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From UK Mutual Life Insurer to Global Investment Company: Standard Life's Transformation

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GLOBAL DRIVERS OF INSURANCE INDUSTRY CHANGE

There is a growing awareness among many insurers around the world that traditional insurance business models may need to change to become sustainable over the longer term as a number of factors converge to drive industry change:

- The past 30 years have been characterized by a secular fall in interest rates, which have now reached record low levels. Figure 1 uses historic 10-year German government bond yields to illustrate this phenomenon.
- The advent of modern risk-sensitive solvency regimes in conjunction with market-based asset and liability valuations

Figure 1
German 10-year government bond yields



have crystallized the costs of the risks and long-term guarantees, including asset risks accumulated on insurers' balance sheets. This has encouraged insurers to place greater focus on product design, investment strategy and solvency capital requirements.

- Rapidly accelerating growth in conduct regulation, designed to protect customers from unfair treatment, high commissions and opaque charging structures, presents additional requirements for insurers.

Standard Life Investments' European Insurance Survey affirmed and validated these drivers of fundamental change in the European insurance industry. For example, it found that 43 percent of European insurers were unable to price new guaranteed investment products at competitive rates. Similarly, 73 percent felt that Solvency II was restricting the design of their investment portfolios. The survey can be found at https://www.standardlifeinvestments.com/INS_EU_Survey.pdf.

The cumulative effect of these pressures and constraints has led insurers to consider new business models, often characterized by the following features:

- In capital-light, investment-linked savings propositions, customers take on more investment risk, supported by innovations such as risk-based fund ranges.
- The investment solution is increasingly a key differentiator, and specialist investment management skills are often needed to ensure an appropriate outcome is achieved for customers.
- With transparent charging structures, the customer is fully aware of the costs of the proposition and any advice received.

STANDARD LIFE'S TRANSFORMATION

Over the past 20 years or so, in response to the global drivers of change already discussed, Standard Life has transformed itself from a traditional, UK-focused, mutual life insurer, owned by its members, to a publicly listed global investment company.

The interest of many insurers worldwide in Standard Life's business model transformation story has been piqued, especially as they consider their own futures. The story is told in full in our recent white paper: https://www.standardlifeinvestments.com/WP_UK_Mutual_Life_Insurer_to_Global_Investment_Manager.pdf. ■



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