Beyond 2020:

Skills required for future success in UK Life, Pensions and Health Insurance – a view

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foreword

Exploring the future skills requirement of Life, Pensions and Health Insurance in 2020 (and beyond) reveals an industry experiencing all sorts of changes in its operating environment.

Equipping a company with the necessary skills and achieving the right orientation can be a long-term business and, depending on organisation's choices, some competencies may need to be significantly changed in order to prosper going forward. The sector will have to work hard to adjust, and through this, to achieve success.

In this document, we present a deliberately provocative but reasoned point of view which we hope industry-interested readers will find at least a stimulating basis for discussion. We focus on:

1. The forces shaping the industry in 2020 and beyond

2. What companies should do to compete

3. The future skills necessary for success

Our view has been synthesised from in-depth research (a small sample of which is shown), the opinions of our subject matter experts, and insights from a broad cross-section of senior executives.

Message from the Chartered Insurance Institute (CII) and EY

As the chair of the Chartered Insurance Institute's (CIIs) Life & Pensions Faculty, and a member of the CII's executive board, I am keen to explore the key issues that will affect the long term success of the UK Life, Pensions and Health sector. My particular focus is on the skills that will be required in the world of 2020 and beyond. Having come to the CII with an awareness that numerous skills gaps were already beginning to emerge across the industry, I wanted to explore this topic more thoroughly and get a complete view.

I believe that professional institutes need to be at the forefront in highlighting the strategic challenges this sector will face in the future. We are delighted to have worked on this project with EY and hope this document proves a useful and thought-provoking tool. This new report provides the impetus for what is a crucial debate, not only within the sector, but also with the Government, the regulators and other stakeholders in identifying the challenges and trying to anticipate the major changes we all need to make together. This will enable us to create a dynamic insurance profession response to building our capability to compete in diverse and global markets with relevant skills.

Robert Fletcher, Chair – Life & Pensions Faculty
Chartered Insurance Institute

When we initially considered working on this project – our first in the life arena with the CII – we were acutely aware that most organisations were already thinking about their business in 2020 and beyond. Indeed, the industry already recognises many of the challenges raised in this document and is responding, for example, by bringing costs down or managing capital more effectively. However, we could see substantial value in consulting a number of CEOs, members of the CII, and other commentators, as well as EY experts, to synthesise a view. We've also included some references to media sources as useful opinion formers. The result is this document.

We are very grateful to those senior executives who have given us their time and participated in this research. Given the immediacy of some of the pressures they face, we've been encouraged by their enthusiasm to share their insights with us. As advisors to this industry sector, we continue to help organisations make sense of this rapidly changing environment and to support firms as they seek to position their businesses for success. We hope you find the view stimulating.

Mark Robertson, UK Insurance Sector Leader
EY

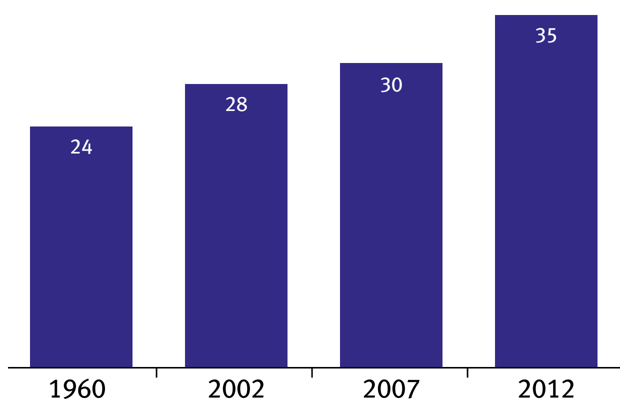
forces shaping the industry in 2020 and beyond

Given the extent of the changes happening all over the world, it's possible to spend a considerable amount of time exploring the many factors that could impact the future of the UK Life, Pensions and Health industry. Here we present a prioritised summary of the forces that will have the greatest impact in shaping the future of the UK industry. As always, it's necessary to consider these issues in the context of an enterprise's individual circumstances.

1. The industry's core target market changes fundamentally as Generation 2020 are prevented from saving until later in life.

Significant student debt and high mortgage barriers force Generation 2020 to acquire mortgages or save later in life. The under 40s are mostly economically prevented from taking control of their finances and therefore the industry's core target market becomes those aged 40–80. In the 1960s the average age for first time mortgages was 26.

Average age of a first time home buyer in the UK



Source: Post Office Mortgages (2012)

- Student debt could be as high as £67,000 for a full-time student in London – GOV.UK (2013).
- The ratio of average house price to average salary has risen from 2.7 to 4.4 over the last 30 years – Nationwide (2012).
- The proportion of low and middle income earners aged under 35 and renting has more than tripled to 47% since the late 1980s – Resolution Foundation (24 January, 2012).
- The average person in their 20s today will need to save for 30 years in order to obtain an house deposit if they live in London or 14 years if they do not – Shelter (2013).
- The main conclusions of a new survey by Countrywide showed that of those renting, over half – 56% – of tenants cited deposit affordability as a barrier to getting on to the property ladder – The Telegraph (April 16, 2012).

> *"We are entering a phase where retirement by 65 is a luxury restricted to the wealthy and the well prepared. We will see a recurrence of the pre-second world war scenario where people accept they will have to do at least part time work into their old age. What we briefly had... will fade into a distant memory"*

Toby Strauss, Group Director for Insurance,
Lloyds Banking Group

2. An attractive mass savings market no longer exists as pockets of wealth are increasingly ethnically diverse or at different stages of retirement.

Investment money is available but is held in fragmented groups. Many of these groups are near/post retirement or are comprised of entrepreneurial and professional migrants with widely differing cultural experiences.

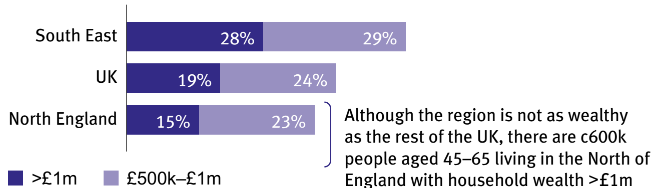
Income by ethnic group
(men, 2006–08)

Net weekly income (top 10%, £/wk)

Hourly wages (median, £)

Source: National Equality Panel (2010)

Wealth by UK region
(household wealth of individuals, age 45–64)



Source: National Equality Panel (2010)

- The average 45–64 year old has over twice the personal wealth of the average 18–44 year old – HMRC, *UK Personal Wealth Statistics* 2008–2010 (2012).
- There are over 700,000 Indian-born individuals living in the UK, and this group earn more than the UK average – Office for National Statistics (ONS) (2012).
- The number of wealthy foreign entrepreneurs heading to the UK to start new businesses has more than doubled in a year – analysis of entrepreneur visas granted, Pinsent Masons (2013).
- Chinese and Indian ethnic groups have better A-level results at age 19 compared with other ethnic groups studying in England: 83% of Chinese and 78% of Indians have two or more A-levels or equivalent qualifications versus 54% of the white British population – Department for Education (27 March, 2013).

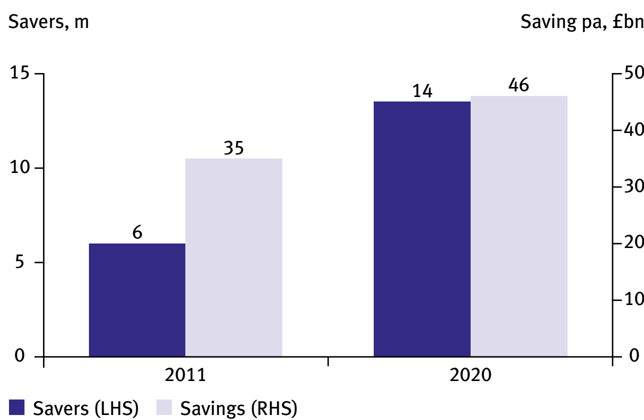
> *“The ever increasing number of older, part-time and flexible workers will change demand for certain policies and could alter the life cycle of pensions products.”*
>
> Peter O’Donnell, CEO, UNUM UK

> *“It will be important for insurers to reach these pockets of wealth, but Insurers don’ t adequately provide for ethnically diverse groups at the moment as the industry does not properly understand them.”*
>
> Toby Strauss, Group Director for Insurance, Lloyds Banking Group

3. Low and middle income consumers will only save through government pensions initiatives.

Auto-enrolment will be a partial success. Beyond 2020, employer schemes will soak up the majority of low and middle income savings, which will inhibit growth in the savings market beyond auto-enrolment. Auto-enrolment in the short term will lead to a false sense of security and, ultimately, contributions will have to go up. The government has done too little in the past to "force" individuals to save sufficient amounts and so a substantial savings gap will remain, particularly for those closer to retirement.

Pension savings in the UK – before auto-enrolment (2011) and projected effect by 2020



Source: Department for Work and Pensions

- Auto enrolment is expected to increase the annual value of pension savings by around £15bn in steady state – Department for Work and Pensions (2009).
- Minimum contribution rates for auto-enrolment will increase from 4% initially to 8% in 2018; Australia is planning to increase the employer contribution rate from 9% to 12% by 2019 – Australian Tax Office (2013).
- The median average income is expected to be no higher in real terms in 2016 than it was in 2003 – Institute for Fiscal Studies (2011).

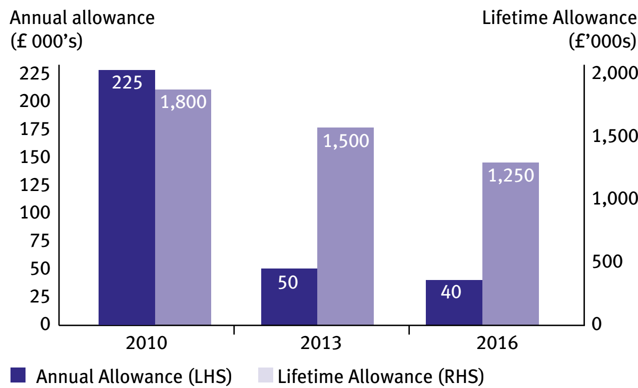
> *"Workplace saving will become increasingly important but will be challenging given the market for auto-enrolment and average salaries of people moving into the schemes. Also, how will advice be facilitated in the workplace?"*
>
> Anonymous

> *"Auto-enrolment will give providers the opportunity to engage directly with employees in the workplace."*
>
> David Barral, CEO, Aviva UK and Ireland Life

4. Savings market growth is inhibited by the Government's inability to reduce the deficit and therefore use tax relief as a savings incentive.

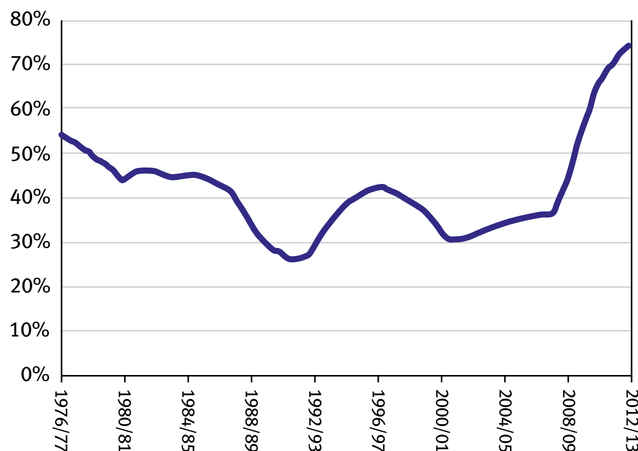
While the Government continually tries to find the financial "elbow room" to stimulate economic growth, this will not occur. The ageing population further increases the deficit.

Reduction of pension tax incentives



Source: HMRC (2013)

Public sector net debt as a % of GDP, 1975/76 to 2012/13



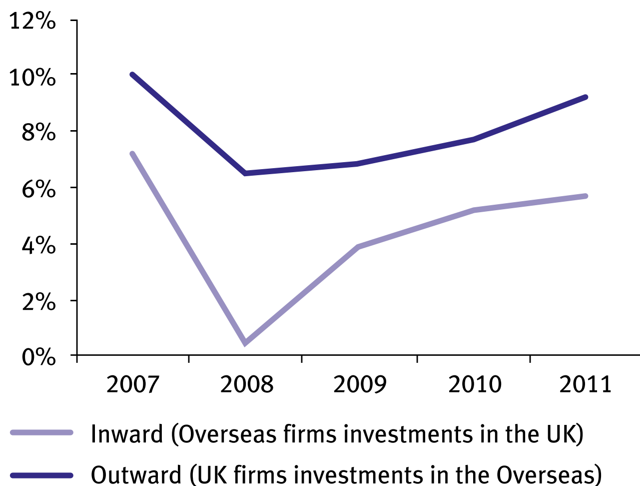
Source: Office for National Statistics , *Graph excludes the temporary effects of financial interventions

- UK Government debt will reach 100% of GDP by 2015 – EU Economic Forecast, European Commission (2013).
- Net government borrowing is forecast to remain above the EU guideline rate of 3% until at least 2016 – Office for Budget Responsibility (2013).
- On 7 January 2013, HMRC will remove child benefit from households where one individual earns more than £60,000 – The Spending Review (2010).
- "In order to address the fiscal deficit, the Government believes that it is right to ask those on higher incomes to contribute more" – HMRC (2013).
- Britain's total net public debt, excluding the direct costs of bailing out the country's banks, is still much higher than before the financial crisis at some £1.2tn or 74.9% of GDP – The Telegraph (19 July, 2013).

5. Only companies with substantial existing UK life operations will invest here.

Global life companies are focused towards countries with higher growth and less onerous conduct of business regulations, such as BRICS and similar economies. The UK cannot currently match the competitive shareholder returns available in fast-growing economies and, by 2020, this trend will be even more marked.

Return on inward and outward investment from the UK



Source: ONS (2013)

- The share of global GDP controlled by China and India will increase from 22% today to 39% by 2030. At the same time, the share controlled by the G7 will fall from 47% to 33% – OECD (2010).
- 88 per cent of UK senior executives feel that regulatory change is preventing their organisation from addressing other urgent business priorities and as a result the UK financial services industry is losing its competitive edge – Moorhouse (2012).
- Price-to-book ratio of Asian life companies are two to four times those of comparable UK firms – Reuters (2013).
- The Prudential is considering moving its headquarters out of the UK to escape tougher new capital rules for insurers – BBC (2012).
- "You won't hear from us a 'be afraid' tone. That is not how we want to act. It's not just enforcement-led. We've got to use the full range of tools." FCA Chief Executive Martin Wheatley talking about UK Financial Services Regulation – Financial Times (March 21, 2013).

> *"With interest rates expected to remain low, people will really struggle in retirement – how do you get any yield greater than inflation?"*
>
> David Barral, CEO, Aviva UK and Ireland Life

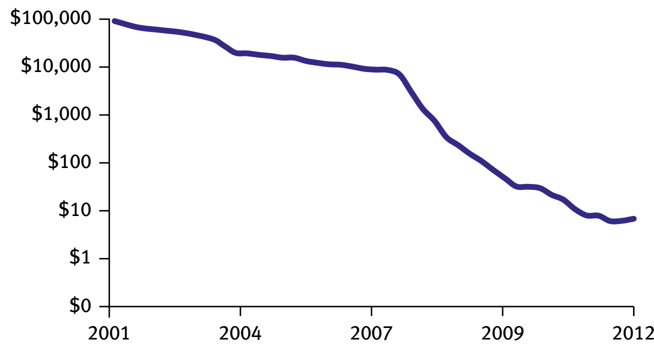
> *"Higher yields outside the UK will continue to attract investment funds, despite the risk of a regulatory 'train wreck'."*
>
> Anonymous

> *"Asia is still growing rapidly, but so is the risk of regulatory fall-out."*
>
> Anonymous

6. Firms are enabled or swamped by "big data"

Availability of data about consumers' health and behaviour will continually increase, as will some firm's understanding of it. Competition breaks out between companies looking to make the best use of big data.

Cost of sequencing the human genome in USD



Source: National Human Genonme Research Institute (2013)

- Discounts on Tesco insurance products can be as high as 18% when Clubcard details are given – Loyalty cards and insurance: every little helps, The Economist, (2011).
- Around 80 per cent of deaths from major diseases, such as cancer, are attributable to lifestyle risk factors such as smoking, excess alcohol and poor diet – NHS England (11 July, 2013).
- Companies that have already implemented advanced analytics have shown that profits and productivity can be increased by 5%–6% compared to the competition – Making Advanced Analytics Work for You – Harvard Business Review (2012).
- Only 0.5% of commercial data is analysed currently – IDC Digital Universe (2011).

"*Insurers need to use their customer insight to retain more risk, more profitably.*"

Toby Strauss, Group Director for Insurance, Lloyds Banking Group

"*Firms have got to get to grips with using data otherwise they will simply fall behind.*"

Peter O'Donnell, CEO, UNUM UK

"*Life companies have been shockingly bad at using customer data effectively.*"

Phil Loney, Group Chief Executive, Royal London Group

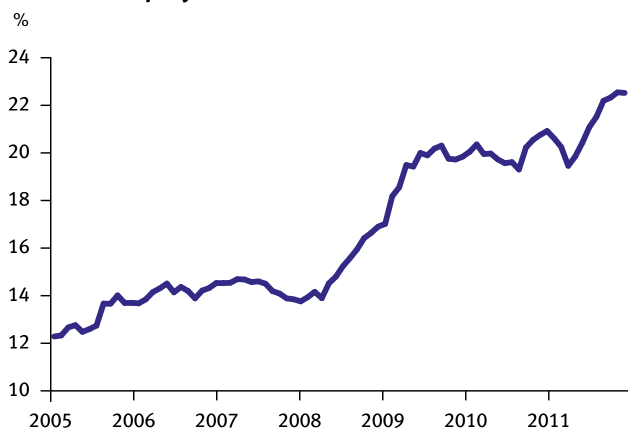
"*Our present challenge with big data is gathering and deploying useful insight from it, this will shift to needing to gain more data and then using it to interact intuitively with our customers.*"

Mike Kellard, CEO, Axa Wealth

7. The Government creates a "new deal" following pressure to "solve" youth unemployment. This creates incentives and causes changes in the employment and training picture.

The economy will remain weak beyond 2020. Pressure from new graduates increases – saddled with debts and with opportunities not growing in line with aspirations – they exert significant political pressure. The Government incentivises keeping jobs in the UK and consumers focus on firms' moral and social responsibilities.

Youth unemployment in the UK



Source: ONS (2012)

- Youth unemployment has a lasting impact on the wages of the entire cohort – wages are 23% lower for those who suffered youth unemployment after 10 years – Left behind, The Economist (2011).
- 19% of firms plan to move manufacturing locations from low to higher cost locations in the 2012–14 period – this marks a distinct increase from 2009 to 11 where only 9% of companies were planning such a move – McKinsey survey for the Economist (2012).
- UK GDP growth is forecast to average just 3.2% per year between 2013 and 2017 – Oxford Economics (2012).
- "Youth unemployment is Europe's most pressing problem." Angela Merkel.

> *"Youth unemployment is intractable – government legislation would be needed to incentivise firms to keep jobs here"*
>
> Anonymous

> *"People in later life need help to stay in their own homes if long term care costs are to be contained."*
>
> Rodney Cook, Chief Executive, Just Retirement

8. Even if the UK leaves the EU, the regulatory burden remains high and in line with other EU countries. The UK may well move to a Swiss or Norwegian-like position within the EU.

Leaving the EU will have a considerable impact on other markets, however, it does not greatly affect Life, Pensions and Health. The UK still has to comply with EU and Global legislation. The costs of compliance continue to be high and complexity is forced upon the industry.

Comparison of UK membership of EFTA and EEA versus EU

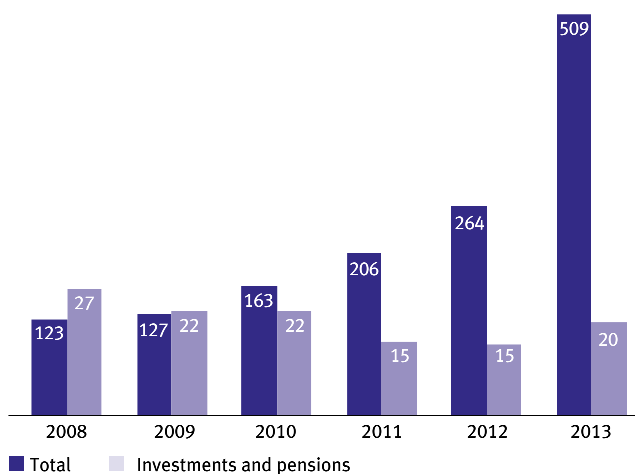
	EEA/EFTA	EU
UK contribution to EU budget per annum	£4bn	£4bn
Key legal document	Convention/ bilateral	Treaty
Access to internal market (for goods, services, capital, persons)	✓	✓
Common legislation on labour law, consumer protection, environment, statistics, company law	✓	✓
Representation at EU decision making bodies (Parliament, Council)	✕	✓
National sovereignty on agriculture, fisheries, security policy, justice, home affairs	✓	✕
Solvency II equivalence	✓	✓

- Fewer that 50% of the UK public would vote to stay in the EU – YOUGOV (2013).
- The British Government estimates that around 50% of UK legislation with a significant economic impact originates from EU legislation (2010).
- "While leaving would not be in our country's best interests… the British people are not happy with what they have, and neither am I. That's why I said on Friday that the problem with an in/out referendum is that it offers a single choice, whereas what I want — and what I believe the vast majority of the British people want — is to make changes to our relationship." David Cameron writing in The Telegraph in an article entitled, "*We need to be clear about the best way of getting what is best for Britain*" (30 June, 2012).

9. The overall reputation of retail financial services proves irrecoverable. While hostile towards banks, consumers are indifferent towards insurers. But a few emerge with better than average brand values and benefit significantly from this.

A continual stream of PPI-like scandals, regulatory reviews and poorly managed consumer expectations around sales will sustain low trust in large, traditional financial services providers. Certain specialist players will stand out as exceptions if they are actually prepared to live their brand values and increase transparency, particularly around fees and benefits.

Complaints made to Financial Ombudsman Service



- The volume of FSA fines to financial services institutions has risen tenfold since 2002 – FCA (2012).
- The proportion of people who say that they trust banks to do the right thing is just 28% almost half of the 2007 peak – Edelman Trust Barometer (2012).
- Almost half of the 2.6 million interest only mortgages due to mature before 2040 could experience a shortfall of tens of thousands of pounds – FCA (2013).

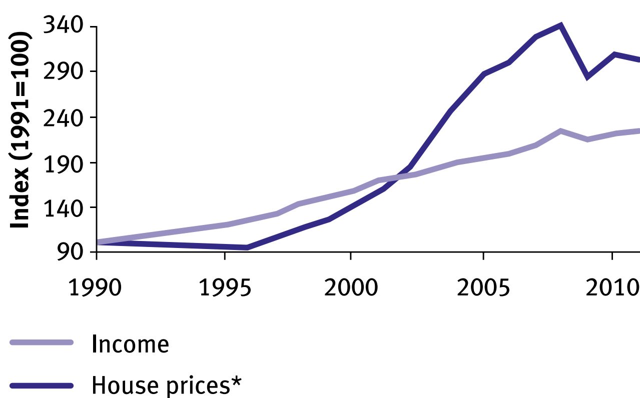
> *"The reputation of the financial services industry has been so greatly damaged that it won't recover. The public are very sceptical but trust has been irrecoverably lost."*
>
> Phil Loney, Group Chief Executive, Royal London Group

> *"Most people do not trust financial services companies to do what is in their customers' best interests."*
>
> Rodney Cook, Chief Executive, Just Retirement

10. The Government eventually shifts the rules and incentivises unlocking of housing equity.

As the Dilnot (or Dilnot-like) world approaches, residual wealth will still need to be accessed. The quality of state national care will not be acceptable to many people, regardless of whether it's at home or in a residential institution. Despite the current rules on equity release being cumbersome and difficult to navigate, the product is growing, albeit from a narrow base. The interests of customers, government, pressure groups and financial services institutions will align and cause the whole rule book to be rewritten.

UK Income and house price growth



Source: ONS (2012), *The Nationwide (2012)

- Since 1981, the number of centenarians in the UK has increased from 2,600 to 14,600 in 2012, and is projected to exceed 300,000 by 2050 – Office for National Statistics (2012, What are the Chances of Living to 100?).
- "Forget the pension, go for equity release" – The Independent (4 August, 2013).
- 75% of people will incur costs of <£20k for long-term care but 10% will have costs of >£100k – Dilnot Report (2012).
- The median combined financial and property debt for a UK household is £78,000 – Office for National Statistics, The Burden of Property Debt in the UK (2013).
- The Committee on Public Service and Demographic Change called on the Government to act to change the perception of equity release products ensuring that equity was released simply and "without excessive charges or risk". They argued that reducing risk and charges will improve confidence in the industry (2013).
- 21% of equity release taken in H1 2013 was to pay off outstanding debt on a property – UK Equity Release Market Monitor, Key Retirement Solutions (2013).
- Housing equity owned by over 65s is in excess of £750bn; over the last 20 years, only £12bn (i.e., less than 2%) has been subject to equity release plans – Safe Home Income Plan (2013).
- Equity release can be very expensive – for instance, a 65 year old taking a £87k loan on a £300k house would owe £343k after 20 years – The Guardian (2013).

> *"To make equity release sustainable we either need to see some product innovation to shorten the duration of loan or the government needs to remove the tail risk."*
>
> Mike Kellard, CEO, Axa Wealth

> *"A house is the last thing people want to give up – 'my home is my castle' still stands. Increasingly they won't have any choice."*
>
> David Barral, CEO, Aviva UK and Ireland Life

11. Health or "near health" gets more personal expenditure (by the wealthier) as failures of the NHS become increasingly apparent.

Scandals, low NHS staff morale and the rapidly declining perception of quality in the NHS erodes trust. The principle of free at the point of use eventually fractures. Those who can afford to will take some private provision in order to improve their quality of care.

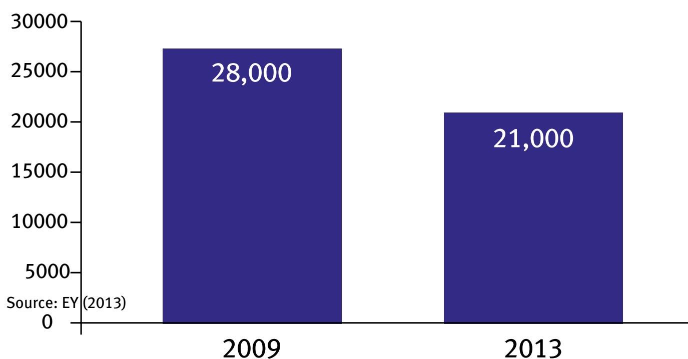
- Private expenditure on healthcare increased from £10.8 bn in 1997 to £24.5 bn in 2011 (CAGR 6.0%) – ONS.
- Public expenditure on healthcare was £44.0bn in 1997 (80.4% of total health care expenditure) and rose to £118.3 bn (82.8%) in 2011 (CAGR 7.3%) – ONS.
- Health is currently the second largest category of spending by the UK government totalling over £100bn in 2012 – ONS (2013).
- Analysis shows that continuing with the current model of care will lead to a funding gap of around £30bn between 2013 and 2020 – NHS England (11 July, 2013).
- The number of older people likely to require care is predicted to rise by over 60 per cent by 2030 – NHS England (11 July, 2013).
- "Mid Staffordshire failed to tackle an insidious negative culture involving a tolerance of poor standards" – Robert Francis, QC and Chairman of the Mid Staffordshire Public Inquiry, to Jeremy Hunt MP (5 February, 2013).
- Jeremy Hunt last night said the "era of gagging NHS staff from raising their real worries about patient care should end" - The Independent (14 March, 2013).
- "People were badly let down by the NHS and those responsible for healthcare regulation and supervision" – Care Quality Commission response to the Mid Staffordshire public inquiry (6 February, 2013).
- The government's plans for deficit reduction have increasingly stark implications for public spending as their deadline draws nearer...the pace of reduction in total government spending is due to increase significantly in 2016 and 2017 – Resolution Foundation – Narrowed Horizons: The fiscal choices at Spending Review 2013 and beyond (20 June, 2013).

> *"So few people have insurance that covers illness at work compared with life insurance, but the chances of becoming ill and having to take a sustained period off work are much greater than your chances of dying during working age."*
>
> Peter O'Donnell, CEO, UNUM UK

12. Only the affluent pay for advice. What remains of the mass market increasingly relies on social networks for recommendations and information.

As predicted, RDR improves the quality of advice but also makes it more exclusive and creates an advice gap. This dents the savings ratio even further. Those who have some money and want to participate contact a friend.

Number of advisors in the UK



- Lloyds has stopped offering advice to investors with under £100,000 to invest – Lloyds Banking Group (2012).
- 48% of people use online comparison to research Life Insurance – EY & Ipsos Mori, Global Insurance Consumer Survey (2011).
- A third of people looked at more than one site before purchasing insurance – Datamonitor, UK Insurance Aggregators (2011).

> *"The need [for customers] to talk to someone has not gone away – people still need this. They may do top-ups online but for pensions they' ll want to talk to someone. They may not want advice in the formal sense though."*
>
> Toby Strauss, Group Director for Insurance, Lloyds Banking Group

> *"Social media has a role in insurance, but people are generally reluctant to share details of their financial situation, so it only works up to a certain point. For most people, a financial "health-check" every three to five years is really all they need"*
>
> Paul Matthews, CEO UK and Europe, Standard Life

13. Customers expect simpler and more responsive (electronic) sales and service experience.

Life assurers do not provide much access to in force data or easy net purchasing/planning. Internet shopping is having a massive effect and the UK is at the forefront. It is quickly becoming a minimal condition for business.

- 27% of consumers in developed economies said that a high quality mobile phone banking presence was important – DataMonitor, Asia Pacific Digital Banking Trends in 2011 & Beyond (2011).
- Following the introduction of "the First UK service to offer enhanced annuity rates live online", Hargreaves Lansdown consumers enhanced their annuities by an average of 36%* in July – Hargreaves Lansdown web site (2013).
- 11% of online consumers already interact with their bank or credit union through social media – Fiserv (2010).
- 16% of consumers were influenced towards a certain policy or provider because of its simplicity and because the product was easy to understand, while a similar number were influenced by an easy application system – Mintel, Whole of Life Insurance (May 2012).

"*Better technology solutions and an increased degree of compulsion will be needed to offset the impending advice gap.*"

Peter O'Donnell, CEO, UNUM UK

"*The customer experience needs to be "digitised" as much as possible, but some personal contact will still be vital.*"

David Barral, CEO, Aviva UK and Ireland Life

what companies should do to compete

What companies should do to compete

If the influences we've described in our previous section play out, then the consequence will be profoundly felt in the industry. In this section, we bring together a view looking back from 2020. This is what successful insurers would need to have achieved.

A. A more sophisticated way of thinking about and targeting near or post retirees – this market will be the main revenue opportunity in 2020. However, the opportunity will slowly reduce as the wealth in the retiring population erodes over time.

Near and post retirees are going through a number of different phases of later life with resultant divergent needs. Complex pension arrangements from a variety of sources, legislative backgrounds and poor investment returns require carefully crafted solutions.

B. Retail distribution models that have reorganised around pockets of wealth.

Advisor firms organise themselves around specialist propositions, and sales forces are recruited to also focus on the diverse characteristics of the pockets of the wealth. More joint ventures are established with ethnic banking institutions/associations and advisor firms. The industry now offers more niche products and services tailored to the diverse range of needs presented by affluent consumers. Sales models are increasingly running in small pockets to appeal to different nationalities, behaviours, locations, ages and so on.

C. Leaner operating models that can respond to lower volumes and margin compression.

A variety of significant pressures on revenues, means that model re-structuring will be required to maintain profitability – to write new business, firms need to strip out successive layers of cost without sacrificing customer engagement in order to maintain the returns that shareholders demand. But by now many assurers are depending on outsourcers and business partners. This trend will not be reversed, more likely the search for better operating models will lead to further specialisation and new external partnerships. But the end customer is not interested – they will expect responsibility to be taken for the result and companies will therefore need to become adept at assembling providers to deliver customer solutions. In addition, the cost of regulatory reporting has ballooned.

> *"Insurers will become insurers again – they will always be the best at managing assets versus liabilities and need to get back to their core strengths – who else can do this?"*
>
> Toby Strauss, Group Director for Insurance, Lloyds Banking Group

> *"Many firms will look to eliminate people-intensive processes through automation or digital rather than bring them back on-shore."*
>
> David Barral, CEO, Aviva UK and Ireland Life

D. Effective capital management that is used as a critical way of competing.

If this market is going to be seen as a place investors want to be, regulators will need to be continually sensitive about strengthening buffers. Given that insurers will move towards more protection and investments offering varying types of guarantees. Conserving and managing capital becomes a critical weapon. The financial results of life companies will not inspire investor confidence.

E. Shaping the political debate around equity release and having been patient enough to remain in the market while this plays out.

The debate over new regulation will be complex, with government reluctant to act. However, the poor returns offered by the annuity markets combined with the need to access further capital to fund active retirement, stimulates public pressure (annuity rates not giving enough to fund retirements). In addition, the state's standard of care offering will not be considered adequate by many families. Increasingly, customers realise that the deals are poor and, eventually, the debate leads to patchwork reregulation of care financing. The regulations, piece by piece, will eventually lead to a more coherent, attractive sales environment for client and company.

F. A focus on protection and health.

Advisors and providers have been focussing on promoting protection products through a variety of channels, and so demand for these products has increased. The value these products offer to the consumer will be improved beyond 2020, partially due to economies of scale resulting from increased take up. There is a positive feeling about going back to the industry's heritage.

G. Underwriting has improved to be much more data rich and rating factors have been optimised.

Ever increasing depth and availability of personal information has allowed the market to respond. Life companies focus on protection given the poor investment market and some see an opportunity to provide more products that dovetail in with morbidity cover and the NHS. Product innovation will be led by those that can use the data. Underwriting pools become much smaller, and promotion and pricing is increasingly used to lure consumers with the lowest risk factors.

> *"Predictive underwriting has got to be a key change going forward – why not use this to find out when people may want a product and allow them to buy it with one question?"*
>
> Russell Higginbotham, CEO, Swiss Re UK & Ireland

H. Promoted (and demonstrably lived) the brand values at a much lower cost.

Being able to prosper in the future means recovering at least part of the industry's reputation. In the past, providers have too often promoted brand values but not lived them. Those brand values will need to become guiding paths where all planned actions are tested against them. Like all other costs, communication costs will be under pressure and so providers will need to spend less on advertising and rely on PR thorough social media instead.

I. Have training, hiring and offshoring policies that reflect government stimulus.

A generation of graduates and school leavers become increasingly dis-satisfied about the opportunities presented in the low growth economy. These young people are not an underclass but the children of an articulate voting public. Older people are more reluctant to retire due to economic pressure. Electoral Pressure builds up sufficiently that something has be to be done. A new deal is created which involves apprenticeships and incentives to re-onshore jobs. Legislation is also passed to make internships payable at a minimum wage level. However, many industry skill gaps will remain, and industry bodies will become an integral part of closing these gaps.

J. Found a way of working in a more aggregator-led market and the increased transparency and price pressure it brings.

The amount of business going through aggregators will increase dramatically in the protection and annuity space where comparisons are easier. At the detailed coverage level, products are still difficult to compare. Aggregators will put pressure over time on the industry to provide more transparency and therefore comparability.

K. Digitisation is an integral part of everything a company does.

The digital personality of a company must be understood by all. Product releases or enhancements are digitised from day 1. PR and social media should often be used to promote the company and its brand while senior execs must be more electronically available to customers and intermediaries. Digital response time must be in moments, not hours or days. The overall thrust of digitisation is under guidance of marketing not IT.

> *"As margins get tighter, firms will need to move to much lower and more flexible costs bases."*
>
> Paul Matthews, CEO UK and Europe at Standard Life

future skills necessary for success

I. Marketing skills and function will become more important than sales.

Insurance firms will move towards anticipating and meeting customer needs as a core competency. Marketing must drive this change and become a strong voice of the customer within successful insurance firms, effectively policing organisational behaviour. The marketing function must demand, and have the ability to enforce, continuous improvement in customer experiences and outcomes.

What will be needed in 2020 and beyond?

- Two to three times more marketing professionals
- Developing a digital personality
- Intervening in all customer impacting designs (and the authority to veto where necessary)
- Ensuring relationship management and research are at the heart of the company
- Participating in sales channel decisions with joint accountability for sales results and sales direction
- Integrating key processes i.e., product development in multi-disciplinary teams to help reduce product development and life cycle times by 80%
- Aligning all propositions with brand values: marketing must have the final say on what goes to market
- A high degree of customer and distributor communication innovation
- Extensively using, but enforcing a clear policy on, social media
- Better use of public relations
- Rapid changeover of electronic content with required personality
- Retaining its compliance role

II. Digital design and innovation will become integrated into everything.

Digital channels offer new ways of interacting with consumers across the entire “customer journey”. There is an opportunity to improve the insight available on customers, influence their buying behaviour at an early stage and bring new propositions to market more rapidly. As a minimum, customers expect basic functions without human interventions. However, the skills to do this effectively are likely to have to be bought in.

What will be needed in 2020 and beyond?

- Firm’s must have gained skills not currently found in insurance firms. For example, usability design skills to create far more advanced client portals and digital experiences
- More streamlined processes to allow faster adoption of new products and ideas
- New digital distribution channels to connect with the customer
- New data protection protocols and online security to support these new distribution methods
- New technology to give Insurers the ability to receive instructions from customers in response to increased demand for digital interaction
- Generalist and specialist qualifications
- Web design and search engine optimisation
- Digitising the interface with legacy systems to aid cost and retention
- Accurate data that enables better pricing and marketing reflecting the brand ethos and your company’s personality

III. Big data must be embraced and made to work for the organisation and its customers.

Availability of big data is reaching a tipping point where there is sufficient information to underwrite products personally but also to understand the needs of clusters of people and serve them with more tailored products. By 2020, firms will need to be managing, analysing and interpreting the data using the right technology, processes and people – this is the only way to ensure competitive advantage.

What will be needed in 2020 and beyond?

- Constantly scanning for new data opportunities as they emerge
- Knowledge of privacy and security rules
- Control processes over data driven experiments in taking on underwriting risk
- Establishing clear dividing lines with re-assurers and distributors over data links
- Fostering links internationally and with the health industry (availability of customer data profiling technology will make this more feasible)
- Capability to administer big databases
- More effective cardholder data quality
- Simplifying how the data is stored and managed (verifying of the truth)

IV. The learning and development function will become vital in equipping the workforce.

Local recruitment is incentivised and re-onshoring of roles will put pressure on companies learning and development functions. The learning and development function will need to expand and partner to achieve its goal. This market will become a competitive place for talented and ambitious people.

What will be needed in 2020 and beyond?

- Government incentives to keep jobs onshore, sponsor apprenticeships, and partner with schools and universities
- Investing in local academy schools on a charitable and commercial basis
- Partnering with learning institutions and other life offices to create educational facilities
- Building community good-will by providing financial education to 16–18 year olds
- Providing some pro bono services to assist those in financial difficulties
- Pooling formal apprenticeship schemes with competitors and partially pooling with other institutions
- Understanding the implicit differences in communities and approaching them in the right way – this includes speaking the appropriate languages
- Institutes will be points of connection rather than competitors
- Participating in developing industry computer-based learning
- Establishing apprenticeship schemes for client service functions

V. Understanding and participating in retirement market re-regulation will be key for future opportunities.

As access to housing equity becomes essential for retirees, the market will grow – being a major participant means communicating a view on, as well as being involved in, re-regulation and keeping an unblemished reputation. Strong demand exists for innovative products and services. Sponsorship and publications will need to be re-orientated into the market the Insurers are targeting.

What will be needed in 2020 and beyond?

- Taking a distinctive public position in support of third agers and playing for the longer game:
  - Employing mature professional financial advisors to engage face to face with third agers
  - Regularly contacting and informing all savers – increasing the frequency past age 50 – to "earn the right" to provide third age solutions when the time is right
  - Always offering spokespeople on retirement income
  - Participating in the political debate around retirement funding
- Individually underwriting annuities and equity release income propositions
- Totally controlling the business you participate in
- Staying towards the top end of data tables – targeting the social media-savvy and acting as advisors to the retirees
- Creating modelling tools for those that are beginning their interest
- Employing actuaries who can think "outside the box" and develop innovative income solutions to third age needs by deploying pension funds, housing equity and other sources of capital

VI. Learning to live with ever-tightening capital management is essential.

As regulators continue to exert pressure, insurers will need to move back into their heartland of risk management and hone their core capital management skills to deliver growth and deliver competitive returns through effective management of the balance sheet.

What will be needed in 2020 and beyond?

- Reviewing the corporate structure in search of improvements in capital optimisation, operational simplification, efficiency and control
- World class asset-liability management skills in matching, hedging, diversification and optimisation against capital rules – the use of new asset categories not traditionally used by insurers
- Ability to fully understand the risks firms want on their balance sheet versus those they want to hedge or reduce
- Ability to effectively increase or reduce exposure to certain products or assets through entity acquisition or disposal, reinsurance, "white labelling" or direct writing of business
- A product design approach that focusses on the key drivers of economic capital and its impact on internal rate of return
- Being intimate with the effect of diversification benefits from originating complementary risks (e.g., longevity and mortality etc.)
- Ability to spread risk widely so firms can achieve other solvency benefits u Ability to understand regulatory changes both now and in the future – firms need to be able to pre-empt the capital implications of these changes
- Creating a compelling investor story to maximise market interest and further increase ability to raise capital

VII. Underwriting must come to the core of the life office.

Market growth will remain limited and competition is fierce. This is driven by the power of price comparison sites and large intermediaries. Price and brand are key. As in the general insurance market, low investment rates means that profit needs to come from core activities – getting risk assessment and pricing right is vital. Generating products which dovetail into the NHS (e.g., out of hours cover) will require familiarity with altogether different types of data.

What will be needed in 2020 and beyond?

- Actuaries who are able to develop and price propositions to appeal to clearly defined consumer segments
- Propositions must be designed, tested and refined in shorter cycles
- Retained risks must be tightly linked to risk appetite
- Partnerships with re-insurers must be closer and more dynamic
- Constant monitoring of health care and competitor underwriting innovation
- Opportunities for further risk diversification benefits (e.g., by selectively acquiring complementary risks) must be fed into proposition development and pricing procedures
- Sophisticated analysis to segment customers by predicted underwriting outcome
- Pricing that is more closely matched to customer data
- Ability to re-price and communicate faster than competitors
- More awareness of health care and underwriting innovation
- Propositions must be more feature-rich (e.g. personalised ratings and exclusions etc)
- Significantly higher use of enhanced and impaired annuities (>50% of market); postcode pricing commoditised

"AXA Wealth recently re-priced a product and promoted it using only social media which was successful and about 95% less expensive than traditional means."

Mike Kellard, CEO, Axa Wealth

"Consumers are becoming more aware of the value of the data they share with companies and are increasingly only interacting when they choose to deal with companies."

Paul Matthews, CEO UK and Europe at Standard Life

VIII. Ability to assemble services and manage partnerships is essential.

Simplifying the model will require different capabilities – over 10 years ago insurers were vertically integrated and covered most product areas. Now all pair with other partners and deliver a narrower range of products and this trend will accelerate. Delivering customer solutions at the right price and quality requires the capabilities to bring those services together seamlessly.

What will be needed in 2020 and beyond?

- Actuaries who are able to develop and price propositions that appeal to clearly defined consumer segments
- Increasing specialisation – this requires co-operation with others to assemble customer solutions
- Ability to adopt multiple partnership styles and roles
- Linking to ever more co-providers particularly re-assurers, fund managers, selected intermediaries and new distributors (such as app developers)
- Influencing and making judgements on how to improve performance
- Increasing dialogue across many organisational boundaries
- Increasing transparency of pricing and reporting
- Sharper supply chain management
- Knowledge and active participation in the development of industry protocols
- Taking every opportunity to sell to customers via affinity and increasing the number of affinity partnerships
- Ability to identify appropriate solution providers and create and manage relationships
- Ability to function efficiently around the internal changes required to meeting regulatory needs

> *“Insurance companies are very poor at using data for marketing, distribution and customer segmentation purposes - this has got to change.”*
>
> Peter O’Donnell, CEO UNUM UK

contacts

Contacts

We hope you found this thought provoking and insightful. To discuss any of the issues raised in this publication, please feel free to get in touch with any of the contacts below.

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