Insurance news analysis

Video transcript

August 2021

Global insurance recovery will be faster, stronger than in 2008 - Swiss Re

Reuters
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Abbey Compton
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Welcome to Accenture's Insurance News Analysis. I'm Abbey Compton here with Kenneth Saldanha, Accenture's global lead for insurance. We'll be talking about what's making news around the industry. So, Kenneth, Swiss Re says they expect the global insurance industry will recover more quickly from the pandemic than it did from the 2008 financial crisis. They cite a few differences, and the conditions then and now, including insurers' financial strength and capitalization. They also note the increased demand for insurance products. So, are the digital transformation strides the industry has been making playing a role in recovery, and how might their strides make the industry more resilient against the next financial crisis, or economic crisis?

Kenneth Saldanha
Global Lead—Insurance, Accenture

Yeah, Abbey, I think what we're seeing this time is a very different environment, really, at least on three different dimensions. First is the fundamental nature of the crisis is very different. Whereas 2008 was truly a financial sector crisis around capitalization, this is a broader global economic crisis, but it hasn't been quite as focused and concentrated on financial services companies. So there is a real difference in fundamentally the nature of the crisis. What we've seen through our work with Chief Operating Officers or CIOs, over the course of the year has been a high degree of satisfaction with what some of the digital preparedness allowed them to do in terms of pivoting their operations to remote, to letting people work from home to be able to interact with customers with digital and remote channels. So we have seen a high degree of satisfaction from CIOs and COOs in terms of how the work was able to be pivoted. And then finally, as you said, consumer sentiment around insurance is at a place where not only is there heightened demand for insurance products, whether that be life or health or property casualty, but also that has come with a heightened willingness to pay for that protection. And so if you look at the quarterly reports of most carriers for 2021, there's been fairly strong results, stronger than the last few years. And that's been driven by very much this ability to operate through 2020. And then buffered by higher demand at higher pricing, what we call hard market pricing for the sector. So I do think it's a very, very different crisis experience as well as crisis recovery for insurance this time around.

> **71% of UK digital bank customers want embedded insurance offers based on transaction data**
>
> The Fintech Times
> July 28, 2021

Abbey

So Kenneth, research by Cover Genius found that globally, about 70% of banking customers say that they are interested in receiving bank-embedded insurance offers based on their transaction data. So Kenneth, what does a bank- embedded insurance offer look like? And how would banks and insurers work together to deliver this to customers?

Kenneth

So Abbey, I think, you know, a bank-embedded offer, I think, is no news to most of the world, right? Outside of the US, bancassurance as an offering of insurance through a bank relationship has been, in fact, one of the most effective channels out there. And so you look at APAC, you look at Europe, you look at LatAm, this notion of bancassurance has been around for very long time. In the US, we've had regulations swing the pendulum back and forth between whether or not banks and insurance companies can go to market or not. So we've seen a very, very different, a much lower level of bancassurance offers being made. That said, I do think it's an interesting discussion to say, bancassurance right now is still fundamentally a distribution channel for insurance and the product and offers still feel somewhat differentiated. So you can get your traditional banking products, and then, oh, by the way, here's some insurance products, too, and certainly what we've been talking about over the last few times we've done this recording, really has been, how do you bring those offers together into a more of a convergent financial wellness offering? I think that's a trend we're going to continue to see play out across bancassurance as it exists today. And hopefully the US as well as we actually bring together this notion of financial wellness with all of its component parts into a more cohesive offer for the customer. So I do think we will see bancassurance shift globally and hopefully grow a bit in the US as well.

Lloyd’s of London plans electric vehicle hydrogen insurance in climate change fight

Reuters
July 29, 2021

Abbey
So Kenneth, we know that ESG or environmental, social, and governance structures are high on the agenda for insurers. Last year, Lloyd’s of London said they would step back from insuring coal and oil sands. Now they’re saying they’ll design insurance for electric vehicles and also look at ways to insure the transport of hydrogen. Kenneth, how do you see these transitions to more sustainable insurance products playing out? And can sustainability really lead to profitability?

Kenneth
So, Abbey, I would, I would take issue with even the framing of sustainability and profitability as trade-offs because I actually don’t think that that’s a, I think, as a… it is not a trade-off that, that is real to me. I think it’s often framed as such to say, “Oh, you could only do sustainability and have sustainable business practices at the cost of profitability.” But your Lloyd’s example is a great example of saying insurance will actually support and move with the market and move with industries as they move to more sustainable energy sources. So the shift that insurers are making, the shift that Lloyd’s is making simply reflects a recognition of where the market is and the assets and the, and the insurance that’s provided in those new sectors will be just as profitable as the traditional energy sectors used to be. So I think there’s definitely a role that insurers play in creating the products and creating the, the capital backstop for these new energy sectors. And they play an important role in actually encouraging those migrations by having those products available.

As you may imagine, it would be very hard for energy companies to make that shift if they couldn’t get the insurance, they typically have in place for the traditional power in the new sectors as well. So I don’t think it’s a profitability trade off at all. I think it’s insurance recognizing that there are new ways in which the world is operating and having its products and services match that, right? And you know, beyond even just moving with the market, there are ways in which I think insurers are able to move into new sectors and profitable sectors that weren’t in place before. A great example of that is in this notion of underserved markets. And if you use the traditional black box underwriting approaches, very often there were swaths of the market that were not very attractive from a pricing perspective, and regulators had to step in to make sure that those markets weren’t red-lined away by insurers. In the new world, where we actually have the ability to look at much more usage- and behavior-based and sensor-driven insurance offers, sustainability in one of its flavors is actually closing the gap in these underserved markets with much more tailored pricing and product. So, so I’m very optimistic. I’m very bullish about the role that insurance plays, both in encouraging and supporting the move to these sustainable business practices and really helping amplify and accelerate them with some new approaches, to underwriting and some new ways to go into these currently underserved markets.

Millennials, what will it take for you to buy life insurance?

The Atlantic
July 30, 2021

Abbey
So, Kenneth, over the past year, we've seen a variety of reports showing a rise in life insurance underwriting much of that driven by younger consumers and by the pandemic. Now there's speculation that the interest in life insurance products was fleeting and will again decline with younger consumers. Do you see a way insurers can make life insurance attractive to those younger consumer segments when there's no pandemic driving that demand?

Kenneth
So this is unfortunately Abbey, a great example of how fleeting the attention span is for issues like this, right? And I think we certainly saw in all of our consumer surveys last year a huge spike in the focus on life insurance, on protection products, on on all of the insurance products that are out there. And I think it's unclear whether we can say that the pandemic is behind us quite honestly, but, but there has been a waning of the interest in, in those products. Again, along with the waning of the focus on the pandemic across the board. So I think if the, if the industry is going to actually make a substantive shift towards making these products more relevant to a younger generation, they will have to change the fundamental value proposition. I mean, there's always been the saying that life insurance is sold, not bought because it's a push product. And I think that's because it's been framed as a very traditional offer right now. So if we go back to our earlier conversation about how do you actually start to look at the convergence of health and financial assets and insurance together, I think the over- arching sentiment for a younger generation of having more stability around their overall wellness is still attractive, but offering up a very specific standard on term life product probably isn't. So to me, I think as much as I would love for the, for the general population to understand where they are exposed and where it is worthwhile to buy insurance products as is, I think until we frame them as an overarching wellness offer that really takes care of the interests of this, overall, of this population.

And until we move away from traditional term products, et cetera, we're still going to see that unwillingness to pay or a perspective that the products lack of value proposition that's compelling. So I'm a big fan again of the, of the convergence, the wellness story, backed up by product structures that actually support them. And I think that's the only way that we're going to actually get the newer, younger generations more interested in earlier time, as opposed to the typical migration is when you've had kids and when you're getting to that point where you see the dependents around you and you want to make sure they're protected. So I think that's a shift we're going to have to make with products and with the value proposition, not with consumer sentiment alone.

London's theatres welcome visitors back as UK relaxes quarantine restrictions

Marketplace
August 2, 2021

Abbey

So Kenneth, some of the West End London theaters are reopening now and welcoming theater patrons back. Very exciting for a lot of people, theatre buffs like me. But some of the theater trade organizations and owners are saying that they're having a lot of difficulty getting any business interruption insurance coverage related to COVID-19. What do you think about this? And as the world sort of emerges somewhat from the pandemic, how do you see business interruption existing as a product?

Kenneth

Abbey, I think this is one that's going to get… it's going to be in flux for a long time. And and the reason is that there's a legal and regulatory battle that's still underway and I believe it's very much still underway in London, in the UK market around what is the scale of, of what does the product cover? And fundamentally, business insurance, business interruption insurance, as it's been sold traditionally and as it was in place up until March of 2020, had some different conditions. And I think insurers have taken a real beating or are at risk of taking a real beating based on how the regulatory and legal rulings play out on business insurance. So I think what the West End is experiencing right now is a very leery insurance industry because business insurance, business interruption insurance as written in policy documents right now is, is very much being debated from a regulatory/legal perspective. And for an insurance company to put further business interruption insurance into market, while that is still in flux, is going to be very, very risky. So I think until the dust settles on that on that coverage position and the liability position for business business interruption. I think I'm not surprised that you're going to see a real step, step back in how much business interruption insurance is being offered today.

Empower Retirement to take over Prudential Financial's retirement business in billion-dollar deal

The Denver Post
July 21, 2021

Abbey

So finally, Kenneth, there's big news in group benefits. Empower Retirement announced they are acquiring the retirement arm of Prudential Financial. This comes after Empower's acquisition of MassMutual's retirement plan business in January. When the Prudential deal's done Empower will administer $1.4 trillion in assets for 17, almost 17 million plan participants. Kenneth, what do these acquisitions signal for insurers and for the future of group benefits?

Kenneth

I think Abbey, this is going to be a continuation of of of a divergence between commoditized parts of the insurance industry and high value, high relevance parts of the industry. In the retirement business, there's a very strong distinction between retirement's record-keeping or administration versus the management of the assets in a retirement fund. And those are very distinct businesses. The retirement record keeping business is a very commoditized business. Similarly, group benefits in its traditional form with standard products is also a very difficult commoditized business. I think if you continue to pursue those ends of the spectrum in group and retirement insurance, you are fighting a very difficult commoditized battle. The asset administrations, the asset management side of the retirement business, and a reframed group benefits storyline around again, what is the, the overall wellness offer you're making with some new products, with some new experience around it. That's a very different part of the business. So I do think we're going to see this continued, continued split where for part of that commoditized business, the only way to win is with scale and efficiency. And we'll see that continued consolidation to deliver that. But on the asset management and the and the wellness benefit side of the benefit story. I think we do need to see a shift towards those high value, less commoditized businesses. And that's going to happen again through different product offerings that are more wellness oriented and an experience for the customer that is very different from the traditional experience that they see today.

Abbey

Okay, Kenneth, thank you so much for your time, always great to hear your perspective on what's happening in the industry.

Kenneth

Great to talk to you Abbey, talk to you soon.