



Institute of Actuaries of Australia

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Innovation in Financial Markets

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Risk Product Innovation, New Distribution Channels, New Features

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The Insurance Industry Is Changing

Consolidation and new players

- Insurers / dealer groups / industry fund consolidate
- Plus new entrants to life risk market

Talent shortage

- Industry forgot to develop new staff
- Shortage underwriting, actuarial, claims, BDM

New Service differentiation models

- Focus on distribution servicing
- Using technology to differentiate

Acceleration of large technology investments

- Both for operational efficiency and to transform insurance from an 'art' to a 'science'

Existing Gatekeeper control strengthening

- Link between research houses and planning software houses strengthen
- Dealer group remuneration demands
- Industry Funds growth in super – large untapped upsell

Regulation changes

- Insurance in Superannuation more attractive
- FSRA – simple SOA and advice
- New Govt – changes?

Reinsurance changing

- Increasing retentions leads reinsurers to change model

Underinsurance

- Increased awareness of opportunity

New distribution models:

- More focus on 'investment' planners, direct online, and platforms.
- New competitors with streamlined products / models, including brand assurance

Technology suppliers drive change

- Recognised opportunity to drive change in market

Growing Cost Base

- Traditional distribution becoming expensive and cost ineffective

Ageing population

- New purchasing patterns

Environmental Changes

- Climate change

Economic cycle

- Impact of claims

Legal Changes

- Court precedents

Society changing

- Obesity
- Globalisation

Medical advances

- Earlier diagnosis
- Better treatment leading to reduce impact of 'critical' conditions
- Genetics



Risk Innovation

What drives innovation?

- Technology changes?
- Competition?
- Consumers demand?
- Regulatory changes?
- Opportunity?
- Necessity?

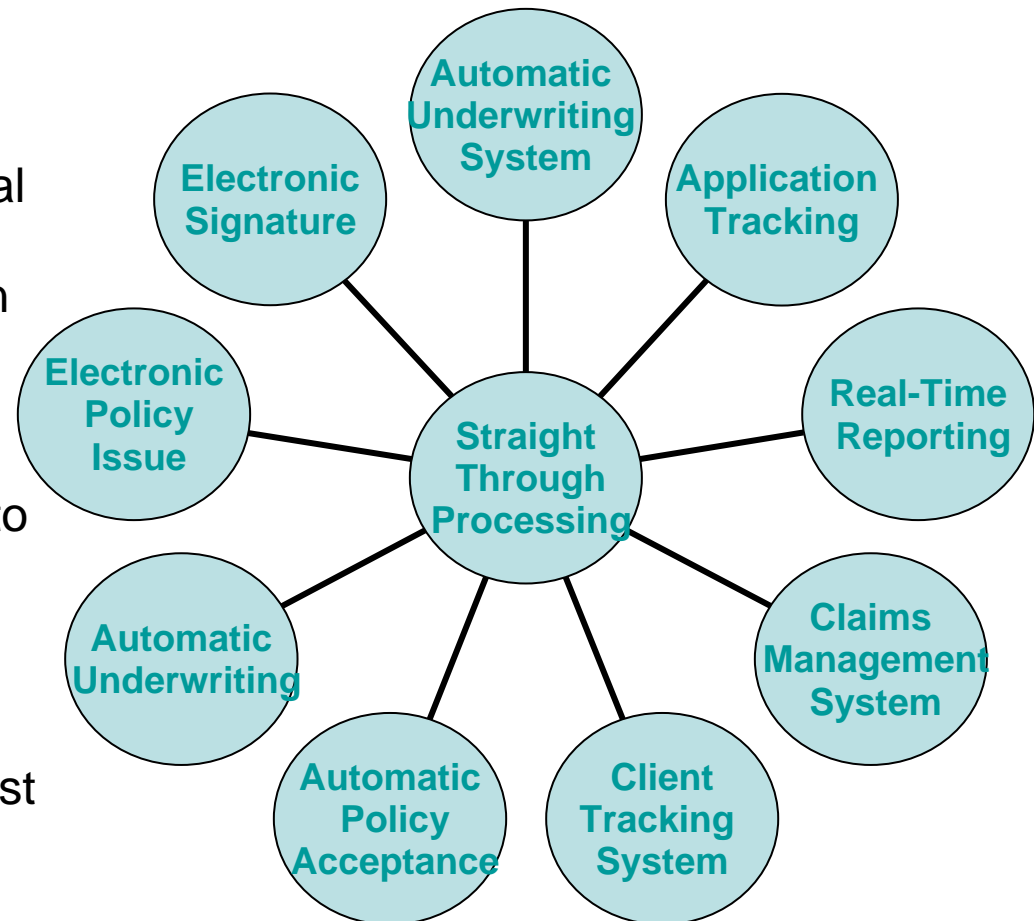
“I never did anything by accident, nor did any of my inventions come by accident; they came by work.”

[Thomas A. Edison](#)



Technology Innovation

- Customers (planners, platforms, trustees, end customers) of financial protection are increasingly becoming service driven with specific force on technology driven service.
- Insurers and technology suppliers have been rapidly trying to be first to market with a technology service proposition.
- Straight through processing is a service improvement that faces most industries. For financial protection that can include some or all of the component in the diagram:





Technology Innovation

- Driving new ways to do business
 - New distribution
 - New service model
 - New operational model
 - New product development, marketing and pricing
- Rise of new distribution mechanisms
 - Electronic Distribution through financial planners
 - Internet Aggregators
 - Direct insurers operating online



Technology Innovation

- Will technology commoditise underwriting – art to science?
 - What happens if research house build technology?
 - Is the generic electronic underwriting decision far away for financial planners?
- We have never correctly collected information. Technology will enable true customer intelligence and driving future innovation.

Will it become those that use the data best wins?



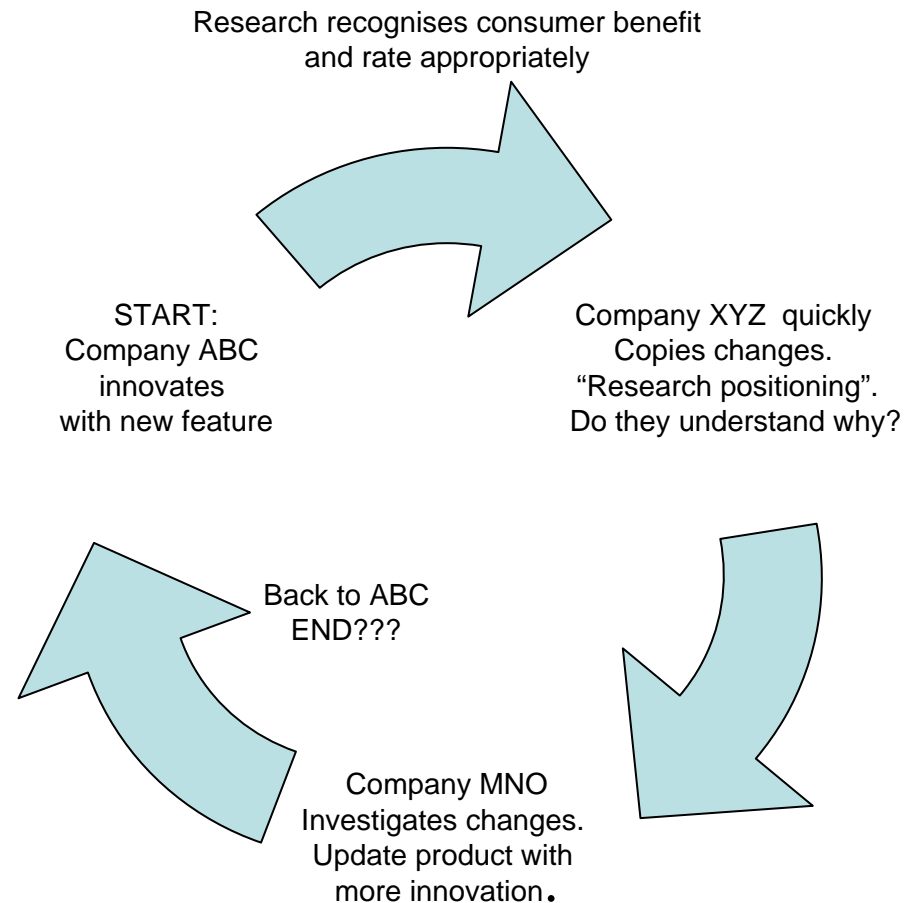
Product Innovation

- Driven by competition and new opportunities
- Research houses impact
 - Drive innovation?
 - Commoditise products?
 - Killing market? Encourages churning?
 - Keeping insurers honest?
- Companies that fail to add new product features will lose market share.
- Innovation creates a point of differentiation to be marketed – mostly short term differentiation.



Product Innovation

- Difficult to avoid the product competition spiral
- Need to understand innovation before following – many changes valid, some may not be sustainable.
- Ensure that the risk management controls are in place.





Product Innovation

- Overseas Case Study

PruProtect – Launched September 2007 in UK

- Joint venture between Prudential UK and South African insurer, Discovery.
- PruProtect's includes Life Cover, Income Protection and severity based Serious Illness Cover.
- It uses points system that recognises people's efforts to look after their health and well being. Things like going to the gym, stopping smoking or attending a health screening.
- These points can potentially reduce the policyholders premiums year-on-year.
- They offer immediate benefits like free fitness assessments at selected gyms chains, subsidised full health screenings, and discounts at some health resorts.
- PruProtect also has a severity based trauma product in which the claim payment is proportionate to the severity of the illness and the estimated likely financial detriment that may result.



Distribution Models

- Customer access is a big driver of change
- Continuing movement away from distribution via traditional insurance planners
- Industry Funds and Platforms continue to grow
- Rise of new distribution channels based around access to consumers – opportunity.
 - Bancassurance - still opportunity for significant growth
 - Brandassurance
 - Direct



Distribution Models

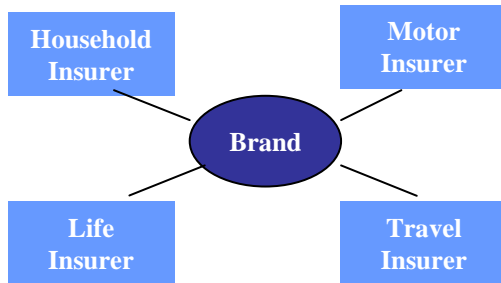
Banc and Brand Assurance

- What?
 - Bank (Brand) and insurance arrangement where insurance is sold through the bank (brand) distribution.
- Why?
 - Massive customer base
 - Bank or Brand owner is looked at favourably by customer
 - Strong brand enable bringing new product to new markets easier than for insurers – more trust
 - Potential of customer analytics enabling cost effective distribution via segmentation modelling
 - Revenue synergies available with other products
 - Bank or Brand owner looking to own as much of the customer as possible.

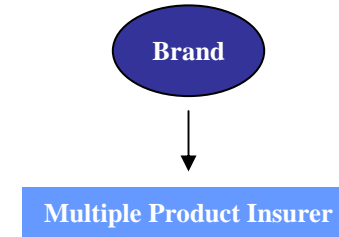


Distribution Models

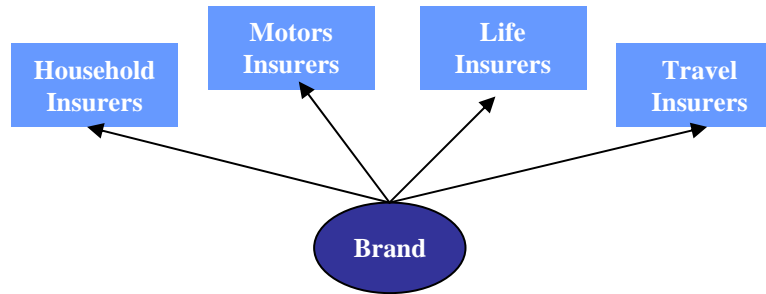
Multiple Insurer Alliance



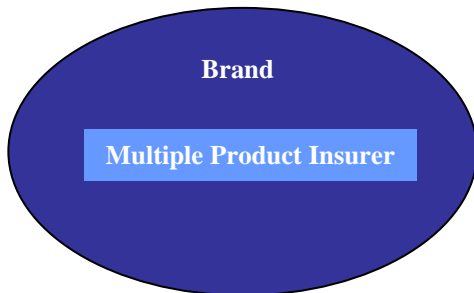
Partnership with one Predominant Insurer



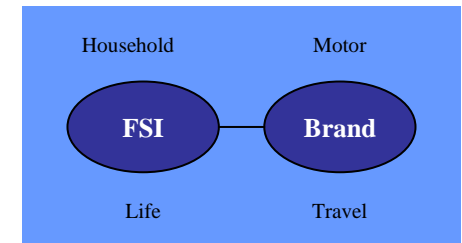
Internet Aggregator



Integrated Insurance Company



Joint Venture





Brand Distribution Models

- Overseas Case Study – ASDA UK
 - ASDA in January 2007 became the first UK supermarket to offer choice and independent advice on the full range of UK Life and Protection products.
 - Sold online and over the phone via a partnership with independent specialist protection adviser LifeSearch.
 - This proposition differed to other retailers, who generally adopted a no advice model with a simple product range and have strong alliance with one insurer.
 - ASDA also offer a price match guarantee to customer if they can find a better value product for their needs.



Brand Distribution Models

- Australia
 - When?

"Once we get the credit card out there...pet and travel insurance seem likely opportunities for us," said Woolworths chief executive, Michael Luscombe ⁽¹⁾
 - Why - Opportunity?
 - Customer Access
 - "Woolworths is a household name. We have over 700 supermarkets and serve over 13 million customers Australia-wide, each week in supermarkets". ⁽³⁾
 - "Each year, Woolworths processes 114 million credit card transactions through its checkouts which equates to 11% of all credit card transactions in the country." ⁽²⁾
 - Brand
 - In Top 25 Australian Brands, (brand value as % of market capital) ranking 1.Telstra, 2.CBA, 3.Westpac, 4.ANZ, 5.Woolworths 6.National ⁽⁴⁾
 - Challenge: Will customers see brand as source of financial advice and/or insurance product?

(1) <http://uk.reuters.com/article/rbssIndustryMaterialsUtilitiesNews/idUKSYD7421620080129> January 2008

(2) Joint Press Release 26.02.08 "Woolworths and HSBC enter Heads of Agreement "

(3) <http://www.woolworths.com.au/aboutus/ourstory/default.asp>

(4) "Brand Value Surge" BRW 18-24 November 2004 by Simon Lloyd



Direct Distribution Models

- Large and varied market includes direct to customer offerings like online and mass marketing
- Some successes in Australia – eg InsuranceLine
- Some failures?
- Industry is growing it's capability to market and distribute online
“The National Broadband Network will connect 98 per cent of Australians to high speed broadband internet services – **at a speed more than 40 times faster** than most current speeds.” ⁽¹⁾
- Many new players are pushing into this market. Will traditional insurers follow online model?
- Where is the next competitor coming from?



Direct Distribution Models

Quick Case Study - Australia:

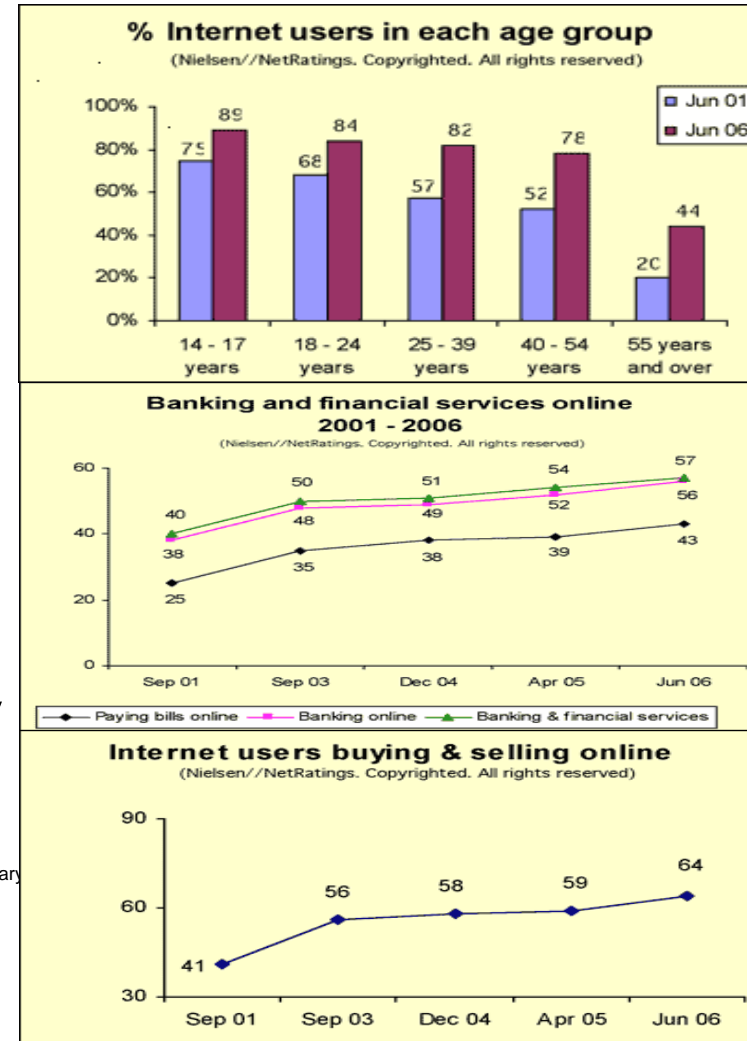
- 2 months ago OnceLife launched website distributing life insurance products.
- The product is competitively priced and fully underwritten with immediate issue including instantaneous SMS confirmation and email.
- Associated with Once Australia - a new company distributing financial solution products include bill credit.



Direct Distribution Models

Online – Statistics ⁽¹⁾

- Internet usage is increasing in all age groups. However, the 55 year and over age group recorded the largest increase in Internet users since June 2001 (120 per cent increase).
- The volume of people making online banking and financial transactions in Australia has been steadily growing in recent years, in spite of apparent increases in security threats.
- Shopping and selling online growing rapidly



(1) Australian Government, Department of Broadband, Communications and the Digital Economy, "Online Statistics", 5 February 2008



End Consumer

- What Innovation do they want?
 - Product features
 - Price
 - Access
 - Service
- How do we hear from end consumer?
 - Distributor or Agent - including financial planners, platform manager, trustees, research houses, brand owner
 - Insurer – including underwriting, claim managers, distribution staff
 - Regulators / Complaints – how up to date with the market are they?
 - Consumer Groups
- Direct Marketed end consumer rely on the insurers integrity to deliver on promise.
 - Balance of product features, price, access and service
 - Concern: focus on access in grab for market share
 - Risk: Damaging impact on image of industry.