POST-PANDEMIC TRENDS IN US L&A INSURANCE

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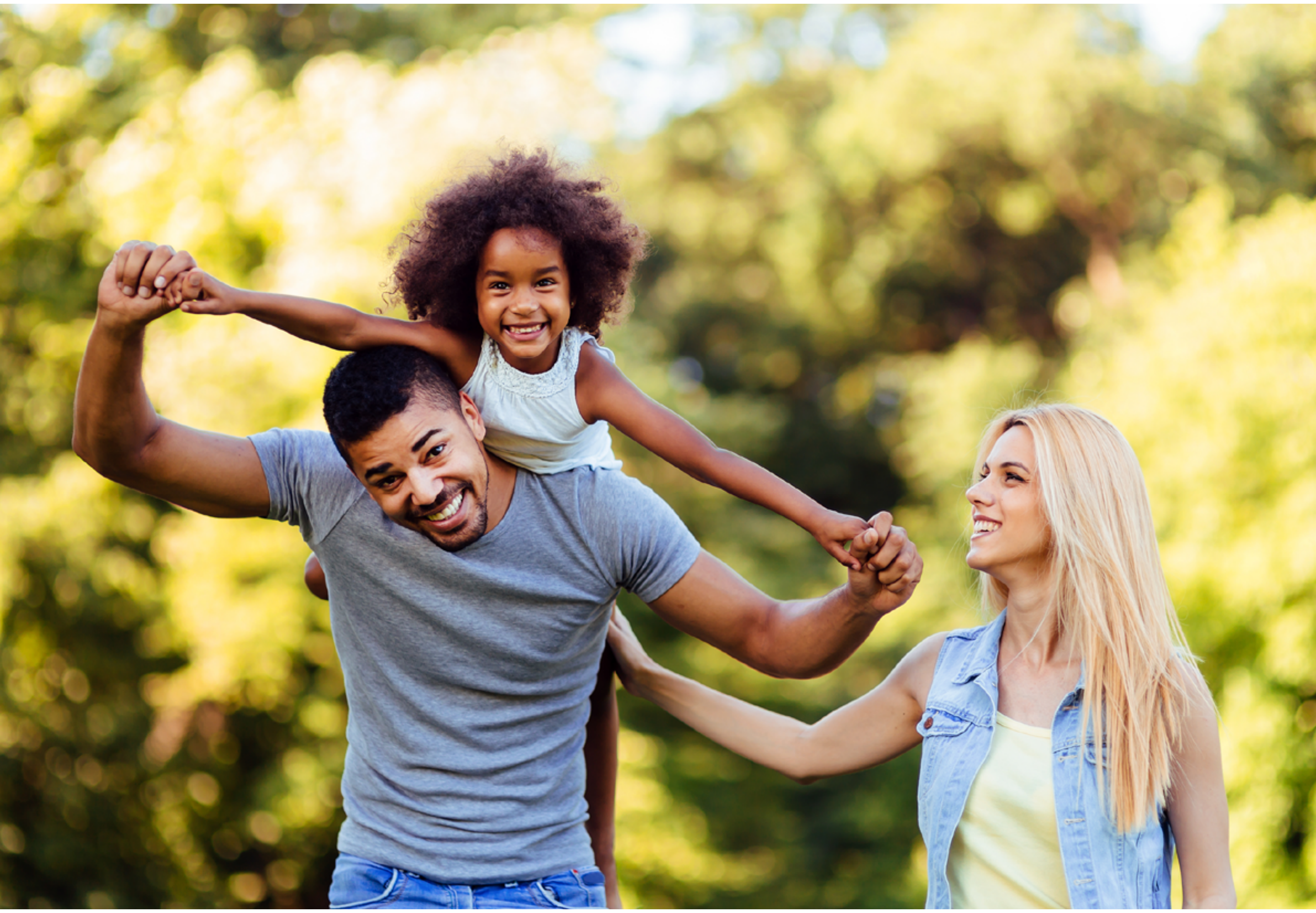
Contents

FOREWORD



The life and annuity (L&A) insurance industry has undergone a sea-change over the past decade. Traditionally, in this segment, customers had limited choice when purchasing insurance for their unique needs. Policies were sold, rather than bought.

Over the course of twenty years, from the 1990s till the early 2000s, the world saw the rise of the Internet and digital technologies leading to a gradual evolution of the L&A industry. Existing products were improved, customer experience began to emerge as an important concept, and brokers were tasked with understanding what their policyholders wanted. Even as they evolved to meet the demands of this new marketplace, insurers faced pressures of shrinking markets, new regulations, and the onset of the COVID-19 pandemic.

Since 2020, there has been significant revenue compression for the Life & Annuity industry, with the average ROE for many insurers dropping to negative values.

The surge in online activities and digital adoption has rendered many traditional channels defunct, thereby affecting the entire lifecycle right from customer acquisition and servicing to retention. Traditional issues like soft interest rates, legacy technology, and operational efficiencies continue to concern life insurers. But there is also an increasing focus on providing more personalized products and services to certain customer segments such as baby boomers, millennials, and the new generation of young digital-savvy customers who have vastly different insurance needs.

Within the US, here is a look at the key trends that are reshaping the Life & Annuity industry.

TREND 1: CONSISTENTLY OFFER INNOVATIVE CUSTOMER EXPERIENCES

Focus on customer data and tools

With the shift to digital, business is increasingly being conducted online. In the face of tough competition, insurers are focusing more on technology and tools that aid digital sales. The market for customer relationship management (CRM) software is ripe with providers racing to design products that provide a 360-degree view of customers in addition to other valuable insights that can help insurers make customer-centric decisions throughout the policy lifecycle.

Experiential customer engagement activities benefit from higher retention and fewer dropouts and policy lapses. This is true for both life and annuity products. For instance, customers are taking an interest in benefits that cannot be termed as traditional riders such as wellness coaching and health quizzes. They are keen to see technology-aided tools leveraging AI/ML, AR/VR, and wearables. Intelligent chatbots are being leveraged to provide human-like experiences through advanced speech, natural language processing, and sentiment analytics.

Such tools help gauge the emotional state of customers when offering personalized solutions during digital conversations.

Similarly, IVR is being used extensively in the life and annuities industry in the US.

Scale up customer service and tools

Gone are the days when customers were accustomed to waiting for hours or even days to effect simple changes like changing their address. Today's customers expect instant service and outcomes.

Providing good customer service is a top priority for insurers across the US, who are making significant investments in digital technologies. This is true across the lifecycle from acquisition and retention to retiral policies. Providing good customer service opens opportunities for cross-selling and upselling. It reduces policy lapses and creates granular customer segments based on expectations and experience.

Investments in digital tools that allow omni-channel communication and support physical and financial wellbeing continue to gain traction. Responsive channels that carry consumer context across transactions will support seamless experiences that enhance customer service.

Shift towards the prescription model

Over the past few years, there has been a gradual decline in mortality rates, except for the COVID-19 pandemic. This was accompanied by improvements in healthcare that has nudged life insurers to shift their attention from providing standard insurance to offering personalized products based on actual customer data.

The advent of digital products like wearables that monitor health and fitness activity, coupled with the vast data sources provided by social media, is acting as a critical catalyst for the development of new products that cater to different customer needs. Having experienced 'digital buying' from online retailers, customers have come to expect a similar experience when buying life insurance. As a result, insurers are focusing more on offering prescriptive products to their customers, rather than reactive ones. Such dynamic products are linked to usage and individual customer behavior both in terms of wellness and lifestyle.

TREND 2: AIM TO PROVIDE TRUE OMNI-CHANNEL EXPERIENCE

New channels for sales and distribution

'Omni-channel' may have been a buzzword pre-COVID-19 with everyone talking about it, but few actually able to implement it. Since the pandemic, the concept of omni-channel experience has undergone a vast transformation. Even today, traditional channels continue to shrink as face-to-face interactions become less frequent due to social distancing norms. This has given rise to new sales and distribution channels as well as customer interaction touchpoints.

An omni-channel experience gives customers the flexibility to choose how they want to interact with the insurer. For the insurer, it opens new avenues of selling to customers. Traditional channels may remain in force to provide more human-like experiences to customers but digital adoption will continue to grow. This is particularly true in regions where customers can use online facilities like web aggregator sites to compare insurance products and policy purchases.

In the US, some of these new channels for selling life insurance include:

- **Bank-led channel**
- **Peer-to-peer groups**
- **Direct response marketing**
- **Online/Internet channels**
- **Direct mail marketing**

Channel restructuring

Alongside developing new channels thanks to the surge in digital interactions, insurers are also restructuring existing channels. Traditionally, the agency sales force and financial advisors are the front-end of selling insurance in the US. Despite keen interest in the power of digital, most insurers are aware that digital interactions can never fully replace human financial advisors. There will always be a sizeable population needing human intervention when buying insurance, particularly in life insurance where the focus is long term.

Thus the agency force still retains a prime position when it comes to selling insurance, albeit in different ways. Now, they are aided by digital technologies, which is why some degree of restructuring is needed. For example, instead of relying on paper calculations, agents can straightaway download illustrations from the Internet. Insurers are actively re-assessing existing channels to see how best to leverage them for sustained profit margins.

Rethinking the channel value proposition

Not every upcoming channel can be leveraged by every insurer. It would be better for insurers with larger budgets to dedicate spend on experimenting and launching new and dedicated channels. Those with conservative budgets can instead rationalize their existing channels at a much lower cost. This calls for an enterprise-wide introspection where insurers consider their market positioning and devise sales strategies that essentially guide whether to invest in new channels or rationalize existing ones. For example, an insurer that enjoys an excellent online or digital presence may want to introduce new methods of interacting with customers, say, through chatbots. In contrast, another insurer with a poor digital footprint may prefer to invest in their website or scale reach through other channels.

TREND 3: OPTIMIZE INTERNAL OPERATIONS

Improvised underwriting

The field of insurance underwriting is changing in its organization and goals. Underwriting has always been a critical function that aligns with other insurance functions. In recent years, this back-end function has become instrumental in driving customer engagement and offering greater levels of personalization.

Availability of customer data has given underwriters instant access to large volumes of information so they can make informed decisions, supported by new technologies such as business analytics and big data. On the one hand, there is an increased focus on automated or straight-through underwriting that accelerates decision-making, improves underwriting efficiencies, and reduces inconsistencies. This is enabling insurers to aim for auto issuance of most of their products. On the other hand, the demand for product personalization poses some complications.

Insurers must strike a balance between achieving their underwriting goals and meeting customer expectations. Developing a more granular view of risks by using different data sources will help create more personalized products through continuous engagement with customers and a steady stream of data. It also alters the equation between underwriting and actuarial functions as more lifestyle data and medical and health-related information become available to insurers.

In recent years, **underwriting has become instrumental in driving customer engagement** and offering greater levels of personalization.

Rethinking claims

As in the case of underwriting, radical changes are taking place in the way that life insurers fulfill their claim commitments. Life insurers are looking to deliver more efficient claims experiences for their customers, including reduced claim processing times.

There is a renewed interest in modernizing claim systems due to various factors such as:

- The increasing volume of claims transactions as in-force blocks of business continue to age
- Merging trends to use beneficiary strategies for future sales
- Launch of new products with living benefits such as long-term care (LTC) which have different payout structures

Despite having copious amounts of data to drive such transformation, claims information is mostly scattered across different areas and systems, many of which are aging legacy systems. As a result, life insurers in the US are spending more to rationalize their claims operations.

The market has several innovative claims management solutions that are flexible, easily implemented, and cater to ever-changing regulatory requirements.

Customer experience, advanced data and analytics capabilities, ability to launch new products, and APIs and microservices-based architectures are key features in these new claims solutions. Moreover, the deeper penetration of digital and mobile is encouraging customers to submit their claims online. Web-based claim solutions offer faster processing times and a better customer experience.

Emerging technologies like AI-driven analytics, digital voice assistants, and wearables are supported by some leading COTS claim solutions. Claims suites from FAST, Intellect SEEC, and Pega support wearables. DXC is planning to support these capabilities. The ultimate benefit is shorter claim cycles and reduced turnaround time.

TREND 4: ADAPT TO EXTERNAL FORCES

Surviving competition

It is a well-known fact that the geographical barriers to insurance are gradually shrinking. Most insurers are expanding nationally and looking beyond their initial areas of operation. This has led to a slew of mergers and acquisitions as life insurers widen their reach into non-traditional markets. This also presents challenges as insurers have to offer localized products that are regulated by local laws.

In addition, they may also face stiff competition from local insurance providers. A holistic approach is needed when viewing market competition and devising ways to manage the external competition.

Changing regulations

The ever-changing regulations across the globe are a consistent challenge as insurers must race to meet deadlines for implementations. Compliance is a key issue of concern with regulators focusing on transparency and accountability. This is true for all global markets, not just the USA.

For example, the California Consumer Privacy Act of 2018 came into effect recently, heralding a new era in how US companies manage their customer data. Another comprehensive regulation that is in development looks at the use of AI across industries, including insurance.

Life insurance companies in the US rely heavily on AI, and hence they must comply with the principles being laid down by the US government to ensure transparency during AI usage.

Product innovation

Life insurance companies are facing increasing pressure to rationalize their product portfolio and innovate existing products. In the aftermath of COVID-19, there is renewed interest in life insurance products as customers are acutely aware of newer risks. There is also greater concern around wellness and stability, particularly among the aging population and the finance-savvy ones.

A new class of insurance products is emerging in the market. Termed 'pay-as-you-live', these aim to improve controllable behaviors to reduce premiums and reward customers. The insured party consents to provide ongoing data to the insurer about their lifestyle using IoT technology (such as Fitbit or mobile apps) and insurers, on their part, encourage customers to adopt healthier lifestyles by offering rewards and discounts.

For example, John Hancock and Vitality have developed the vitality products Vitality-GO and Vitality Plus that are linked with healthy living programs and are built on Vitality's innovative shared-value model. AIA offers a 5% health, life, and wellbeing discount on its recommended life insurance products when clients hold myOwn health insurance, AIA life insurance, and AIA Vitality. The discount runs concurrently with the AIA Vitality discount of 15% on life insurance premiums.

Aaptiv and Timeshifter are the first wellness services available with the Haven Life term policy. Aaptiv gives users the guidance, motivation, and tools needed to achieve their personal health goals. Timeshifter creates personalized jet lag plans to help users travel at their best.

TREND 5: NAVIGATE TOWARDS NEW TECHNOLOGIES

Upgrade from integrated legacy systems

The rate of digital adoption varies across the insurance industry, as many insurers remain hamstrung by the constraints of legacy. Nevertheless, property and casualty (P&C) insurers have been quick to implement new technologies, while life insurers are still struggling to upgrade from legacy.

Modernizing legacy is tough due to the complexity involved in servicing the existing books of business and the nature of life and annuity businesses. Engaging software vendors to transform existing platforms and facilitate digital adoption involves steep costs. Hence, many insurers are cautious, choosing to migrate to platforms that offer features like quicker time to market, easy scalability, and significant cost savings.

Most standard policy administration solutions in the market have tools and frameworks to address the various touchpoints in the insurance value chain. Still, insurers tend to prefer modular solutions to address tasks like underwriting or claims. This is mostly so they can tap into the flexibility offered by different vendors and reduce dependence on a single vendor. The make-up of policy administration systems has changed over the last decade, and only a few vendors offer complete platform suites, making it a key area of focus for insurers.

One could say that the slow pace of legacy modernization is due to insurers evaluating the above reasons while seeking components that can improve outcomes across the value chain. This components include core administration functions, product calculations, new business and underwriting, document management, quotes and illustrations, agent and customer portals, CRM systems, business intelligence, billing, general ledger and accounting systems, and so on.

Insurtech and life insurance start-ups

Similar to FinTech in banking, insurance is seeing the rise of InsurTech, a new crop of players that offer innovative services and modular solutions around core and non-core insurance activities. These agile companies are simplifying billing, claims, and underwriting, and experimenting in non-traditional areas like e-signatures for verification.

Insurers are increasingly collaborating with InsurTech providers to pick up where traditional systems vendors fail, i.e., providing componentized solutions for niche as well as ancillary functions like document management, business intelligence, customer experience, etc. Some start-ups have become game-changers in the field.

Sureify labs has launched a B2B platform to drive consumer engagement via web and mobile applications using device-integrated wellness programs that reward customers based on their lifestyle habits. Ladder, another startup, has launched a mobile application specifically targeted at purchasing term insurance policies online using available data sources. Human Condition Safety, where AIG is a strategic investor, aims to improve the value of a life insurance carrier by offering prevention and protection services. Insurance Social Media, a platform that markets insurance companies on social channels, has devised an offering that improves agent effectiveness.

The value of InsurTech in insurance goes beyond plugging the existing weaknesses in this system to innovating and transforming life insurance.

Cloud, AI, and blockchain

The adoption of social media, mobile, and cloud has had a deep and positive impact on the insurance industry. Today, there is also growing interest in areas such as intelligent automation, robotics, and possibly blockchain that may significantly change how life insurers operate in the future. The new breed of InsurTech will drive this change. Many Insurers are testing ideas and exploring business cases of solutions that can deliver sizeable benefits for the L&A industry.

Carriers in this space are increasingly adopting core platform solutions founded on cloud technology stacks across the insurance value chain to achieve the advantages of cost efficiency and rapid time-to-market.

Conclusion

Delightful customer experience, omni-channel communication, product innovation, smarter operations, and greater use of new technology are new trends insurers must get on board with if they are to compete successfully in the post-pandemic world.

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