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# Life insurance snapshot: 10 industry trends shaping the landscape

financial software solutions that deliver

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# Introduction

While the life insurance industry continues to experience growth, there is an inherent fragility in a sector being weighed down by its legacy business. A complex web of antiquated technology systems bows each time a new product is brought to market or a regulatory change needs to be accommodated.

We are, however, standing at the precipice of a technological revolution in this space. Players are taking steps to modernise, consolidate and rationalise IT systems, and there is rising popularity of alternative distribution channels, opening up new ways to engage with consumers.

In the face of an aging population and a burgeoning wave of demand for innovative and targeted products, there are a host of opportunities for those that take the vital steps towards modernisation.

In this paper we have identified ten major industry trends around operations, technology, product development, consumer behaviour and overall innovation, and asses their impact and the role each plays in the future of the life insurance sector.

1. Steady growth
2. Challenging legacy rationalisation
3. Business Process Outsourcing (BPO)
4. Regulatory and capital pressures
5. D2C, affiliation marketing and big data
6. Poor financial performance
7. Little true product development
8. Competition with platforms
9. Online support and mobility
10. Rise of niche players

# 01 Steady growth
## Is it real?

Life insurance risk market inflows in Australia have been reported at being over 10.5 percent per annum, with Plan For Life[1] stating this figure for 2012-2013 and a similar percentage growth for previous years. This is consistent with trends we are seeing globally across life insurance markets. The question is whether this growth is "real", if it is a reflection of an actual increased number of people taking on policies, or a reflection of continued churn, or "creative counting" of increases on existing policies.

In Australia, some of this growth can be accounted for in a surge of insurance take-up through group insurance linked to superannuation. This increased coverage is potentially proving inadequate with lower levels of cover, poor communication and education, and a lack of advice perpetuating a general level misunderstanding of insurance.

Zurich[2] recently published some concerning research depicting broad confusion around group insurance, with survey respondents having little understanding of what they are covered for, and some even believing they are covered for optical and dental treatment.

Rice Warner[3] states that the median level of life insurance cover across the working age population in Australia is 64 percent of basic needs, but only 42 percent of what is required to maintain the standard of living of remaining family members.

So while on the surface there is growth, underinsurance and misunderstanding of insurance continues, and if we look back 15 or so years, we see definite similarities between the selling patterns and resultant market conditions then and now. It is evident that there has been a marked lack of innovation in the intervening years.

Those companies that have taken steps to innovate and rectify this situation are reporting success. Direct to Customer (D2C) offerings and affiliation marketing are making life insurance more accessible and appealing to the masses, creating increased engagement and more active decision making. These changes in distribution and marketing are turning the tides on the old adage "life insurance is sold not bought".

Modern delivery does, however, require agile, flexible operations and the ability to scale, grow and innovate as required. Most life insurance businesses are not yet in this position, with approximately 60 percent of respondents in Celent's "Tracking the progress in core systems replacement" report[4] suggesting that their core systems severely constrained their innovation in product management and timeliness to market.

# 02 Challenging legacy rationalisation

## Fighting back at constrained growth and innovation

If you take a handful of typical large life insurance companies, they will tell a similar story about their operations and IT environments. They will bemoan a number of complex legacy systems inherited from a timeline of mergers and acquisitions. The policies held on these are often valuable, having surpassed the point of paying off initial acquisition costs, so most insurers are loathe to lose them.

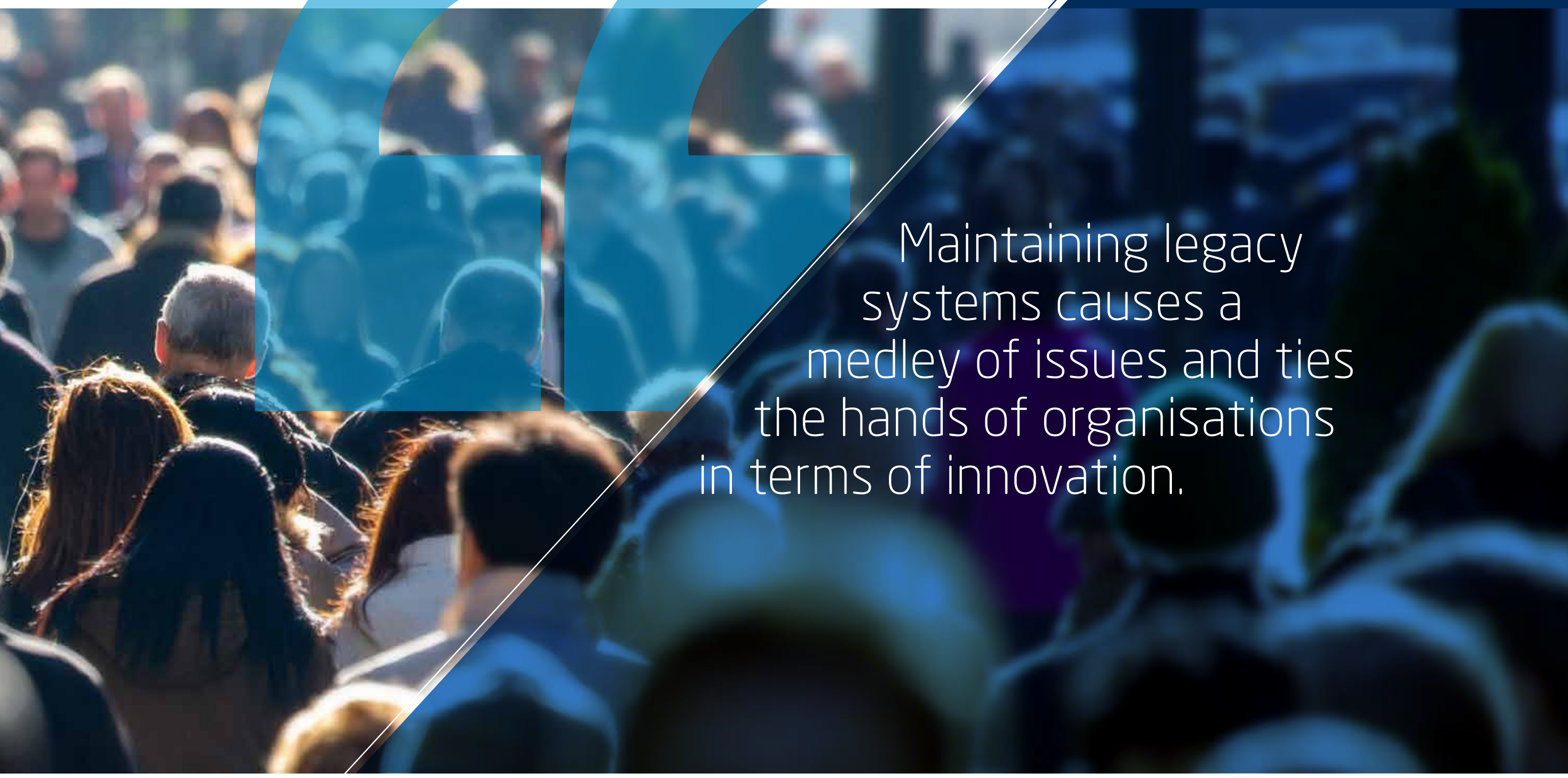
While maintaining legacy systems causes a medley of issues and ties the hands of organisations in terms of innovation, cross-selling and up-selling, the desire to keep this business often presents a challenge to clearing the decks of these systems.

There are also legal/regulatory implications with rationalisation. Insurers must meet or improve policy conditions when transitioning a policyholder from product to product, which is a near impossible thing to do like-for-like. Additionally, any attempt to rationalise heritage products and move policies across to modern/current products, may rock the boat and result in "shock lapses", adversely impacting profitability.

The realistic situation that most insurers find themselves in is that they need to keep their legacy business intact and therefore many resign themselves to maintaining the costly and antiquated systems that houses it. The knock-on effect is that holding onto legacy systems is strangling the ability to look forward and grow effectively. One way to keep this historical business and ensure growth and innovation into the future is to migrate existing policies from the various technology platforms onto a single system.

The knee-jerk reaction for many insurers is to balk at the weight of the change program involved with such a move, not to mention the cost and risk involved. There is also a graveyard of failed projects driving reticence in taking the leap.

There is, however, an emerging group that believe that while the risk can be high, and there will be an initial effort and upfront cost involved with systems consolidation, in the long term it is a cost-saving measure and a necessary move to ensure future profitability and competitiveness. The risk of taking the leap from legacy is outweighed by the risk of not doing so.



# 03 Business Process Outsourcing (BPO)

## Leveraging partnerships

Globally, the practice of BPO has seen the greatest prevalence in regions with higher numbers of insurers and larger books of business, although its benefits are being sought in smaller markets such as Australia. We are seeing an increasing number of players outsourcing administration and systems management to a third party. Administrative outsourcing for more complex legacy books can be particularly attractive as it converts fixed costs into variable costs and de-risks the business by removing key person dependencies.

By nature, the life insurance industry is complex and varied, and each company has a unique range of products and multiple intricate variations. This complex nature has meant that it is difficult for the BPO providers to achieve economies of scale, and the life companies are wary of the risks involved with losing control of the client experience for these policies.

BPO partners are also not looking to do "mess for less", they are looking to build a scale business and gain economies from operating on a single, modern platform. Historically this has been attempted, with limited success. In some of the larger global markets where the scale has been present, BPO partners have achieved their business cases. The ideal situation of consolidating all business on a single platform has rarely been achieved, leaving the BPO partners with a number of legacy systems to manage lowering the potential from such ventures. In Australia, the market has been viewed as too small, with too much diversity to make this achievable.

The situation is now changing, and the modern systems that we see today are providing a broader and more flexible solution to these problems. The previously mentioned Celent paper also suggests a shift in attitude amongst insurers, and a willingness to use BPO partners to conduct core systems consolidation/replacement. This movement is still in its infancy with ginger steps being taken to modernise and build the business case to do so.

# 04 Regulatory and capital pressures

## Restricting innovation

> The catch-22 of regulatory change is that it creates a need for flexible systems but an interference from actually being able to implement them.

A raft of regulatory change has placed significant strain on the life insurance industry. Solvency II continues to be a great source of contention, with wide ranging implications in terms of the stricter capital requirements it imposes and the competitive impact it creates. Similarly, the International Financial Reporting Standards (IFRS) review and the Gender Directive in Europe have taken their toll on the industry globally, with major change programs being undertaken to accommodate them.

While these changes highlight the need to be able to more easily adapt and flex, the cost and effort required to implement and accommodate the change has pushed systems modernisation further away. The industry continues to be inwardly focused; reactive not proactive. The catch-22 of regulatory change is that it creates a need for flexible systems but also an interference from actually being able to implement them.

Ideally systems should be quickly and easily configurable so that regulation can be efficiently accommodated, whilst continuing to offer innovative products, facilitating the customer experience, and providing accurate, consolidated data from which they can pre-empt behaviour.

In the real world, many insurers scramble to ensure these changes are implemented across their creaking internal infrastructure, leaving little time or budget to think much about such innovation. And so the cycle perpetuates.

Insurers running multiple legacy systems need to make these changes, often in different ways, across different technologies.  Many insurers are opting for vendor based solutions where the regulatory changes are made as a collective, sharing the knowledge and effort, making the compliance task simpler and less time consuming, and freeing up organisations to focus more on product innovation and customer service.

# 05 D2C, affiliation marketing and big data

## Changing the life insurance landscape

Alternative distribution of life insurance has proliferated rapidly in recent years, with Rice Warner[5] placing direct life insurance growth for FY13 at 10.6 percent for sales and 13 percent for in-force premiums in Australia. Bancassurance is finally building popularity and this is set to continue, with TechNavio[6] forecasting that the global bancassurance market will grow at a CAGR of 5.98 percent between 2013 and 2018. While an established concept in the UK, we are seeing a rise in the number of consumer brands (such as supermarkets) offering insurance products through affiliation marketing in Australia.

The beauty of tapping into the market through this route is access to a deep pool of already-collated data – the banks and retailers are well ahead of the curve in the emerging field of big data analytics and have a profound knowledge of their customers. Marketing, cross-selling and up-selling activities to these consumers can be fine-tuned with precision.

Access to big data and sophisticated analytics means the insurer can be more targeted and more reactive, which equates to greater profitability. We are seeing life insurers in some markets now reacting on a weekly basis, changing premium rates for target sectors in a similar way that the general insurance market has been for decades.

Key to success with these delivery mechanisms is being able to target consumers at the right time, with the right product, at the right price. While the channel itself may initially attract customers, and clever, targeted marketing may push all the right buttons, today's consumers are savvy, with access to a wealth of information and the ability to compare. Brand and delivery gets you so far, but the price and conditions must also be right.

In Celent's report "Innovation and Insurance, A UK Consumer view"[7], 71 percent of survey respondents viewed ability to provide competitive products at competitive prices as having a strong impact on their choice of a new financial services provider.

Successful D2C requires intimate knowledge of the customer and careful targeting, yes, but the product itself must be worthwhile to the consumer and the price must be right. These price savvy customers put further emphasis on running a cost effective and efficient operation to maintain profitability.

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# 06 Poor financial performance

## Repeating the same mistakes

The life insurance industry is highly cyclical. In recent times we have repeated the aggressive pricing and undercutting – particularly in the group space – that we saw a decade ago in Australia. In the hunt for new business, companies were overly optimistic with their pricing assumptions and more relaxed, accepting business that led to unsustainable profit and the resulting poor claims experience. For years now, the regulators have raised their growing concerns but, disappointingly, it wasn't until there was an impact on shareholders that it was seriously addressed.

There has been a recent rash of insurers looking at installing stronger claims management systems in an attempt to improve their handling of claims – but these efforts have often been hampered by multiple legacy systems and a range of complex integration issues. Inadequate and fragmented stores of information around policy conditions and the continued need for manual processes have rendered many of these projects ineffective.

Again the issue of a range of disparate internal systems comes into play. Until registry systems are consolidated, there is no way to truly integrate claims management and no real way to provide end-to-end processing.

Few in the industry have taken the plunge to rationalise to a single system, as businesses have had difficulty quantifying the appropriate benefit in a cost/benefit case to justify taking the necessary risks to upgrade. Of the few that have undertaken such a rationalisation program, many have been unsuccessful as there hasn't historically been a system that provided a single, integrated, solution coving the breadth of products required.

Only recently have systems that combined the necessary technological and functional elements existed. An upgrade of this nature requires a modern technology framework, a single database, Service Oriented Architecture (SOA) for integration, web integration with mobility and web deployment.

Higher levels of access to accurate, aggregated information combined with better business intelligence afforded by modern systems allows measures to be put in place to enhance the claims and underwriting experience. Workflow allows automation of many of those procedures in the system, enabling alerts and pre-emptive actions, allowing for more efficient operations internally, and a heightened experience for the customer and their advisers.

# 07 Little true product development

## Potential for innovation

Product development in the life insurance industry has traditionally been sluggish, with slow time to market (12-18 months) at the mercy of complex technology configuration, and often conservative views on innovation. In the aforementioned Celent report, "Innovation in Insurance, A UK Consumer View", only 26 percent of survey respondents agreed that their insurance service providers are innovative.

This paradigm is set to change as consumer expectation is dictated by other sectors, where investing, buying and transacting is smooth, simple and easy, with a range of conditions and price points to suit their needs.

The aging population will necessitate an upward shift in product development, as this demographic grows and demand increases. Forward thinking insurers will look to this as a growth opportunity and an avenue to expand and diversify. A desire for more flexible retirement incomes could lead to an upsurge in annuity style products, long term care options, reverse mortgages and a combination of these features.

The use of current real-time information about customers, such as their health, exercise regime and personal circumstances can allow insurers to fine-tune the way they price products and the way they interact with their customers.

We are seeing the nativity of this kind of innovation, with some insurers offering discounts and rewards for taking steps to improve or preserve their health, utilising such things as wearable technology as proof points and deeper client engagement. Some markets already capitalise on a heightened understanding of their clients, offering products such as impaired life annuities and deferred life annuities.

Life insurers are well placed to deliver these innovative offerings, provided they have the technology framework to flexibly and rapidly configure new products and allow them to evolve in response to market demands. The required levels of responsiveness can only be achieved with nimble, flexible, configurable systems.

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# 08 Competition with platforms

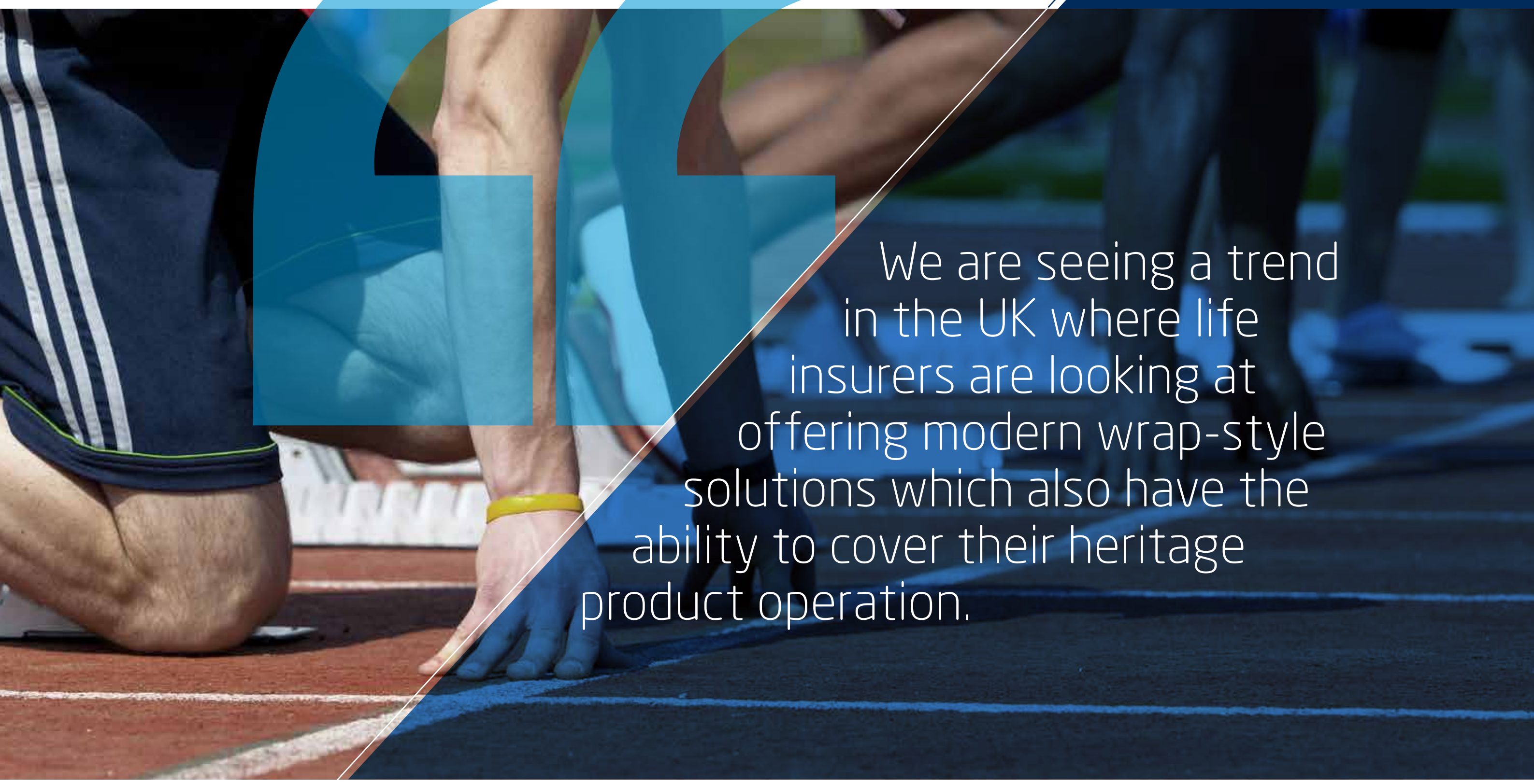
## ‘Face-lifting’ life insurance

There are two aspects when considering the impact of modern platforms on the life insurance industry. The first is the potential for heritage products with wealth components being surrendered and moved into modern wrap style platforms, the second is the platform operating as a distribution channel for modern life insurance products.

In the first instance, we are seeing a trend in the UK where life insurers are looking at offering modern wrap-style solutions which also have the ability to cover their heritage product operation. In this scenario they can extend the heritage offering and offer wrap-style products under a single customer view. This allows them to control the migration of business internally, rather than losing them altogether.

The second consideration is enabling platforms to offer a broader range of life insurance solutions to their investors. In Australia, the majority of the major platform providers also provide life insurance products within their groups, and have been struggling with integration between disparate legacy systems covering these two product ranges, creating problems in providing a seamless customer experience.

These trends are driving a demand for a platform that is flexible enough to cater for more complex products, with the goal being to enable an improved product and service offering, whilst still retaining a portion of the profitability of older legacy products. This provides a single customer view, better cross-sell and a more engaging customer experience.



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# 09 Online support and mobility for advisers

## Providing the tools for better customer service

Consumers are well and truly used to, and now take for granted, the benefits of mobile/online technology. It stands to reason that they would now expect similar simplicity and immediacy in the life insurance space, including their experience with an adviser.

The key challenge is not only availability of technology to assist the sales experience with online/mobile facilities, but changing mindsets in terms of how advisers interact with clients. In the past, there has been some reluctance amongst advisers to adopt technology, with many preferring to conduct their interactions face-to-face, and seeing the use of iPads and computers as a barrier to genuine interaction and the sales process. As consumer expectations shift and there are new entrants to the adviser workforce, this is changing. Advisers are seeing that technology can act as a facilitator to the advisory function, expediting and simplifying processes.

To date, however, the experience has largely lagged other sectors. The adoption of interactive technology is limited and overall, consumers often find the dealing manual, slow and complex.

Much of the impediment to creating this technology-enhanced experience for advisers (and their customers) lies again with legacy systems. Laying modern systems over multiple legacy technologies, generally creates "brittle systems" that break easily when there are underlying changes to the products and regulations.

The provision of true mobility for advisers falls into the larger scope of a modernisation program. Interaction of this kind must be straight through and in real-time in order to work effectively – online interaction must be "intelligent" and this is facilitated by having consolidated, accessible data and workflow tools available through modern systems.

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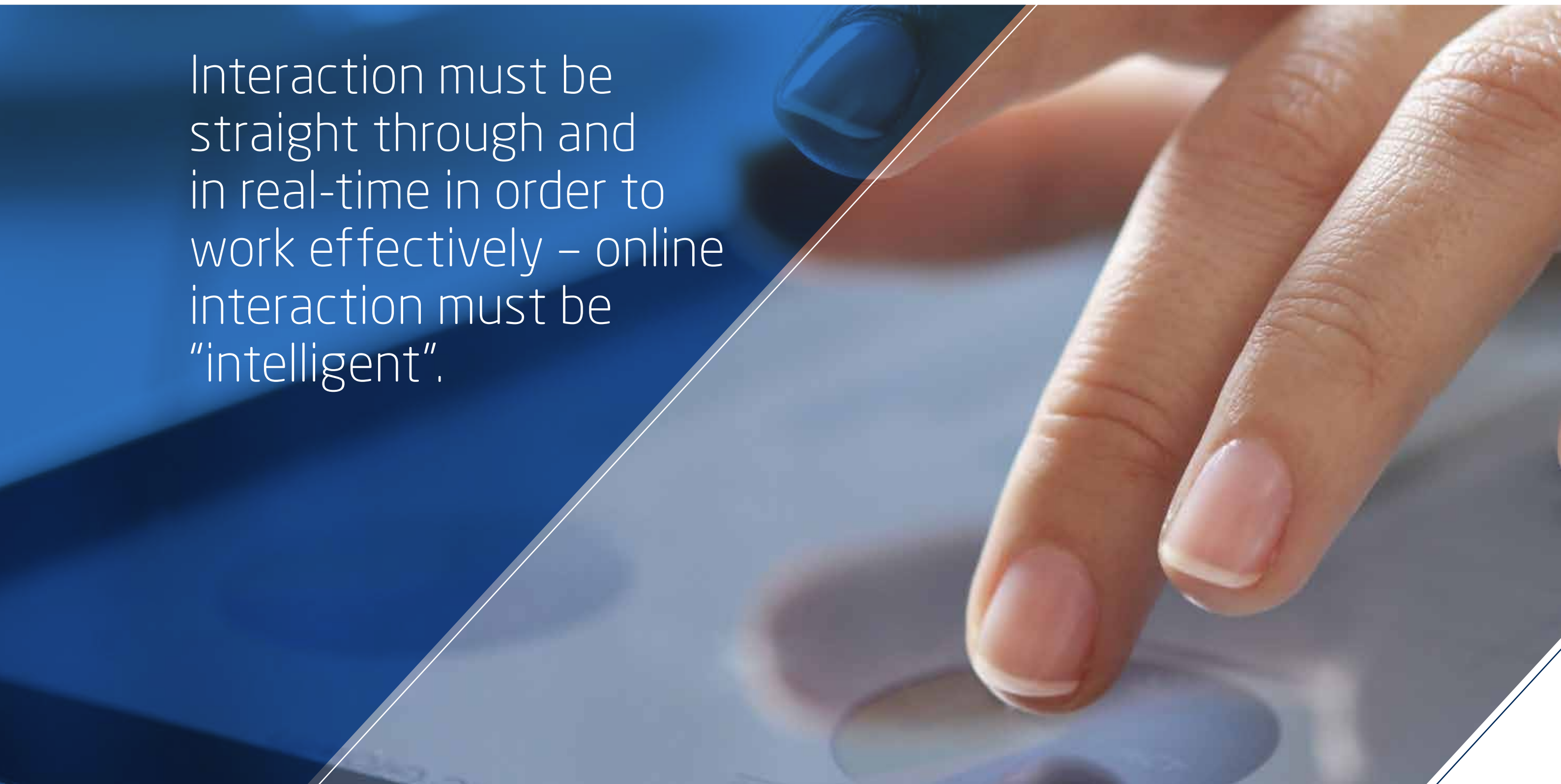

# 10 Rise of niche players

## No excess baggage?

We are seeing an increase in niche distributors of life insurance products, which are experiencing success for a variety of reasons. These businesses are highly focused on their target markets, have an eye to innovation and differentiation, and often come to market through alternative channels such as D2C or affiliation marketing.

As start-ups they come unencumbered by the past and free of the myriad of legacy systems synonymous with the life insurance space, meaning that they can innovate freely and easily, bringing new products to market at a rapid rate. These businesses are starting with the customer centric distribution approaches the rest of the industry is working out how to adopt.

However, those life insurance companies and reinsurers that provide the underlying products may inhibit the ability to innovate rapidly and may not meet the needs of these niche players, who are seeking to provide highly targeted and innovative products to meet customer demand. Even new players are being restricted by legacy technology.

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# Conclusion

The life insurance industry has a reputation for being reactive and conservative, and much of the industry continues to live up to this reputation. In a world boasting a plethora of technologically enhanced services across a variety of sectors, the life insurance industry is under pressure to catch up.

Most insurance businesses have a legacy of mergers and acquisitions, each adding to a range of products and systems, housing an assortment of open and closed books. The result is an industry bogged down by complexity and struggling to innovate and progress.

The future is in alternative distribution, innovative and responsive products, excellent service and deep knowledge of the customer. The current internal infrastructure of many life insurers makes achieving any of these elements a near impossibility.

IT consolidation, rationalisation and modernisation are buzz words for a reason. Undertaking these activities is an imperative in order to lay the foundation for future growth and profitability. A potted history of failed projects of this nature have, however, instilled a sense of widespread wariness.

This hesitance is slowly lifting as solutions emerge that can cover and consolidate broad ranges of products. These systems are built in modern, scalable architecture and provide access to the flexibility and modern distribution capabilities required.

We are at the dawn of a new era for life insurance. The demand for innovation is there, the market is growing and the technology is available.

## About the author

Darren Stevens is the Director of Strategy at Bravura Solutions and has over 27 years of experience in the financial services sector. He is responsible for developing, refining and executing Bravura Solutions' corporate strategy for its wealth management, life insurance and transfer agency solutions.

Darren is based in Bravura Solutions' Melbourne office. He is a Fellow of the Institute of Actuaries Australia, has held a number of Trustee and Board roles and actively participates with industry bodies such as FIAA, IAA and ASFA.

# Endnotes


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## About Bravura Solutions Pty Limited

Bravura Solutions Pty Limited is a trusted provider of software solutions for the wealth management, life insurance and transfer agency industries, underpinned by functionally rich technology that enables modernisation, consolidation and simplification.

We are committed to increasing operational and cost efficiency for our clients, enhancing their ability to rapidly innovate and grow, minimising their risk and enabling them to provide better service to their customers.

Backed by over 30 years of experience, our installed or managed hosted solutions are mission critical to some of the world's leading financial institutions. In excess of A$1.85 trillion / £1 trillion in assets are entrusted to our systems.

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