



**Disruption and disinterest**

Two existential threats to the life and annuity industry

Life insurance is in a slump, and its retirement focused companion product, annuities, is equally challenged to deliver consistent long-term growth for carriers. In a decade's worth of slow economic growth, the life and annuities (L&A) industry's mature-market growth has been slower still. By 2010, gains in emerging markets had begun to stall. Life insurance began giving way to discretionary pensions across much of Europe. And in the United States, ownership of individual life insurance hit a 50-year low—about as long as it takes a midlife crisis to set in.<sup>1</sup>

It's not because the need for L&A products doesn't exist. One study finds that 75 percent of millennial parents lack life insurance.<sup>2</sup> At the same time, many baby boomers—concerned about providing for the next generation—are searching for alternatives to secure their families' financial futures. According to the World Economic Forum, greater longevity and reduced investment returns will cause the world to experience a US\$400 trillion deficit in retirement savings over the next 30 years.<sup>3</sup> That's more than three times the size of the global economy in 2017.<sup>4</sup>

# Why is growth so difficult?

The very success that the industry has had with affluent consumers has hindered its ability to keep up with current trends. This has been the case not just in developing markets where populations are younger and lower-income, but also in mature markets where people are taking longer to form households and have children—decisions that historically have triggered the need for traditional life products.

One obstacle is that insurance carriers continue to rely on field agents to generate and complete sales transactions. That approach has been effective for decades, but is an increasingly expensive, and ineffective, proposition in an era of emerging digital products and distribution channels. The agent-only model is increasingly at odds with the behaviors of modern consumers who want to control more of their research, purchase, and service transactions.

Additionally, the products themselves are out of synch with consumers who have grown up using digital technology. Products that have success in an agent/advisor setting can be hard to understand, and even harder to buy, in a digitized model because it imposes a process that fewer customers are willing to take on.

The industry has been buffeted by conditions in the business environment as well. Years of low interest rates have depressed insurers' investment incomes. At the same time, regulators regularly push for greater transparency in products and distribution channels, with an aim to boost customer confidence and protect individuals' long-term wealth. The flip side is that increased regulation could put up barriers to innovation. Compliance, at any rate, can be costly.

Looking inward, infrastructure and books of business are showing their age. Skilled, longtime agents are retiring. A significant portion of operations remains manual, even while expenditures on digital increase. Such investments—combined with the industry's legacy technology—represent technical debt that needs repayment eventually, at no small cost to carriers.

All told, these conditions have put increasing margin pressure on the industry. Trends of the past 10 years tell the story. During that time, compound annual growth rate (CAGR) rose a modest 0.6 percent. Expense ratios plateaued for life insurance and increased for annuities. In the United States and European Union, net earnings on invested assets fell 1.2 percent in yields.

# Many of the warning signs are well-hidden.

Incumbent players enjoy strong brands, robust balance sheets, sophisticated product portfolios, and productive distribution networks. Those assets, however, do little to ensure success in an environment of slow revenue growth, rising costs, and an aging population of covered lives. What's more, the path to growth runs straight into a more skeptical, digitally-savvy body of consumers. They prefer products and services that bend to their needs: on-demand, personalized, shareable, adaptable.

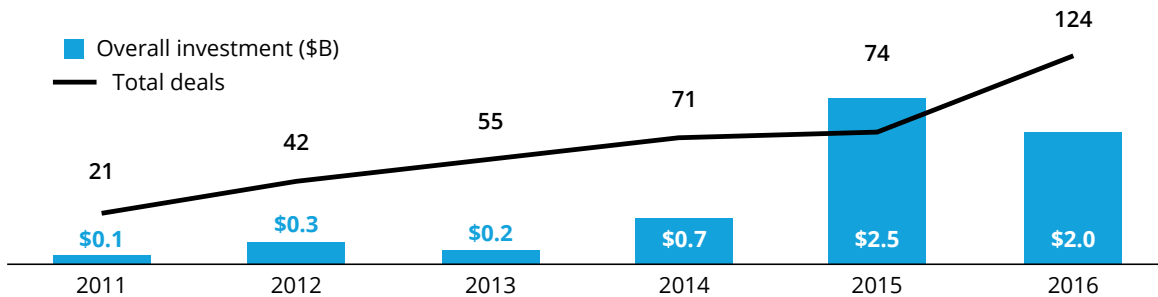
InsurTech companies are zeroing in on these preferences. Their message of a high-value, low-friction experience is landing with customers whose expectations have been shaped by online commerce and a mobile-first consumer orientation. These digital-first, asset-light models of new entrants offer a significant cost advantage over incumbent providers even as they offer new benefits such as transparency, convenience, and speed.

The result is an increasingly dynamic marketplace in which the top 10 US carriers have seen a dramatic reversal of fortune in terms of market share. Investors have taken notice, pouring US\$5.8 billion into the global market between 2012 and 2016 (Figure 1). Absent fundamental change, carriers may be significantly challenged to remain relevant against emerging competitors.

## The customer of the future

Traditional L&A customer	Emerging L&A customer
<ul style="list-style-type: none"> <li>Limited familiarity with, and use of, digital channels</li> <li>Concerned with wealth accumulation and traditional ownership models</li> <li>Buys traditional products from agencies</li> <li>Prefers in-person sales interactions</li> <li>Adopts life policies earlier in adulthood at traditional inflection points</li> </ul>	<ul style="list-style-type: none"> <li>Digitally savvy</li> <li>Reaches adult milestones later</li> <li>Lacks trust in the financial services industry</li> <li>Seeks out on-demand and personalized products and services</li> <li>Prefers shareable and subscription-based models</li> <li>Favors product-service bundles</li> <li>Demands highly adaptable policies that can be toggled on and off</li> </ul>

Figure 1: Global InsurTech investments on the rise



Sources: CB Insights, Deloitte analysis

# Past performance is no guarantee of future results.

We've all seen those safe harbor statements cautioning investors that future success is highly dependent on a number of coordinated actions, many of which are speculative. To get and keep customers in a changing market, insurers will need to appeal to them in new ways. What those new ways will look like is difficult to know with certainty, but they're likely to have the following attributes.

## 1. True customer centricity

A customer-centric carrier crafts desirable customer segments and personalizes its products to their needs. The needs can be hard to predict, so an ability to rapidly create and test new value propositions is essential.

**What it takes:** An actionable customer segmentation strategy, unique value propositions, and a proactive, individualized customer engagement model.

**Where it's happening:** John Hancock created a product that combines life insurance with an opt-in wellness program that tracks, and rewards for, the customer's health-related activities.<sup>5</sup> Ladder, a digital insurer offering term life products, builds in options for adapting coverages and pricing to the customer's lifecycle stage.<sup>6</sup> And Tomorrow helps customers set up their will, trust, and life insurance all at once, then keep tabs on them in a single place.<sup>7</sup>

## 2. Product agility

Dense, complex products might make sense for the high net-worth customer with a seasoned advisor to guide them, but they'll keep other customers at bay. Simplified offerings with modular

features can flex with modern lifestyles. Customers will appreciate a dynamic ability to balance protection and accumulation. They also will likely value bundles that extend beyond the product offering to include relevant, valued services.

**What it takes:** A modular product design to support episodic and multi-product offerings. Any product will have to be transparent and easy to understand, with real-time pricing and risk matching. As consumers increasingly expect customization of products and services, providers will need to contemplate how they operate in a partnership ecosystem.

**Where it's happening:** Through Munich Re's backing, InsurTech company Bought by Many created a way for customers to sidestep traditional routes so they could purchase niche products insurers won't often touch, such as travel insurance for cancer survivors.<sup>8</sup> Insurance Khata, meanwhile, offers flexible payment schemes and micro insurance for those with seasonal incomes.<sup>9</sup> Anorak also optimizes coverages and timing, in their case by plugging into ecommerce, banking, and other products to identify significant life events as they're happening.<sup>10</sup>

## 3. Real-time delivery and service through a personal mobile device

Rethink those office leases, websites and microsites. Agents and customers alike seek real-time digital interconnection with distribution platforms, and don't want to be rerouted back to a website or mailbox. Self-service is an expectation. So are value-added services, which should be readily discoverable and served up on the customers mobile device.

**What it takes:** Automated everything. This includes instantaneous quote and bind, pricing, policy delivery, and service with customers and partners. Back everything up with advanced cross-selling and retention models.

**Where it's happening:** In early 2017, home insurer Lemonade reported that its AI-powered technology processed and settled a theft claim in just three seconds, without paperwork from the customer.<sup>11</sup> Meanwhile, Penn Mutual subsidiary Vantis Life developed a platform to underwrite life insurance based on public records and third-party data providers, removing the need for many customers to undergo medical tests.<sup>12</sup> Then there's BIMA, which has automated the underwriting process for month-to-month life and accident insurance so that it can sell to low-income customers in Africa, Asia, and Latin America.<sup>13</sup>

#### 4. Ecosystem partners who deliver value propositions, not just products

This may be the most important key to future success—and the most challenging. Insurers won't own and control all aspects of a digitally-enabled consumer. Staying abreast of a dynamic market requires support from a network of independent providers. These resources can serve to close capability gaps at any point in the value chain.

**What it takes:** A partner program with established processes for vendor selection. Realistically, it probably also requires an open architecture model (think application programming interfaces, or APIs, with third-party developers) along with active performance management.

**Where it's happening:** Life insurer MassMutual paired its data with Haven Life's intelligent

automation to underwrite medical exam-free policies in minutes.<sup>14</sup> Japanese insurer Fukoku Mutual implemented an IBM Watson-based system that can read unstructured data, such as medical records, and interpret it to calculate insurance payouts.<sup>15</sup> Finally, Life.io provides life insurance carriers with software to guide their customers through the purchasing process—and then keep them engaged after the sale is closed.<sup>16</sup>

#### 5. Relentless and continuous operational efficiency

Companies that employ manual processes will see customers defect to more convenient options. Personal intervention and physical documentation slow firms down and inflate costs. Continuous improvement requires a high tolerance for leveraging new capabilities (like robotics) and constant reexamination of outdated, value-depleting processes.

**What it takes:** Automation, again—but of the science fiction kind. This means artificial intelligence to help with underwriting, claims, and service requests. It also means blockchain technology to facilitate contracts, claims documentation, and back-office processes such as payments.

**Where it's happening:** Captricity's cloud-based software applies machine learning to pull data from paper applications, then combines it with other data to quickly score individual risks.<sup>17</sup> Venerable insurance giant Aviva launched an initiative to significantly reduce the number of forms insurance buyers must complete.<sup>18</sup> And fintech startup Lapetus enables customers to qualify for no-med life insurance by running facial analytics on a selfie.<sup>19</sup>

# The future belongs to those who can create compelling value propositions, not just products.

Insurers can look forward to an extended period of market innovation. Although much of the recent investment in InsurTech went to targeted solutions (Figure 2), a shift is already underway to moves beyond such isolated investments and into segment-driven value propositions. These will be essential to keep pace with new competitors—or convince non-consumers to engage.

Some of the most promising value propositions bring life insurance more seamlessly into a consumer’s daily life. Examples include:

**The health/wealth intersection.** This describes a type of product that integrates mental and physical wellness with insurance, investment, or retirement. The financial products combine with wearables, new data sources, and other benefit organizations to produce a better quality of life—not just a competitive quote. The products can be sold through doctors, gym representatives, or even companies that offer wearable technology.

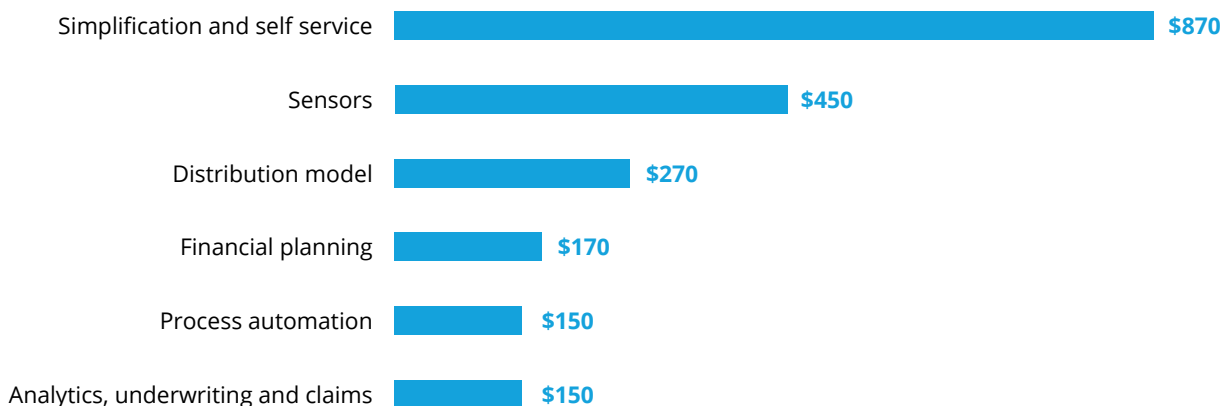
**Product-in-a-product models.** The typical carrier thinks of itself as a retail brand. But what if another firm had a stronger consumer brand, and also had natural customer segments that the carrier could serve? This model offers a combination of predictive models, simplified product, instant issue, self service, and virtual

agents to make the purchase seamless for the customer and valuable to the retail partner. Telecommunications firms, membership organizations, travel/experience providers, and high-end retailers are natural springboards for this type of value proposition.

**Courting non-consumers.** These might include the previously-uninsurable, high-risk, or low-budget consumer—that is, anyone who needs insurance but doesn’t have it due to reasons of health, awareness, or affordability. The formerly uninsurable could become insurable thanks to a modular, dynamic policy that links improved (and measured) behaviors. Meanwhile, non-consumers could ‘try before they buy’ via new pricing and feature schemes like those seen in the emerging episodic insurance market. Whatever form they take, new market entry models offer a way forward for consumers who don’t have or can’t afford insurance through traditional channels and products.

These concepts are by no means exhaustive, but they represent new ways that insurers can think about engaging consumers by lowering the barriers to purchase. Even modest success in these areas should produce much deeper customer insights that can power future value propositions.

Figure 2: InsurTech investment areas in 2016 (in US millions)



Sources: CB Insights, Deloitte analysis

This brings us back to the current state of the L&A industry. Traditional insurers are stable and well-capitalized. They face a new generation of customers who are under-protected and unengaged. These customers not only don't know about life insurance and annuities products, many of them don't want to know—at least until an upstart competitor who speaks their language gets involved.

A fresh approach to the marketplace can turn this situation around. But thinking about the customer in a modern way will unavoidably challenge the status quo. It takes nerve to self-disrupt, to adopt nimble models and pursue new opportunities all along the value chain. The insurers who pull this off will be the ones to write the story of their own future.





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