



# How well is the **life insurance industry** keeping pace with rapidly changing technology?

London, June 2014

## Foreword

KPMG International has prepared an executive summary of the four papers provided by the following companies in support of the Executive Panel: "How well is the Life insurance industry keeping pace with rapidly changing technology?"

**Allianz**

**Legal and General Group**

**RGA**

**Sun Life Financial**

The members of the panel discussion, which will take place on Monday, June 23, at the IIS 50th Annual Seminar, include:

**Brigitte Parent**, Senior Vice President, Sun Life Financial

**Tim Rozar**, Senior Vice President and Head of Global Research and Development, RGA Reinsurance Company

**Russ Thornton**, IT Strategy & Architecture Director, Legal and General

**John Warburton**, Director, Group Market Management, Allianz SE

The IIS would like to thank all the panel participants for their time and effort in preparing these papers.



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# Executive Summary:

## How well is the Life Insurance Industry keeping pace with rapidly changing technology?

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The insurance world has changed significantly, not just incrementally, but fundamentally as the digital revolution transforms the way we interact and do business. The entire insurance value chain is impacted, from insurers to intermediaries and distributors and service providers, particularly as other industries from retailers to auto manufacturers set foot in insurance markets. At the center of this transformation into a connected, digital world are people and a marketplace that is defined and driven by customer behaviors, needs and lifestyles.

As RGA graphically observes "Anyone who has placed a telephone call through a switchboard operator, from a phone booth, using a rotary dial or on a brick sized cellular phone has witnessed the steady march of technological progress. Advances in technology and infrastructure have changed the way that we connect with one another and, more fundamentally, how we experience and interact with the world in which we live."

This paper summarizes the issues and ideas developed in four papers prepared by insurance company representatives from four large insurers/reinsurers for discussion at the International Insurance Society's 50<sup>th</sup> annual seminar in London, UK, June 2014.

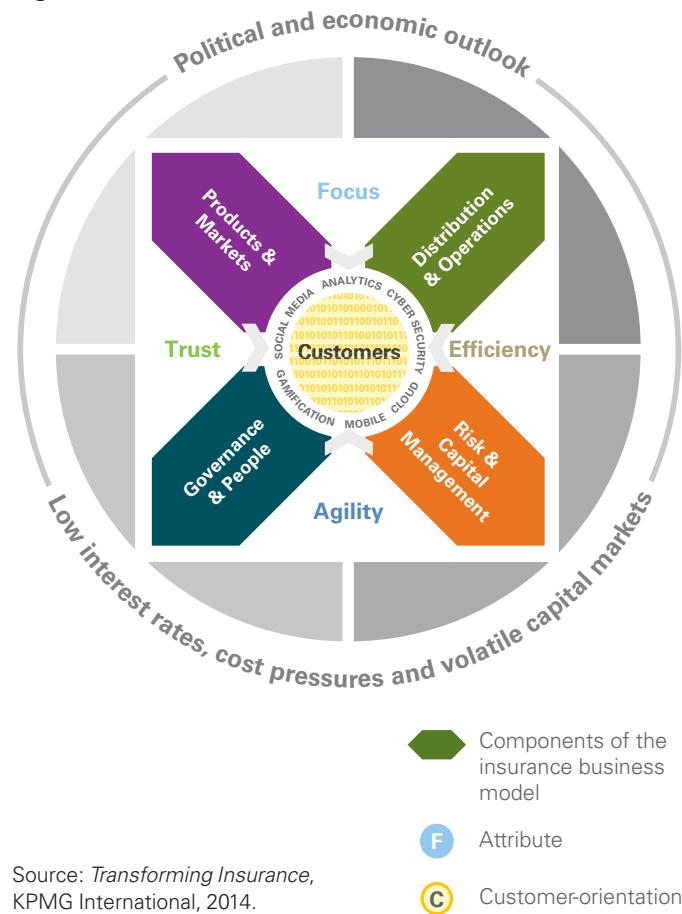
## Overview

In the following pages, we summarize the ideas and insights from the panellists into the current technological trends facing the insurance industry to help insurers apply digital thinking and technology towards the goal of customer-centric innovation and profitable growth. To present how these elements can be adapted to the rapidly-unfolding digital world, they have been mapped against a simple representation of an insurance company's business model.

The papers submitted to the conference are a reminder that the insurance industry has a long history of harnessing technology to drive growth and improve customer service. As Sun Life Financial notes: "in the 1920s and 1930s insurance companies were early adopters of tabulating machines and key punch technology. They were pioneers in the use of computers, digital data and document management processes. And they were at the forefront of financial and risk modelling technologies and state-of-the-art enterprise management systems." And Allianz reminds us that the role of technology in the insurance industry has created something of a paradox. "On one side, insurers have been intensive users of IT since the 1960's and technology is at the heart of the product; on the other, insurers have struggled to repurpose their technology investments for consumer interaction oriented applications and can appear like laggards in digitalization."

But is the well of creativity running dry? As Legal and General points out: "Around 2008, as the financial markets were going into meltdown, two major technologies were launched: Mobile and Cloud. These have turned the commercial world upside down and have exponentially increased the pace of technology change." And they remind us of the challenges if insurers do not adapt to large scale technology change citing the example

**Figure 1:**



Source: *Transforming Insurance*, KPMG International, 2014.

of the Pennsylvania Railroad Company, the largest railroad by traffic and revenue for the first 50 years of the 20<sup>th</sup> Century, and at one time the largest publicly traded company in the world but which ultimately went bust "not due to other rail competitors, but a disruptive technology called the airplane."

Are insurers responding to these challenges or are they starting to fall behind?

## Consumers at the heart of the business

All of the panellists agree, whether from a technology background or focused on marketing or R&D in the words of Legal and General: "becoming customer centric is no longer a nice-to-have, but a must-have. .... Insurers must therefore have ... the ability to deliver value (not just products) to customers directly; regardless if the customer is a person, family or firm."

Allianz highlights the importance of building technology to address three core customer challenges at the heart of life insurance. They explain these as follows:

- The 'geek trap' – a high proportion of consumers do not purchase enough life insurance because they perceive it as overly complex and difficult to understand;
- The 'too much love trap' – many consumers are turned off by the hard sell of the traditional face to face sales channels; and
- The 'drifting apart trap' – the customer's contact with his or her insurers can quickly reduce to a once a year statement, the business equivalent of a round robin Christmas Card.

So what are some of the answers? In our panellist's view these include simplifying products to appeal to the casual or entry level buyer, bringing products to market in a consumer centric, relevant and technologically enabled way, and modularising products to drive both efficiency and differentiation. Products and propositions are only part of the equation – just as important is leveraging technology to enhance the customer experience and provide relevant information as the consumer researches on line and to find ways of connecting consumers with advisors who will remain an important source of expertise, especially when the need is for more complex and holistic planning and guidance.

Panelists highlight that the means to engage customers is changing. RGA recognizes the following trends, the *quantified self*, enabling insurers to create new opportunities to engage customers through the quantification of health and fitness data. *Gamification*, not only embedding insurance concepts in popular games such as SimCity and Farmville, but developing games to educate consumers and motivate healthier lifestyle choices. And *telematics*, evaluating individuals on personal driving behavior, rather than broad rating variables and hence enjoying broad support from regulators and customers.

Sun Life Financial brings these to life for us, highlighting their BrighterLife.ca standalone lifestyle forum designed to build the company's brand, providing a broad range of tips and information on everything from healthy cooking to career management and their MoneyUP app, a gamification approach to improving financial literacy and more fully engaging group savings customers.

## The impact for products and markets

These changes have a profound impact for the propositions that insurers provide and the markets in which they offer them and the commentators agree on the increasing importance of data, the buzz words of 'big data' and the importance of analytics to analyze the massive data sets that are growing at an unimaginable rate forming both a by-product and driver of the technology revolution. Skilfully mined and analyzed, big data has the potential to reveal a unique and in-depth view of the market that could enable more meaningful segmentation, inform product development, risk management and underwriting – and enrich the customer experience.

Allianz points us in the direction of the automobile industry to provide an interesting example of how both target customers can continue to have more and more offers and yet the 'back office' production economics continue to improve. "Volkswagen Group, for example, has introduced extensive modularity into its range via its *Modulare Baukasten (MB)* strategy that standardizes on elements that are less visible to consumers so that there are significant shared components and economies between multiple brands yet more, and more differentiated, models in the market. Efficiency does not necessarily need to be sacrificed to achieve differentiation."

As well as helping insurers connect with existing customers with changing needs better, technology also enables insurers to connect with customers with whom they have enjoyed less familiarity. Legal and General notes that "delivering

global services that are relevant locally will play a major role in supporting growth, as in the future we will need to reach customers and markets with services that we may not currently serve today."

Those customers may be closer to home than we expect.

RGA notes "In life insurance ... physical examinations are common [and] the timeline for purchasing insurance is often measured in weeks rather than seconds. While invasive underwriting evidence provides very strong protective and sentinel value that allows insurers to combat adverse selection, it may serve as an impediment to efficiently reaching the underinsured younger or middle-income markets. New medical technologies, smart phone apps and data-driven predictive modelling solutions offer opportunities to bridge the information gap between applicants and insureds while drastically reducing the length and invasiveness of the underwriting process."

Many insurers are looking to grow among the growing middle class of the emerging markets of South East Asia, Latin America and Africa.

As Sun Life Financial comments "While North American and European life insurance markets are mature, the potential for insurance in the developing world is estimated at between 1.5 and 3 billion policies, with life and health insurance being the products most in demand. These markets not only skew younger, they are also increasingly mobile equipped. In the developing world, mobile subscriptions more than doubled from 2011 to 2013, surpassing those in developed countries in 2013."

So insurance propositions themselves are changing, reflecting the impact of technological change as well as how insurers communicate with their customers.

## The challenges for distribution and operations

Insurers face many challenges in responding to these opportunities. As Legal and General note, "currently the primary route to market for many life insurance companies is to manufacture products, put them on a shelf, and distributors then sell those to customers. In order to engage customers directly, this route to market will need to fundamentally change in order to embrace the digital world that people live in today."

Allianz comments that "Consumers, however, are ahead of industry debates and are blending their use of offline and online channels. In this omnichannel world, web journeys are proliferating BUT increasingly less predictable AND not necessarily likely to result in a transaction. Offline iterations are, at the same time, very relevant but perhaps only for part of the journey, whether at the research stage (e.g. brochures from a travel agent, car dealers) or at the transaction stage (as is common in insurance). This ROPO (Research Online, Purchase Offline) behavior is well-documented across multiple industries and very visible in life insurance."

Sun Life Financial underscores the need for personal contact "The near universal adoption of social media by a younger-skewing demographic, coupled with mobile platforms – i.e., smart phones and tablets – has accelerated and cemented a real-time, virtually

24/7 connectedness in this group. They interact digitally almost constantly; researching products and services, buying, socializing, opining, 'listening' and seeking advice and validation. For this younger cohort, e-mail and desk-top computers are as quaint as black rotary telephones. If insurers want to reach them, they must reach them where and how they live – online and on the move. In the process, they must also accommodate their conflicting demands for both openness *and* privacy."

But does this mean that the role of the intermediary is redundant? In the view of Sun Life Financial the answer is a resounding no. "To effectively sell to this cohort, intermediaries need to be active in the space. Insurers can position their intermediaries for success by leveraging their own investments in digital expertise to equip advisors with mobile and social media capabilities that facilitate a digitally-enabled advice and sales conversation. Social media can be used to train, inform and motivate intermediaries. High definition video conferencing, tablets with e-signature capabilities and other interactive mobile applications can make prospecting more efficient and expand their geographic reach."

As well as transforming the way in which insurers reach their customers, technology also has potential to transform how insurers service them thereafter.

For example, RGA identifies challenges which technology can help insurers overcome such as the benefits of automation, "Cost reduction through improved operational efficiency is one of the clearest and most quantifiable benefits of many new technologies." They highlight the use of techniques such as server virtualization, enabling "independently partitioned virtual servers [to] coexist in a single piece of physical hardware," while Sun Life Financial highlights the opportunities presented by "cognitive computing – computing systems modelled on the human brain. These systems process speech, images and a whole range of contextual, behavioral and unstructured data in real time, 'learn' by experience, and adapt their outputs accordingly." And as Legal and General notes, "Cloud services have dramatically lowered the entry price and running costs of providing highly scalable online services, resulting in a flood of new digital online companies" commenting that "these innovations came at a time where many large companies – especially in the financial services sectors- were reducing investments in IT and running cost reduction initiatives."

But realizing these benefits is not straightforward.

In common with a number of the panellists Legal and General comments on the challenges life insurers face in dealing with legacy systems. In their words "Stop Changing Legacy –This is easier said than done. Organizations should be looking for legacy service enablement technologies to try and minimize big core system changes as well as looking at solutions to offload work from the mainframe. Implementing an enterprise portfolio management process will help make informed decisions as to which systems your organization wants to Tolerate, Invest, Migrate or Eliminate."

## Risk, capital management and regulation

These changes are unfolding against a backdrop of significant regulation – and significant regulatory change. As Legal and General comments: "global regulatory bodies will continue

to impose change at an ever increasing rate and life insurance companies will need to keep up with this."

Indeed, Sun Life Financial comments: "Mobile and internet technology innovation is moving faster than regulators can follow. For example, while the Canadian Council of Insurance Regulators position is that "social media is a form of communication like any other" and are therefore subject to the rules governing ethics, advertising, suitability and record keeping, the reality is that social media is *unlike* any form of communication the market has ever experienced. The issue is how to apply existing rules in an environment where those rules were never envisioned to apply."

Faced with these challenges, RGA reminds us of the important influences of technology in controlling and mitigating risk through fraud detection, scenario testing, data security and the increased focus on privacy.

## Governance and people

As well as challenges from their regulators, insurers also face internal challenges in encompassing change of this magnitude – as Allianz points out "there is a measurably reduced interest from managers in life companies in prioritising investments in customer facing technologies in favor of optimising back office operations" and Legal and General comments that "across the financial services industry, and specifically within Life insurance, the result has been an ever widening technology gap between the existing IT estate (that are typically implemented in product silos and littered with legacy systems) and the capabilities to meet the expectation of customers to be able to perform all their day to day activities online."

In addition to these internal challenges RGA comments that "the remoteness of the insurance industry from innovation hubs and technology companies creates a challenge for identifying and incorporating emerging technologies."

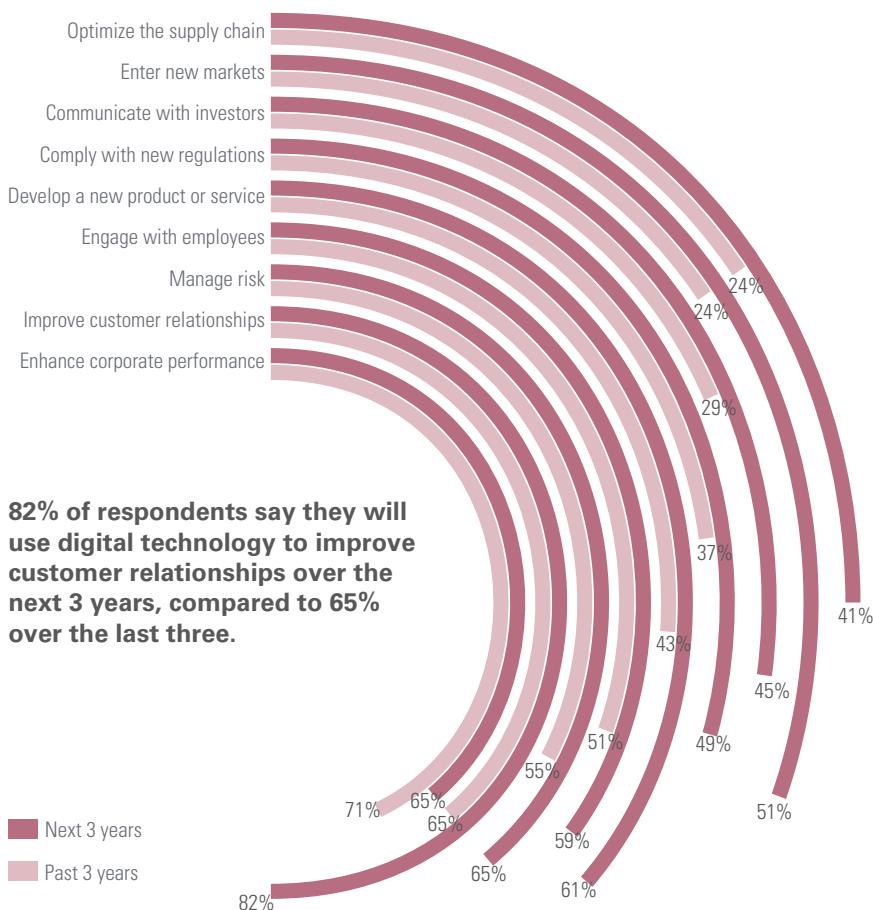
To handle these changes with confidence, agility will likely become an increasingly important attribute that can distinguish the successful from the rest of the pack. As Sun Life Financial notes, "Life insurance has traditionally been a trust-based, high-touch business that places significant value on financial advice and planning. The overarching challenge for life insurers is balancing the fast-paced delivery that digital platforms enable with core organizational values and risk management imperatives."

## In conclusion

The companies represented by the panellists have a collective 492 years of experience between them and have witnessed astonishing change since their formation; indeed they all predate the iPod, the mobile phone, the laser printer and the post it note. No fewer than three of them predate manned flight, two of them predate the telephone and one of them predates the electrical telegraph and morse code. How well the Life insurance industry is keeping pace with rapidly changing technology is in the eye of the beholder.

This is confirmed by KPMG's Pulse survey results timed to coincide with this conference. Digital technologies will touch the whole business. Respondents have invested and plan to invest across their entire business.

## Insurers will continue to use digital technology to enhance their entire business



**82% of respondents say they will use digital technology to improve customer relationships over the next 3 years, compared to 65% over the last three.**

Source: Digital Technology's Effect on Insurance survey, KPMG International, May 2014.

KPMG International's 2012 report, *The Intelligent Insurer*, describes the dominant future economic, business and social challenges and opportunities facing insurance markets. In KPMG International's 2013 report, *The Valued Insurer*, the essential traits and abilities that tomorrow's insurer will need to succeed are defined. *Transforming Insurance*, to be

launched in the autumn of 2014, discusses ways technology can help insurers and intermediaries meet the above challenges and transform their capacity to identify trends, and plan, collaborate and optimize their resources to better meet customer needs and future challenges.

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**“ 69 percent say they have a digital strategy beyond a website. However, only 37 percent say their digital initiatives are fully aligned to their company's strategic objectives. ”**

Source: Digital Technology's Effect on Insurance survey, KPMG International, May 2014.

**“ 47 percent say developing innovative propositions to meet changing customer preferences is their greatest priority for the next 2-3 years ”**

Source: Digital Technology's Effect on Insurance survey, KPMG International, May 2014.

# Life Insurance in the Digital Age:

## The challenges – and opportunities – of today's technology

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**Brigitte Parent**

Senior Vice President, Individual Insurance & Wealth  
Sun Life Financial



There is no shortage of business issues to keep life insurance executives up at night. The after-shocks of the financial crisis, rampant regulatory change and persistent low interest rates are universal bugbears. But, in many ways, that's business as usual. What's completely unusual is the new way in which the world is communicating, the challenge of managing through the digital evolution, and the opportunities this technology presents to benefit customers, intermediaries and shareholders alike.

Digital technology has already delivered tectonic shifts to the music, entertainment, consumer electronics and retail industries – shifts that also involved a fundamental change in those industry's major players. Looking forward, it seems certain that no industry or company is immune to the ongoing transformation in human interaction. The challenge for the global life insurance industry is to catch up, keep up, and get ahead.

How will digital technologies be integrated with traditional channels and sustaining technologies? What does the governance and compliance framework look like for mobile-enabled life insurance sales? What changes must be made to the business model and organizational culture to truly embrace a digital strategy? And, perhaps most importantly, how can digital technology enhance the customer experience and help them protect and grow their assets?

This paper explores some of the challenges and opportunities of the digital age and presents a Canadian perspective on how well insurers in general – and life insurers specifically – are responding to the new market realities.

## Time to get back in the lead

The insurance industry has a long history of using technology to drive growth and improve customer service. In the 1920s and 1930s insurance companies were early adopters of tabulating machines and key punch technology. They were pioneers in the use of computers, digital data and document management processes. And they were at the forefront of financial and risk modeling technologies and state-of-the-art enterprise management systems.

Yet today, according to a 2013 Ernst & Young global survey, insurance companies – and in particular life insurers – have not kept pace with other financial services in the digital space, including in the use of social media and mobile technology. For those who have not kept up, this slide in technology leadership means missed opportunities in a world of changing demographics – and leaves the door open to new competition.

## Digital and demographic trends affecting the industry

Innovative digital technology and social media have proliferated at an astonishing rate. According to the Cisco Visual Networking Index, mobile data traffic in 2013 was

nearly 18 times the size of the entire global Internet in 2000. As of December 2013, Facebook had 1.23 billion users and Twitter an estimated 200 million plus tweeters. There are 6.8 billion mobile subscriptions, and growing, on a planet with 7.1 billion people.

The near universal adoption of social media by a younger-skewing demographic, coupled with mobile platforms – i.e., smart phones and tablets – has accelerated and cemented a real-time, virtually 24/7 connectedness in this group. They interact digitally almost constantly; researching products and services, buying, socializing, opining, 'listening' and seeking advice and validation. For this younger cohort, e-mail and desk-top computers are as quaint as black rotary telephones. If insurers want to reach them, they must reach them where and how they live – online and on the move. In the process, they must also accommodate their conflicting demands for both openness *and* privacy.

## Young and connected in emerging markets

While North American and European life insurance markets are mature, the potential for insurance in the developing world is estimated at between 1.5 and 3 billion policies<sup>1</sup>, with life and health insurance being the products most in demand. These markets not only skew younger, they are also increasingly mobile equipped. In the developing world, mobile subscriptions more than doubled from 2011 to 2013, surpassing those in developed countries in 2013.

## Big opportunities in big data

The massive data sets that are growing at an unimaginable rate are both a by-product *and* driver of the technology revolution. With inputs available from mobile devices, sensory technologies, 'The Internet of Things,' unstructured data from social media – as well as traditional, proprietary customer data bases – what an insurer considers to be 'big data' is a function of the analytical capabilities of the organization. But, skillfully mined and analyzed, big data has the potential to reveal a unique and in-depth view of the market that could enable more meaningful segmentation, inform product development, risk management and underwriting, and enrich the customer experience. The challenge is to find the right balance between the competing demands of technology, security, marketing, customer service and privacy.

## Digital and the insurance consumer

Beyond the generic issues involved in exploiting new technology, there are some life insurance-specific complications that have impacted life insurers' digital strategies to date. Product complexity, underwriting requirements and, in some cases, concerns about disintermediation have narrowed most life insurers' focus to 'low hanging fruit.' Their web and social media presence are typically limited to product and price information or the provision of online quotes for basic 'vanilla' products. Yet the numbers on social media and mobile usage show that the digitally enabled insurance consumer is ready to be more fully engaged in these channels.

According to a 2013 LIMRA study, 86 percent of consumers would do their life insurance research online and, if given the option, 23 percent, would prefer to buy online as well. Globally, one in five searches for financial services is from mobile phones, and in Europe, among 78 insurers, digital sales are projected to account for 18 percent of new business in 2016, up from 11 percent in 2011.

Consumer expectations of e-service grow by leaps and bounds largely as a function of online shopping and fulfillment experiences – fueled by time scarcity and the desire to comparison shop. Life insurance customers have those same expectations. They want the online ability to research, compare and generally inform themselves before starting the full buying process with an intermediary. Life insurers, therefore, need to ask themselves whether their online presence, when compared to online retail marketers, offers the insurance consumer what they need and expect in a digital age.

Buying a life insurance product is typically a big decision for the majority of people – a decision that most experts would agree should be part of a financial planning process. That coupled with the complexity of many life products, means that while initial consumer research and after-sales servicing may follow the online retail model, there's a personal relationship component that remains an essential part of most life insurance sales cycles. The good news is that digital technology can play an increasingly significant role in connecting consumers and advisors – and providing the information and tools they both need to have an in-depth conversation.

## Leveraging digital relationships to enhance the customer journey and build business opportunities

With the volumes of rich and nuanced data it generates, digital technology presents an opportunity for life insurers to gain unprecedented insights into their customers and identify ways to more meaningfully engage with them. Research shows there is a positive correlation between frequency of contact and customer satisfaction. The anywhere, anytime connectivity of mobile devices gives insurers the opportunity to deliver a uniquely personal, real-time customer-centric experience, build loyalty and improve the bottom line.

### Connecting intermediaries

Research conducted for the Sun Life Canadian 2013 Unretirement Index™ shows that 72 percent of Canadians who work with an advisor feel more confident when making a financial plan compared to only 44 percent of those who don't have professional advice. With only approximately one in five Canadians having a financial plan – and only 31 percent working with a professional financial advisor – social media and digital strategies can be used to educate consumers on the importance of a financial plan and then help them connect with advisors.

Social media is woven into the fabric of the lives of the connected generation. To effectively sell to this cohort, intermediaries need to be active in the space. Insurers

can position their intermediaries for success by leveraging their own investments in digital expertise to equip advisors with mobile and social media capabilities that facilitate a digitally-enabled advice and sales conversation. Social media can be used to train, inform and motivate intermediaries. High-definition video conferencing, tablets with e-signature capabilities and other interactive mobile applications can make prospecting more efficient and expand their geographic reach. Sun Life Financial has had considerable success with a variety of such strategies including an online lead generation application called Advisor Match that enables customers to find a suitable advisor by participating in an entertaining, informative and interactive experience.

### Finding the customer's moment

For life insurers and intermediaries alike, finding opportunities to meaningfully connect with customers can help create a bond that goes well beyond the transactional.

Pro-active, life-event triggered marketing that presents the right product at the right time enhances the relevance of customer interactions and the perceived value of the product or service – while boosting the success rates of cross-sell initiatives. For example, in 2011 Sun Life Financial launched Smart Messaging, a web-based service that regularly analyses group savings customers' data and triggers targeted, personal messages about specific actions they could take to improve their retirement readiness. The results have been extremely positive both in terms of customer evaluation and plan asset growth.

Leveraging digital touch points to educate and communicate with customers more frequently and more personally also promotes engagement and deepens relationships. BrighterLife.ca is a stand-alone Sun Life Financial lifestyle forum designed to build the company's brand by providing a broad range of tips and information on everything from healthy cooking to career management. And to more fully engage group savings customers, Sun Life recently launched **MoneyUP**, a gamification approach to improving financial literacy.

Finding the customer's moment also involves reaching out beyond internal platforms to connect with them in their lives. Social media venues such as Twitter, YouTube and Facebook and blogs enable valuable sensing and feedback, in addition to providing a low-cost, high-speed way to educate, disseminate marketing information, and build and manage brand image.

Mobile-enabled, self-serve technologies that deliver convenience, reduce costs and make us easier to do business with are another essential component of the new customer journey. To make workplace savings plan enrolment paperless and convenient, Sun Life provides tablets at many enrollment sessions for quick, secure onsite enrolment. The technology is fun to use and the process gets most participants over their tendency to procrastinate. In the same vein, the *my Sun Life Mobile* app for smart phones allows group plan members to submit benefit claims for direct processing, manage their savings accounts and access specially designed financial planning tools.

## **Widening the reach**

Customer data analytics, segmentation and predictive modeling can take the concept of 'know your customer' to a whole new level. Social media gives rise to new ready-made communities and demographic, sociographic and psychographic inputs on a scale and depth that enables companies to segment their markets in deeper and more innovative ways (beyond gender, age and marital status) and target customers with more precision than ever before.

The right data, mined and analyzed in the right way can reveal new markets, increase cross-sell/up-sell revenues in existing segments and fuel the development of mobile-friendly products. This richer data could also enable non-traditional forms of underwriting by allowing insurers to assess risks using health and lifestyle data unavailable through traditional means and offer more complex products online.

## **Connecting the workplace**

When employees can collaborate quickly and easily to provide input, information or solutions to enhance the customer experience, everybody benefits. Yet while new social media technologies such as JAM, Yammer, OpenSocial and Chatter make it easier for people to collaborate seamlessly from any location, some insurers have concerns about the potential for decreased productivity. Policy solutions can be found to operationalize these technologies to improve efficiency, better meet customer expectations and achieve performance goals that will increase employee satisfaction and, in turn, further refine the customer journey.

## **The challenges of going digital**

Life insurance has traditionally been a trust-based, high-touch business that places significant value on financial advice and planning. The overarching challenge for life insurers is balancing the fast-paced delivery that digital platforms enable with core organizational values and risk management imperatives.

### **Compliance, privacy and security issues**

Mobile and internet technology innovation is moving faster than regulators can follow. For example, while the Canadian Council of Insurance Regulators position is that "social media are a form of communication like any other" and are therefore subject to the rules governing ethics, advertising, suitability and record keeping, the reality is that social media is unlike any form of communication the market has ever experienced. The issue is how to apply existing rules in an environment where those rules were never envisioned to apply.

Social media offers the opportunity for the insurer or intermediaries to 'follow' and contact customers on a regular basis. But while frequent contact can build loyalty, insurers and intermediaries need to be conscious of the social media user etiquette and sensibilities. In the battle for the customer's share of mind in the digital space, there must be a balance between delivering an 'around the clock' customer experience, and appearing to 'stalk.' At the same time,

insurers must also develop brand and reputation management strategies for a new reality in which the consumer's voice is amplified and carries across social media at the speed of thought.

## **Integrating the distribution network**

For a digital strategy to deliver its potential benefits, it must be successfully integrated into existing distribution networks. Yet, globally, 61 percent of life insurers identify integrating digital into existing distribution channels as the biggest hurdle they have to overcome. And while digital disruption affects intermediaries in many of the same ways as insurers, less than 33 percent have a mobile strategy for intermediaries. To the extent that life insurers recognize this, they must commit to sharing expertise, analytics and solutions to ensure that the entire customer experience is seamlessly optimized.

## **Culture, complacency and C-suite support**

In a 2013 Ernst & Young survey, 68 percent of life insurers cited corporate structure or culture as a key barrier to delivering their digital strategy. More than 33 percent believed that senior management support was not sustained by the resources required to develop digital capabilities – and only 5 percent believed that C-suite executives were "personally leading by example." The survey also found that life insurers, perhaps because of the nature of their products, were less concerned that customers or partners would view a lack of digital capabilities as a reason to attrite. Industry observers, however, seem to agree that digital technologies are rapidly changing the rules of the game and the threat to the status quo might very well come from a completely unexpected place outside the industry.

## **Data as an enterprise asset**

A challenge for many insurers is to position data as a strategic enterprise asset to be optimized to grow revenues, provide business insights, improve customer experience, mitigate risks and lower costs. For some insurers this process will involve developing a clearly articulated enterprise data strategy, dismantling information silos and bottlenecks, changing underlying data collection processes and developing new data competencies and metrics to shape a truly data-driven culture.

## **Fast forward**

As digital innovations continue to accelerate, insurers should anticipate ever more exciting technologies with the potential to enhance every step of the customer journey. One such promising technology is 'cognitive computing' – computer systems modeled on the human brain. These systems process speech, images and a whole range of contextual, behavioral and unstructured data in real time, 'learn' by experience, and adapt their outputs accordingly.

Fueled by big data, this new technology could have immense positive impacts on life insurers, their intermediaries and customers. Imagine, for example, a new underwriting model that evaluates each and every customer as a unique individual,

develops a tailored risk profile, then matches that customer to a truly customized, right-priced product. Or consider a segmentation and prospecting model that operates at the individual level, helping intermediaries to better target their sales efforts and significantly increase close ratios. The potential of cognitive computing – and any number of other new and disruptive technologies still in the pipeline – to support a genuinely customer-centric approach, to drive customer satisfaction and cement customer loyalty cannot be overstated.

On the whole, life insurers have entered the digital arena with typical prudence and caution. It's a challenge to balance the demands of existing infrastructures, business models

and core values while learning to leverage disruption. But, as digital technologies continue to shape consumer expectations, the opportunities are tremendous for insurers who embrace digital technologies to improve the way they prospect and build relationships, who facilitate their intermediaries' connection with customers, and who leverage big data to better identify ways their customers can fully benefit from the products and services provided.

## Notes:

<sup>1</sup> *Insurance in Developing Countries – Exploring Opportunities in Microfinance*, Lloyd's Micro Insurance Center, p. 3, 11, 12, 15, 17, 36

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# Mind the Gap

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In deference to the host city for this year's IIS annual seminar, and in response to the exam question of "*How well is the life insurance industry keeping pace with rapidly changing technology?*" the title "Mind the Gap" seems wholly appropriate.

There is an ever widening gap between the pace of change in technology and the industry's ability – not just to catch up – but to stop falling further behind. In order to help address this, it is important to take a look back at how the industry got here and the drivers of change.

## Context

Around 2008, as the financial markets were going into meltdown, two major disruptive technologies were launched: Mobile and Cloud. These have turned the commercial world upside down and have exponentially increased the pace of technology change.

The myriad of mobile devices and form factors since then have revolutionized how people engage digitally, consume information and purchase goods.

Cloud services have dramatically lowered the entry price and running costs of providing highly scalable online services, resulting in a flood of new digital online companies.

These innovations came at a time when many large companies – especially in the financial services sectors – were reducing investments in IT and running cost reduction initiatives.

To add to this, the subsequent advent of Social and Big Data has just exacerbated the gap; disintermediating the big financial services companies and extending the competitive landscape.

Finally, during this timescale, the regulator also waded in with RDR (and subsequent policy statements) which resulted in a very large amount of change effort that – while good for the customer – wasn't hugely visible to them in terms of digital engagement.

Across the financial services industry, and specifically within life insurance, the result has been an ever widening technology gap between the existing IT estate (typically implemented in product silos and littered with legacy systems) and the capabilities required to meet the expectation of customers to be able to perform all their day to day activities online.

In a recent survey, 79 percent of insurers said that they don't have the technical capability to deliver a digital strategy. And 90 percent cannot reach out to customers to deliver new services based on the data they have. (*The Insurance Times*, April 2014)

A good historical example of what can happen if organizations don't adapt to large scale technology change is the Pennsylvania Railroad company (PRR). The PRR was the largest railroad by traffic and revenue for the first 50 years of the twentieth century and at one time was the largest publicly traded company in the world. The reason they ultimately went bust was not due to other rail competitors, but a disruptive technology called the airplane and PRR's

failure to recognize and prepare for the impact this would have on the transport system.

Fast forward to today, another example of how the competitive landscape is changing beyond its normal boundaries is in the automotive world. What's the biggest challenge to car manufacturers? Google. The Google automated car is forcing automobile manufacturers to adapt their strategies in order to survive.

It is therefore realistic to presume that there is a real risk of extinction for insurance companies who do not think and act differently with regards to technology.

## Drivers for change

Breaking this down, there are 5 key drivers for change:

### 1. Customer Centricity

Becoming customer centric is no longer a nice-to-have but a must-have. Advice and intermediated services are in decline compared to the growth in the D2C and self-directed space. D2C or unadvised propositions will generate the lions' share of growth, increasing share from 30 to 40 percent. (Platform, 2013)

Insurers must therefore have the ability to deliver value (not just products) to customers directly; regardless if the customer is a person, family, or firm.

### 2. Route to Market

Currently the primary route to market for many life insurance companies is to manufacture products, put them on a shelf, and distributors then sell those to customers. In order engage customers directly, this route to market will need to fundamentally change in order to embrace the digital world that people live in today.

### 3. Cost Efficiency

Margin pressure across all of financial services means that IT needs to be able to run more effectively and on-demand where ever possible. Legacy systems will need specific strategies to optimize, offload, eliminate or service enable them in order to reduce their run and change costs.

### 4. Agility

The amount of time required to deliver change and services to customers, both internal and external, will need to decrease significantly. Global regulatory bodies will continue to impose change at an ever increasing rate and life insurance companies will need the ability to keep up with this. In addition, the ability to scale up and down services based on different usage patterns and customer demand will be key to minimizing the cost to provision services.

### 5. Global Reach

Delivering global services that are relevant locally will play a major role in supporting growth, as in the future we will need to reach customers and markets with services that we may not currently offer today. Operating teams and technology partners of insurers will need to be able to provide in-region, yet interconnected services, across the world.

## Response

### Customer (not product) is king

The industry should be reviewing the entirety of what they offer from an outside-in perspective in order to determine the ideal journeys (versus existing ones) they want their customers to go through. The journeys then determine the processes, systems and people needs; providing clarity of requirements and helping the organization visualize the outcome.

Insurers also need to learn how to communicate via Social, which is where the next generation of customers live.

And with the advent of the Internet of Things, there are an increasing number of micro-purchasing activities which only exist briefly, that could become the next big way that people look for protection.

### Target architecture and enterprise capabilities

Based on the collection of journeys from an outside in perspective, the definition of an enterprise-wide target architecture to support them will help determine the existence of any gaps in strategic capabilities and the prioritization of which capability gaps need to be addressed.

### Stop changing legacy

This is easier said than done. However, organizations should be looking for legacy service enablement technologies to try and minimize big core system changes, as well as looking at solutions to offload work from the mainframe. Implementing an enterprise portfolio management process will help inform decisions as to which systems your organization wants to Tolerate, Invest, Migrate or Eliminate.

### Mobile everything

Consumers will expect to see content and services optimized, specifically for the various different form factors, not just a web page on a mobile. Having a clear multi-device strategy will be key for the consistent delivery of solutions to your customers.

### Cloud

In financial services, 'Cloud' has proven to be an unhelpful term as it is associated with uncertainty and doubt around security and data protection. In the past this has largely outweighed the cost, flexibility and scalability benefits as evidenced by usage in other market sectors and industries. However the benefits are rapidly becoming more important for the following reasons; margin pressures are increasing; the need to be able to make technology changes faster, as the frequency of regulatory changes appears to be on the increase; and the need to scale services to end customers increases.

Setting out a clear Cloud strategy and governance model, which includes not just IT but information security, operational risk, business/data owners, etc. is needed as Cloud is more than just about IT.

### Digital operating model

The launch of a new digital service is not the finish line, but rather the starting line. A clear operating model is critical in order to ensure that customers are continually being engaged and serviced well. This is not just about back office operations or technical operations, but an organizational change that involves strategy, marketing, sales, data teams, etc.

### Big (and not-so big) data

Organizations only process about 10 to 15 percent of available data (*TATA Consultancy Services*, 2013), almost all of it in structured form. Typically, this data is in line-of-business silos or functionally separated from each other. An enterprise master data strategy is the first step to harnessing what is already in the organization. This information, and a drive for the insights that it can bring, will help clarify where Big Data opportunities can make these insights even more valuable.

### Organizational change

In order to move into this customer centric world, the overall organization will need to consider the following; different funding models vs traditional line of business P&Ls; different project implementation processes and governance for these enterprise capabilities; and certainly a set of people capabilities that might not exist in the business as it is today.

### Synopsis

Back to the exam question of "*How well is the life insurance industry keeping pace with rapidly changing technology?*"

It seems to me that the industry is not keeping pace but rather falling behind. There needs to be a real sense of urgency behind the seriousness of the situation and the amount of change – not just technological but organizational – that is required to get back in the game.

The technology itself is no longer the main challenge, nor is just getting a new service online. These are hygiene factors in today's world.

The real challenge is how do life insurance companies organise themselves differently to deliver a culture of constant change and evolution in order to attract customers and keep them engaged.

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# Life Insurance in a Time of Rapid Technological Change

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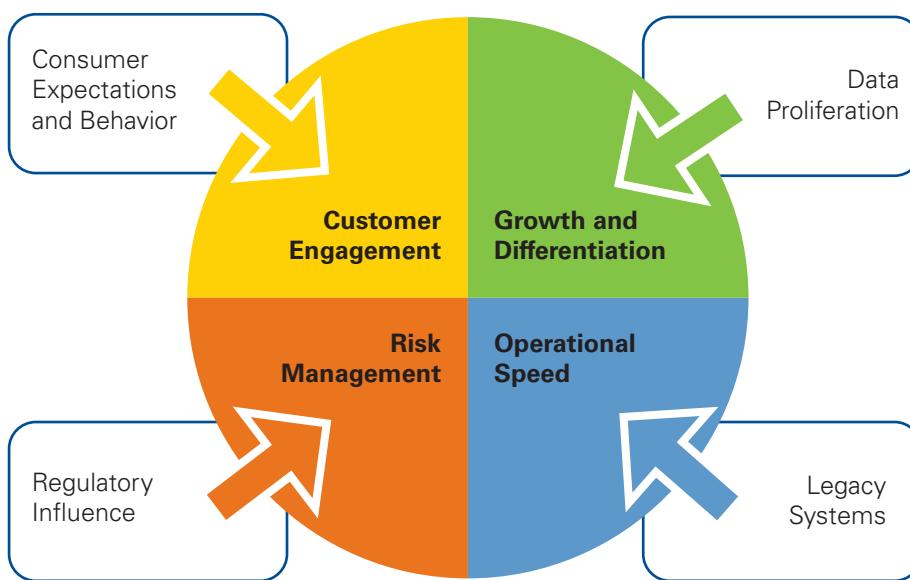


Anyone who has placed a telephone call through a switchboard operator, from a phone booth, using a rotary dial or on a brick-sized cellular phone has witnessed the steady march of technological progress. Advances in technology and infrastructure have changed the way that we connect with one another and, more fundamentally, how we experience and interact with the world in which we live. In a cosmic blink of an eye, every facet of life has been transformed by technology: communication, entertainment, healthcare, transportation, manufacturing, finance and more. Although the insurance industry may not be perceived as the nexus of technological innovation, the influence of technology on insurers is profound and a technology and data analytics race is already well underway.

## Overview

For the insurance industry, the non-stop wave of technological change creates both challenges and opportunities, but the ultimate success of incorporating new technologies is influenced by a number of internal and external factors. These factors influence how companies are leveraging technology for consumer engagement, competitive differentiation, operational speed and risk management.

The areas of focus for the insurance industry and the internal and external influences that act upon them can be represented in the following diagram,



based loosely on the “Competing Values Framework” (Quinn and Rorbaugh, 1983). Each quadrant demonstrates the push-and-pull dynamics between competing goals: growth vs. risk control and efficiency vs. engagement.

## Customer engagement

### The quantified self

Technology has created new opportunities to engage customers through the quantification of health and fitness data. Insurers such as Aviva and Discovery Health have developed wellness programs and policy riders that offer discounts and other rewards to incentivize healthy behaviors. Customers are rewarded for regularly visiting their doctors, for exercising, maintaining healthy weights and even for purchasing healthy foods. These programs aim to reduce claim costs, but they also align with the customers' own goals of higher quality of life with lower morbidity and improved longevity. As the market for activity monitors and more-advanced wearable devices expands, the opportunities for insurers to integrate these technologies into insurance products to incentivize healthy lifestyles will continue to grow.

### Gamification

Consumer engagement can be enhanced through *gamification*. Property and casualty insurers Progressive and Farmers have embedded insurance concepts inside the popular games SimCity

## Consumer expectations and behavior

The insurance buying experience is generally quite different from other consumer or financial products. Consumers have grown increasingly comfortable doing their own product research and shopping online and expect a fast, simple and secure process. In life insurance markets, where fluid testing or physical examinations are common, the timeline for purchasing insurance is often measured in weeks rather than seconds.

While invasive underwriting evidence provides very strong protective and sentinel value that allow insurers to combat adverse selection, it may serve as an impediment to efficiently reaching the underinsured younger or middle-income markets.

New medical technologies, smart phone apps and data-driven predictive modeling solutions offer opportunities to bridge the information gap between applicants and insureds while drastically reducing the length of the underwriting process.

and Farmville to increase brand awareness and drive primary demand for insurance. Life and health insurers have also developed games to educate consumers and motivate healthier lifestyle choices. Insurance is confusing to many people, and games have proven successful at reaching and educating an expanded audience; for example, games can be used to improve financial literacy and help consumers prepare for retirement. Such interaction with the customer improves the company brand and builds a bond with the consumer.

### Telematics

Telematics have revolutionized the pricing structure of automobile insurance. Instead of using broad rating variables, individuals are evaluated based on personal driving behavior. Usage-based insurance is still in the early stages, however, and it continues to expand as more companies develop programs and new technologies emerge. These programs have enjoyed broad support from regulators, as well as customers, who feel empowered, as improving their driving performance may help them receive lower premium rates.

## Growth and differentiation

### Social media

Insurers have unprecedented abilities to communicate directly with customers through social media. This can help establish a brand, evaluate competition, educate consumers and respond to customer feedback. Effective leveraging of social media can expand sales, improve communication and lead to insurance innovations. Insurers are able to refine marketing strategies to target specific audiences based on social interactions.

### Distribution channels

Traditional methods of distribution are evolving as advancements in technology provide expanded distribution options for insurers. As consumer use of the Internet grows and online transactions proliferate, insurers are able to capitalize on expanded access to sell insurance policies. This is especially true in developing insurance markets, where new products are created to meet the demands of the tech-savvy consumer.

### Microinsurance

Millions of people in the developing world have access to protection through microinsurance. Insurance companies are able to leverage mobile phone technology to expand access to remote populations. Additionally, mobile phones can be used to facilitate premium payment and claims processing.

### Data-driven analytics

Insurers are leveraging data to use in predictive models to refine policy pricing and improve risk selection. The companies that employ these models are able to offer competitively priced insurance across the risk spectrum. Additionally, data is available on competitor prices to inform demand models and understand the price sensitivity of customers as well as the relative competitiveness of the market. Data is also available on individual risk characteristics through third-party data sources such as motor vehicle records, prescription drug histories and electronic health records.

## Operational speed

### Automation

Cost reduction through improved operational efficiency is one of the clearest and most quantifiable benefits of many new technologies. By eliminating or automating routine manual tasks, insurance companies are able to realize significant gains in a wide range of applications. Electronic applications are utilized to capture data at the beginning of the policy issue process, ensuring consistent and efficient data collection.

The risk selection and underwriting process is also an area that has seen significant focus for technology-driven automation. Automated systems are deployed to bring consistency to the application of underwriting rules in a faster and more cost-effective manner, which may also enable insurance companies to underwrite the underinsured younger and middle-income markets in an economically sustainable way.

### Server virtualization

Another technological advance fueling cost savings and flexibility is

## Data proliferation

Insurance companies have expanded access to internal and external electronic data which may lead to keen new insights that improve the precision of pricing, underwriting and enterprise risk management. Integrating and mining this complex web of structured and unstructured data for maximum effect requires unique skills, analytic capabilities and business information infrastructure that insurers must develop to keep up with other industries.

## Legacy systems

One of the biggest impediments to adopting rapidly changing technology is the cost of legacy systems. As an example from the not-too-distant past, it is estimated that the worldwide spending on the Year 2000 (or Y2K) programming bug – a simple problem caused by programs that used two digits for their year fields instead of four – exceeded US\$ 300 billion.

While this may have been a wake-up call ushering in an era of systems modernization, insurance companies are still hampered by legacy issues arising from acquisition or simple inertia. An emerging area of focus on service oriented architectures (SOA) and web-based services may help integrate and simplify various processes including distribution, policy administration and claims processing.

server virtualization. The rapid increase in data often leads to a proliferation in physical servers to store that data. In addition to the direct costs, each additional server creates more maintenance, support and energy costs. Through virtualization, independently partitioned virtual servers can coexist in a single piece of physical hardware.

### Organizational alignment

The remoteness of the insurance industry from innovation hubs and technology companies creates a challenge for identifying and incorporating emerging technologies. Internal IT teams must build a culture of continual learning and network with external partners to stay abreast of the rapidly changing landscape. Even after technologies are identified, internal adoption can be challenging. This requires internal collaboration within the various silos of the IT organization and between the IT organization and the operation's business units. The 2014 McKinsey research report "Views from the front lines of the data-analytics revolution" suggests that this collaboration requires unique 'translators' whose "talents bridge the disciplines of IT and data, analytics, and business decision making." Ultimately businesses must balance the long-term potential benefits of new technology with the short-term demands for market-leading speed.

## Risk management

### Fraud detection

Technology advances play an important role in controlling and mitigating risk. At the individual applicant or agent level, advanced analytics are being deployed to help combat fraud. By integrating data from social media, public records, industry databases and internal data sources, insurers can create a powerful and holistic fraud risk profile.

### Scenario testing

Advances in computing power also facilitate more-robust stochastic scenario and extreme event testing. These scenarios can be used to model the real-world environment for the determination of appropriate levels of economic capital.

### Data security

The frequency of data breaches at retail outlets and financial institutions creates liability for those institutions and erodes public confidence. For insurers, increased access to personal data from an array of financial, consumer and social media sources may create opportunities to engage with consumers, improve risk selection and combat fraud, but also creates risks in a regulated industry. As a result, the appropriate use and protection of personal data is a growing concern for regulators around the world.

### Privacy

Privacy concerns have been raised as insurers have increased access to data through new technology. Insurers must be diligent in maintaining the trust of their customers and not misuse insured data. Some regulatory guidance is available, however it is important for insurers to proactively work to ensure policyholder privacy is not compromised.

### Looking ahead

Technology will continue to transform the insurance industry. Private investments have encouraged innovations in mobile-phone-size diagnostic tools that will rival the Star Trek tricorder, and advances in genomics may lead to individualized medical care and treatments. A future with self-driving cars may reduce motor vehicle accident risk to such a level as to make the automobile insurance market irrelevant. Advances in quantum computing will someday increase the feasibility of dealing with even larger volumes of Big Data and transform the traditional risk selection process in the insurance industry.

Despite a perception of conservative stagnation, the insurance industry has made steps toward embracing technology-driven innovation. Insurers are able to leverage technological advances to engage customers and mitigate risks, communicate more effectively, and refine pricing and underwriting. The companies that are able to use the advancements to increase efficiency and to develop new products will lead the way through the next era of technological progress.

### Regulatory influence

The basic guiding principles for data protection are well articulated by the Irish Data Commission's "Code of Practice on Data Protection for the Insurance Sector":

1. Obtain and process the information fairly.
2. Keep it only for one or more specified and lawful purposes.
3. Process it only in ways compatible with the purposes for which it was given to you initially.
4. Keep it safe and secure.
5. Keep it accurate and up-to-date
6. Ensure that it is adequate, relevant and not excessive.
7. Retain it no longer than is necessary for the specified purpose or purposes.
8. Give a copy of his/her personal data to any individual, on request.

# Using Technology to Keep Life Insurance Customers Happy

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The role of technology in the insurance industry has created something of a paradox. On one side, insurers have been intensive users of IT since the 1960's and technology is at the heart of the product; on the other, insurers have struggled to repurpose their technology investments for consumer, interaction oriented applications and can appear like laggards in digitalization.

This innovator's dilemma<sup>1</sup> which suggests that mastery of one technology cycle can inhibit success in the next seems to be borne out with the insurance industry's response to consumer digitalization. Indeed much of the value appears to have been captured and/or shifted to consumers by new entrants to the market such as aggregators; in private motor in the UK perhaps as much as GBP1 billion additional discounting costs are imposed for a GBP50 million profit<sup>2</sup>.

Life insurance has so far been less influenced by these trends of digitalization and commoditization, although term assurance is sold like motor insurance in some markets.

Nevertheless, while there appears to be a steady commoditization of life insurance at the simpler end, a recent Accenture survey suggests that many in the industry do not expect this to change the life market as radically as the P&C<sup>3</sup>. Indeed there is a measurably reduced interest from managers in life companies in prioritizing investments in customer facing technologies in favor of optimizing back office operations.

Industry practitioners may well be rational in this focus on optimization as there are many regulatory hurdles and economies of scale in administration and investment management that sustain current structures and reduce the immediacy of the threat to life insurance from digitalization.

This relative lack of interest in responding to emerging customer digital behavior, while understandable, could mean that incumbent life insurers are at risk of not addressing the three core customer challenges in life insurance:

**Consumer challenge 1: The 'geek' trap.** A high proportion of consumers do not purchase (enough) life insurance because they perceive it as overly complex and difficult to understand. Insurers can compound this with product design and presentation that is unclear and overly technical. This has historically inhibited the market penetration of life insurance, particularly amongst middle income consumers in some markets.

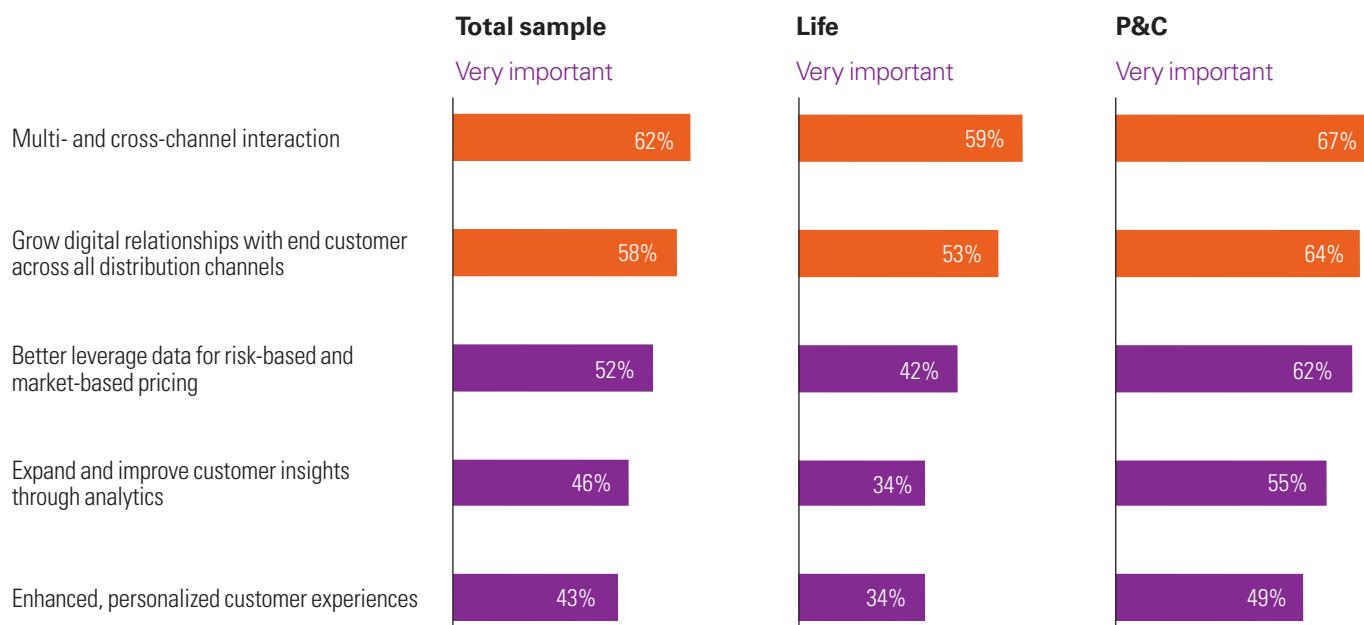
**Consumer challenge 2: The 'too much love' trap.** Many consumers who might otherwise be interested in life insurance can be turned off by the perceived 'hard sell' in some of the face to face sales channels. This is despite the very common desire to receive advice in many cases.

**Consumer challenge 3: The 'drifting apart' trap.** The core feature of life insurance, that it is a long term contract, is also one of its weaker points from a consumer perspective in that contact with the insurer can very quickly reduce to a once a year statement; the business equivalent of a round-robin Christmas card.

Digitalization can address all three of these challenges and, if executed well, can serve to boost the attractiveness of the sector overall. In order to capture the opportunity, however, insurers will need to move beyond the cost optimization mindset exhibited in the Accenture research and embrace different ways of designing and deploying products, engaging customers pre-purchase and building meaningful relationships with customers post-purchase.

### Company strategic priorities with regard to the digital transformation of sales and distribution:

#### Total sample



Source: 2013 Digital Insurance Survey: Europe, Latin America and Africa, Accenture, 2013.

## Strategy 1 – Stepping out of the 'geek trap' via simple, friendly and modular products

### The 'geek trap' issue

Swiss Re have calculated that there is a US\$86 trillion global "mortality protection gap – the extent to which families are insufficiently covered in the event of the death of the primary breadwinner"<sup>4</sup>.

Obviously this includes a great deal of factors that are the province of public policy but also demonstrates the failure of the life insurance sector to provide products that can engage all segments. Indeed, the same report identifies that only around 40 percent of people consider themselves to have insurance that would pay in the event of their death, falling as low as 14 percent for lower income young people<sup>5</sup>.

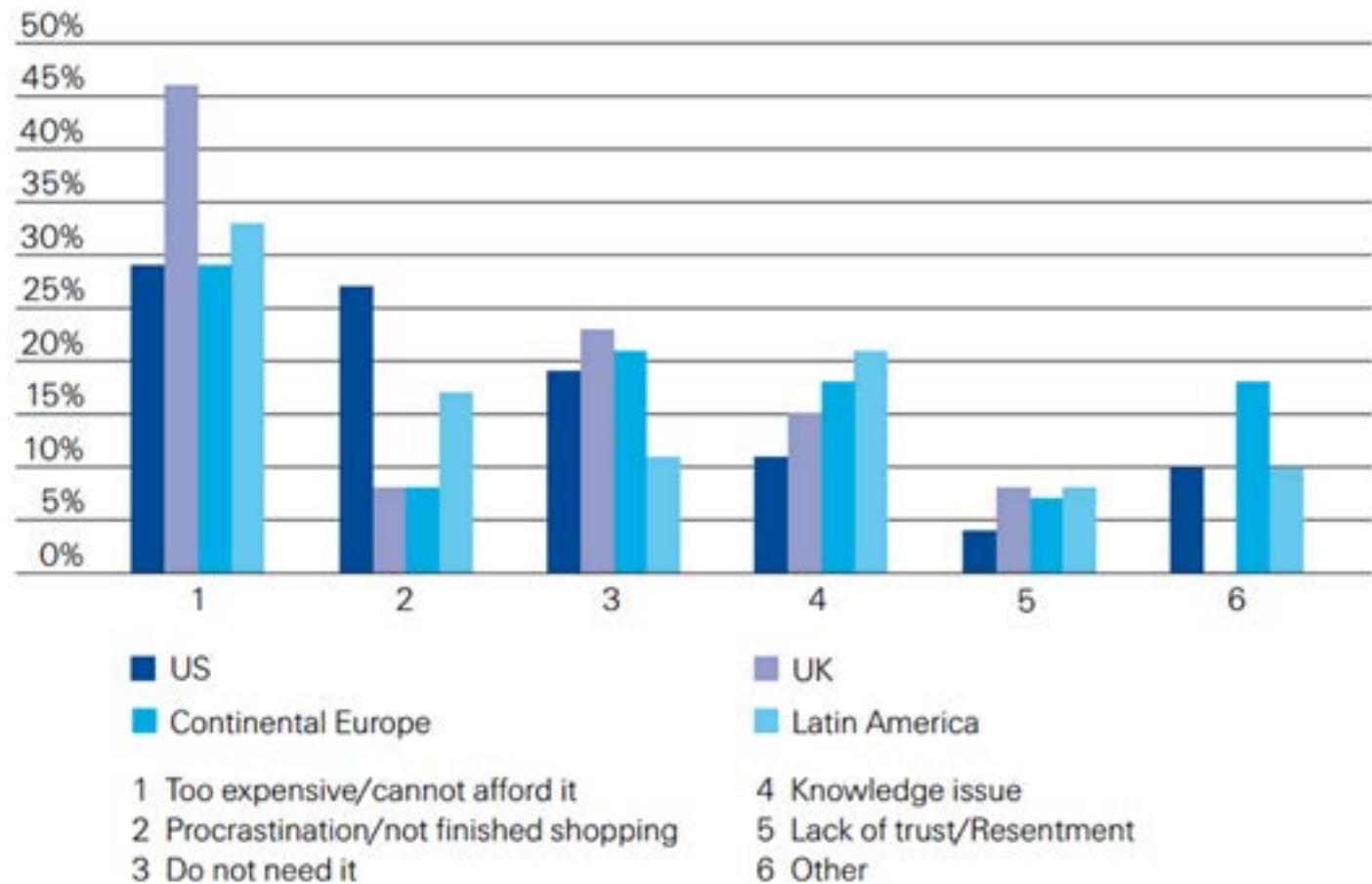
There is clearly a 'sweet spot' for engaging customers with a life insurance proposition, usually driven by life events such as marriage, having children, buying a new house, retirement etc. This means that some consumers are just not 'in the market'. Nevertheless the insurance industry contributes to this underinsurance, particularly of the middle market.

Swiss Re report that customers do not buy life insurance because they perceive it as too expensive, don't understand



it and don't trust the industry. They also don't think they need it and just procrastinate<sup>6</sup>. All of these can be addressed by well targeted and communicated propositions that strip away complexity.

### Main reasons why consumers do not buy life insurance



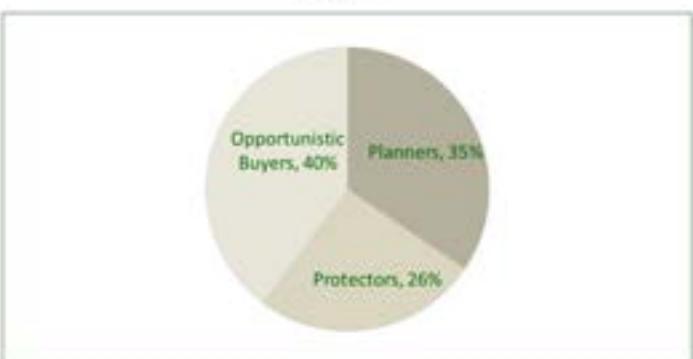
Source: Life insurance: focusing on the consumer, Swiss Re, 2014.

Indeed, the US Society of Actuaries has done some interesting research to derive psychographic segments for life insurance in the mid-market (US\$ 35,000–US\$125,000 income)<sup>7</sup>.

The core conclusion is that insurance companies tend to focus on one segment, the 'Planners', who have a strong affinity with life insurance and value the role of agents as advisors but only represent 35 percent of the market. The 'Protectors' do sometimes buy life insurance but for specific purposes and linked to life events; the 'Opportunistic Buyers' will buy if a contextually relevant offer is put in front of them<sup>8</sup>.

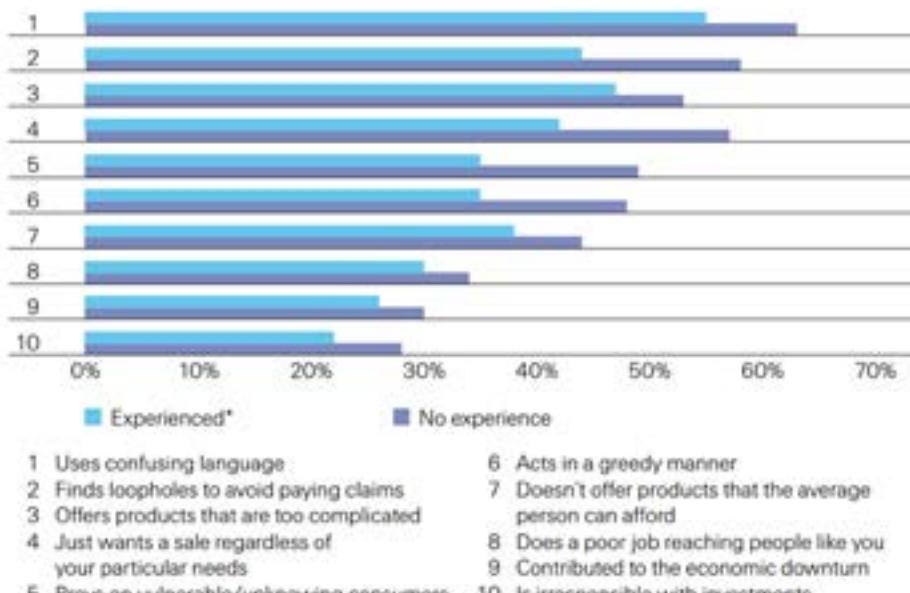
The negative sentiment of these less affine types of buyers tend to manifest themselves in the feedback that customers often give:

Total Respondent Breakdown by Segment among 25-40 Year Olds with \$35K to \$125K income Who Own Individual Life Insurance or Have Dependents  
(Total n=1,000)



Source: Society of Actuaries Middle Market Life Insurance Segmentation Program, 2012

#### Based on experience, with which of these statements about life insurance companies do you agree? (US)

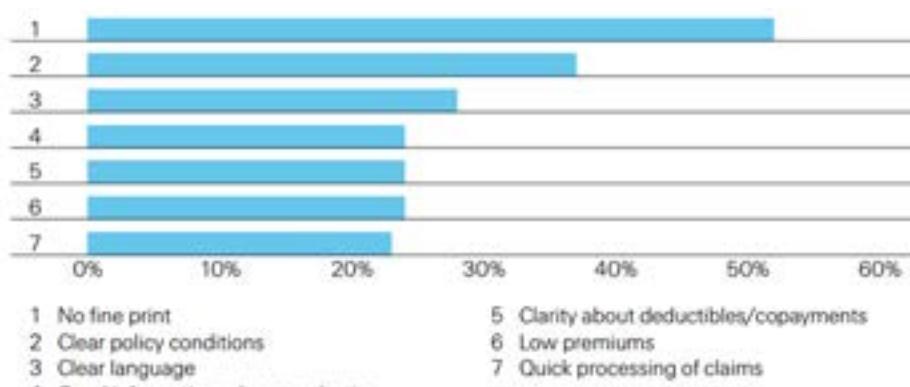


Note: \*experienced = has seen life insurance "make a positive difference" following a death

Source: *Life insurance: focusing on the consumer*, Swiss Re, 2014

The same report also, however, gives some clues as to what insurers should do to address the issues

#### What characteristics should insurers change to improve your view? (the Netherlands)



Source: *Life insurance: focusing on the consumer*, Swiss Re, 2014

## The 'geek trap' solutions

So, what strategies can companies adopt to move away from mainly appealing to the 'inner geek' in their customers and to being perceived as 'geeky' by their customers? Technology can be deployed towards three strategies:

### 1. Simplify products to appeal to the casual/ entry level buyer

Term assurance is already starting to be simplified in some markets such as the UK and Germany<sup>9</sup> and companies are offering online quotations with a short number of questions.

Simplification can also be introduced into the application processes, particularly through eliminating medical examinations via declarations. Further technology innovations in document submission and online underwriting can reduce customer inertia even further.

A common theme is disaggregating 'traditional' life insurance products into their constituent protection and investment parts. This has the side benefit of increasing transparency and improving sales compliance ahead of developments to IMD<sup>10</sup>.

### 2. Bring products to market in a consumer centric, relevant way

Segment specific offerings do exist in the life insurance industry but they are often the exception and technical, line of business oriented product presentation is the norm.

The first step can be to eliminate jargon, unfriendly forms and common consumer irritants.

To really innovate, the technology now exists to integrate biometric and lifestyle data into products. Prudential's Vitality product, for example, goes beyond the traditional boundaries of insurance and introduces a range of measures to award status<sup>11</sup> for certain health related actions on the part of the customer. It is thus as much a lifestyle product as a financial one.

A further innovation direction is to blur or cross the traditional line of business boundaries to bring compelling offerings to market. An example of this would Allianz Italy's One product which blends life and P&C covers into a single proposition that can be easily accessed online.<sup>12</sup>

### 3. Modularize to drive both efficiency AND differentiation

A key enabler to bringing innovative propositions to market is to have both a strong set of interaction technologies with customers (websites, CRM system etc) and an underlying product structure that allows configuration and bundling.

If product ideas take years to implement into core systems then the market opportunity can be lost and the proposition remain stale.

The car industry gives an interesting example of how both the target customer groups can continue to have more and more offers and yet the 'back office' / production economics continue to improve. Volkswagen Group, for example has introduced extensive modularity into its range via its *Modulare Baukasten (MB)* strategy that standardizes on elements that are less visible to consumers so that there are significant shared components and economies between multiple brands yet more, and more differentiated, models in the market<sup>13</sup>. Efficiency does not necessarily need to be sacrificed to achieve differentiation.

### Strategy 2 – Wooing the customer at their pace, taking account of their 'ROPO' behavior and not offering 'too much love'

#### The 'too much love trap' issue

The evolution of digital means of interaction between insurance companies and customers has been held back by one very significant feature: insurance is often sold via face to face sales channels AND customers generally like it that way.

There are a few factors at play in online versus offline insurance distribution.



The first is that not all markets are the same in terms of their desire for online versus offline interaction. In Australia, a quarter of life insurance sales in 2013 were via Direct and the sector is predicted to account for 40 percent of new insurance business by 2021<sup>14</sup>. Dutch consumers are happier to complete purchases online than those in Asia, see Ernst and Young chart, below<sup>15</sup>.

The second is that where the transaction takes place is really not the point in understanding if insurers are responding well to digitalization. In the early days of the web, e-commerce was seen as a substitute for offline interaction and much of the early investment in web technologies for insurers were aimed at stripping cost out of the business model. This has left two negative legacies; the first is that insurer websites can often fail to strike an adequate balance between cost cutting and user experience; the second is that insurers' agents and brokers remain, rightly, concerned at the intention of some digital initiatives.

Consumers, however, are ahead of the industry debates and are blending their use of offline and online channels. In

this omnichannel world, web journeys are proliferating BUT increasingly less predictable AND not necessarily likely to result in a transaction. Offline interactions are, at the same time, very relevant but perhaps only for part of the journey, whether at the research stage (e.g. brochures from a travel agent, car dealers) or at the transaction stage (as is common in insurance).

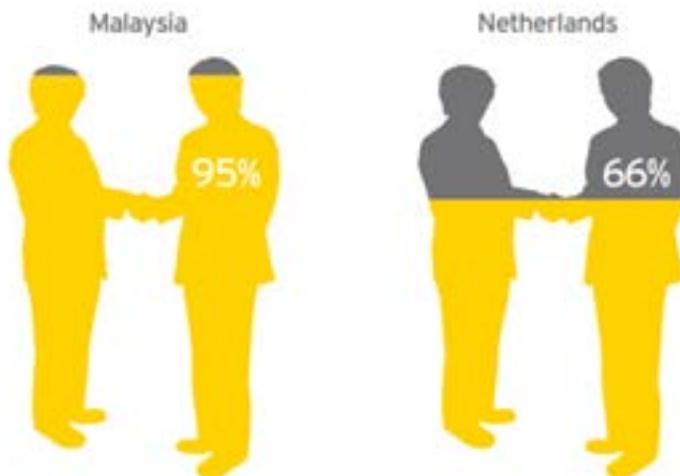
This ROPO (Research Online, Purchase Offline) behavior is well-documented across multiple industries and very visible in life insurance. Ernst and Young identified that, while 27 percent of European life insurance customers researched online for their last purchase, 65 percent expect to do so for their next<sup>16</sup>. This is despite the channel mix statistics, reported based on where transactions happen, moving at a much slower pace<sup>17</sup>. In addition there is a sizable, and potentially affluent, minority (14 percent in Europe in 2011 and between 9 percent and 20 percent by country) that reject face to face interaction 'to avoid pushy salespeople' and because it is 'more convenient to research & purchase through the 24-hour web.'<sup>18</sup>

### Life and pensions. Importance of personal interaction when making a purchase

#### Regional average



#### Highest and lowest countries



● Respondents saying personal interaction is essential/very/fairly important when buying

Source: *Global Customer Insurance Survey*, Ernst & Young 2012

## The 'too much love trap' solutions

Achieving a meaningful dialogue with customers that gives them the feeling of being in control is challenging as it requires some subtlety and sophistication in executing digital interaction PLUS a significant effort in helping offline sales channels to adapt.

### 1. Have a first class digital presence that really educates and entertains the customer

Generating customer 'pull' and achieving customer centricity is a stated object of many insurers<sup>19</sup> but is notoriously difficult to achieve in marketing communications for what is traditionally seen as a 'dull' category.

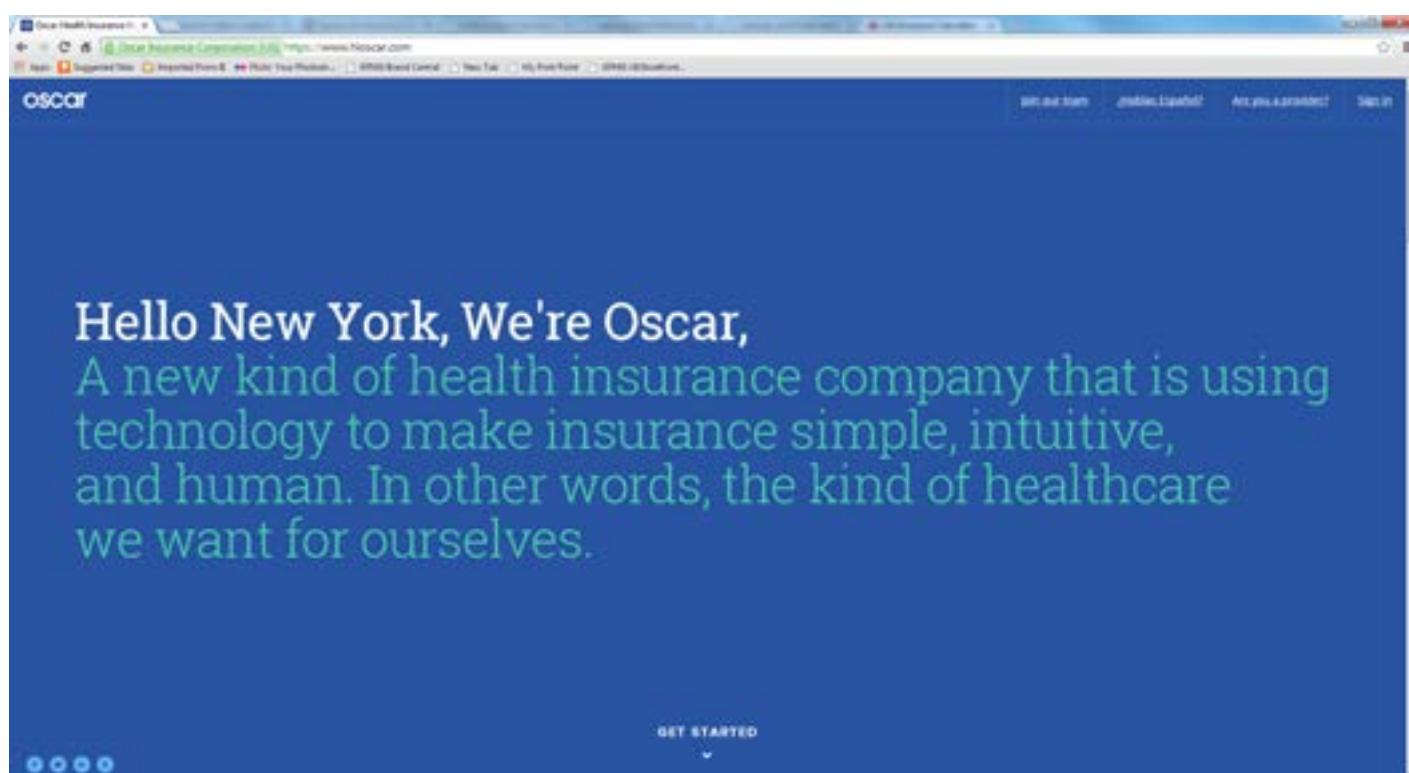
Nevertheless, some are achieving breakthrough, at least in terms of quality of execution. State Farm, for example, have an excellent (although quite well hidden) 'Life Needs Calculator'<sup>20</sup> that is engaging and demystifies life insurance in a very straightforward way. It also leads to quotation information without the 'hard sell' and without requiring excessive information from the consumer.



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Source: <https://www.statefarm.ca/insurance/life/resources/life-needs-calculator>

Similarly, admittedly in health insurance, Oscar has created quite a buzz by focusing on digital natives and providing a 'web and mobile friendly aesthetic designed to make the insurance experience [smooth]<sup>21</sup>.



Source: <https://www.hioscar.com>

## 2. Help the offline channels embrace digitalization of their way of working

The deployment of advanced interaction technologies to sales agents and other offline channels is now gathering pace with announcements of multiple tens of thousands of tablets to sales forces around the world<sup>22</sup>. These deployments can either provide a tightly integrated set of applications and hardware that are dedicated to the selling purpose, or they can offer apps that the agent can download and set up themselves. They can also encompass very rich, in office, digital experiences with large touch screens.

Either way, the functionalities are similar in that they allow agents to:

- receive leads generated by digital marketing
- run face to face meetings in a more interactive and visual way
- allow straight through processing of customer applications, scanning appropriate documents

The net effect of deploying these technologies into offline channels is to enrich the dialogue with customers away from the transaction and towards needs assessment and rapport building while reducing administration overhead for the agent.

## 3. Encourage offline channels to interact with customers digitally

The other aspect of creating the omnichannel experience for customers is to leverage the digital presence of agents,

particularly via social media. This can benefit both the sales and marketing metrics.

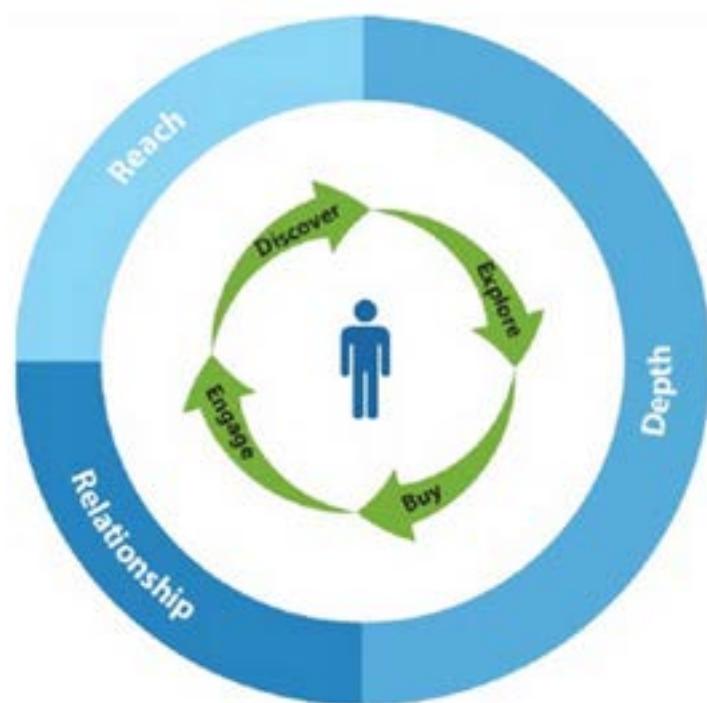
For marketing, if agents are active on social media platforms they can achieve much higher relevance and therefore reach than pure corporate marketing messages. This is true, in particular, for Facebook where 'organic' reach for corporate brand pages is reported to fall to as low as 1-2 percent<sup>23</sup> without supporting ad spends. By being local, connected to a smaller number of people and with more 'natural' content, agents themselves can create a very meaningful digital footprint.

In addition, in sales terms, agents can gently be part of conversations over a longer period with helpful content and, having established advisory credentials online can then be there when customers are interested in discussing specific products and services. In implementing this there are both technology hurdles and cultural ones.

Technology tools do, however, exist in the marketplace and can support agents in their use of social media, as well as manage the compliance and reputational risks that come with allowing distributed posting of content by people associated with a brand (e.g. Hearsay Social<sup>24</sup> or Hootsuite<sup>25</sup>).

The cultural aspects of training agents in a new way of communicating and in facilitating a real lineup between sales and marketing can, however, be more thorny and an integrated approach is more likely to be successful<sup>26</sup>, although this is not so often achieved!

### Key social tools for marketers across the customer life cycle



Source: *The Future of Social Selling*, Forrester Research, May 2013



### Strategy 3: Avoiding 'drifting apart' by investing in the relationship with frequent and meaningful interactions

#### *The 'drifting apart' issue'*

Persistency is important for both the economics and the reputation of life insurers.

In economic terms, high persistency rates contribute to good liquidity, better spread of fixed costs and better mortality experience<sup>27</sup>, indeed "a 10 percent improvement in persistency can deliver a 2 percent to 4 percent improvement in embedded value"<sup>28</sup>.

In reputational terms, low persistency can indicate mis-selling issues and can result in a perception of customers being treated unfairly when they lose accrued premiums<sup>29</sup>.

According to the US Society of Actuaries, persistency rates have been modestly, but steadily, declining in recent years<sup>30</sup> although are perhaps starting to stabilize from 2010. There appear to be two main phases where a lapse is most likely:

- In the first year or so – this would suggest a bit "too much love" (see above) has entered the sales process and that customers regretted their purchase.
- A less obvious but equally important type of lapse is when customers and the company just 'lose touch' and/or the customer questions the ongoing relevance of their policy.

To address the second point, insurers try various strategies including one off premium policies, no lapse policies etc.

These can be effective to some extent but there is also a significant opportunity by driving frequency of interaction up.

According to Ernst & Young, there remains a perception in the industry that life insurers can't influence persistency and therefore investments are low. Where the regulatory environment is challenging there seems to be less incentive to make the additional effort<sup>31</sup>.

This appears to be a mistake as it is proven that a good quality (and relevant) interaction can significantly increase Net Promoter Score (by around 30 points<sup>32</sup>). In addition, while it is true that multiple product sales are relatively rare at circa 19 percent, good quality contact can also influence cross and up-sell if products are intelligently bundled and presented at the right moment<sup>33</sup>.

### The 'drifting apart' solutions

Generating meaningful frequency of contact is hard for a category where the customer hopes never to consume the product. Nevertheless it could and should be possible to use digital techniques to reinforce the life insurance value proposition post purchase and to increase the value of the existing customer portfolio as a result.

#### **1. Invest in meaningful, frequent interaction**

P&C oriented insurers such as Geico and Progressive are somewhat ahead of life insurers in terms of providing meaningful integrated ways to maintain frequency of contact with insurers.

Mobile apps such as those from Geico, Progressive and USAA<sup>34</sup> are already demonstrating three clusters of functionality:

- Firstly, competently and intuitively presenting the customer with their policy information. The proposition to the customer here is "you don't need to worry about not having the information to hand"

- Secondly, easy information and quoting on additional products
- Thirdly, value adding features and content that customers might want to return to. These can range from games (less relevant) to lifestyle tips, loyalty bonuses and health monitoring (more relevant).

Recent innovations in wearable devices and the 'internet of things' make the possibilities for insurers to participate in frequency driving services even more feasible and lower cost.

## **2. Leverage the higher frequency products (P&C or health) to drive frequency and upsell/ cross sell**

Obviously the easiest and most organic way to drive up frequency of interaction is to have products that have interaction built into them.

This can be an advantage to companies with both P&C and Life products in that a relationship in one product area can be expanded to cross-sell another; e.g. the cross selling of a travel insurance product to a term life customer.

In addition, the additional perceived switching cost to the customer of having multiple contracts has a halo effect on life insurance retention.

A prerequisite here is that companies invest in both a single customer view unifying their back end systems AND an attractive (preferably including mobile) way for customers to interact across products.

## **3. Learn from telecoms – use analytics to spot high risk customers and intervene at the point of lapsing – perhaps with a better offer**

Finally, in P&C insurance and in other industries such as telecoms, customer retention techniques are achieving some level of sophistication.

The first and most obvious activity is to institute a 'saves' team or retention oriented lapse process. This is common practice in direct P&C companies and telcos; the key issue here is to empower the team with enhanced offers.

At the same time it is important to not diminish trust via this process, particularly when customers have been loyal for a long time.

In order to overcome this trust issue, telco's see customer retention as the primary<sup>35</sup> application for 'big data'. The really critical opportunity is to spot customers who might be about to defect and connect with them in a positive way. If handled correctly this can boost loyalty and increase revenue if they can be persuaded to move to another product.

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- <sup>7</sup> Walter H.Zultowski, *Middle Market Life Insurance Segmentation Program*, Society of Actuaries 2012, p7
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- <sup>29</sup> <http://www.equitymaster.com/5minWrapUp/charts/index.asp?date=02/26/2014&story=1&title=Persistency-rate-of-insurance-policies>
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