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Reinsurance Reloaded

By Mark Prichard

In Brief. The collective investment in transforming the life insurance proposition exceeds anything seen in the last 30 years—a working lifetime. As one would expect, reinsurers are playing a major role. The past five years have seen global reinsurers raise the bar on client experience to new levels, while also investing, expanding and re-organizing to support the transformation of the primary insurance industry, and, in so doing, also their own.

NMG Consulting’s annual Study of the global life & health reinsurance industry (the Study) is now familiar to many, including approximately 1,500 people across more than 50 countries that contribute their time to interviews annually.¹

The Study itself has been a great source of insight into market trends and has been used by reinsurers to develop strategies to deliver better client outcomes over time.

It has been a fascinating journey so far, particularly witnessing how reinsurance executives and teams have become expert in assimilating customer perspectives into the way they conduct business, and how these insights have impacted strategies over time.

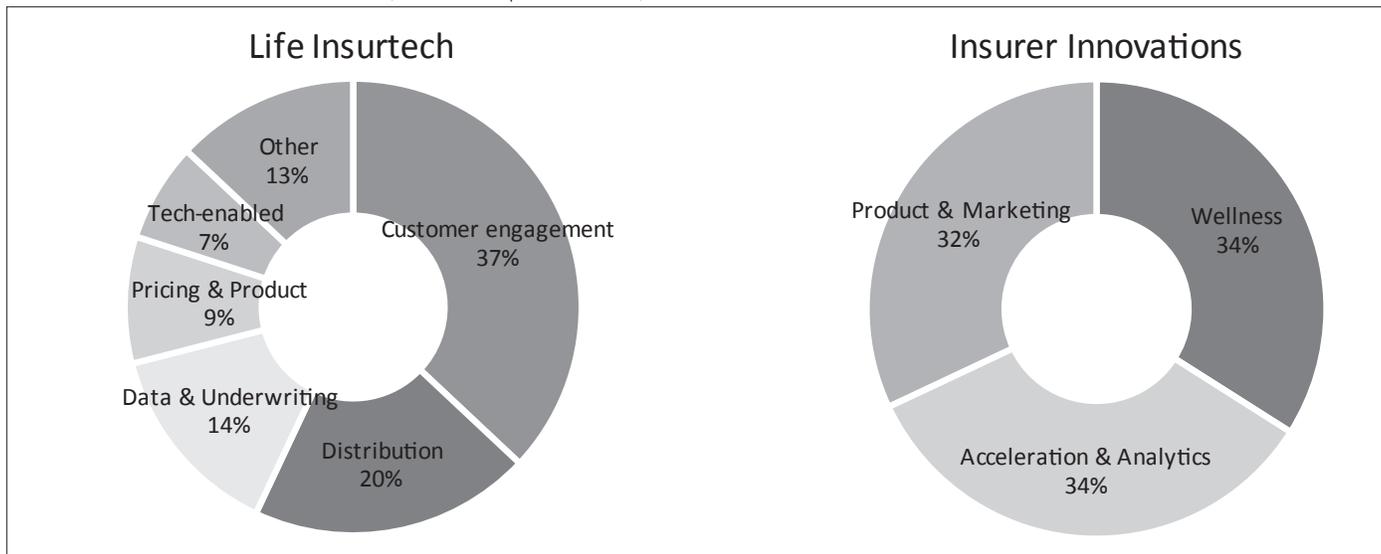
UNPRECEDENTED CHANGES

The life insurance industry is engaged in a dramatic transformation that has passed through several phases. What started as an initial period of reflection was followed by a level of confusion, subsequently advancing to a state of continuous innovation that has been characterized by the rapid adoption of new technologies and business models. For several years, NMG has been tracking the industry’s leading innovators on a global basis, as well as the profile of their innovations. It is clear that the momentum of the innovation effort continues to build without any near-term expectations of peaking.

Life InsurTech ventures are important partners in the transformation process, although these contributions are often obscured due to the huge media and industry focus on P&C InsurTech. Our data suggest that P&C InsurTech swamps Life InsurTech by a factor of ten, in terms of investment and number of businesses, but nonetheless there are 50 or more Life InsurTech ventures of significance around the world, although most of these remain domestically oriented and are yet to progress to scale. For now.

Embedded at the core of this transformation is a recognition that as an industry we’ve made life insurance products particularly difficult to acquire for retail customers; in this respect the U.S. industry has set the benchmark! Another recognition is that current life insurance products lack elements that are now considered essential for today’s digital consumers (which includes just about everyone by now). Finally, there’s a growing realization that the way in which insurers address customer segments and approach the process of underwriting is set for fundamental change.

Figure 1
InsurTech & Innovation Themes (Global Top 50 – 2018)



As a result, Life InsurTech activity is significantly focused on finding new ways to frame the customer experience (“CX” in the new parlance), with customer engagement at its core. While a life insurance product may never hold the same broad appeal as an iPhone, we’ve seen Life InsurTech CEOs talk about their offerings with a similar fervour. Equally InsurTechs with a focus on new distribution opportunities carry significant upside, as they address the perennial difficulty of securing new customers. However, prevailing levels of enthusiasm notwithstanding, life insurance is set to remain a sold product for a while to come, because none of these improved offerings are able to sell themselves.

We expect that insurers will be able to point to only modest achievements for these early-generation innovations, and the majority of InsurTech ventures will find the timelines to success protracted relative to their expectations (with some infinitely deferred!). This is not to suggest that much of the current activity is without merit. In fact, to the contrary, ideation remains one of the most difficult elements of innovation, surpassed only by finding successful forms of operational excellence in these same domains, as many of the InsurTech trailblazers are now experiencing.

The bigger point here is that the collective desire to take advantage of new technologies (especially open APIs) to transform the way life insurance (protection) is sold and managed is without precedent. We know from experience (taking guidance from Amara’s Law) that we are prone to over-estimating short-term progress, while underestimating the medium to long-term

impact of some of these changes. The industry might be doing better than we think.

In this regard reinsurers have a major role to play in framing new strategies and have reorganized to participate actively in these transformations. The question about the commencement of reinsurer involvement is not one of “if or when?”, but instead “how long ago?”

THE BEST-EVER CX

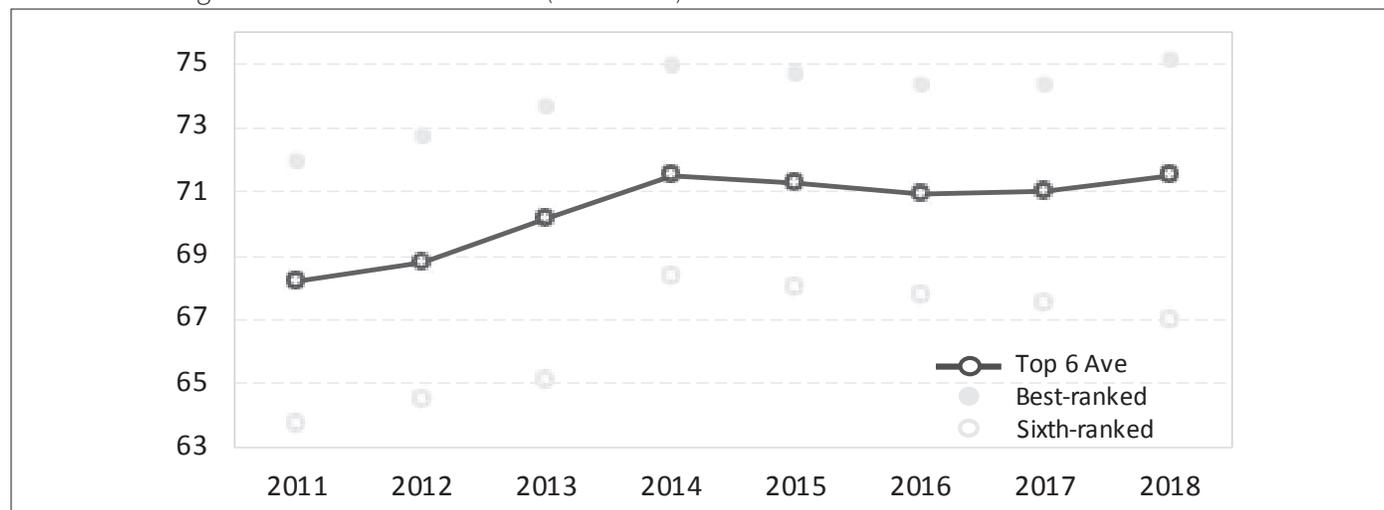
This claim should be uncontentious, although perhaps not obvious until one has taken a moment for contemplation.

After two decades of strategies aimed at putting the customer at the forefront, more recently supported by new technology capabilities, companies across a wide range of industries have successfully created customer experience outcomes never before seen at equivalent scale. Unfortunately, few of these are in the life insurance industry, at least for the time being.

This is not to say that there aren’t plenty of examples to witness of very poor customer engagement (certain airlines and telcos spring to mind), but when done well, the case for “best-ever” (in many domains) is a compelling one. There are also enough best-ever cases to have reshaped our collective rising expectations, which will not subsequently subside.

This is relevant context for life & health reinsurance industry, where NMG’s Business Capability Index (BCI) has reached 70 or higher for the past five years, a significant uptick from prior years (see Figure 2).²

Figure 2
The Rising Tide
Global BCI Ratings—Life & Health Reinsurance (2011–2018)



Source: NMG’s Global Life & Health Programmes

This broad-based performance uplift for reinsurers can be attributed to multiple sources, including the narrowing of the competitive gap between the six largest reinsurers (by total premiums). Additionally, reinsurers have deployed service-led segmentation strategies, better matching propositions to client needs (including global accounts), as well as broadened offerings to include financial solutions, longevity and technology solutions. We propose however that the most pervasive, and perhaps permanent factor is that reinsurers now place a value on the customer experience beyond a narrow assessment of the client P&L. Reinsurers have a much greater appreciation of lifetime client value and have derived regularly-reviewed metrics for its articulation and study.

AUTOMATION

In the 24 months prior to 2016, reinsurers had successfully installed (or received firm commitments for) 100 new automated underwriting systems (AUS) globally. In 2017, we named them the “Life InsurTech Pioneers,” making the point that these significant investments made by reinsurers should be included in an assessment of the life insurance industry’s early progress in InsurTech.

Reinsurers have since built on this momentum with the total number of reinsurer installations exceeding 250 at the end of 2018. Incumbency has carried some advantage, but it is noticeable that those recently-developed systems have done particularly well in the markets where they were originated.

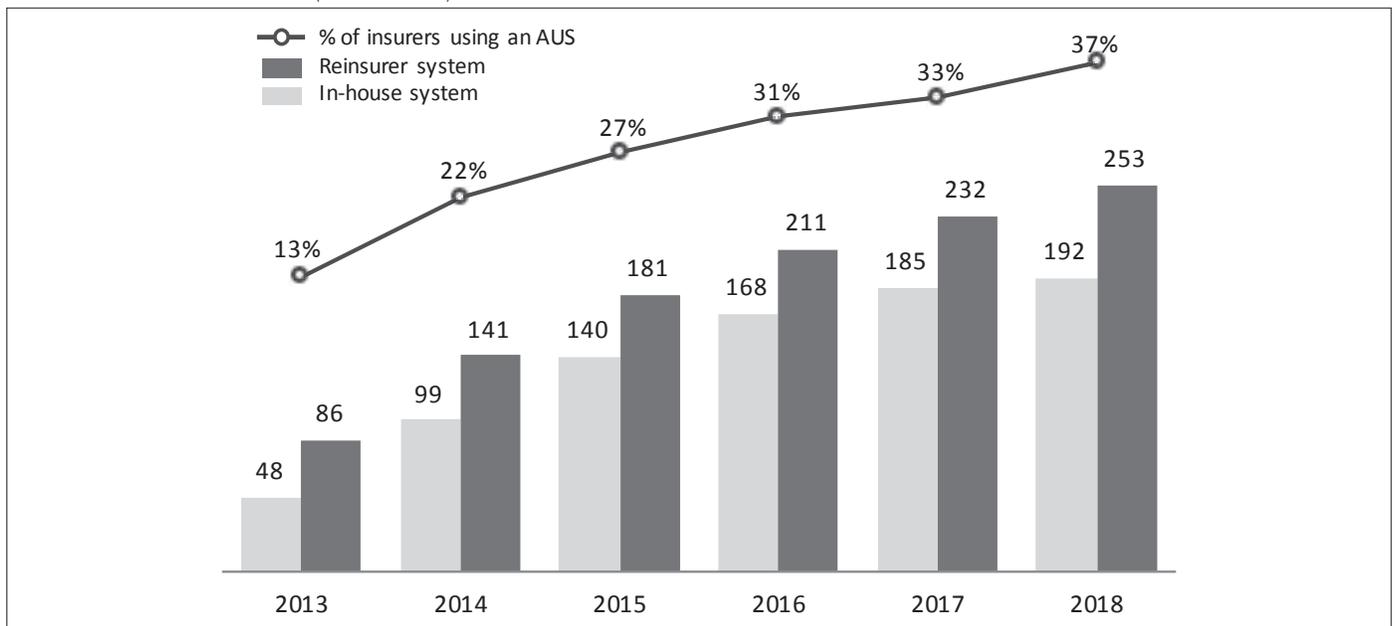
Evidence indicates clearly that the veracity of the underwriting rules engine is seldom if ever the reason for selection, with insurers’ assessments being driven instead by preferences for contemporary technology platforms, intuitive interfaces and the capacity to incorporate external data sources over time.

Insurers have in the meanwhile continued to develop and invest in in-house systems, although as we expected this trend has slowed, particularly after most reinsurers chose to double down on their AUS investments. With greater visibility of expanding AUS technology capabilities (not to mention rising development costs), the growth of in-house systems is set to taper further (see Figure 3).

It is important to note that a simple count of the number of installations is not sufficient for success. Reinsurer balance sheets are capital-intensive, and thus these investments need to translate into increased returns over time. Reinsurers have adopted different strategies, both aligned (where the AUS is made available only as a reinsurance client) and non-aligned. An increased proportion of reinsurer-owned systems were non-aligned in 2018, meaning that reinsurers may be willing to take a deferment of the ultimate objective (ceded premium).

Growth in automation makes for a great narrative, and the new efficiencies and minimum risk standards brought as a consequence are real. In this instance, automation does not mean machine learning. Today’s AUS mostly encode the decision frameworks used by human underwriters, and thus represent

Figure 3
AUS Profile & Penetration (2013–2018)



a digitization of the intellectual property built by the industry over the past century. This means that today's AUS may well be the last of the "reflexive question" systems prior to the launch of the next generation intelligent systems currently in development testing and beta deployment.

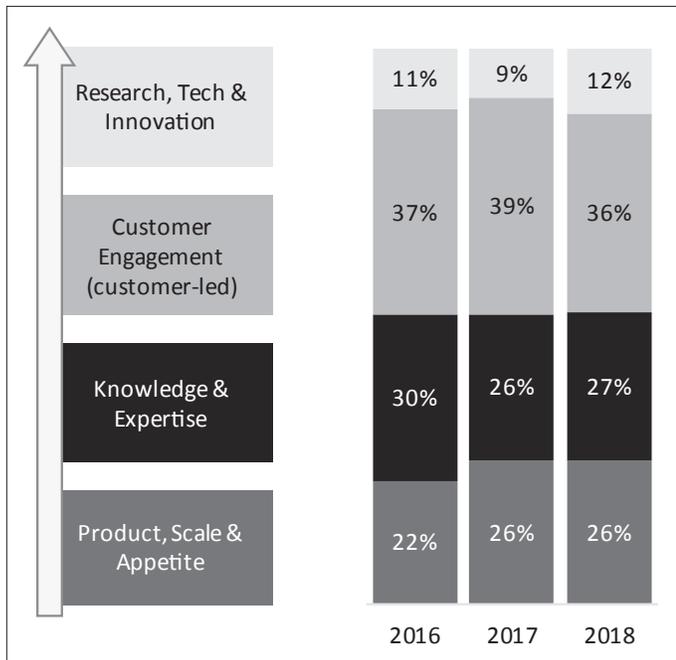
There is an explosion of new investment and activity in the areas of data & analytics, which applies to both pricing and underwriting. The U.S. and China are the leading markets in this respect, home markets for the world's tech giants, and where third-party data is currently relatively accessible at scale thereby

facilitating faster learning. In the U.S., 70 percent of insurers are currently using predictive analytics of some form (particularly around underwriting), and nearly all have plans to do so within the next 24 months. While still embryonic in most respects, the pace of adoption has massively exceeded that of traditional AUS platforms.

REINSURERS REDEFINE CUSTOMER ENGAGEMENT

Life & Health reinsurers clearly now engage as innovators, having morphed from narrower technical underwriting houses, to more customer-centric organizations focused on transformation.

Figure 4
Brand Associations—Life & Health Reinsurers (2016–18)



Unprompted and free-form feedback of insurance executives about reinsurer brands provide interesting insights (see Figure 4).

Nearly one-half of brand associations for reinsurers relate to measures of customer focus (for example, being flexible and good partners) and innovation (either in approach, or in technologies, solutions and leading insights). At the level of the individual competitor, this measure ranges between 30–60 percent, meaning that not all reinsurers have successfully made this transition.

What we've noted over an extended period is how the usually "hard to get" associations for "Research, Technology & Innovation" have successfully been captured by life & health reinsurers, particularly for being innovative.

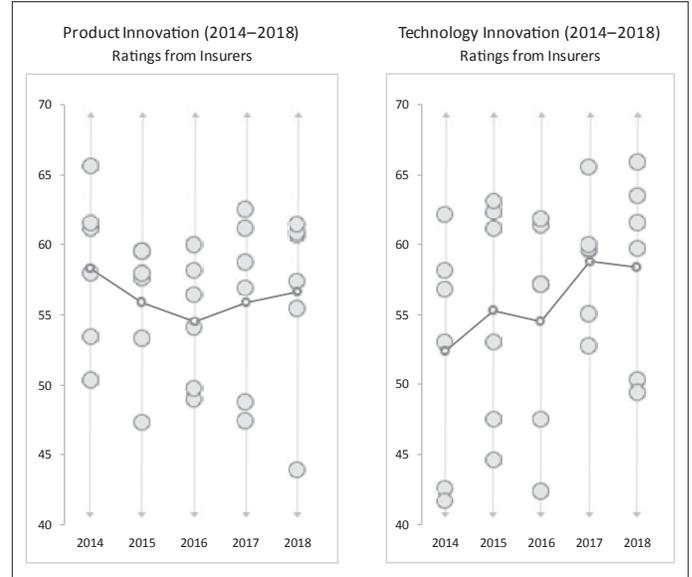
Comparisons to an adjacent segment provide further insight. Life & Health reinsurers have made the transition to an innovation engagement approach in a way that P&C reinsurers have yet to. P&C reinsurers have strong customer-led brand associations, but brand associations seldom suggest that "being innovative" is a leading feature of client experience (see Figure 5).

Figure 5
Leading Brand Associations (2018)





Figure 6
Shifting Goal Posts—Reinsurer Innovation



BEING INNOVATIVE – A MOVING TARGET

In the context of life & health reinsurance, ‘innovation’ has started to take on a different meaning.

Product innovation has long been a cornerstone of a value-added reinsurer offering for Life & Health reinsurance. Low ratings for innovation (compared to other factors) indicated that this is very difficult to do well and is thus a key source of differentiation.

Ratings for reinsurers’ product innovation have declined over the past five years, while ratings for reinsurers’ innovative contributions of a technology nature have risen sharply. Across 2018, averaged across all markets, several reinsurers attract higher ratings for technology innovation than they do in product innovation (see Figure 6).

So while it would be a stretch to suggest that reinsurers are fast becoming technology companies, it would be entirely fair to recognize their success investing in and building technologies to support the transformation challenges of insurers.

A PARTING THOUGHT

Having participated in many meetings with reinsurance executives over the past ten years, the degree to which the conversation topics have changed is remarkable. Partly this has to do with scope, as life & health reinsurance businesses are so much broader today. Perhaps most importantly it also has to do with the pace of change and how quickly new ideas are adopted into operational reality. This is an incredibly exciting time for the life insurance industry, particularly for a change agent like a reinsurer. By extension, it is also therefore one of the most demanding periods, and one in which competitive positioning can be most dynamic. ■



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ENDNOTES

- 1 More than 10,000 insurance executives have participated since the Study’s origination
- 2 The BCI is measure of the perceptions of overall execution and capability among reinsurance partners, as indicated by their insurance customers