

strategy&

***Life insurance in the
digital age***

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The omnichannel
revolution



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Contact

Johannesburg

Jorge Camarate
Partner

PwC South Africa
+27-11-797-4052
j.camarate@pwc.com

Cape Town

Paul Mitchell
Associate Director

PwC South Africa
+27-21-529-2001
paul.mitchell@pwc.com

About the authors

Jorge Camarate is a partner with PwC South Africa, based in Johannesburg. He works in Strategy&, PwC's strategy consulting group, leading the financial-services practice for the African continent.

Victor Smit is a manager with PwC South Africa, based in Johannesburg. He works in Strategy&, PwC's strategy consulting group.

Renier van Rooyen is a manager with PwC South Africa, based in Johannesburg. He works in Strategy&, PwC's strategy consulting group.

Andrew Chimbuya is an assistant manager with PwC South Africa, based in Johannesburg. He works in Strategy&, PwC's strategy consulting group.

Noteworthy contribution

Paul Mitchell is a director with PwC South Africa, based in Cape Town. Paul is the Fintech lead for PwC South Africa.

Executive summary



The life insurance landscape is changing at a rapid pace. As the market has embraced technological advancements, customers have grown used to the service levels in other industries and are expecting similar experiences from their life insurers.

Empowered customers have more demanding expectations, and life insurers can no longer rely on a single-channel sales strategy. They now need to look at a fully integrated omnichannel service that takes on a single view of their customers.

Technology has brought easy access to data, offering opportunities to vastly improve the overall customer experience and enabling life insurers to explore new revenue streams outside their traditional business models.

The omnichannel revolution may seem daunting to both small players with no scale and large players constrained by outdated legacy systems servicing large in-force books. However, we believe a practical three-wave approach will give life insurers the best chance at success in the digital age.

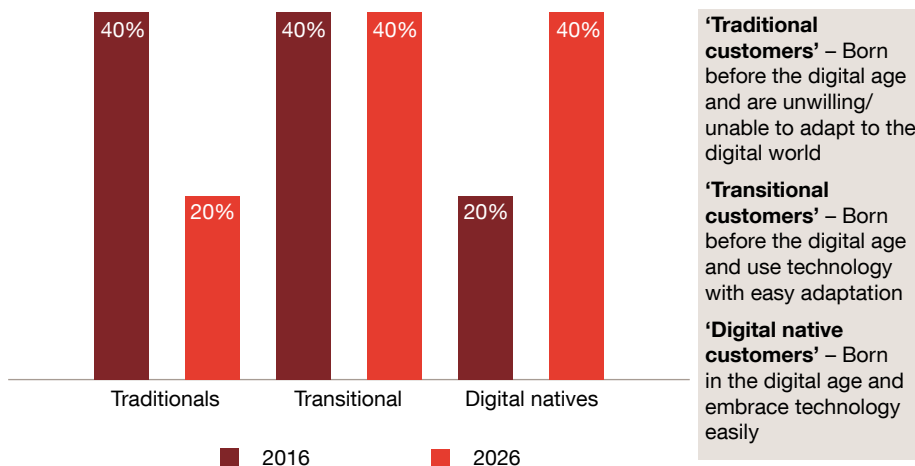
The first wave looks at creating a digital sales channel by building the necessary digital capabilities. The second wave is centred on the digitisation of the end-to-end customer experience. Finally, the third wave sees life insurers exploring opportunities for new revenue streams outside of their traditional value chain and improving their core business with new forms of analytics.

Understanding where life insurers are on their digital transformation journey and the implications of evolving customer and rapidly changing technology will help industry players weather the turbulent future ahead.

The changing customer

Customer expectations are evolving, propelled by the unprecedented rate of digital advancement¹. To keep abreast of changing demands, life insurers need to rethink the way they serve their customers. This is particularly important given that during the next ten years there will be a radical change in customer mix, with ‘traditional’ customer reducing sharply in favour of ‘digital natives’². Figure 1 provides a potential illustration of the digital customer landscape in 2016 vs 2026 as predicted by PwC’s Strategy&.

Figure 1: Customer behaviour: Digital integration



Customer expectations are influenced by their experiences outside the insurance industry, where content, interactions and features are richer.³ Via social media, for instance, customers are turning to other customers to seek guidance on products and services, as they are more likely to trust direct feedback from there.

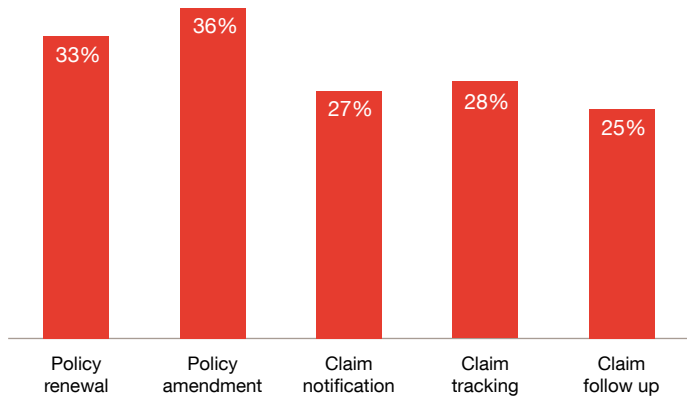
Customers are also more informed about product options and prices, which is influencing their purchasing and channel preferences.⁴ A growing share of life insurance customers search for those products online, although the conversion rate is still much lower than for short-term insurance.

Nonetheless, our research suggests that in the next decade the percentage of life insurance policies sold online will have more than doubled in some developed economies and increased more than ten-fold in some developing economies⁵. This makes it imperative for players in these markets to prepare themselves for a shift in channels⁶.

During the next ten years there will be a radical change in customer mix, with ‘traditional’ consumers reducing sharply in favour of ‘digital natives’.

Our research has also revealed that customers have developed a propensity to manage their insurer relationship digitally. More than a quarter of customers are willing to transact and manage their needs on a completely digital basis, with little or no personal interaction.⁷

Figure 2: Transactions customers are willing to conduct digitally



Source: Insurance 2020: The digital prize – Taking customer connection to a new level, PwC, 2014

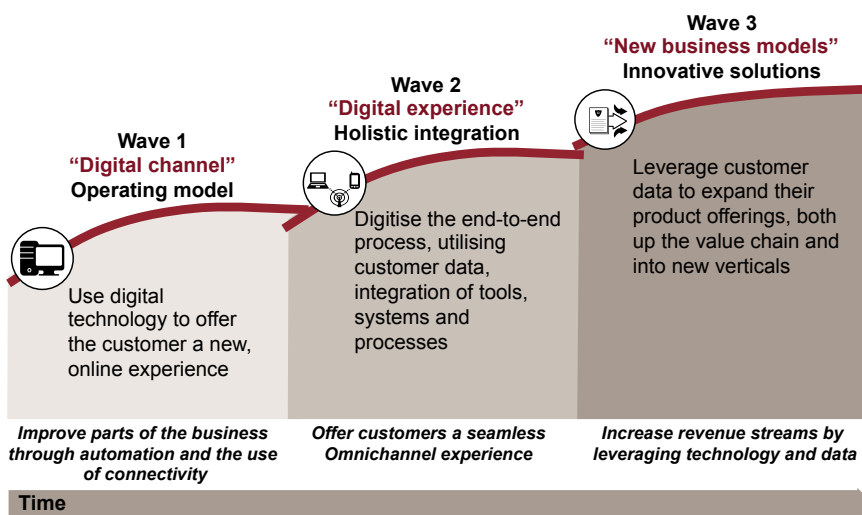
To stay relevant and engage with consumers in the digital age, insurers need to develop their digital capabilities. We argue that this change can occur most efficiently in three broad waves.

More than a quarter of customers are willing to transact and manage their needs on a completely digital basis, with little or no personal interaction.

The three waves of change

Integrated digital capabilities and technology are required to provide life insurers with the necessary tools to meet the challenges outlined above. We believe that the life insurer's journey to a holistic, integrated digital offering consists of three distinct waves, as illustrated in Figure 3.

Figure 3: Waves of digital growth



Source: PwC's Strategy& analysis

Wave 1: Digital channel

In the first wave, insurers are using digital technology to offer their customers a new, online experience, laying the foundation for a fully integrated digital offering. The first wave involves the enablement of the digital channel, having life insurers cater for the surge in demand for online interactions while simultaneously trying to improve various parts of their business through automation and the use of connectivity.

Wave 2: Digital experience

The second wave encompasses digitising the end-to-end process; that is, making use of customer data, and integrating tools, systems and processes developed in wave one. Thus, wave two offers customers a seamless omnichannel experience.

The piecemeal approach to digital capabilities employed previously has left many life insurers with inefficiencies and disjointed customer journeys. New integrated systems and omnichannel customer journeys are being designed which will allow for better insights from customer data, and effectiveness and efficiency gains.

Wave 3: New business models

The third wave entails leveraging customer data and advanced analytics to expand life insurers' product offerings and business models. Wave three will see life insurers expand to find new revenue streams and vastly improve the customer experience, while simultaneously changing fundamental aspects of their business.

Wave 1: Digital channel

A firm's ability to offer its customers digital interactions is no longer a unique differentiator, but rather a basic requirement to meet the needs of the modern customer. Our research has shown that companies can expect 5–10% revenue growth as a direct result of digital commerce.⁸

On the cost side, the successful integration of a digital back office should lead to significant cost reductions.⁹ It would seem that implementing a digital channel in wave one would be an obvious strategic choice, but life insurers face significant challenges in this regard. For instance, the IT investments required for introducing digital commerce offerings are significant, and most life insurers are challenged with inflexible systems servicing large in-force policy books.

Enablers

Simplified product portfolios

PwC's Strategy& research has shown that simplification is a key enabler across the financial services industry, and a number of companies with simplified business models have shown significant revenue growth and cost efficiencies. Our experience has found that a focused set of easy-to-understand products and choices is easier to communicate to both customers and intermediaries, allowing for a purposeful, streamlined and efficient advice process.

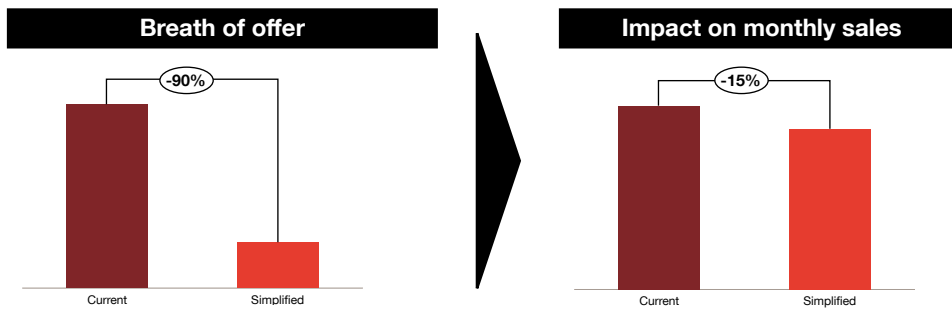
Ease of customer choice is essential for successful direct-to-consumer (D2C) models in life insurance. Furthermore, limiting product and option choices increases efficiency in policy administration and IT maintenance.

Start-ups as well as traditional insurers are rolling out simplified offerings online. As little as three distinct offerings may be enough, as seen by the wealth management arm of The Commonwealth Bank of Australia, which offers straightforward 'Silver', 'Gold' and 'Platinum' life insurance options.

Our experience has found that legacy insurers can dramatically decrease the breadth of their portfolios with minimal impact on their sales, while enabling significant efficiencies.¹⁰

Legacy insurers can dramatically decrease the breadth of their portfolios with minimal impact on their sales, while enabling significant efficiencies.

Figure 4: The business case for product simplification



Source: PWC's Strategy& project analysis

Implementation of new digital systems

Out-of-date systems have proven to be the single largest stumbling block to implementing a digital channel. Ideally, an off-the-shelf system can be used for new, simplified products, as such systems have a lower cost per policy and faster times to market due to easier product configuration along standardised parameters.

Complex products requiring more face-to-face interaction may be best catered for on a separate system that is geared toward greater complexity.

Our experience shows that a three-tier approach to implementing new systems is most likely to succeed:

- *Legacy closed book:* Legacy policies should be maintained in a cost-effective way on a ring-fenced system. This liberates new systems from the burden of catering for obsolete products.
- *Complex face-to-face products:* Low-volume complex products requiring customisation and justifying higher margins.
- *New, simplified D2C products:* New products built on a system designed for simple products. The lack of customisation and administration is suited for low-margin, high-volume products.

Out-of-date systems have proven to be the single largest stumbling block to implementing a digital channel.

Wave two: Digital experience

Harnessing the data received in wave one transactions provides life insurers with opportunities to improve service levels, client engagement and loyalty. Furthermore, life insurers' ability to interact directly with clients increases their breadth of distribution opportunities. This is core to wave two, which encompasses the implementation of end-to-end digital processes in which customers are able to engage through and across multiple channels seamlessly.

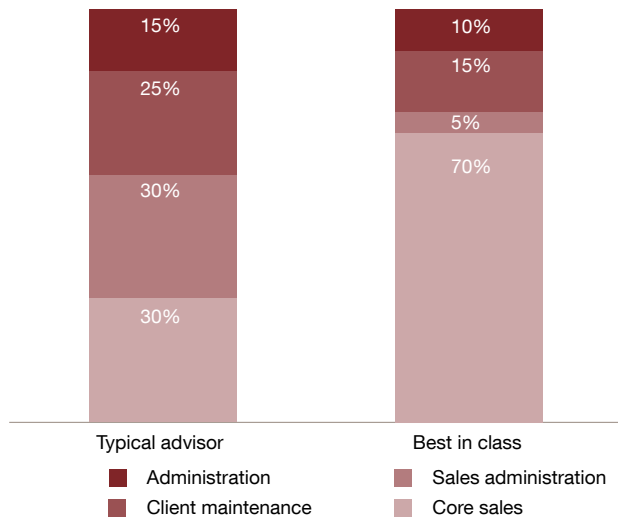
As in other industries, the rush to keep up with digital trends has led to existing life insurance providers adding digital capabilities in a piecemeal fashion. These providers end up with a multichannel rather than an omnichannel approach, often to the detriment of efficiency and customer experience. Yet, manual interfaces between digital capabilities are still common and lead to significant efficiency losses.

Digital customer centricity requires an integrated approach that means addressing all customer touchpoints. A digital omnichannel approach can drive significant benefits for insurers. Our experience suggests that an effective omnichannel strategy is enabled by the digitisation of the end-to-end advice process, resulting in up to 30% improvement in advisor productivity¹¹.

Moreover, the capture and manipulation of customer data in digital form can enable the streamlining and digitisation of the back-office process. Since insurance advisors can often spend 50% of their time on back-office activities,¹² the digitisation of back-office processes can result in additional advisor productivity and increased sales.

Our experience suggests that an effective omnichannel strategy is enabled by the digitisation of the end-to-end advice process, resulting in up to 30% improvement in advisor productivity.

Figure 5: Advisor time ladder analysis



Source: PwC's Strategy& project analysis

Enablers

Process simplification

As with complex products, complex systems and processes are a material barrier in a life insurer's omnichannel journey. Complexities driven by legacy systems, products and culture need to be addressed in order to integrate systems successfully.

Complexity is a key driver of the cost and scope of IT solutions in an omnichannel strategy. Life insurers should look at simplifying the process as a key enabler that is likely to drastically reduce costs and the time taken to implement an omnichannel strategy; this simplification should be a prerequisite for automating the process.

System integration

The life insurance advice process is fragmented, with advisors requiring multiple touchpoints with clients to complete the sale of a policy. For instance, advisors are often required to make use of several disjointed systems and spend a significant amount of time processing client data to refine initial quotes and process new business applications.

Typically, quotation and advice tools are offline and provide clients with directional quotes that require further iterations dependent on the outcome of an underwriting engine. On average, it takes an advisor up to three meetings to sell a new policy, whereas a fully integrated system could do so in just a single meeting.

In the not so distant future, the customer is likely to share such data through digital interfaces prior to meeting with an advisor. For this scenario to become a reality, life insurers need to provide intermediaries with online advice tools, offering quotes in real time. Furthermore, such quotes need to be integrated with new business systems, allowing customers to sign up immediately and eliminating the need for follow-up advisor meetings.

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Wave three: New and evolving business models

As wave three rolls out across other industries, companies are starting to leverage customer data to expand their product offerings, both up the value chain and into new verticals.

Technology companies have now not only started selling insurance, but are also finding new ways to price risk, based on customer data. Similarly, insurers can make use of client data to expand their offering to related services and to improve their risk pricing and product design.

Artificial intelligence technologies such as deep learning and natural language processing are leading to innovations in customer service, distribution, intervention and underwriting. Many of the new technologies are being applied to property and casualty insurance,¹³ as the industry is able to incorporate additional data sources without the requirements for historical data that life insurers face. These innovations are making their way into long-term insurance as more data accumulates, with wearable devices already enabling improved underwriting.

Identifying client needs as they arise in response to important life events can unlock cross-selling opportunities. For instance, an insurer can offer a life insurance policy when a client signs a mortgage, or suggest a savings account for tuition when a child is born, along with other appropriate changes to the client's portfolio based on life events.

This approach can also be applied to the generation of financial plans, where technology can be used to provide a level of customisation that was previously available only to high-net-worth clients. This would help close the conversion gap between online research and online sales by providing the guidance needed for clients to be comfortable with the online purchase of complex long-term products.

In addition to enhancements and add-ons to the current insurance business model, insurers should monitor new business models that are emerging around the insurance value chain.

Many insurtech companies are focused on improving the customer experience with innovations such as 'social brokers', while others are experimenting with peer-to-peer models that hark back to the days of Lloyd's Coffee House.

Chinese company Zhong An, the world's largest digital insurer, has over 400 million customers and makes use of wearable device data as part of their pricing methodology.

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Enablers

Access to additional data

Wave three initiatives build upon one another, and on those of the prior digital waves, with each initiative providing data and capabilities for those that follow. Accordingly, insurers that are able to build a good proprietary data set will have an advantage in implementing wave three opportunities, including predictive needs analysis and improved underwriting.

Forming partnerships with other service providers such as banks, social media sites or online retailers could help drive many of the wave three improvements. Some of these companies may be hesitant: Facebook has blocked attempts by insurers to use user profiles for any purpose related to eligibility, which has halted at least one insurer's attempt at a new underwriting model. However, others are more open, and alternative approaches such as social listening are already in use by property and casualty insurers.

New 'insurtech' start-ups also provide an opportunity for partnering and learning. Understanding how they create value for customers, and exploring partnerships should be a priority for insurers.

Establishing advanced data analytics capabilities

Wave two requires that life insurers capture and integrate significant amounts of client-specific data across their systems, whereas wave three requires advanced data analytics capabilities to generate insights from the myriad of new data points. In many regions, data scientists and artificial intelligence experts are currently in short supply, increasing the difficulty for early adopters of wave three.

Insurers will have to consider securing the required analytics capabilities externally in the short term, while developing in-house analytics teams over time, as is being done in other parts of the financial services industry.

Third-party data and systems could be leveraged to accelerate wave three, such as PwC's \$ecure, a digital advisor developed for use by financial institutions that incorporates data on 320 million US consumers.

Wave three requires advanced data analytics capabilities to generate insights from the myriad of new data points.

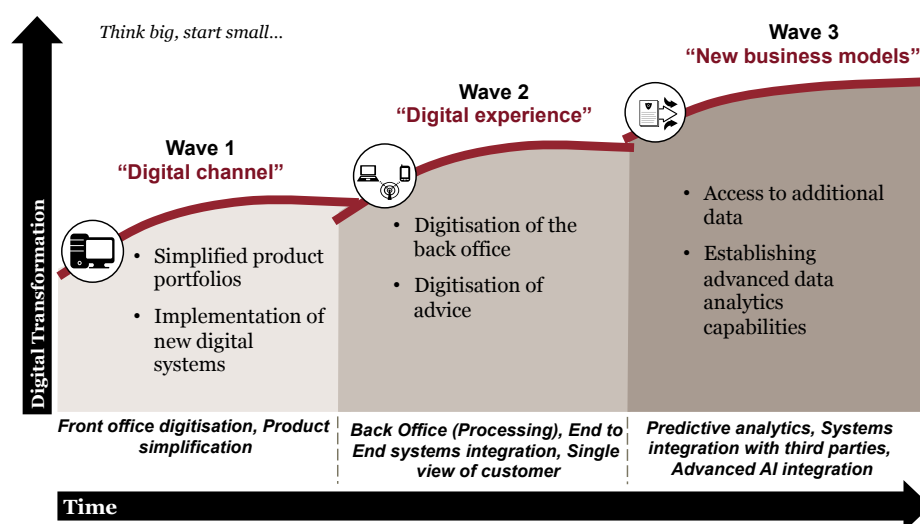
Conclusion

The rapid changes across the insurance landscape present exciting opportunities to life insurers. We believe that the life insurers that are most likely to succeed are those that develop and deliver new capabilities rapidly by adopting an agile approach, and focus on a minimum number of viable products.

We believe the three-wave approach enables this by creating the digital channel, integrating the end-to-end digital process, and finally establishing the necessary analytics capabilities.

Life insurers need to evaluate where they are on this digital transformation journey and map out their route towards the third wave of digitisation. This will not be an easy task for many incumbent players, but they need to respond or risk being overtaken or disrupted by digital competitors.

Figure 6: Enablers of digital growth



Source: PwC's Strategy& analysis

Endnotes

- 1 Future of insurance, Raconteur, 2016 <http://www.raconteur.net/future-of-insurance>
- 2/3 See PwC's report, "Insurance 2020: The digital prize – Taking customer connection to a new level 2014"; <http://www.pwc.com/gx/en/industries/financial-services/insurance/publications/digital-non-life.html>
- 4 See PwC's report, "Insurance 2020: Forcing the pace – The fast way to becoming a digital front-runner 2014"; https://www.pwc.com/im/en/industries/life-insurance/assets/pwc_digital_life_insurer_2020-280414.pdf
- 5 PwC Strategy& analysis
- 6 See PwC's report, "Insurance 2020: Competing for a future"; <http://www.pwc.com/gx/en/insurance/pdf/pwc-life-insurance-2020-competing-for-a-future.pdf>
- 7 See PwC's report, "Insurance 2020: The digital prize – Taking customer connection to a new level 2014"; <http://www.pwc.com/gx/en/industries/financial-services/insurance/publications/digital-non-life.html>
- 8 See PwC's report, "Profitable growth in a digital age 2014"; <http://www.pwc.nl/consulting/publicaties/profitable-growth-in-the-digital-age.html>
- 9 See PwC's report, "Global industry 4.0 survey: Building the digital enterprise 2016"; <https://www.pwc.com/gx/en/industries/industries-4.0/landing-page/industry-4.0-building-your-digital-enterprise-april-2016.pdf>
- 10 PwC Strategy& experience
- 11 PwC Strategy& analysis
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- 13 See PwC's publication, "Top Issues - AI in Insurance: Hype or reality 2016", <http://www.pwc.com/us/en/insurance/publications/assets/pwc-top-issues-artificial-intelligence.pdf>

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