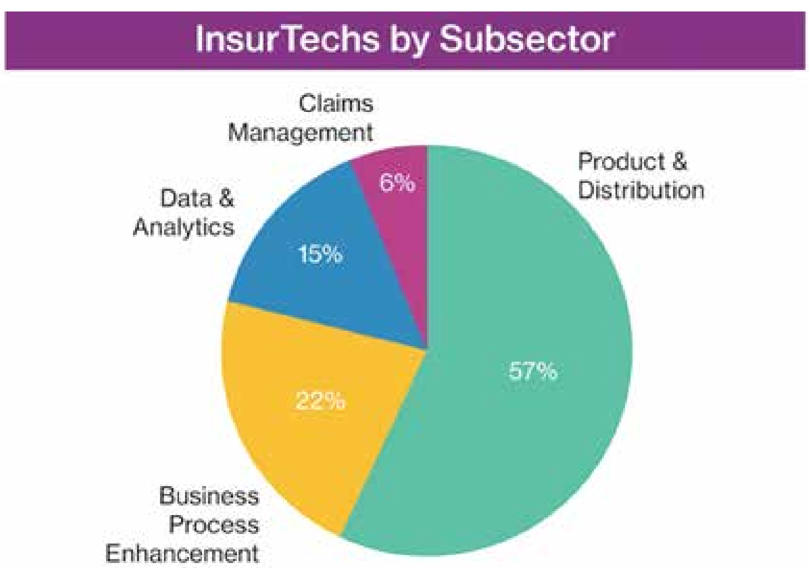
Similar to Australia's experience, there is a lack of awareness that life insurance is available; a misconception it's expensive or it's only for the affluent.

"Somewhere along the way, the life insurance industry lost sight of its customers. Clarity and trust dropped off the menu. If you've ever been through the process, you may understand: It's a universe of confusing products, insurance jargon and painstaking user experience (if we can call it that)," Vanek says.

As the UK open banking regime came into force on 13 January 2018, Vanek says this presents a "great opportunity to turn people's bank data into actionable insights to help them protect their family."

Anorak is now able to go to consumers at the right moment, especially when life triggers an event that requires a 'protection conversation' and turns personal data into recommendations, he adds.

Figure 2. Four areas where insurtech will make an impact



Source: Willis Towers Watson Quarterly InsurTech Briefing Q4 217

06:
David Vanek
co-founder and chief executive
Anorak

07:
Michael Nowak
director and senior financial adviser
Nowak Financial Services

08:
Christine Swanson
director and financial adviser
Prominent Financial Servicesinancial Services

LIF update

Director and senior financial adviser of Nowak Financial Services, Michael Nowak[07], says his firm has not experienced any challenges under the newly instated Life Insurance Framework (LIF).

As of 1 January 2018, upfront commissions were capped at 80%. The two-year commission clawback period also took effect, where in the instance customers cancel or discontinue their policy, a certain portion of the upfront commission is paid back to the life insurer – 100% of upfront commissions in year one and 60% in year two.

Next year, the cap increases to 70%; and from 1 January 2020, upfront commissions will be maxed at 60%, and ongoing commissions at 20%.

Bravura's Loader says its life insurance and wealth administration system, Sonata, has a built-in workflow to support different retention initiatives and LIF changes.

"With the new two-year clawback period coming into place you don't want customers lapsing in that first two years.

"If there are any policies lapsing in the first two years, you can trigger those to a retention team or email the adviser straight away to try and prevent that lapse," Loader says.

"We made the decision many years ago to move to a hybrid 80/20 payment model, so the changes in this area will not affect our business this year," Nowak says.

"When advising clients post-LIF, the biggest change that we have made is that we are being more selective with whom we are taking on as risk clients. Our own licensee has recently implemented aspects of ASIC's example risk Statement of Advice (SOA), which has increased the time and cost to develop a risk SOA.

"The reality we face is that the costs to provide risk advice are increasing, whilst the upfront remuneration levels are decreasing," he says.

To take on new clients, Nowak says they must satisfy two criteria: "They must be profitable to take on both initially in terms of the advice and implementation and then also ongoing as we review and service the clients (including claims management)."

Secondly, the firm must be confident new clients will stay for two years to avoid the newly extended two-year clawback.

"Within our business, should we not be sure that a client is able to meet these two criteria, then we will not take them on, and refer them to someone else who can help. For me this is the most unfortunate outcome of LIF, as it will restrict some mum and dad Australians from receiving quality risk advice, which is proven to provide the best outcomes to consumers," Nowak says.

He adds he doesn't expect the year ahead to pose significant challenges for his firm, but those businesses adjusting to the hybrid commissions from upfront commissions will face some cash flow issues.

For the calendar

The Parliamentary Joint Committee's inquiry into the life insurance industry is due to release its final report on or before March 31.

Nowak says he hopes this will adequately assess the industry's concerns with respect to direct life insurance.

"If so, this may act as a catalyst for life insurers to pay more attention and resources to the more consumer friendly retail advised channel," he says.

In 2021, ASIC will conduct its post-implementation review to assess the impact of the reforms.

Nowak says it's essential that industry associations are involved and have the ability to participate in planning and reviewing this report to ensure it provides a broad and accurate assessment of life insurance advice.

"This is a really important review that potentially has very significant consequences, so it is essential that it accurately reflects the state of the overall life insurance advice sector," he says.

Nowak urges the industry to work together to ensure that improvements are made and will lead to a good result in 2021.

> *Venture capital is still betting on radical new products that could do to the insurance industry what Henry Ford did to the horse.*
> **Rafal Walkiewicz**

"From experience, I can attest that in subsequent years the larger renewal for hybrid business does provide significant benefits to your business," Nowak says.

"A legitimate concern is that new entrants to life insurance advice will be restricted by the changes to the remuneration, and this is most unfortunate."

Prominent Financial Services director and financial adviser Christine Swanson[08] says while insurance is not a huge part of her business, it is considered in all client strategies.

Her firm has been using a hybrid commission model for many years and has hardly seen any difference in its numbers under LIF.

"I made a business decision many years ago to ensure we had flexibility within the business to design individual strategies covering all aspects of a client's financial needs. This means constant innovation and diversity regrading what we can offer to increase client value," she says.

Echoing Nowak's experience with SOAs, Swanson says the amount of work and research that needs to go into creating one to ensure it complies with legislation and covers a thorough needs analysis to mitigate client risk is costly.

"In many cases it is necessary to charge clients additional fees over and above the commission payable to cover these costs," she notes.

Swanson says many businesses, especially those specialising in personal protection plans have suffered financially and needed to restructure their businesses to cope with reduced incomes.

"Some older advisers have chosen to retire or leave the industry, as with most financial services legislation, it's made by people that do not have a good understanding of our businesses, the amount of work involved, or the care and compassion that goes into ensuring more Australians are well protected," she says.

Nowak says: "I have heard much industry commentary about how specialised life insurance advice will be dead in the future."

However, he has personally witnessed firsthand how Australians have benefited from receiving life insurance advice. "For me personally, this is something worth fighting for," Nowak says. **FS**