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Interview: Dr. Winfried Heinen

Chairman of the Board of Executive Directors, General Reinsurance AG, Cologne

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Dr. Winfried Heinen joined Gen Re in 1988. Having serviced Gen Re's Latin American Life/Health business from the Cologne office for three years, he was transferred to Mexico City as regional manager for Latin America. In 1996 he returned to Cologne, taking responsibility for Gen Re's German Life/Health business. He later assumed the position of chief actuary Life/Health. In 2007 he was appointed to General Reinsurance AG's board of executive directors, of which he became chairman in July 2016. In April 2008 he was also appointed to General Re's board of executive directors. He holds a Ph.D. in mathematics and is a member of the German actuarial association.

Gen Re is a strong player in the global life and health reinsurance business: Which markets do you operate in?

Gen Re is active in North America and internationally. We offer life and health reinsurance protection for critical illness and disability income insurance portfolios as well as group and individual life. We've developed a full range of solutions and services in all areas of risk assessment for biometric insurance risk. We have proportional and non-proportional coverages for all kinds of biometric risks, and our life/health experts are equipped to specially tailor programs to meet individual carrier's needs.

The global life and health markets we operate in include emerging markets and mature markets and they all have their own characteristics.

In high growth economies like China and India the primary life and health markets are growing strongly, compared with the mature economies of North America and Western Europe, for example. There is still a big protection gap in emerging markets that needs to be closed, but nevertheless as such economies grow, their mortality and health, and disability insurance sectors grow as well. Gen Re will expand in those growth markets alongside our primary insurer clients.

It's not the same picture in developed markets. Here, a more recent trend influencing reinsurance purchasing is the wish of some primary companies to de-risk their balance sheet. It's an imperative that's driven by a combination of the capital markets, and also regulatory compliance to do with Solvency II or equivalent regimes. At Gen Re we are seeing more and more opportunities to acquire existing books of business, rather than the primary companies retaining them.

Digitization is a big topic across the global financial services sector: Is the life insurance industry embracing the digital age, in mature and emerging markets?

A digital evolution is happening in both mature and emerging markets, albeit at a different pace in each, as life insurers respond to changing consumer habits. It's interesting that consumers are frequently more open to digital channels in emerging markets. In China, for example, people are obsessed with technological developments and they have embraced digitalization enthusiastically.

But that said, consumers in the mature markets are also opening up more to digital channels.

So digitization is a topic around the world—and not necessarily the preserve of either emerging or mature markets.

But emerging markets are ahead of mature markets in the take up of digital channels?

It just depends on the level of infrastructure in particular markets. Emerging markets have demonstrated fast take up because they have no legacy "infrastructure" in the way. It means that they have been able to jump several steps at a time.

There are also demographic and cultural aspects. Older consumers in mature markets are used to doing things in a certain way. They believe that the status quo has worked well for them and that makes them more cautious, resistant to change, when it comes to adopting new ways of doing things.

There's also a big difference in attitude among insurance carriers in the different markets, in my experience. For example, when I talk with insurers in Asia about new technology they see opportunity. When talking to European insurers, risk is their main preoccupation. They are worried about defending their market position on the one side and about data privacy, regulation and such on the other.

But digitization is radically changing the face of the life and health insurance markets—even disrupting them—to use that buzzword?

Sometimes I think the language used around the topic of digitization is rather inflammatory. The term disruption is particularly alarming. As an industry, we have faced technological changes in the past and we have mastered them. The life and health industry continues to do what it has always done: pooling funds from many to pay for the losses of some, thus giving those individuals—and society as a whole—financial stability. That role is not changing so much. What is changing is how we do it. That's where the new technology comes in.

So how should insurers think about digitization, in the context of evolving their strategies?

The consultant Interbrand invented the term "Mecosystem." It's an interesting concept that explains a lot of what is happening in our industry. According to them, if an ecosystem is an interconnected system in which devices interact, the Mecosystem puts you at the center of those interactions.

In the good old days when you needed to buy something, you had to leave your home and go out into the world to shop. With new technologies, the world comes to you.

To quote Interbrand, "Within the Mecosystem paradigm, you are at the nexus of the system."

How do you relate the Mecosystem to life and health insurers' proposition?

The Mecosystem is characterized by three things: easy access, transparency and customer-centric offerings.

I put a question mark over transparency; it's a proxy for something else in my opinion. OK, so you know the price of a product. That's not the real value though; the real value is having trust, being confident in getting a fair deal in a complex world. It's about transparency, but it's mostly about building trust. People don't necessarily want the best deal, they want a fair deal.

Customer-centricity is another fuzzy area. Often, what people buy is the perception of a customer centric product. The product is not usually tailored to you in reality; what's offered is an off-the-shelf product presented as if it were made for you. In reality, it's a product that's available that suits you.

Is the insurance industry close to developing a Mecosystem?

Is there easy access to life and health insurance products? No. In fact, we are one of the few industries that reserves the right to choose its customers. When you go into a shop, you can buy whatever you want if you have enough money. When you want to buy insurance the insurer says, "Thanks for contacting us, but first we want to check if you are good enough for us." We don't give easy access.

Then there is transparency and trust. On trust, let's face it, no one understands the wording of insurance products. It is opaque legalese. Then there is trust. The way to gain your client's trust is by getting to know them. With life insurance, the customer buys the policy once and then they never hear from the provider again. This low frequency of contact makes it impossible to build trust.

Lastly, there is the question of customer-centric products. Insurance products are bought off the shelf and they don't change for years—so it's quite unlike the Mecosystem.

How can life and health insurers change to adapt to the Mecosystem?

On the question of easy access, clearly we still need to select clients for the good of the portfolio and other policyholders. But we can make the process easier than it is today. You can achieve that through product design or through process. Insurers can reserve the right to select their customers, but it doesn't need to be so difficult for them.

Instead of using lengthy questionnaires, for example, maybe consider other data that could make the process smoother or easier. Underwriting "machines" that make use of Big Data can ease the onboarding of customers in this way.

Some insurers are already working on the trust issue. In a number of countries, most notably the U.K. and South Africa, the life and health insurer Vitality incentivizes its insureds to keep in touch. They operate something like a loyalty program by giving rewards and discounts for policyholders that demonstrate they have a healthy lifestyle. You can obtain discounts on premium and also rebates on cinema tickets, like a typical loyalty program. They ask for information like how many steps you walk, sports activity, nutrition, etc., in exchange for a better premium. This approach feeds into the "customer centric" bucket. But importantly, it's an approach that establishes constant contact with the customer.

In a sense, it's an old idea that makes use of new technology.

What role can a reinsurance company like Gen Re play in this changing environment?

Going back to those three buckets I mentioned earlier, Gen Re can help insurers improve the prospective client's access to products and can also contribute to designing customer centric offerings.

Both of these challenges are data driven and at Gen Re we have accrued substantial actuarial, underwriting and medical data resources. It's a trove of diverse data that's derived from many products, different companies and in different markets around the world.

Is it fair to say that insurance companies have no choice but to go down the digitization route, to stay competitive?

It is not necessary to panic. In a lot of countries, in Europe for example, most customers are happy with the particular insurance company they use. There is a general dissatisfaction with insurance per se among consumers—after all no one actively enjoys buying insurance.

But, if you ask people if they are satisfied with their particular insurer the answer is usually yes. So, individually, insurers are doing some things right!

Insurers have to react to the changes taking place, but not over react. As a society, we are not completely replacing our analog lifestyle with a digital lifestyle. And at the same time, even older people use new technology in addition to the old ways.

It means insurers have to be "digital" as an additional channel. But don't throw away what has worked well in the past. My advice is react but don't over react. As the expression goes: "Don't throw the baby out with the bath water."

You haven't mentioned disruption and the potential for big non-insurance corporations like Google or Amazon to move into the life and health insurance business. After all, they are already well adapted to the Mecosystem.

They do have a lot of data and of course we do talk to them. But they know surprisingly little about insurance. Also they are quite hesitant about entering a heavily regulated market like insurance. I have my doubts that Google or Amazon will come up with a risk carrier of their own. They might show up in the intermediary field as an alternative sales channel, however.

Finally, what's your message to actuaries? What impact will digitization have on the actuarial profession?

The angle for actuaries is that a lot of what's happening is data driven. Managing data and, closely related to that, recognizing structures are core competencies of actuaries. Actuaries' skill in manipulating and managing data will continue to be the keystone of the insurance business. The insurance world will become even more quantitative as a result of digitization and analytical thinking is a typical strength of the actuary. So, digitization is good news for actuaries; it is a really good time for actuaries. ■

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