

---

# *Life insurance 2020: Competing for a future*



*The key considerations for survival and success in a sector facing disruptive and rapidly accelerating change*





---

# Contents

- 02**    **Introduction**
- 04**    **Overview**
- 08**    **Section one**  
Two-speed global growth
- 14**    **Section two**  
Distribution disruption and the customer revolution
- 18**    **Section three**  
Information advantage through 'big data'
- 20**    **Section four**  
Big and fast: Evolving business models
- 24**    **Are you still going to be in business in five years' time?**
- 25**    **Contacts**

---

# Introduction

*If the shake-out in other commercial sectors teaches us anything, it is that no business, including insurance, is immune from today's rapid and relentless shifts in technology and customer expectations. In this paper, we explore the forces that are set to transform the life and pensions sector; what the new marketplace is going to look like and how your business can come out on top.*

The life and pensions sector has many reasons to be upbeat about its future. A larger and longer living global population is increasing demand for retirement products. In turn, the increasing affluence of people within the high-growth markets of South America, Asia, Africa and the Middle East (SAAAME) is creating a growing need for wealth protection.

But this is also a time of massive and potentially disruptive change. As customers become accustomed to the ease, elegance and intuition of the Apple/Amazon 'experience', they want the same accessibility, transparency and responsiveness in their life insurance and pensions products. We've already seen the emergence of easy-to-access and manage products such as target date funds, which automatically adjust the asset mix to the policyholder's selected retirement age. Advances in processing capacity, customer profiling and risk analytics are now opening the way for a new generation of 'smart' policies. While being as affordable and easy to understand/compare as today's off-the-shelf products, these policies would be fully customised and able to adapt to the individual customer's changing needs. Crucially, the technological developments that are making this new generation of policies possible are also making it easier for new entrants to break into the market at relatively little cost.

## **Looking outside-in**

There is always a tendency to focus on what peers are doing and ignore developments outside the industry orbit. But to stay in the game, your business needs to be thinking and acting at the same rate as technology and customer expectations are evolving. This is especially true at a time when start-ups and new entrants are eyeing the potential within life and pensions. We've seen in other sectors how even market-leading companies can quickly slide into obsolescence once customers see that they can get what they want cheaper and easier. Examples of this rapid decline include Kodak, which, having been America's market-leading digital camera maker as recently as 2008, is now in Chapter 11. In the intervening period, smartphones took away Kodak's market by becoming the most popular means of digital photography. In this brief period, we've also seen music stores lose out to the iTunes store and film rental shops being swept aside by on-demand downloadable films. It's therefore vital to make sure that your business is alert to emerging threats from both inside and outside the industry and that you're ahead of the curve rather than playing catch-up.

While insurance is a highly regulated industry, this shouldn't be an excuse for doing nothing. If regulatory constraints are standing in the way of developments that could benefit customers then it's your job to make supervisors aware of this and work with them to bring controls up to date. Moreover, you can't simply wait for changes in demographics and government policy to create new openings as more proactive competitors are going to get in ahead of you. You have to be nurturing the new

**Our latest global CEO survey found that insurers as a whole are just behind the technology, communications and entertainment sectors in their readiness to embrace business model innovation**

**Figure 1: Readiness to innovate**

To what degree are you changing the emphasis of your company's overall innovation portfolio in the following areas? Responses of 'significantly increase'.



Base: All respondents  
Source: PwC 15th Annual Global CEO Survey 2012

markets, designing the smart new products and forging the partnerships needed to capitalise on these opportunities now. You will also need to think about how to create the integrity and trust within the organisation that would allow you to respond to customers' evolving needs faster and more effectively than your competitors.

**Fresh thinking**

Many life and pensions companies are conscious of the need for fresh thinking and new strategies. Our latest global CEO survey found that insurers as a whole are just behind the technology, communications and entertainment sectors in their readiness to embrace business model innovation<sup>1</sup> (see Figure 1). Yet a survey of life and pensions

executives carried out for this report raises questions about how far and how quickly they're prepared to go to adapt to change and sustain competitive relevance.<sup>2</sup> The uncertainty over where growth is going to come from and how life and pensions companies are going to deal with the disruptive forces they face is reflected in the generally disappointing share prices in the sector.

In *'Life insurance 2020: Competing for a future'*, we examine the developments that are set to have the most decisive impact over the next five years and the main opportunities for innovation, growth and competitive differentiation. This includes how to deal with the shifting focus of growth ('Two-speed global growth'), changes in customer

preferences ('Distribution disruption and the customer revolution'), sharper profiling ('Information advantage through big data') and new competitive threats ('Big and fast: Evolving business models'). The aim is to help life and pensions companies assess the implications of a marketplace in transformation for their particular organisation.

1 1250 CEOs from 60 countries were polled at the end of 2011 as part of PwC's 15th Annual Global CEO Survey, published on 25.01.12  
2 150 life and pensions executives were asked to comment on the impact and likelihood of a series of social, technological, environmental, economic and political scenarios, as well as setting out their short- and medium-term priorities, PwC 2012

# Overview

## *The forces shaping change*

The life and pensions sector is facing a rapidly evolving and potentially disruptive set of market dynamics:

### Social

**An older population:** The number of people aged over 60 will more than triple to over two billion by 2050,<sup>3</sup> creating huge extra demand for retirement solutions.

**An increasingly wealthy global population:** The number of middle class people (earning more than \$10 a day) will grow from 430 million in 2000 to 1.2 billion in 2030,<sup>4</sup> with two-thirds of this growth coming from India and China, creating much more wealth to protect and more demand for life cover.

*Nearly 50% of the life and pensions executives in our survey believe that the internet will not only change how customers buy insurance, but also the type of products they choose<sup>6</sup>*

**An increasingly connected global population:** The number of people connected to the internet will increase from 1.8 billion today to 5 billion by 2020,<sup>5</sup> changing how customers interact with your business and their expectations over the speed and intuition of response.

### Technological

**Surge in data traffic and development of advanced analytical techniques:** The amount of data flowing around the internet will reach 1.3 billion terabytes by 2016 (from around 240 exabytes in 2010).<sup>7</sup> Advanced analytical techniques would allow your business to turn this goldmine of digital information into a complete picture of how individual customers behave, what they expect and the risks they present.

**Sensors track behaviour:** Sensors are now being applied to driving and health, allowing customers to be more proactive about their safety, health and well being and therefore providing insurers with invaluable insights about their policyholders.

**Cloud transforms cost equation:** Cloud computing is allowing businesses to turn fixed costs into variable costs. This could reduce expenses for your business, but also lower barriers to entry from new competitors.

### Environmental

**Influx into the cities:** Over the next 30 years, some 1.8 billion people are expected to move into cities, most of them in Asia and Africa, increasing the world's urban population to 5.6 billion<sup>8</sup> and reshaping the marketplace for insurers and other financial services businesses.

3 UN Population Division media release, 11.03.09

4 'Is the Developing World Catching Up? Global Convergence and National Rising Dispersion' by Maurizio Bussolo, Rafael E. De Hoyos and Denis Medvedev, The World Bank Development Economics Prospects Group, September 2008. Middle class is defined as people whose income levels are between the average incomes of Brazil and Italy, in purchasing power parity terms.

5 The Internet in 2020, published by Intac, 22.07.10

6 PwC life and pensions survey 2012

7 Cisco Visual Networking Index, updated estimate, 30.06.12

8 United Nations, Department of Economic and Social Affairs, Population Division, 2009 Revision



*Nearly 50% of the life and pensions executives believe that harnessing 'big data' developments will provide a key source of competitive advantage and increased market share<sup>9</sup>*

*Most life and pensions executives believe that pollution is increasing, with a significant proportion (one in eight) seeing it as a threat to health and well-being, though most believe it will be contained<sup>9</sup>*

**Pollution:** The global increase in industrialisation and urbanisation is fuelling further rises in pollution and the dangers to health this creates. This could lead to increased demand for your life products on the one side and the need to adjust premiums to reflect shifts in health and mortality rates on the other.

**Limits of medicine:** The rise reflected in pandemics such as avian flu and drug-resistant strains of diseases like tuberculosis highlights the limits of medicine in the face of mutating viruses and will heighten risks and liabilities.

#### **Economic**

##### **SAAAME grows, mature markets slow:**

As growth in developed markets stalls and SAAAME markets continue to expand rapidly, the focus of investment and growth within the insurance market is going to shift.

**Huge potential for further growth in SAAAME markets:** GDP per capita has been growing at 9% in China and at 4% in India over the past 20 years.<sup>10</sup> Yet most SAAAME markets still have life insurance to GDP penetration of less than 3%<sup>11</sup> and therefore considerable room to grow.

**Pressure of debt burden:** Sovereign debt concerns and slowing growth in developed markets are leading to instability in capital markets, which could affect both demand for your products and your position as an investor.

<sup>9</sup> PwC life and pensions survey 2012

<sup>10</sup> United Nations Population Division; World Bank World Development Indicators and PwC analysis 2012

<sup>11</sup> Swiss Re Sigma World Insurance 2010

Nearly 50% of life and pensions executives believe that a combination of inflation, rising government debt and defaults in bond markets threaten the solvency of smaller insurers, especially in the Western world<sup>12</sup>

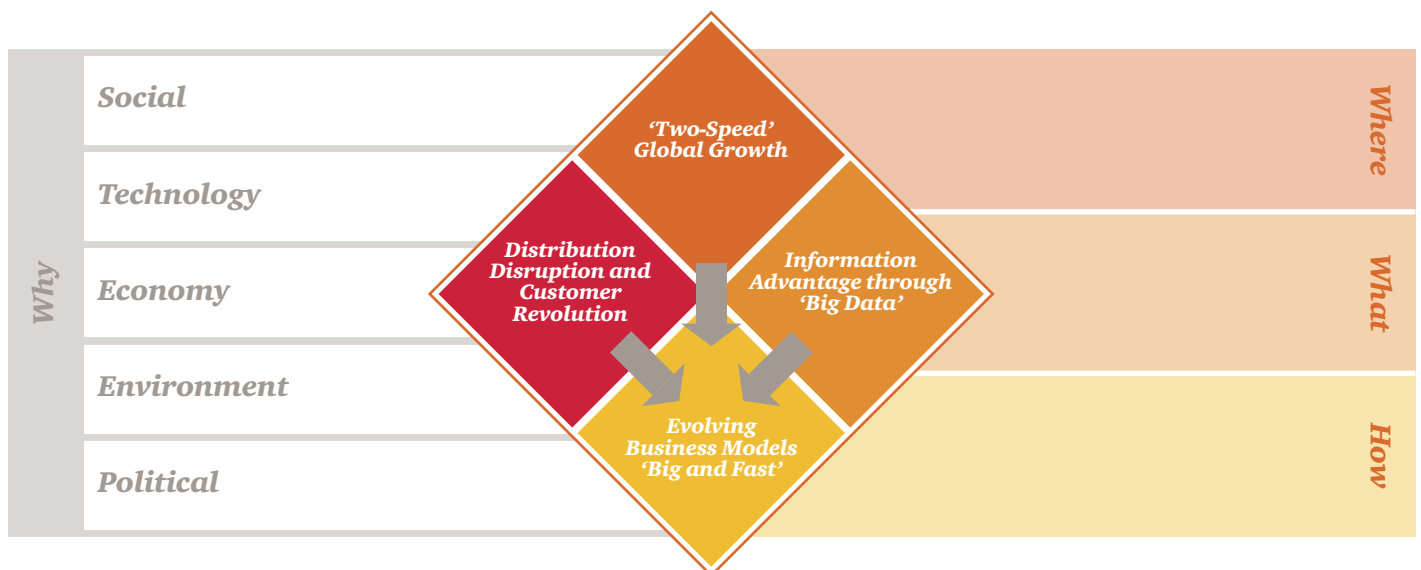
More than 70% of life and pensions executives believe that public health provision will worsen and more than 40% feel social security systems will either 'crumble' or be drastically pared back over the next ten years<sup>12</sup>

**Political**

**Cash-strapped governments withdraw welfare:** State support for ageing populations in many markets is being eroded by a combination of government debt and a decline in the ratio of people working to retired ('dependency ratio'). As governments look to insurers to help fill the gap in public provision, reputation and social responsibility are going to become ever more crucial competitive differentiators, spurring smart firms to look beyond short-term 'transactional' gains at how to meet more enduring objectives in areas such as public trust, health and well-being.

**Governments look to overhaul regulation:** Regulatory change is going to be a way of life for the foreseeable future. It is important to look beyond compliance to understand how regulatory developments will affect your strategy, product design, costs and organisational structure.

**Figure 2: The new market dynamics**



Source: PwC Insurance 2020, January 2012

<sup>12</sup> PwC life and pensions survey 2012



## ***Dealing with the STEEP dynamics calls for a major rethink of strategic assumptions, routes to market and organisational models, with the ability to look outside-in on your business at the core***

### ***The implications for the competitive environment***

Dealing with the STEEP dynamics calls for a major rethink of strategic assumptions, routes to market and organisational models, with the ability to look outside-in on your business at the core (Figure 2 sets out the four main challenges we address in this paper):

#### **Two-speed global growth**

- Demand for retirement solutions in mature markets is increasing, but life cover sales as a proportion of GDP in a number of major developed markets including the US are declining.<sup>13</sup> In SAAAME markets, the big rise is in life cover, with sales of retirement products growing less quickly. Your business will need to develop an agile operating model capable of dealing with the different trajectories of growth. This includes developing innovative growth strategies on the one side and meeting the need for scale and efficiency to sustain margins on the other. It will also be important to support the development of insurance markets, including investment in professional training and educating consumers about the value of life and pension cover and how it works.
- As cities grow and make up an ever-increasing share of global GDP, they will become a key competitive 'battleground' for insurers. City dwellers' demand for insurance and other financial services is greater than that of their rural counterparts, especially in SAAAME markets. Indeed, some observers now see the real distinction as not between emerging and developed markets, but rather between city and rural areas.

#### **Distribution disruption and the customer revolution**

- Consumers have become accustomed to the ease, intuition and elegance of digital retail interaction and want the same experience from your business. As smartphones, iPads and other such versatile mobile devices proliferate, they also want to be able to conduct business when they want, where they want and on the channel of their choice.
- Customers want greater transparency (allowing them to compare products), flexibility (products that adapt to their changing needs) and control (the comfort of being able to change their mind if not satisfied).
- Regulatory insistence on greater transparency will make it easier to compare prices and value. Developments such as the caps on fees in India and the planned elimination of commissions for advisers in the UK are going to bring charges and the value policyholders receive in return further into the spotlight.
- The emergence of virtual networks, multichannel interaction and direct-to-consumer life insurance is fragmenting the value chain.
- Risk-based capital regimes are raising capital demands for variable annuities and could lead to higher prices, just as many customers are once again looking for the assurance of guarantees.

#### **Information advantage through 'big data'**

- Extracting profiling data from all of the unstructured purchasing, social media and other digital trails people leave behind would allow your business to gain unprecedented insights into their health, wealth and behaviour. The technology to make this possible is already available. The challenge is how to channel the data into actionable insights and build the results into decision making, product design and the underlying culture of the business.

- Sensor technology could be used to help develop a more proactive approach to risk management and customer support by allowing your business to monitor policyholders' health in real time and alert them to any early signs of illness. Your business would benefit from reduced liabilities and could offer lower premiums in return.

#### **Big and fast: Evolving business models**

- The improved ability to sense consumer sentiment would allow your business to adjust your position in the market and provide products and services that meet customer demands in shorter timeframes. Gathering information throughout the customer lifecycle, in near real-time, would allow your business to shorten management decision cycles, speed up development cycles and ultimately better serve your customers.
- Use of cloud computing and other technology developments to harness more data and automate underwriting is opening up customised solutions at lower cost.
- Use of technology to create 'virtual outsourcing' solutions can improve service and reduce costs.
- Cheap and easy access to open source software and cloud computing allow new players to enter the market and take advantage of flexible rented computing capacity and smart new analytics to develop their businesses without the need for high start-up costs.
- A combination of more informed risk management and use of automation to lower costs would allow your business to provide policies offering secure returns at reasonable premiums under a risk-based capital regime.

<sup>13</sup> According to Swiss Re Sigma World Insurance in 2005 and 2010, life insurance premiums as a proportion of GDP in the US fell from 4.14% in 2005 to 3.5% in 2010

# Section one

## Two-speed global growth

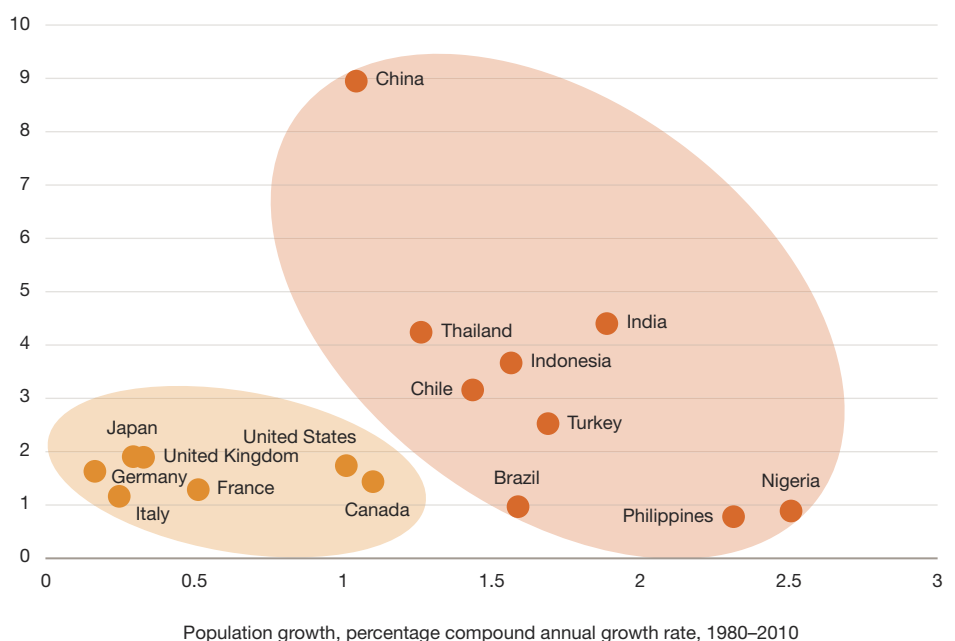
*The growth agenda is being shaped by the diverging economic prospects and demographic profiles of most SAAAME and developed markets.*

SAAAME markets are seeing rising demand for insurance as economies expand and people acquire more wealth to protect (Figure 3 compares increases in population and GDP per capita in SAAAME and developed markets). Our CEO survey found that nearly half of insurance industry leaders see emerging markets as more important than developed markets to their company's future.<sup>14</sup>

Life policies are likely to be the main focus of growth for now. The relatively young average age of most SAAAME markets means that demand for pension products is growing less quickly. While the opportunities may be slow to emerge, the demographic

**Figure 3: Rising middle class**

GDP per capita growth; percentage compound annual growth rate, 1980–2010



● SAAAME ● Non-SAAAME

14 121 insurance CEOs from 42 countries were surveyed as part of the 15th Annual PwC Global CEO Survey

Sources: United Nations Population Division; World Bank World Development Indicators and PwC analysis  
Notes: GDP per capita is in constant 2005 US\$



### **Reaching into new markets**

While many SAAAME markets offer strong growth potential, they can be hard for incomers to break into. There may be restrictions on foreign ownership and licences. Even in relatively liberalised markets, entrants may face prohibitive acquisition prices or entrenched competition from large local players. It's telling that a number of international groups have now chosen to withdraw from some SAAAME markets. While some want to re-focus on core business, others have clearly faced problems in developing the critical competitive mass in these markets.

Digital distribution would allow your business to move into new markets without the need for expensive and difficult to establish branch or agency networks on the ground. It could be especially important in reaching remote customers – successful models in other financial sectors include Kenya's M-Pesa, which provides access to payment and deposits via the mobile phone network and now has 15 million customers, more than all of the country's banks put together.<sup>18</sup>

Joint ventures are also going to be crucial in reaching customers and gaining a foothold in the market. It's therefore important to think about what to offer potential partners that competitors cannot. This may be particular risk management or product expertise. It may also be international coverage that would allow the partner to develop its global presence.

profile will eventually begin to catch up with the West as health improves and people live longer. There are currently around 600 million people aged over 60 in the world. By 2050, there will be more than 2 billion,<sup>15</sup> with SAAAME markets accounting for much of this growth. China already has an ageing population relative to other major markets such as India. In turn, Brazil has more pensioners for every 100 contributing workers than the US. As the Brazilian government spends more on pensions as a percentage of GDP than Germany, France or Japan,<sup>16</sup> the pensions sector will need to grow quickly to relieve the pressure on the public purse.

### **Urbanisation fuels demand**

A further spur for growth in SAAAME markets will come from rapid urbanisation. Over the next 30 years, some 1.8 billion people are expected to

move into cities, most of them in Asia and Africa, increasing the world's urban population to 5.6 billion.<sup>17</sup> By 2030, around half of the world's urban population will be living in Asia. Urban populations tend to have a higher demand for insurance and other financial services. In the case of life and pensions, the factors contributing to this include greater exposure to financial products and the need for life cover when taking out a mortgage. Family sizes also tend to go down as people move off the land and into confined cities. This leaves people with fewer children to support them in their old age and therefore increases the need for pensions and life cover. The challenge will be how to capitalise on urban growth, while developing profitable services for rural customers.

<sup>15</sup> UN Population Division media release, 11.03.09

<sup>16</sup> Economist, 24.03.12

<sup>17</sup> United Nations, Department of Economic and Social Affairs, Population Division, 2009 Revision

<sup>18</sup> www.thinkm-pesa.com, 16.04.12

**84% of life and pensions executives believe ageing trends will continue to increase in the developed world. But 59% believe there will only be a marginal shift in the global insurance product portfolio due to offsetting demographic shifts in SAAAME markets<sup>19</sup>**

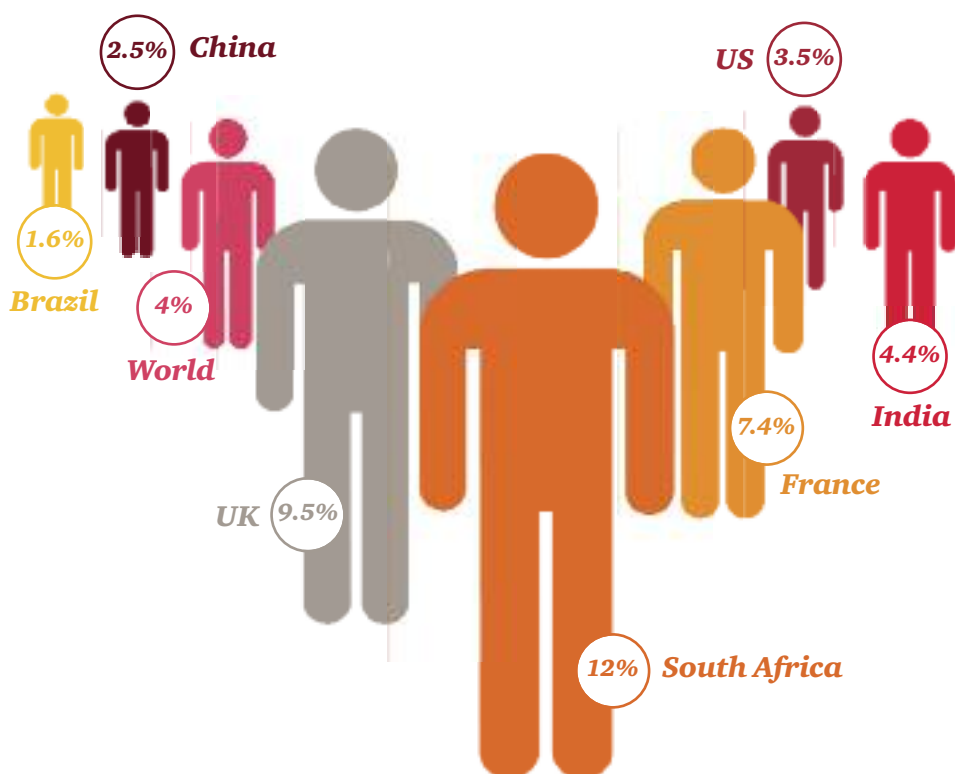
### Promoting market development

While the market potential of countries with low insurance penetration is clear (see Figure 4), there are significant variations. In Mexico, the Middle East and many parts of Eastern Europe, premiums as a proportion of GDP were less than 0.5% in 2010, compared to 1.67% for emerging markets as a whole. These penetration rates underline the importance of market development, not only in distribution and product launches, but also to educate new markets in the uses and value of life and pensions cover.

### Reputational risks

The aggressive pursuit of top-line growth in SAAAME markets creates its own inherent risks, including the potential for asset bubbles and mis-selling. The recent curbs on commissions for unit-linked insurance plans (ULIP) in India, the mainstay of the life insurance market, provide a good example of the regulatory and reputational risks opened up by what had been rapid and untrammelled growth. The new controls precipitated a sharp fall in overall life premiums in 2011<sup>20</sup> and are likely to lead to a shift towards more traditional products such as whole life insurance. More broadly, while revenue expansion is the key priority for many businesses operating in SAAAME markets, the quality of underwriting and sustainability of growth could prove to be the key long-term differentiators.

**Figure 4: Insurance penetration – Life premiums as a percentage of GDP**



<sup>19</sup> PwC life and pensions survey 2012

<sup>20</sup> Financial Times, 27.05.12

Source: Swiss Re Sigma World Insurance in 2010

### Putting enough away

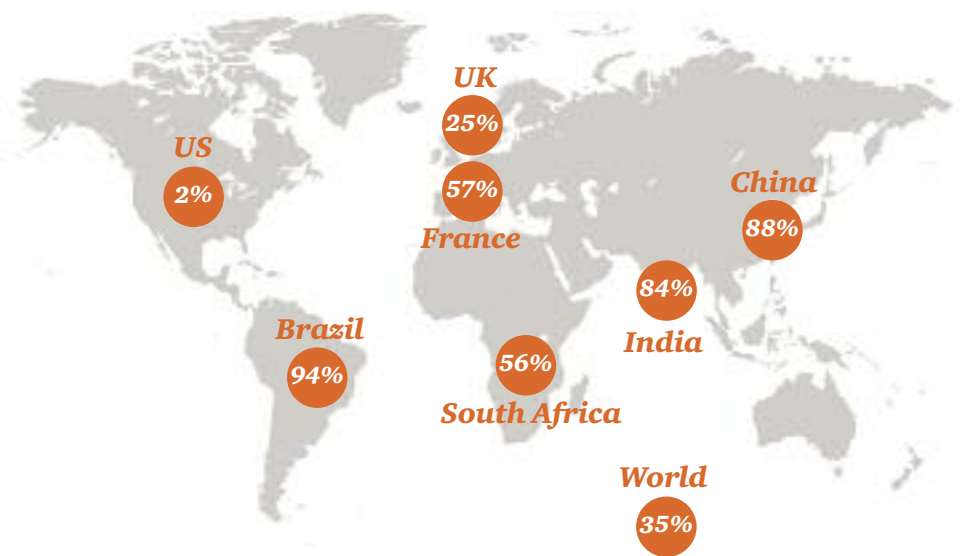
The mature markets are moving in a different direction. Demand for life cover is slowing (see Figure 5) – in the US, the number of life policies is the lowest for 50 years.<sup>21</sup> In contrast, pension growth continues to accelerate as populations age. Mature markets are also characterised by the mounting pressure on margins and the disillusionment created by the financial crisis, which has dented public trust and fundamentally changed customers' appetite for risk. The challenge is how to develop the trusted, affordable and understandable policies that would allow life companies to re-engage with customers.

State support for ageing populations is being eroded by fiscal pressures and a decline in the proportion of working to retired people ('dependency ratio') in many markets. The scaling back of state support has been compounded by the decline in employer-provided defined benefits plans – around half the current US workforce will have neither a state nor employer-supported pension plan.<sup>22</sup>

As people live longer and state and employer support is withdrawn, there is an obvious need to save more for retirement. Yet most people are falling short. In the US, for example, the average worker has saved just \$25,000 for their retirement or just 7% of the recommended \$350,000.<sup>23</sup>

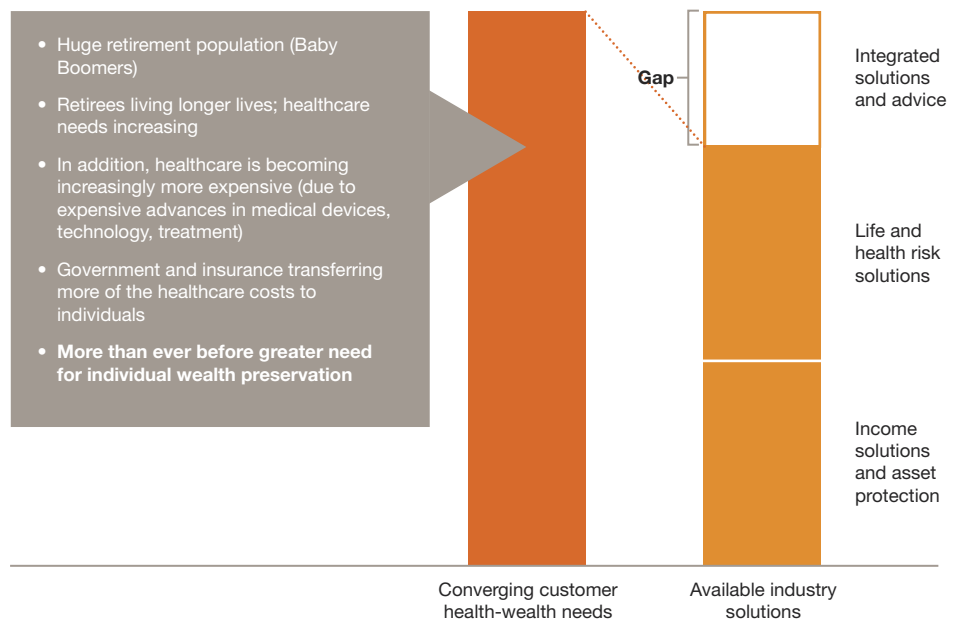
Some countries such as Australia have stepped in to make taking out a pension plan compulsory. Others such as the UK are looking to influence behaviour by requiring all employers to make sure their employees are signed up for a pension and thus putting the onus on the employee to opt out if they don't want to be covered. Applying such behavioural economic principles would certainly overcome some of the inertia that deters many people from putting money aside for their old age.

**Figure 5: Insurance density – change in ratio of life premium (in US\$) to population (2001–2010)**



Source: Swiss Re, Sigma Data

**Figure 6: Openings for combined health and wealth solutions**



Sources: PwC subject matter experts and analysis

21 USA Today, 02.12.10

22 'Pension coverage and retirement security' published by Center for Retirement Research at Boston College, 22.12.09

23 Wells Fargo Retirement Survey 2011

***New solutions inspired by behavioural economic principles are also emerging, which adapt to each life stage before seeking to offer a target return for policyholders once they enter retirement.***

***Accessible options***

The development of low cost and easy-to-understand and compare policies will be crucial in filling the gaps created by the withdrawal of social welfare and defined benefits plans.

Some life companies may be reluctant to devote too much investment to what they see as low-margin business. But it isn't just low-income policyholders who want simplicity. Tech-savvy millennials and generation X-ers are using the internet and social media to compare and buy products, with direct-to-consumer life policies likely to be a key growth area.

The availability of easy-to-understand products could also help to attract more customers from SAAAME markets, many of whom may be unfamiliar with life insurance.

To date, such policies have tended to be fairly unsophisticated. But as we outline later in the paper, developments in risk analytics and customer profiling are going to bring greater customisation and sophistication to such low-cost and fast-access products. Even complex products need not be complicated for customers to understand if designed and marketed well. Providers can take care of the intricacies of 'lifetime' management and adjustment, while the goals and performance are clear to the customer.

***New generation solutions***

The paring back of social welfare is likely to heighten consumer uncertainty about health care and pension provision. Life and pensions companies are ideally placed to address these uncertainties by bringing together solutions for health, wealth and retirement (see Figure 6), which would provide an opportunity to develop more tailored and higher margin packages.

With the financial crisis having made people less confident about the adequacy of returns from their pensions and other investments, they're coming to favour assurance over yield. The desire for greater certainty is reflected in the renewed popularity of guarantees. The problem is that the risk-based capital demands being ushered in by EU Solvency II and comparable developments in other parts of the world could increase the capital charges for guaranteed annuity products. Some life and pensions companies are already beginning to scale back such products. Even if they remain, the high cost of the capital requirements may make some annuities too expensive for a lot of mass market consumers. There are therefore opportunities if your business could manage the market risks more effectively and hence reduce the capital demands and product prices.

New solutions inspired by behavioural economic principles are also emerging, which adapt to each life stage before seeking to offer a target return for policyholders once they enter retirement. By offering relatively high-risk/high-yield investments in the initial years of the policy and then moving to lower risk assets later on, the provider takes responsibility for managing risk and reward, without holding the risks on its balance sheet. Policyholders gain some assurance over future income, while still assuming the risk from a regulatory capital perspective.

This approach can be developed further through contracts offering lifetime support. These would help to manage the financial needs of policyholders in their younger years, such as paying off a student loan or saving for a mortgage, and then shift to life cover and pension solutions as children come along and attention turns towards saving for retirement.





### **Questions for your organisation**

- How can you provide greater certainty for policyholders and help them to address their evolving needs?
- How can you turn demands for greater transparency to your advantage by creating more straightforward, cost-competitive and easy-to-understand products?
- Is your business sufficiently agile to capitalise on emerging developments and operate at two different speeds of growth?

## Section two

# Distribution disruption and the customer revolution

*As customer expectations become more exacting and the supply chain becomes more fragmented, your business will need to develop new routes to market or risk being cut out of the loop.*

Most insurers tend to look at what their competitors are doing and then see how they could do this better. But customer expectations are now being set outside the sector as they become accustomed to the choice and accessibility of retail sites, such as Amazon and the one click interaction of an Apple app. They now want this experience from their insurers.

We've already seen in the UK how quickly market comparison sites have transformed motor insurance. Aggregators now control nearly 50% of the private motor market,<sup>24</sup> and with it much of the customer relationship. They are now reaching into home and life cover, with easier comparison leading to a sharp fall in insurers' margins. Social media is taking customer rating one stage further by allowing consumers to share ratings and become advocates for a particular product or service.

But the distribution revolution goes much further than just comparison and price. For example, some companies are developing apps that let policyholders send through a photo of the damage when they have a car accident. In this way, they can get their claim in train there and then. On the life side, a lot of companies are now able to offer immediate quotes and coverage over the internet, doing away with the long wait for medical checks.

**34% of life and pensions executives expect that consumers will turn to their social networks to obtain advice and share information, reinforcing the demands for greater transparency<sup>25</sup>**

### **Changing routes to market**

The traditional life and pensions model in which policies are sold through intermediaries receiving a commission from the provider still prevails in India, China and many other SAAAME markets. But even here its grip is loosening as new regulatory controls are introduced and more customers opt to self-serve or seek out fully impartial guidance.

More than 80% of the executives in our survey believe that intermediaries will become less tied to insurers as adviser commissions are withdrawn in some markets and customers seek greater impartiality. This could leave life companies with little direct contact with the customer and put further pressure on margins.

The change in fee structures is also likely to reduce the number of IFAs operating in the mass market. Some life and pensions companies may therefore look to build up their direct sales forces or strengthen their digital distribution capabilities. Others will seek to market their products through affinity or corporate channels. Examples include the extension of employee cover to families. This allows policyholders to take advantage of economies of scale on price. In turn, your company could benefit from preferred access

<sup>24</sup> UK Insurance Aggregators 2011, An in-depth analysis of the UK Insurance Aggregator market, published by Datamonitor, 12.01.12

<sup>25</sup> PwC life and pensions survey 2012





to a known customer segment. Other examples include new web communities that not only negotiate discounts with providers, but also pool subscribers' contributions to pay for small claims. The insurers' savings on the administrative costs of these claims can be passed on to the customers buying through the network.

Even where agency channels still predominate, it will be crucial to think about how you engage with your customers and how they receive advice, as many customers will choose to augment face-to-face advice with information gleaned from the internet and social media. India and China are clear examples of markets where customers find it useful to research products online, but still feel more comfortable buying through an intermediary.

### ***Operating under the spotlight***

Regulatory developments such as the UK's Retail Distribution Review (RDR) are set to spark a major shake-up in how pensions and other investment products are priced, marketed and sold by curbing or putting an end to the inducements paid to advisers to sell particular products.

Even without such regulation, life companies are facing much greater media scrutiny over their pricing. Indeed the key issue for the industry is not new regulation, but how to deliver value and fairness while still being able to generate reasonable profits and shareholder returns. The elimination of payments from providers to agents will also spur further disaggregation in the sector, requiring businesses to consider where in the value chain of advice, distribution, design and administration they can best compete.

Without commissions, life companies face the challenge of how to differentiate their products more effectively. Greater choice, transparency and customer focus will heighten the challenges for product design, pricing and cost control. While some business models will come under threat, this is also an opportunity to stand out from the pack.

Our market research underlines the importance of being much clearer about the value you provide for customers and making sure the quality of delivery stands up to more comprehensive market comparison.<sup>26</sup> The findings also show that many products and distribution strategies will only attract enough customers and deliver an acceptable margin if they're targeted at very specific market segments. The 'serve all' model will be all but redundant as a result. To stay in the game, businesses need to be absolutely clear about who they're targeting, what they're going to sell to them and how they're going to make money.

<sup>26</sup> Staying in the game: Customer perspectives on a post-RDR world, published by PwC in June 2012

### On the customer's wavelength

As customers become more confident about researching and buying products direct, it is important to look at how to interact with virtual networks, provide guidance and access for customers looking to self-serve, and develop an infrastructure of multi-channel advice, sales and assistance. Comparable changes have been seen in the travel industry, where the traditional agency model has been largely replaced by the unbundling of flights, hotels and car hire, many of which are bought online.

More than half of the executives in our survey believe consumers will use online channels to research life and pensions products and around a third believe consumers will use multiple channels. These developments call for speedy on-demand service and seamless information

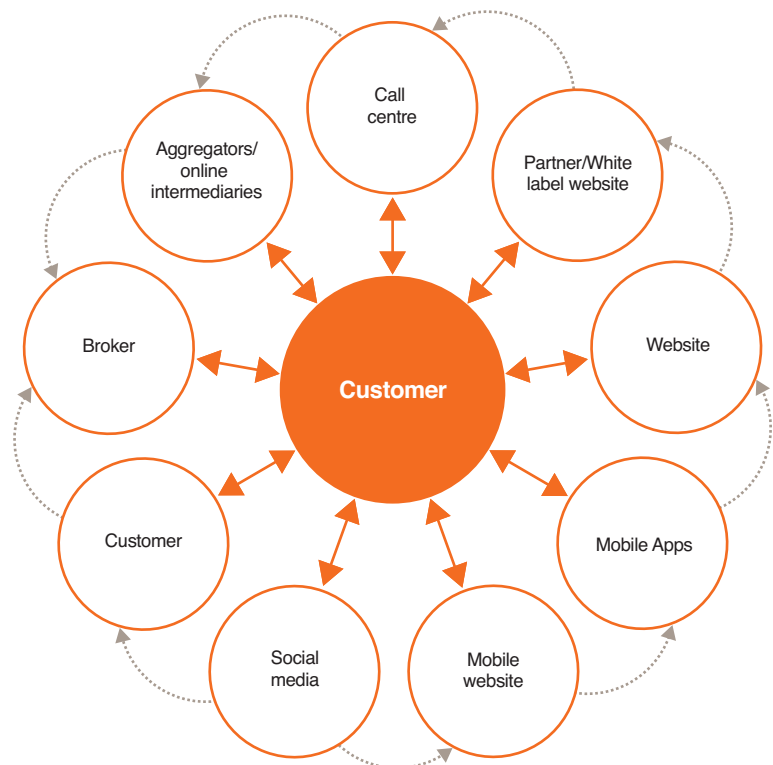
integration across all channels (see Figure 7). If you can effectively manage customer preferences and tailor product offerings to different segments you will be more likely to win and retain customers.

### Repositioning your business

A more complex and fragmented sales, advice and service model is set to emerge as a result of the distribution disruption and customer revolution. This would require your business to judge whether it can most effectively compete as manufacturer, distributor or administrator and, if so, in which customer segments. The evolving value chain is likely to feature a number of loose collaborations and virtual networks. Examples might include generalists bringing in specialists to support their advice in areas such as financial and tax planning.

**More than half of the executives in our survey believe consumers will use online channels to research life and pensions products and around a third believe consumers will use multiple channels.**

**Figure 7: The evolving model of advice, sales and service**



Source: PwC



## Questions for your organisation

- Where in the value chain are you best positioned to compete?
- Do you need to build or strengthen your own distribution capabilities?
- How can you reach out to customers and sustain margins when you can no longer rely on the incentive of adviser commissions?
- How best can you use technology to assist your customers and your intermediaries?
- How could products be simplified so they wouldn't need to be sold through an adviser?

## ***Bancassurance comes to the fore***

The move towards holistic health, wealth and retirement solutions creates important openings for bancassurers.

Bancassurance is also one of the fastest-growing channels in many SAAAME markets including China and India. Banks have the advantage of being able to build on their existing relationships and are often more trusted than independent advisers in these markets.

In some countries, including the US, regulatory and market separation between insurers and banks will need to be overcome to make the most of the holistic opportunity.

## Section three

# Information advantage through 'big data'

*Increased processing power and smarter analytics will pave the way for more informed prevention, risk selection and premium pricing, allowing your business to offer cheaper and more personalised products, while still sustaining margins.*

*Big Data refers to the phenomenal amount of structured, semi-structured, and unstructured internal and external organisational data that is exchanged every day, but most of which goes unused.*

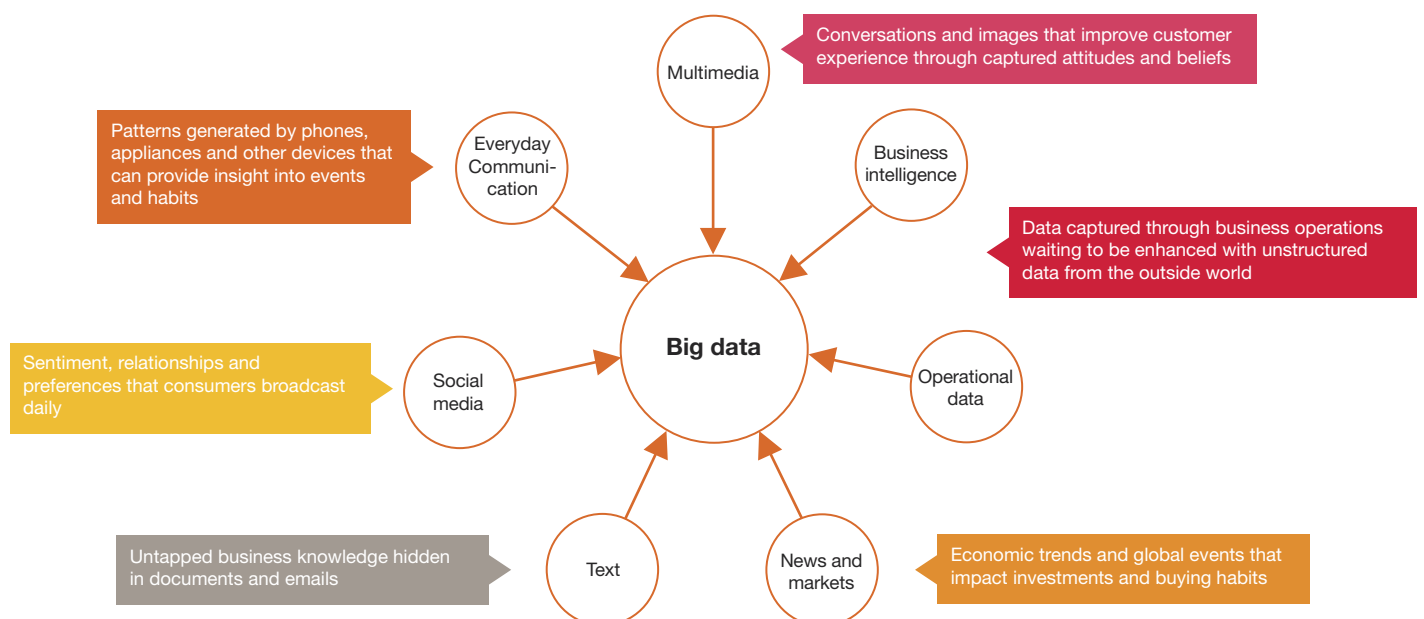
Advances in analytics are already allowing life and pensions businesses to develop a better understanding of their risks and price more keenly. But we've only been scratching the surface up until now. The most important differentiator is going to be how to extract customer profiling data from all the purchasing, social media and other digital trails people leave. A lot of this information is unstructured, and new techniques are emerging to analyse this 'big data' (see Figure 8). For example, transactional data is being used to find out where and what customers buy to determine 'well-being' scores, which can then be used to identify whether they are a good risk.

Analysis of these rich sources of data would allow you to develop a clear and comprehensive profile of the health, wealth and behaviour of the customer before he or she applies, saving all the form filling and verification needed. This would in turn allow you to target particular customers and offer instant online cover.

### **Proactive cover cuts risks**

Next up in the big data revolution are sensors. Sensor technology is already coming into play in motor cover, allowing insurers to judge how carefully the policyholder drives and reflect this in their pricing. In turn, safer drivers benefit from lower premiums. Importantly, these devices have also lowered accident rates by helping to encourage more careful driving.

**Figure 8: Tapping into rich new sources of data**



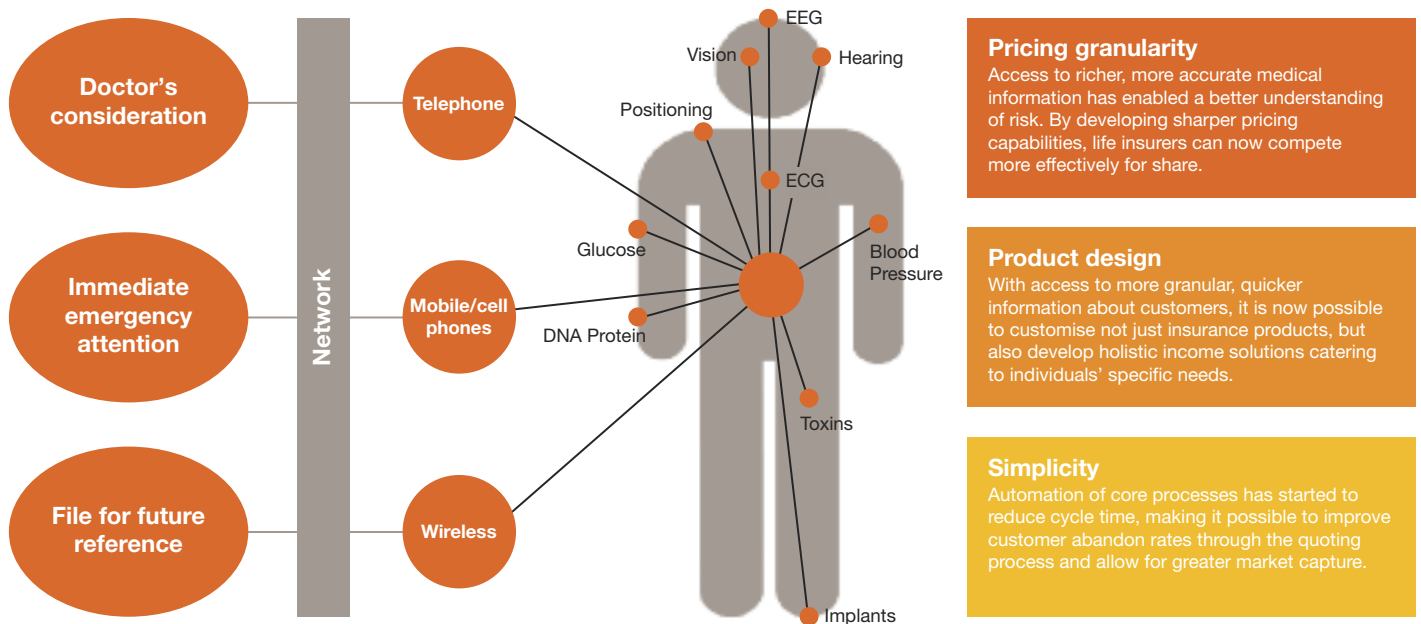
Source: PwC

**79% of life and pensions executives feel that privacy concerns and the costs of sensor technology would be overcome and we would begin to see increased adoption of medical devices over the next decade<sup>27</sup>**

**Figure 9: Sensor technology enhances insight and prevention**

Advances in medical technology, devices and preventative care are increasing life expectancy and also generating richer information for pricing, product development and analytics

Body area networks and embedded devices and sensors will result in more preventative healthcare, but will generate more information



Source: PwC

For life and health insurers, sensor technology is helping to monitor policyholders' health (see Figure 9). The devices would alert them to any early signs of illness so they can see a doctor in good time. They could also help to promote safer choices and support verification in areas such as healthy eating and alcohol consumption. Your business would benefit from reduced liabilities and could offer lower premiums in return.

Much of the technology needed to capture and sift through this big data is already available. The bigger question is how the results are used. To make the most of the potential, your business needs to be able to aggregate the analysis and turn it into the actionable insights that would allow you to target customers, develop customised products and tap into new market opportunities more quickly and effectively than your competitors. This in turn requires speed of decision making, organisational agility and the right talent, along with the customer-centric culture that underpins these attributes.



### Questions for your organisation

- How can you harness the latest advances in analytics to improve risk understanding and design and price products to satisfy customer needs and expectations more effectively?
- When will big data capabilities become a competitive imperative?
- Will your legacy systems allow you to keep pace?
- Do your organisational and decision-making structures allow you to make the most effective use of the risk and customer profiling analysis at your disposal?

27 PwC life and pensions survey 2012

---

## Section four

# Big and fast: Evolving business models

*The changing focus of global growth, shifts in customer expectations and the opportunities for smarter underwriting are coalescing into new business, operational and organisational models, creating openings for new entrants and forcing existing players to raise their game.*

In the past, scale ('big') would have gone a long way towards meeting customer demands for choice and value. Now, your business also needs to be fast to succeed.

To meet evolving customer expectations, your business needs to be able to speed up its decision making and customer delivery cycles within the front office. This would allow you to harness new sources of information, develop more responsive products and operate across multiple channels.

Effective use of technology is going to be a crucial factor in sharpening productivity and customer responsiveness. This isn't just making use of greater automation to reduce costs and quicken delivery, but also harnessing digital developments to spur greater innovation and differentiation.

Organisationally, it will be important to streamline decision-making processes and cut through the functional dependencies and other needless complexities that slow down your company's ability to respond to market demands. The underlying attribute is the ability to understand customers' needs and put their needs first, which in turn makes culture a key component in enhancing productivity.

The deployment of talent is also critical. This includes automating the underwriting of routine risks, which would release underwriting and product development teams to focus their skills on complex, specialised and unfamiliar risks. For example, underwriters could be switched to analysing risks and developing responsive products for customers in SAAAME markets where risk data and openings for underwriting automation are limited.

The result would be a more productive and profitable operating model in which resources are better aligned with the level of return. This approach would also allow your business to eliminate many of the low value tasks carried out by underwriters, while allowing businesses to maintain more flexible cost structures and move in on opportunities with greater agility.

***Effective use of technology is going to be a crucial factor in sharpening productivity and customer responsiveness. This isn't just making use of greater automation to reduce costs and quicken delivery, but also harnessing digital developments to spur greater innovation and differentiation.***



***The moments that matter***

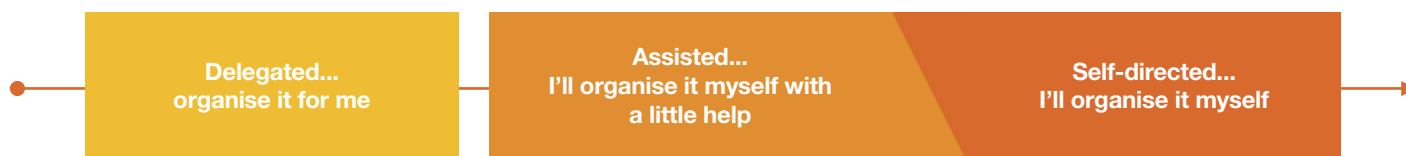
Culture and behaviour cut across all the factors that will allow you to meet customer expectations. The insight and agility of your staff are clearly crucial in responding to customer needs. Equally important is the integrity needed to put the customer first and provide solutions that are genuinely right for them rather than just meeting sales and bonus targets. Such integrity is not only a key focus for regulators, it is also a hugely important competitive differentiator, allowing your business to engage and build up trust with your customers.

But attributes such as insight, agility and integrity can be difficult to instil within many organisations. Even attempts to build them into performance objectives and incentives can falter if the ways people work and think on a day-to-day basis are unchanged. It is therefore important to hard wire these aspirations into the 'moments that matter' within the working day. It might be what information they use to make decisions. It might also be what other teams they collaborate with as your business looks to develop more innovative and effective client solutions.

The underlying factor is how staff judge what they do. This includes taking pride in providing a good solution for such an important life decision as life and pensions cover and recognising the value they create for society as a whole.

Leadership is critical in defining and providing the role models for the behaviour needed under this new way of working and making sure it is an organisation-wide priority. HR and line management can also play a decisive role in nurturing the desired culture and behaviour on the ground and clearing the obstacles that could get in the way.

**Figure 10: New service models**



Delegated giving way to Assisted (personal advice with the support of technology infrastructure); which is evolving towards a co-existence model with Self-Directed advice

Source: PwC

### ***Agile new entrants***

The urgent need to strengthen agility, productivity and customer focus is heightened by the growing threat from new entrants.

The development of internet channels has allowed companies to reach new customers and markets without the need for a physical presence and with low variable costs, though the initial investment has been considerable.

Cloud computing and other advances in storage and processing power are allowing agile companies, including new entrants to harness state-of-the-art connectivity and analytical capabilities, without the high fixed costs. As they will only be using the computing power needed to meet their current requirements, this just-in-time 'virtual outsourcing' approach would allow them to break into new markets and flex up as their customer base grows with much greater flexibility and lower costs than new entrants in previous eras. They can also tap into social media and other external data to profile their target customers without the need for extensive databases.

### ***Intuitive automated advice***

A model for rapid and effective market entry is Mint in the US. Mint is a free personal finance and money management platform and therefore has close similarities with automated life insurance advice and guidance. It analyses all the user's bank transactions to give them a bird's eye view of their financial situation and how to improve it. Mint reflects the market trend towards more flexible assisted and self-directed models (see Figure 10).

What is also telling about Mint is how fast it has been able to gain significant scale on a shoestring budget. Most of the technology basics needed to set up the site didn't cost anything. Rather than spending money on advertising, Mint trusted its 36,000 Facebook fans to promote its services. The speed at which companies like Mint can get up and running and the usability of their services make them a real threat to established insurers.



Mint now has seven million users<sup>28</sup> and was recently taken over by Intuit, which also markets TurboTax, America's most popular automated tax filing package. Access to Intuit's tax and transactional data would give Mint the potential to gain a complete picture of a user's finances – spending, savings and earnings from all sources. This would allow it to develop a fuller picture of the user's behaviour and become an advocate for their needs.

The challenge is how quickly your business can respond and how to keep one step ahead of these nimble newcomers. Around half of the executives in our survey believe that it will be ten years before 'big data' comes into its own. However, the example of Kodak cited earlier shows that they may not have anything like that much time to adapt once the faster, cheaper and more intuitive products and services become available.

While most SAAAME markets are still at an early stage of big data development, agile companies are looking at how to create the infrastructure that would allow them to leapfrog into the big data league. The concentration of software design and analytical services in India and other SAAAME markets could provide a useful launch pad for the development and application of big data within insurance.

### **Too little, too slow**

Unfortunately, few life and pensions companies appear to have grasped the speed and magnitude of the changes in the competitive landscape or the need for fundamental strategic shifts these developments demand. Our survey found that their number one priority is enhancing operational efficiency. New products, data analytics and other innovations are much lower down the list. Clearly efficiency is an essential priority when margins are under pressure. But it can only go so far. Simply doing what you do a little better may not be enough to guarantee survival and success when the sector is facing transformational change.

**58% of life and pensions executives are planning to improve operational effectiveness, but only 32% are planning to invest in their data infrastructure and analytical tools<sup>29</sup>**

## Q

### Questions for your organisation

- Could low-cost entrants come in to undercut your business and how can you compete?
- Would new technology allow you to operate more efficiently and capitalise on opportunities with greater speed and agility?
- How prepared are you to face fast-growing information-based players that are likely to disrupt your industry?

<sup>28</sup> Mint website, 12.06.12

<sup>29</sup> PwC life and pensions survey 2012

---

## Are you still going to be in business in five years' time?

*The life and pension market has considerable growth potential. The big questions are: who is best placed to take advantage of these changes and how?*

There is no certainty that existing players will be in the best position. Indeed, with technology set to have such a major impact on what customers expect and how products are underwritten and marketed, the unwieldy legacy systems employed by many life companies may put them at a competitive disadvantage.

It is therefore vital to think about how to make sure your business is able to keep pace, and where possible, lead change. We believe that there are five key attributes that will mark out the businesses that will be able to compete and succeed from those that won't:

- Speed of decision making and agility to respond
- Clear insights into where in the complex new value chain they are best able to compete
- Using the latest developments in technology to enhance customer profiling, reduce costs and improve customer experience
- Using new technology to industrialise routine underwriting, sharpen their analytical capabilities and release talent to focus on high-growth markets and deal with more complex risks
- And to make sure they get the benefit from this, being able to communicate value clearly and convincingly to analysts and investors

While the future may be hard to predict, it's definitely not impossible to prepare for. The speed at which your business can make use of these attributes to anticipate and adapt to change rather than simply reacting to events is going to be a key differentiator in the shake-up ahead.

# Contacts

## **Research team and lead authors**

**Jamie Yoder**  
US Insurance Advisory Co-leader  
Partner, PwC (US)  
+1 773 255 2138  
jamie.yoder@us.pwc.com

**Anand Rao**  
Partner, PwC (US)  
+1 617 633 8354  
anand.s.rao@us.pwc.com

**Mansoor Bajowala**  
Director, PwC (US)  
+1 312 298 3817  
mansoor.bajowala@us.pwc.com

**Anuraag Sunder**  
Principal Consultant, PwC (India)  
+91 124 462 0184  
anuraag.sunder@in.pwc.com

## **Global**

**David Law**  
Global Insurance leader  
Partner, PwC (UK)  
+44 7710 173 556  
david.law@uk.pwc.com

**John Wynn**  
Global Insurance Advisory leader  
Partner, PwC (Hungary)  
+44 7802 948 447  
john.wynn@hu.pwc.com

## **Europe**

**Achim Bauer**  
UK Insurance Strategy  
Consulting leader, Partner, PwC (UK)  
+44 (0)20 7212 1405  
achim.r.bauer@uk.pwc.com

**John Wynn**  
Global Insurance Advisory leader  
Partner, PwC (Hungary)  
+44 7802 948 447  
john.wynn@hu.pwc.com

## **Asia**

**Peter Whalley**  
Hong Kong Insurance leader  
Partner, PwC (Hong Kong)  
+852 2289 1192  
peter.whalley@hk.pwc.com

## **Americas**

**Allan Buitendag**  
National Insurance Consulting leader  
Partner, PwC (Canada)  
+1 416 815 5239  
allan.c.buitendag@ca.pwc.com

**Anand Rao**  
Partner, PwC (US)  
+1 617 633 8354  
anand.s.rao@us.pwc.com

**Jamie Yoder**  
US Insurance Advisory Co-leader  
Partner, PwC (US)  
+1 773 255 2138  
jamie.yoder@us.pwc.com

**Jonathan Simmons**  
Canada Insurance leader  
Partner, PwC (Canada)  
+1 416 869 2460  
jonathan.simmons@ca.pwc.com

**Paul McDonnell**  
US Insurance Advisory Co-leader  
Partner, PwC (US)  
+1 646 471 3986  
paul.h.mcdonnell@us.pwc.com

[\*\*\*www.pwc.com/insurance\*\*\*](http://www.pwc.com/insurance)

© 2012 PwC. All rights reserved. Not for further distribution without the permission of PwC. "PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network. Each member firm is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way. No member firm is responsible or liable for the acts or omissions of any other member firm nor can it control the exercise of another member firm's professional judgment or bind another member firm or PwCIL in any way.