Opinion paper

Protection providers must think differently to recapture the customer

How to ensure your business is fit for the future and ready to meet the demands of a rapidly evolving protection insurance

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The protection market is one in which difficult conversations happen every day. No customer really wants to think about what might happen to them or their loved ones. Yet over many years, protection providers have become adept at managing these difficult conversations and encouraging people to take out insurance products to cover the potential risks they may face.

Now it is time for another difficult conversation. Only this time the focus is on the insurance company, not the insurance customer. No protection provider wants to consider the possibility that the business will not exist in 10 years' time. However, that is precisely the risk that protection providers face from a rapidly transforming marketplace.

The world moved on

It is fair to say that the protection market is faced with more upheaval now than at any point in its history. Consumer expectations are changing as individuals seek a more "Amazon-like" experience featuring digital, on-demand, and customer-centric services. Brand loyalty (or a low propensity to switch) is no longer the norm as internet based research or advice from the likes of Money Saving Expert encourages people to shop around.

Millennials are at risk of being the first ever generation to record lower lifetime earnings than their predecessors.[1]

With 'a job for life' now a rarity, people are more mobile between careers, which means circumstances change quickly. At the same time, workplace benefits are not as generous as they once were and today's employees find themselves part of the 'gig economy'. Those employees are changing too. Millennials (born between 1981 and 1995) are already the largest generation in the UK workforce[2] and are set to represent 35% of all employees by 2020[3].

4.8 million
self-employed workers in the UK

93%
do not have critical illness cover

£300 billion
is the collective cost of this lack of financial protection

Source: Scottish Widows Protection research, 2017

Millennials (and the younger Gen Zers) are now the new consumer base. However, their priorities are different to previous generations.

They are lumbered with high university debts. They are paying high rents. They have lower prospects of getting onto the property ladder at the same age as their parents. In fact, the average age for first-time buyers has increased from 30 in 2006/7 to 33 in 2016/17.[4] This means that the protection sales linked to mortgages are being pushed back later in life.

Such factors combine to mean that younger consumers place a different value in protection products. For those with restricted incomes, low wage growth, and high debt, there are fewer physical assets to protect. Yet many are not even having a conversation about making plans for an unexpected downturn in their finances.

1/3
of people in Britain believe they will be worse off in 2020 compared with 2017

4 in 5
do not have an insurance policy that would cover regular costs after a serious illness or accident

44%
of families just about managing day-to-day have never had a conversation about long-term financial security

The result is under-protection for a generation and a massive loss of potential business for traditional protection providers.

1 https://www.resolutionfoundation.org/app/uploads/2016/06/Intergenerational-commission-launch-report.pdf
2 http://www.theactuary.com/news/2017/01/2017-a-tipping-point-for-the-uk-as-non-working-population-rises-faster-than-workforce/
3 https://www.manpowergroup.com/wps/wcm/connect/660ebf65-144c-489e-975c-9f838294c237/MillennialsPaper1_2020Vision_lo.pdf?MOD=AJPERES
4 Swiss Re, Term & Health Watch 2018 report

The scale of the challenge

According to the Association of British Insurers (ABI) 2018 State of the Market report, Life and Protection gross written premiums for individual and group policies as well as endowments, bonds and cash ISAs in the UK declined steadily from £12bn in 2010 to £7.1bn in 2016.

This may be a reflection of maturing mortgage endowment policies and households cutting back on non-essential spending after the financial crash. Such a downward trajectory may have been affected by the change in the insurance sales structure following the Retail Distribution Review (RDR), as well as the impact of delayed house purchases by first-time buyers.

The ABI data highlights growing issues for major protection providers. While the size of the market shrank, the proportion of insurance sales split by advice channel shows independent-advised policies grew from 36% in 2013 to 45% in 2016.[5] The market for non-advised products is also growing – from 20% in 2013 to 29% in 2016. These upward trajectories of these two channels reflect the changing preferences of consumers. Meanwhile, another cause for concern has hit the market shares of traditional players.

The old guard vs. the new guard

Long-established insurance brands have come under constant attack from a number of unexpected angles:

1

The FinTechs and InsurTechs
These are gaining share of market and share of wallet thanks to hyper consumer-friendly services built on cloud platform-based IT. Start-ups like Oscar and Vitality provide preventative healthcare insurance or pay-how-you-live policies. InsurPeer even goes so far as to bring people together in a peer-to-peer insurance scheme.

2

The non-insurance companies
These are major digital players such as the GAFAs (Google, Apple, Facebook, Amazon) that have amassed significant war chests and are looking for new markets to enter. They are used to disrupting and ousting traditional players and now they have the financial muscle to do so. Take for example Amazon's move into the US employee healthcare insurance market.

3

The VC-backed start-ups
These companies can rely on significant investment from global venture capital funds that are looking for profit via new routes to market. For example, UK-based Gryphon attracted £180 million of funding to become one of the biggest-ever new entrants in insurance[6]. The draw for investors is the market opportunity – with unprecedented numbers of uninsured individuals – and the lack of legacy technology that adds costs to traditional operating models.

Most importantly for the major incumbents, the disruption these three types of new entrants are bringing to the protection market shows no sign of abating. In some cases, those incumbents are investing in start-ups and spin-offs that could, ultimately, put the original entity out of business.

+36%
Increase in InsurTech investment between 2016 and 2017.

$2.3 billion
Total investment in InsurTechs in 2017.

75%
The proportion of re/insurers who said they were "moderately" or "extremely" at risk of disruption.

Source: https://www.insurancejournal.com/news/international/2018/02/02/479379.htm

5 ABI, UK Insurance and Long-Term Savings: The state of the market, 2018
6 https://www.ft.com/content/d0eb92d6-5046-11e7-bfb8-997009366969

Everything's changed

It is not just the competition that has changed. Demographics, technologies, and partnerships have changed too.

Fewer people are willing to commit to lifetime contracts. In fact, less than one in ten have spoken with an adviser about long-term financial protection.[7] At the same time, new technologies are enabling disruptors to gain a foothold in the market by adding convenience for consumers – for example, wearables that monitor day-to-day health data for life insurance premiums and policies.

Investors are backing disruptors that are able to focus on personalised, data-driven experiences because they see that expectations have risen in other industries (e.g. retail). Yet the impact of technology and data reaches beyond the front-end applications that have become the new consumer touchpoints.

Automation offers an efficient and nimble approach to back office workflows, including straight-through processing. Customer insights make risk-based pricing more accurate and the knock-on effect is the ability to offer tailored – or even changing – premiums based on behaviour. AI chatbots are enabling companies to offer always-on advice to capture those customers that do not have time to talk during typical contact centre opening hours.

Looking further ahead, experts believe that blockchain contracts have the potential to radically change underwriting and fraud prevention. Smart contracts can be linked to individuals via a trusted public ledger (the blockchain). With pre-determined 'triggers', these contracts could pay out instantly in the event of a proven accident, for instance. With a person's ID already verified, the claim processed automatically, and the payment made directly, there is less opportunity for fraud. As a result, insurers that embrace blockchain can offer the level of data security and trust that big insurers once staked their reputations on.

Yet the future does not necessarily mean single entities battling it out for customers. Just as the connected car market includes dealerships, finance providers, auto manufacturers and insurers, so the protection market could see partner ecosystems emerging. Using open APIs that allow rapid collaboration between companies and easy onboarding of new customers, these agile partners might rely on each other to complete the value chain for customers.

Example of a protection partner ecosystem

7 https://www.ftadviser.com/protection/2017/10/13/less-than-one-in-10-seek-protection-advice/

The impact on everyday operations

The current and future transformation of the protection market has a significant bearing on incumbent operators.

The different lifestyles of new generations of customers require changes to underwriting practices. The digital era has brought with it an always-on culture and this requires continuous and on-demand underwriting of premiums.

For those customers willing to share personal data, there are benefits in lower or more accurate premiums, faster claims, and better deals. So protection providers will need to bolster analytics capabilities to be able to offer such rewards for gathering customer information. They may even need to integrate analytics, product development, and personalised messaging (such as via WhatsApp) to make engagement as convenient as possible for consumers.

With personalisation driven not just by what is possible in protection but also what is evident elsewhere, smart services could become a new growth area. Instant personalised cover, for example, is aided by developments in natural language processing and chatbots. These technologies help customers identify the right policy and build confidence in the choice of provider. Meanwhile, algorithms operating in the background accurately assess risks in real-time so decisions can be made much faster.

Driven by Artificial Intelligence (AI), robo agents are already simplifying decisions for customers. In November 2017, for example, NatWest launched its first robo-advised investment service – just one indicator that this approach has finally reached the mainstream.

Automation is not only taking costs out of the business by dramatically speeding up the underwriting process and lowering staffing resources; it is also providing greater regulatory consistency. In an era of increasing public scrutiny and shifting legislation – from Open Banking under PSD2 to data protection under GDPR – the ability to cut errors from complex processes is an attractive proposition.

Yet for many protection providers legacy practices and IT get in the way.

So we find ourselves at an inflection point for the sector. Traditional players that want to stay relevant as the market continues to evolve must focus on attracting a new generation of consumers, while continuing to serve the traditional customer base. Doing this demands change at every level – from new engagement of consumers through to rapid product innovation and supporting digital processes.

For traditional players the message is clear: Now is the time to rethink operations and refocus on the customer.

How will protection providers respond?

As new generations of customers join the market and FinTechs and InsurTechs create more competition, established players must adapt.

"Life insurance is essential if you have a mortgage or dependants."

For those aged 55+	For 18- to 34-year olds
58% Yes	**37%** Yes
42% No	**63%** No

Source: https://www.moneymarketing.co.uk/life-insurance-essential-protection-products-providing-adequate-solution/

To survive and thrive, traditional players need a new approach – one that applies the principles of customer-centric design thinking to differentiate the brand and its services in an increasingly competitive market. This means:

- Agility in product development
- Flexibility in communications and onboarding
- Responsiveness to changing demands
- Embracing new technologies and data-driven processes.

To do all this requires a step-change in the way the company is organised. Optimising individual touchpoints is no longer enough.

Wholesale transformation is needed to deliver outstanding individual customer experiences.

Some of the major providers have established in-house venture capital funds and committed more than $1 billion of investments in start-ups[8]. But this approach focuses on leveraging current value rather than building a business fit for the future. What has become necessary is an end-to-end redesign of the customer journey across the whole business. Research shows organisations that focus on customer experience (CX) can outperform others by as much as 26%.[9]

So what must protection providers take into account if they want to remain relevant to the next generation of customers... and the next?

8 https://www.ft.com/content/53266de8-07e1-11e6-b6d3-746f8e9cdd33 [paywall]
9 https://go.forrester.com/blogs/16-06-21-customer_experience_drives_revenue_growth_2016/

Your key considerations

Focusing firmly on what lies ahead while still being able to satisfy a large existing customer base is a delicate balancing act. It would be easy to spend too much time digitising legacy processes, for example, only to miss out to InsurTech rivals that are using new tech to attract Millennials.

Constantly adapting, monitoring the impact of new products, and identifying ways to make improvements in the way you work are all characteristics of the agile insurer. But whether burdened by legacy infrastructure, an old-fashioned mind-set, or a declining reputation for engagement, very few large-scale insurers can do all this alone.

Partnering with an organisation that can provide a strategy for change, recognise the obstacles to transformation, and apply the necessary skills to overcome them will get you where you want to be faster.

So you will need to look for a partner that understands your business – from the people that define the culture to the technology and workflows that define everyday operations. You will also need a partner with the practical expertise to drive transformation forward by applying what they know to help you reinvent your business model and ensure future profitability.

To identify the right partner for your protection business, ask the following questions and match responses against the criteria below:

1

"How will you ensure continual improvements in our customer experience?"

Your partner needs to get to know your existing customer journeys. However, they must also have the capability to understand the wider customer base – especially the new generations of consumers.

- Can they measure the impact of customer experience transformation within your organisation?
- Can they design interactions based on active engagement with these customers?
- Can they help you take advantage of the latest thinking in omni-channel engagement, digital service provision, and personalisation of customer empathy?

If they answer in the affirmative, then they must also be able to rapidly develop proofs of concepts and roll out new customer-centric initiatives so you see the impact on your bottom line.

2

"How will you support our digital transformation and shift to agile technology?"

Legacy infrastructure is potentially the largest obstacle to overcome for any complex enterprise implementing change. Yet the shift to agile, digital infrastructure requires more than systems integration and new IT.

- Can your partner integrate analytics into everything you do?
- Can they help you put the organisational structure, leadership, and governance in place to accelerate innovation?
- Can they give you the on-going flexibility you will need to continually transform now that the market has become more responsive to consumer demands?

With the right structures in place there is still work to be done. As new competitors emerge, you will need to ability to evaluate the FinTech/InsurTech space and define new ways to disrupt the disruptors.

3

"How will you help us use data better and institute insight-driven engagement?"

Advanced analytics will give you unprecedented insights into your existing and newly acquired customers. Yet the real value lies in presenting product and service recommendations in line with the key 'moments of truth' in customers' lives.

- Can your partner give you the tools to constantly review the market for the impact of your new products and services so you can make agile decisions?
- Can they help you identify security threats arising from the confluence of new and old technologies, including wearables, IoT, AI, and mobile.
- Can they give you a way to adapt to changing regulations and compliance obligations?

Putting data at the heart of your organisation is one of the most significant changes you can make as it turns your business from a reactive into a proactive player.

4

"How will you lead our internal optimisation and pursue operational excellence?"

For all the advantages of customer-facing changes in business practices, there must be change at the core of the business too. There is no point adding new layers of complexity and coststo an already complex and costly structure.

- Can your partner apply the latest operational techniques to realise cost-income ratio or Return on Capital Employed (ROCE) savings?
- Can they work with your employees to boost engagement and inspire people to adopt change?
- Can they balance the demands of all departments and find the right mix of outsourcing – not just offshoring but near-shoring and on-shoring too?

Robust governance, strict data security, and operational agility are not mutually exclusive. They just have to be designed into the heart of your re-designed organisation.

5

"How will you support us with flexible, outcome-based commercials?"

With customer-centricity, innovation, and operational excellence at the forefront of most executives' minds, transformation must still have a compelling business case.

- Can your partner give you certainty over program delivery?
- Can they establish a way to transfer some of the risk of transformation, in terms of disruption and potentially unsuccessful developments?
- Can they innovate themselves and create new ways to meet all of your obligations beyond the original scope of work?

For large enterprises, the very notion of change can create consternation. Offering any naysayers a business case with multiple value streams is likely to persuade them that a change of direction not only makes sense but also makes good commercial sense.

Words and ideas are necessary to get to grips with such a sizeable transformation agenda. However, the real commitment to change and future prosperity depends on taking action.

Why the time to transform is now

Faced with a changing – not to mention challenging – protection market, traditional players must embrace transformation to be fit for the future:

- To meet rising consumer expectations for 'wow factor' experiences
- To comply with new regulations and pass public scrutiny
- To handle emerging competitors who advance from every angle
- To continue to innovate and stay relevant over the lifetimes of generations of new customers.

While the prospect of transformation on this scale can lead to inertia in many organisations, the ones that thrive will be the ones that act now. Progressive protection companies will recognise that change is not about individual technologies, gimmicky products, or a single new touchpoint. It is about working through transformation at an organisation and ecosystem level.

38% decrease
in sales of income protection reported by advisers

1 in 4
advisers agree it is becoming increasingly hard to sell income protection

Only 1 in 10
people (11%) agree that protection products provide a real and genuine solution

Source: State of the Protection Nation, Royal London, March 2017

With millennials more comfortable providing and sharing their data, there is a huge opportunity for protection providers to target and provide services with greater market knowledge than ever before. However, FinTechs and InsurTechs have reformed the industry by doing this already. Expectations have changed and protection providers must adapt. Not in five or 10 years time when Baby Boomers and Gen Xers are no longer the dominant demographics and you have missed your chance to establish brand trust with younger generations. Right now.

This requires an ability to think differently, a determination to continually adapt, and a customer-centric approach to change. The ability to build customer experience into everything your protection business does will become a differentiator against current major competitors. It will also prove to be a way of fighting back against the FinTechs and InsurTechs.

> "In two years' time, 81% [of marketers] say they expect to be competing mostly or completely on the basis of CX [customer experience]."
>
> **Gartner, March 2018**

A good starting point is to find a partner that understands the protection market – from cutting the cost-to-serve and reducing risk through to how to become an integral part of consumers' lives. That partner must have the capacity to manage transformation while offering ways to meet the needs of new generations of consumers. A combination of data-driven personalisation, omni-channel experiences, and relevance at key 'moments of truth' is a sure-fire route to success.

As competitive pressures grow, rethinking traditional approaches to protection will yield new customers and ensure that progressive providers can lead the industry once again. Yet with market transformation showing no signs of slowing, it is incumbent on the incumbents to transform themselves.

About Atos

Atos is a global leader in digital transformation with 120,000 employees in 73 countries and annual revenue of € 13 billion. European number one in Cloud, Cybersecurity and High-Performance Computing, the Group provides end-to-end Orchestrated Hybrid Cloud, Big Data, Business Applications and Digital Workplace solutions through its Digital Transformation Factory, as well as transactional services through Worldline, the European leader in the payment industry. With its cutting-edge technologies and industry knowledge, Atos supports the digital transformation of its clients across all business sectors. The Group is the Worldwide Information Technology Partner for the Olympic & Paralympic Games and operates under the brands Atos, Atos Syntel, Unify and Worldline. Atos is listed on the CAC40 Paris stock index.

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