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Industry focus

Time to rethink life insurance?

How COVID-19 has put pressure on providers to transform

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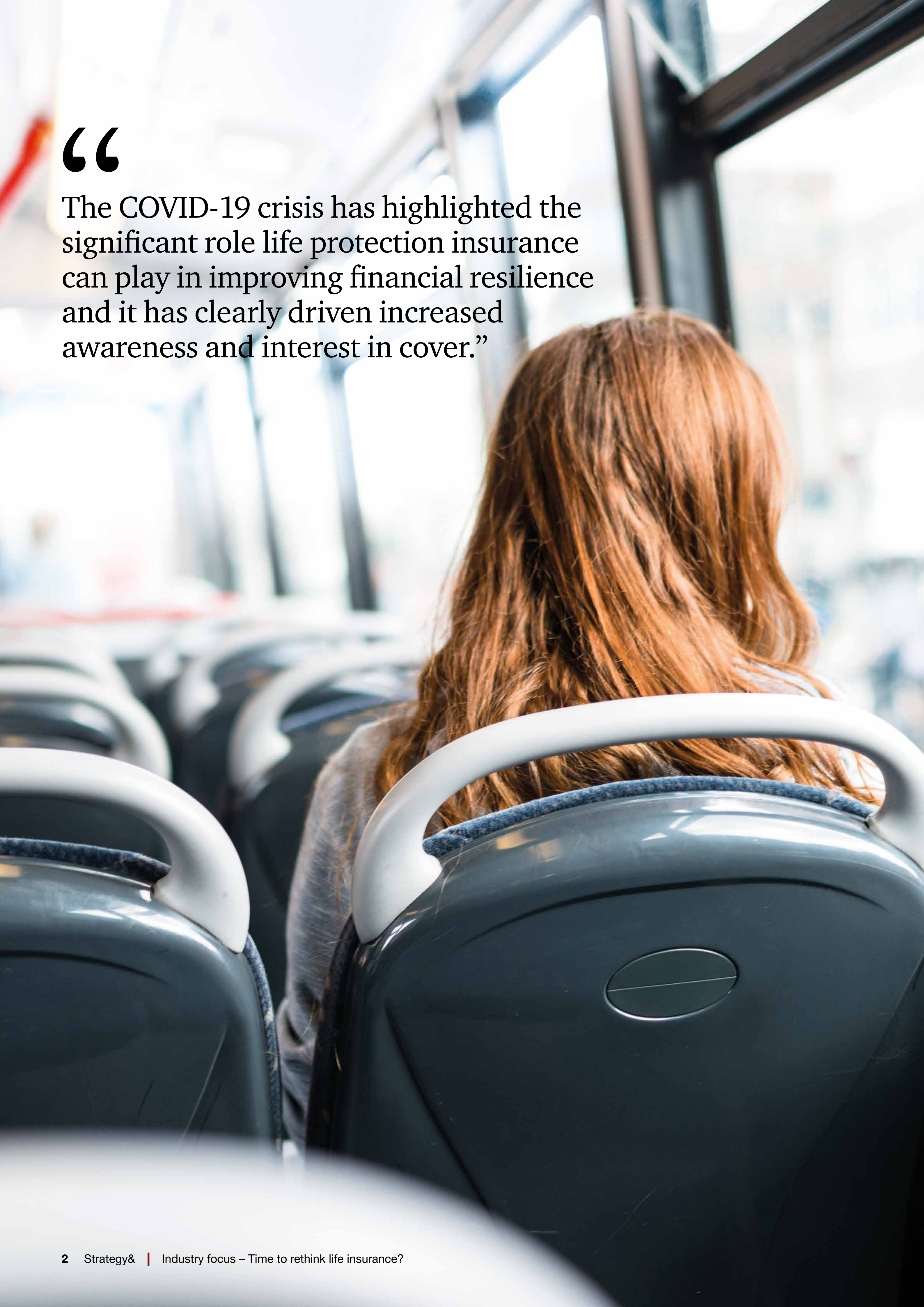
We are uniquely placed to combine strategy with technical, industry and execution expertise. We embed our strategy capabilities with expert teams across our PwC network, to show you where you need to go, the choices you'll need to make to get there, and how to get it right.

The result is an authentic strategy process powerful enough to capture possibility, while pragmatic enough to ensure effective delivery. It's the strategy that turns vision into reality. It's strategy, made real.



“The COVID-19 crisis has highlighted the significant role life protection insurance can play in improving financial resilience and it has clearly driven increased awareness and interest in cover.”

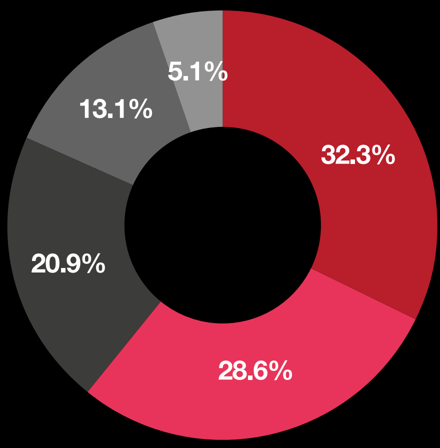
Time to rethink life insurance?

Over half the people in the UK potentially suitable for life protection insurance do not currently have any.

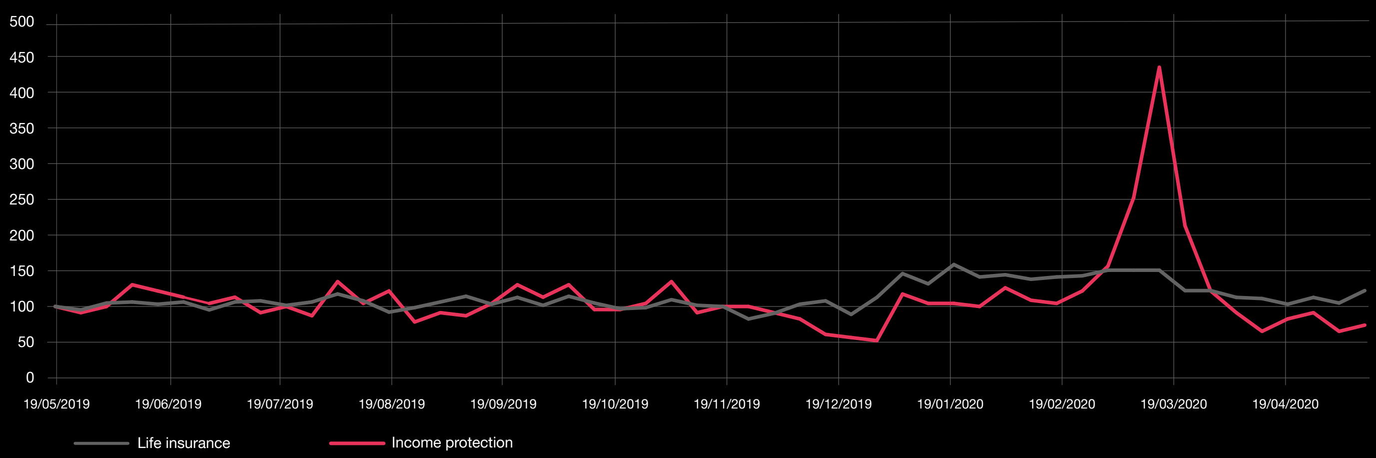
That is a massive market. But it is one the insurance industry has historically struggled to crack. Many potential customers have remained unmoved and our own research reveals consumer attitudes, misperceptions about cost and a lack of financial engagement are all factors in customer apathy or disinterest. But in the wake of COVID-19 that may be about to change – providing insurers can adapt.

The COVID-19 crisis has highlighted the significant role life protection insurance can play in improving financial resilience and it has clearly driven increased awareness and interest in cover. There has been a significant year-on-year increase in people searching online for life insurance products.

The shape of the life insurance market and interest is soaring



Indexed average google search volume (UK) rebased to 100; last 12 months



A window of opportunity – but for who?

The current heightened awareness of life protection insurance won't last forever, and incumbents can't afford to move slowly or be complacent.

Pre-COVID-19 the industry was already facing major disruption – specifically from tech-savvy new entrants. COVID-19 has potentially accelerated that disruption by putting a significant, but time-sensitive opportunity on the table. If incumbents fail to react effectively more agile rivals may move in. The first step will be converting interested consumers who haven't yet taken out a policy.

Our research shows 20% of consumers surveyed had considered buying life insurance, but don't yet have a policy. Understanding why this underserved market hasn't engaged is vital. If established players don't tap into it new players will.

We have seen InsurTechs successfully enter the financial industry – first in banking, and more recently in general insurance. It won't be long before start-ups become successful in the life protection market by addressing customer need at scale. However, for now, established insurers retain the upper hand. 41% of respondents noted an established, well-known insurance provider is where they would look first.

Established insurers can further strengthen this position of trust by highlighting where they have gone above and beyond to pay claims during the current crisis, showing they can be trusted to stand by their members when they are needed most.

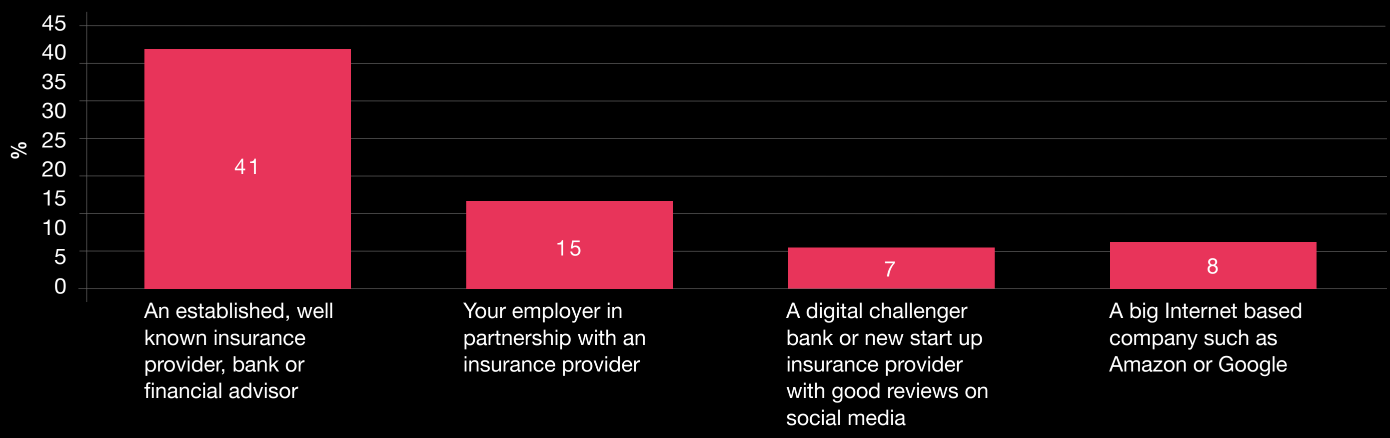
However, this picture is not uniform across all age groups. Younger consumers show a greater willingness to explore insurance with start-ups and/or web-based businesses. So, while the heritage, knowledge and security offered by established brands still holds weight for now, there are clear signs of a growing appetite for tech-enabled life insurance solutions.

20%

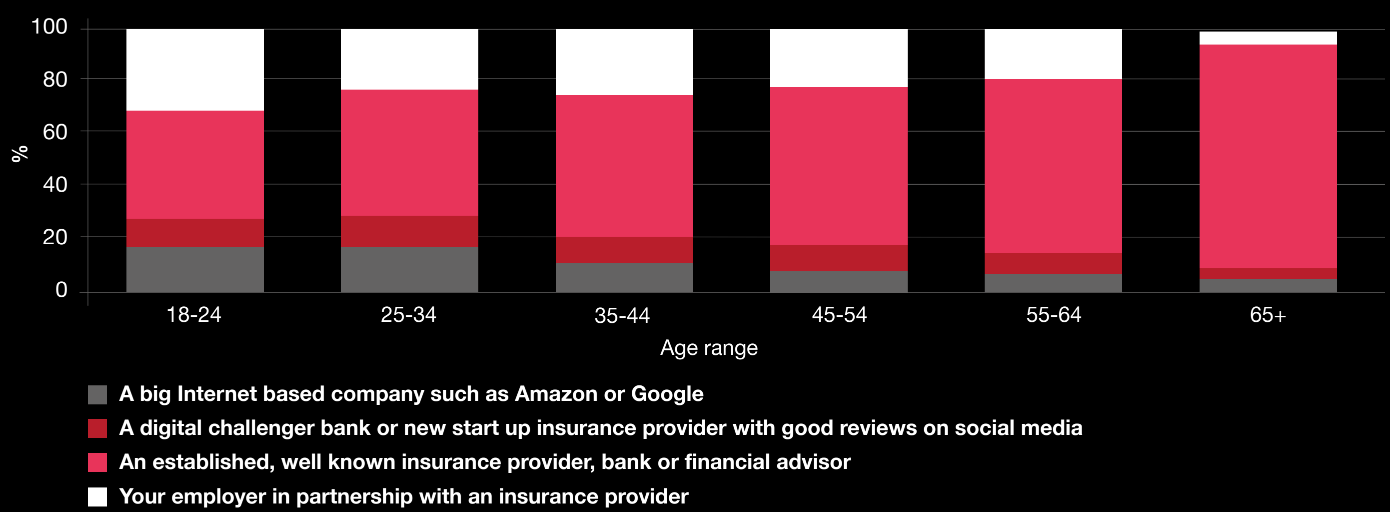
of consumers surveyed had considered buying life insurance, but don't yet have a policy.

Where are consumers looking for cover?

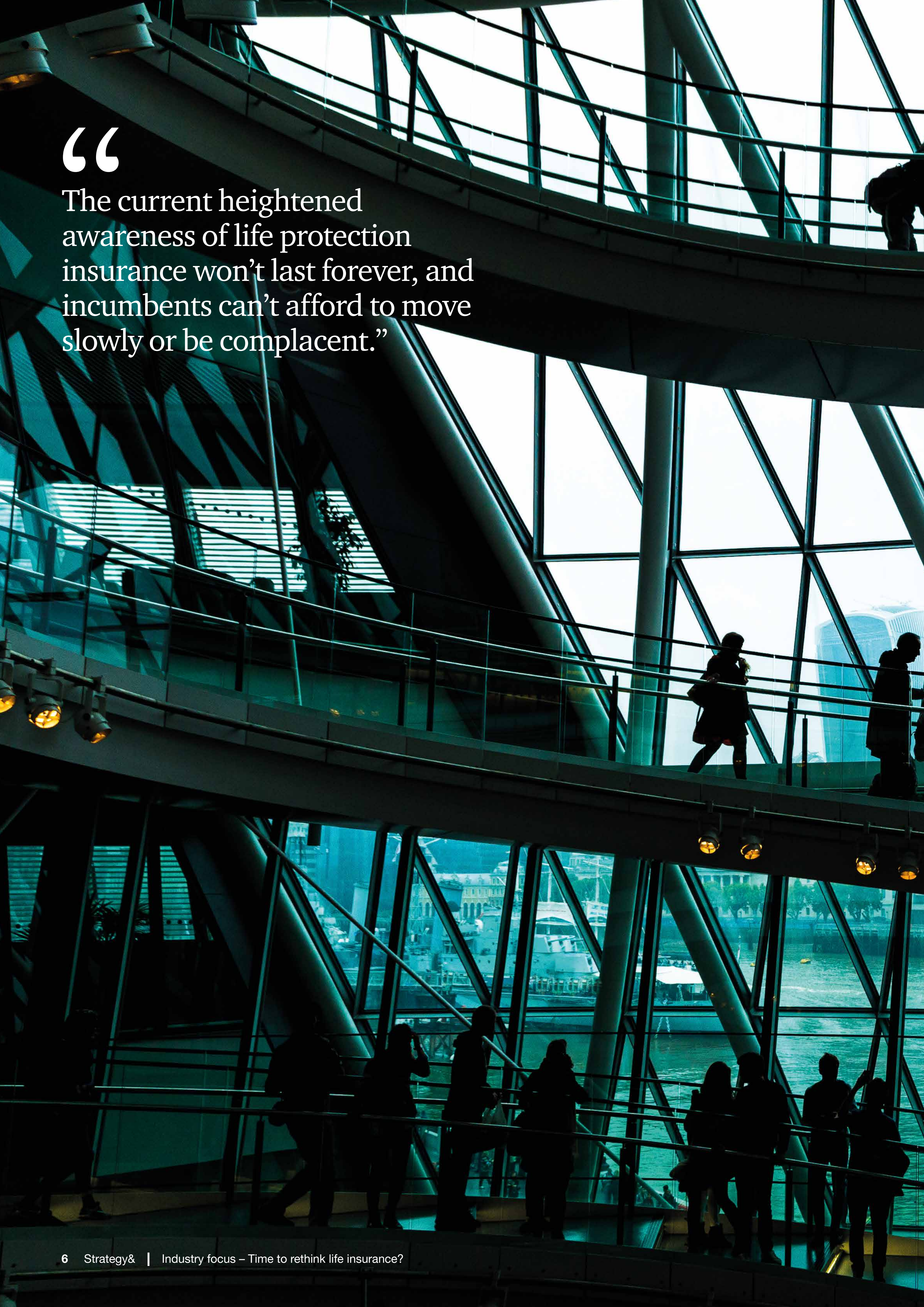
One of the first providers I would look at/definitely consider



Younger consumers are open to alternatives



Source: PwC conducted a bespoke UK consumer survey of 1000 nationally representative respondents, September 2019



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A catalyst for change and collaboration

Insurers need to change quickly to capitalise on the current interest and engage underserved consumers and those tempted by the digital offerings of new entrants.

This unique moment in time must serve as a catalyst for change among incumbents. This could involve a wholesale transformation of existing systems, developing a standalone new approach from scratch, partnering with a new entrant, or looking for strategic partnerships, for example with employers.

We see, particularly among younger people, a stronger preference for considering their employer as a provider of insurance. This presents an opportunity for existing insurers who are well placed to use their brand power to work with employers and meet this expectation, capturing the future generation of policyholders in the process.

16m

households currently are without adequate life protection insurance.

The case for collaboration: with employers

Auto-enrolment in a pension scheme is now a mandatory requirement all employers must provide. But what if employers were to offer life insurance on the same basis? Our research found 68% of people currently in employment would stay opted in.

This is already happening in other countries. In Australia, most of the population now have personal insurance cover provided alongside their pension arrangements inside their superannuation. This has driven protection insurance into the mass market, and Australians are happy to talk about and compare their "super" with each other. If something similar were put in place here, it could help improve the financial resilience of the 16 million households currently without adequate life protection insurance. The government could even explore how to structure protection products offered through employers to cover future pandemic scenarios, improving the resilience of the country.

So how could this happen? According to the Edelman trust barometer, employees trust employers more than a whole range of other organisations, including NGOs and government. This trust provides a compelling reason for insurers to partner directly with employers, potentially accessing the younger generation who would look to employers to meet this need.

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The government can also play an important role in highlighting the need for life protection and has plenty to gain by doing so.”

Creating a healthy, protected workforce

One InsurTech uses an app to reward staff members for being healthy. The company offers life insurance plans for staff members backed by an established insurer, but staff can also earn rewards for a range of health-related activities such as running, walking and meditation. Gamification of the product has created a much-improved engagement with the employees, by appealing to different characteristics, for example, with walking leader boards for those who like to compete, or hidden rewards for those who like to progress through the app and explore.

This presents insurers with a great opportunity to build a longstanding relationship with customers and develop deep and unique insights, especially if they could offer personal, portable products directly to the workforce rather than a group policy to the employer.

Employers also stand to benefit. Employees who have trust in their employer are far more likely to engage in beneficial actions such as advocating for their organisation or remaining more loyal and productive.

The case for collaboration: with government

The government can also play an important role in highlighting the need for life protection and has plenty to gain by doing so.

There are many people who need life protection insurance who don’t have it, and this is a situation which can have serious repercussions on society and public sector budgets. If the main earner in a household can no longer work the initial burden may fall on other members of the household, or wider family. But ultimately state benefits pick up the bill.

This makes a compelling case for increased government intervention, to encourage personal provision of protection insurance and thus reduce the number of people needing to rely on the state.

68%

of people currently in employment would stay opted in if life insurance was offered on the same basis as auto-enrolled pension schemes.

How to turn consumer interest into customers

Unlike other types of insurance, life protection insurance ultimately plans for the one thing that will happen to all of us. Yet people are not preparing for it.

Our research reveals a major problem of perception. Most people think life insurance is too expensive and does not provide good value. But that's because many significantly overestimate the cost of buying life cover. We found most guesses as to the cost are at least two-and-a-half times too high, with some overestimating by a factor of four.

Because people misjudge the cost and don't see the value, the cost-benefit equation does not stack up for them. And that's before they start to grapple with their own mortality, worry unduly about getting locked into long-term policies (which can be far more flexible than they realise) or start to navigate what can be an over-long and complex application process.

Insurers must therefore do more to demonstrate cost is not the barrier some consumers think, their policies can be flexible, and having cover when it's needed most could make a huge difference to customers and their families.

2.5x

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All in the mind?

For most of us, there is still a taboo around discussing death. Some companies are tackling this head on with their marketing approach. In addition, 'Anchoring bias' presents another psychological hurdle. Consumers get hung up on the big number – the amount of cover. And that makes the decision feel far more momentous than a modest £10 a month commitment. If existing insurers could persuade customers to consider the smaller numbers first, then we'd likely see conversion rates increase significantly from the typical 3% we see today.

Rising to the challenge

To move forwards, the life protection industry must address three challenges:

1

Create products and services that customers value

Our research shows insurers should focus on:

Making cover easy to buy

More than half (53%) of consumers say it is more important to buy easily at a reasonable price, compared to 29% who would choose the cheapest price paired with a complicated process. Insurers should focus on making the purchase process as simple and seamless as possible, removing barriers can result in people abandoning an application.

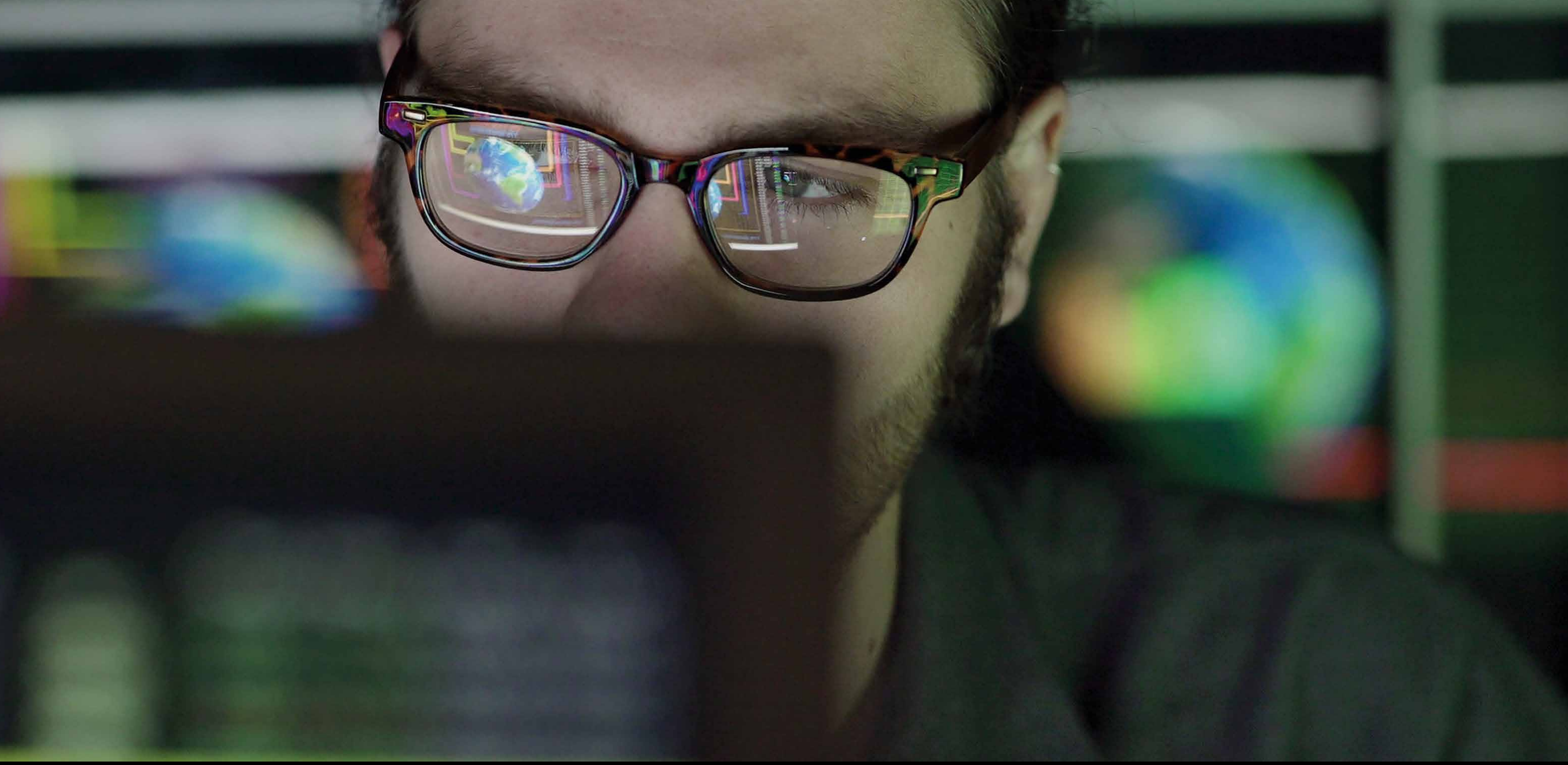
+53%

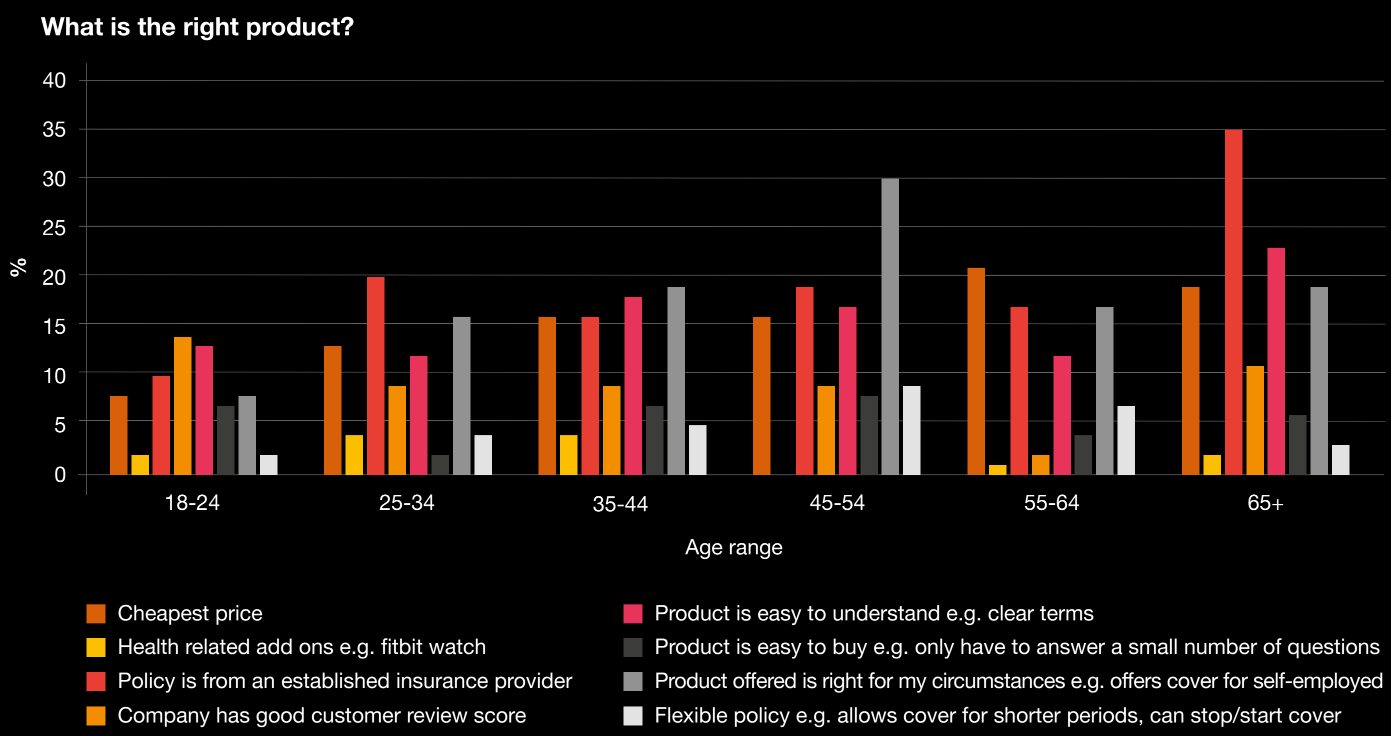
of consumers say it is more important to buy easily at a reasonable price.

Providing the right product for the customers' needs

In normal circumstances few people have the time, or inclination, to do extensive research into which life insurance products suit them best. This is particularly true for the 'middle busy' – those aged between 25-54 with work and family commitments. Insurers may address this by increasing their engagement with consumers, more regularly reminding them of the lifetime value their products represent rather than simply have a single conversation at the point of sale.

As in any market, people want something to show for their money. Partial refund of payments in the form of an end of policy bonus could be one way to show tangible value and is prevalent in other markets outside the UK. People also say they'd like to see life insurance premiums bundled with other payments via a subscription. Here again, it's all about delivering value and making things simple.





Trading on their established insurance brand – for now

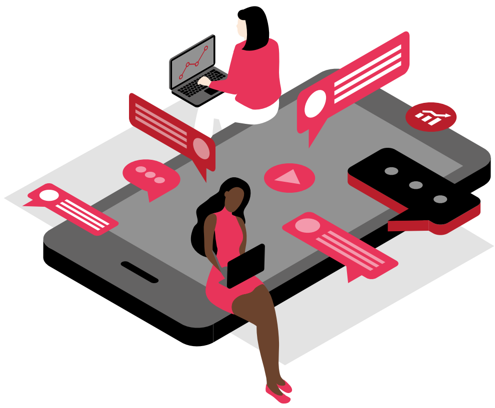
Consumers currently express a strong preference to buy from an established insurer. Looking to the long term, this will become less important for the customer of the future. For them customer review scores are a key influencer. New entrants could lead the way here by designing a customer journey that engages and satisfies tomorrow's consumer, providing excellent, personalised customer experiences along the way. This is even more reason for incumbents to trade on their brand today, while innovating new offerings for tomorrow.

“

Teaching children aged 4-7 about the value of money and how to manage it has a direct impact on their ability to do so as an adult. Getting parents to assist (e.g. teach parents to teach children) has an influence on the parents, reducing indebtedness by 19%.”

The Actuary magazine, October 2019.

2 Go digital



We asked consumers where they’d like to buy life insurance. Overwhelmingly, the response is online. Customer expectations were already shifting to digital channels and the pandemic has shown far more can be done online than many thought previously.

For the ‘middle busy’, servicing their insurance online will be increasingly important. They are used to using a website that gives them all the answers they need. Life protection insurance should aim to be as simple as buying groceries online.

Incumbents only need look at some of the InsurTechs entering the market to see what easy-to-use, helpful, customer-centric digital offerings look like, and doing so should serve as both a lesson and a warning.

3

Get people to engage with insurance

Too often the industry reflects on low engagement as a need to financially educate the market about how products work. However, if products and services were clear and intuitive, customers would understand them without further education or the need for a manual.

Life protection insurance plays an essential role in improving the population’s financial resilience. And it’s vital for the industry to help people understand its value. Insurers, distributors and reinsurers that are proactive in this space could all realise benefits from a better-informed market.

As mentioned earlier, collaboration between the industry and government can also be mutually beneficial.

We’ve already seen examples of how public engagement can pay dividends. Workshops in schools that accompanied pensions auto-enrolment successfully focused people’s attention on the need to provide for their retirement.

As The Actuary magazine said in October 2019: “Teaching children aged 4-7 about the value of money and how to manage it has a direct impact on their ability to do so as an adult. Getting parents to assist (e.g. teach parents to teach children) has an influence on the parents, reducing indebtedness by 19%.”

Consumers are more than capable of understanding financial products and raising awareness of them will have a significant impact on future generations.

> "Life protection insurance plays an essential role in improving the population's financial resilience. And it's vital for the industry to help people understand its value."

Change must be industry-wide

The primary drivers of change are likely to be established insurers. But they are far from the only important agents of change in the UK market. Reinsurers will play a key role too.

Any wholesale change to the front end of the market, for example distribution, must be considerate of the stakeholders at the back end. It is the reinsurer who could ultimately be exposed to anti-selection if there were significant changes to the insurer's approach for accepting risks, or the broker's approach to targeting customers. This exposure, coupled with the large value portfolio in the reinsurer back books can make some reinsurers reluctant to change.

However, this reluctance does not persist across the whole market. Some reinsurers are already collaborating and innovating in this space, for example using their data and insights to stratify their underwriting, simplify on-boarding, and grow the proportion they can accept at standard terms.

But where some reinsurers remain reluctant to simplify underwriting processes further, insurers may need to take on more underwriting risk themselves, charging slightly higher premiums but, in exchange, asking fewer difficult questions and making the process simpler for customers. After all, a minority (<20%) of applicants are likely to present additional risk that cannot be taken on at normal premium levels. So rather than focus on the minority of difficult cases, it would make more sense to cater for the majority, particularly if doing so could significantly expand the market.

The broker relationship is also key. Ultimately, as the policyholder will end up as a customer of the insurer, insurers could benefit by finding ways to build this relationship from the outset rather than simply picking it up at a later stage.

The only way to grow a new market successfully will be for all parties – reinsurer, insurer and broker – to work together with a shared vision that benefits them all.

<20%

of applicants are likely to present additional risk that cannot be taken on at normal premium levels.

Time to act

Improving life protection insurance provision across the UK could have far reaching benefits for the economy and society.

Employers can play a key role, either through the provision of life protection insurance in an auto-enrolment-style scheme, or by actively promoting the benefit of insurance to their employees. Government too has an important role to play.

But ultimately the industry must act – and quickly.

Over the short term, there is a clear opportunity to promote the value of life protection insurance in a highly relevant context that will be clear and understood by every potential customer. But the industry must not purely pursue short-term goals without also embracing this moment as a catalyst for longer term change.

Sales generated through increased awareness of insurance products now, must not create complacency or stifle innovation over the long term.

In COVID-19 the industry may be witnessing something it has lacked for decades – something that can make the market understand the importance and purpose of life insurance.

“Improving life protection insurance provision across the UK could have far reaching benefits for the economy and society.”

Who to talk to

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