How Bancassurance can Dominate the UK Life Insurance Industry

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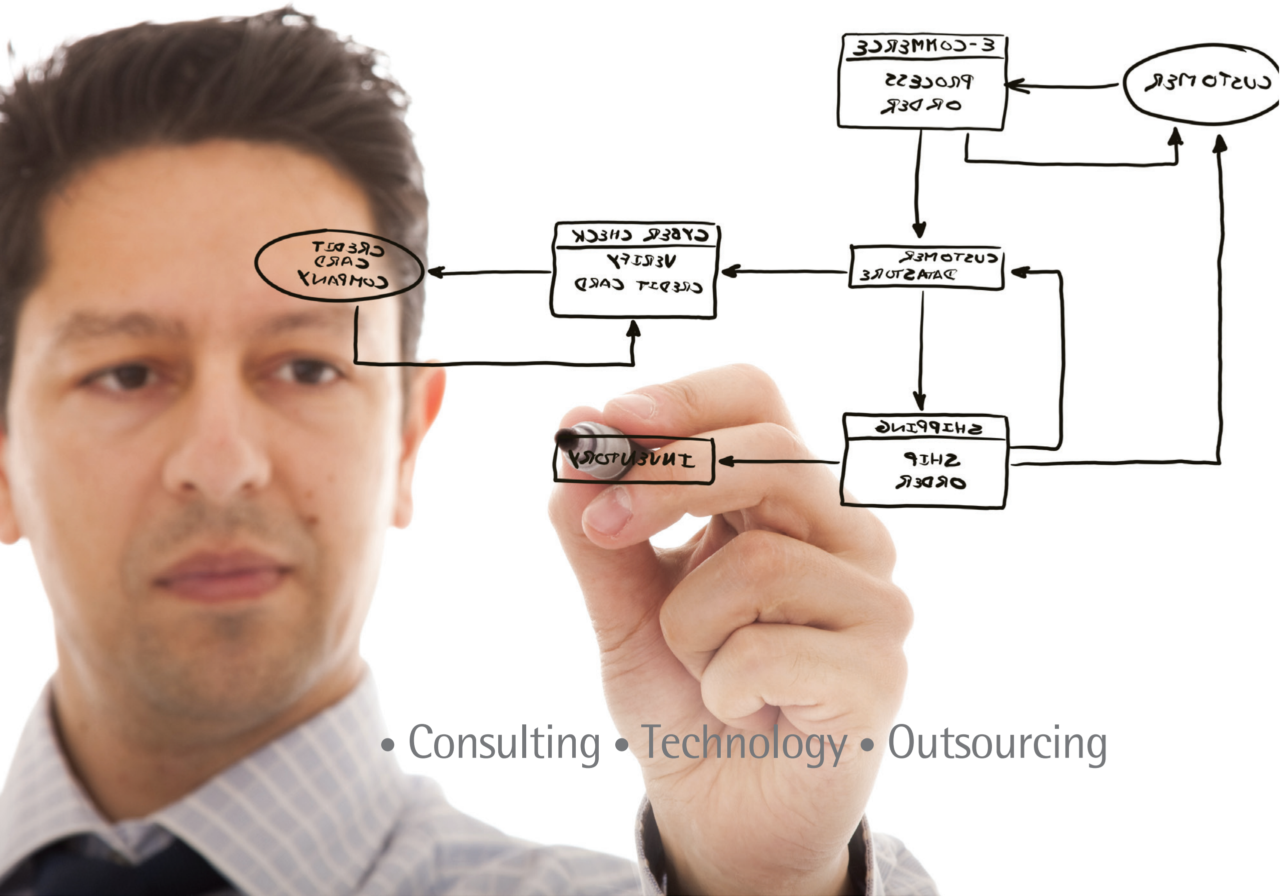

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The UK life insurance industry is at a significant inflection point. A culmination of regulatory, market, consumer and financial changes means that we might be on the brink of a new era: an era in which banks, searching for new profitable revenue streams, can seize an opportunity to take a sizeable share of the life market. To capitalise on this opportunity banks will need fully to leverage their structural advantages and invest in establishing the right business capabilities.

Around the world, banks are generally the preferred channel through which consumers buy their life insurance. The UK is a major exception. A survey conducted by Accenture* shows that globally 32 per cent of consumers expect to purchase their life insurance through a bank. In some European countries, banks enjoy a near 50 per cent market share, driven largely by historical first-mover advantages, high branch densities and traditionally high consumer awareness and trust. Their market share is more than double their UK counterparts.

Banks in the UK have pursued a number of strategies to sell life insurance products to their customers. These range from end-to-end ownership of manufacturing and sales, through to acting simply as intermediaries, either with a single manufacturing partner or for a wide range of providers. No strategy has hit on a winning formula.

The limited success that banks in the UK have enjoyed in the life insurance market tends to be in selling simpler investment products and individual risk cover linked to other banking products, typically a mortgage. The growth of the UK life industry has traditionally been driven by a focus on complex products. Products that, according to the old axiom of being 'sold and not bought', demanded 'face-to-face' selling to a largely confused customer base. This face-to-face selling fuelled the growth of the dedicated advisor led salesforce that has, to date, dominated the UK distribution landscape.

*Accenture Multi-Channel Distribution Consumer Survey, 2010

Preparing for a life-changing event

But all this may be about to change. The financial services industry in the UK knows that the major shake-up that comes in the form of the Retail Distribution Review (RDR) – set to come into force at the end of 2012 – is likely radically to change the life insurance market. To prepare for this fundamental shift, banks and life insurers need to understand what the changes will mean for them and decide now on their strategy to make sure that they are in the best shape to compete.

To its critics, the life insurance industry has spent too long designing and selling products focused on paying commission to intermediaries rather than necessarily serving the needs of their policyholders. Once enacted, RDR will at a stroke, remove commission as a competitive lever by which life insurers can control distribution. Intermediaries will instead get their remuneration directly and explicitly from their customers. And providers will need to focus product development processes on customers' needs.

For insurance companies this represents a major shift for their product development and distribution strategies. For UK banks it represents nothing short of a one-off opportunity to create a bancassurance market to rival the success of their counterparts in Europe. But to capitalise on this opportunity, banks need to address a number of obstacles and build the right business model to capture a bigger share of the insurance market.

RDR + innovation = bank success?

Regulatory change alone will not overcome the barriers that prevent banks from gaining a larger share of the market. The economic backdrop remains uncertain and consumer confidence generally low. Consumers' trust in banks following the financial crisis is also at an all time low and banks will have to find ways to rebuild consumer confidence in their ability to provide financial products and services at a competitive price.

Accordingly, Accenture believes that there are a number of key capabilities that can help banks overcome the challenges they face and build a business model that will allow them to grow market share in the post-RDR landscape.

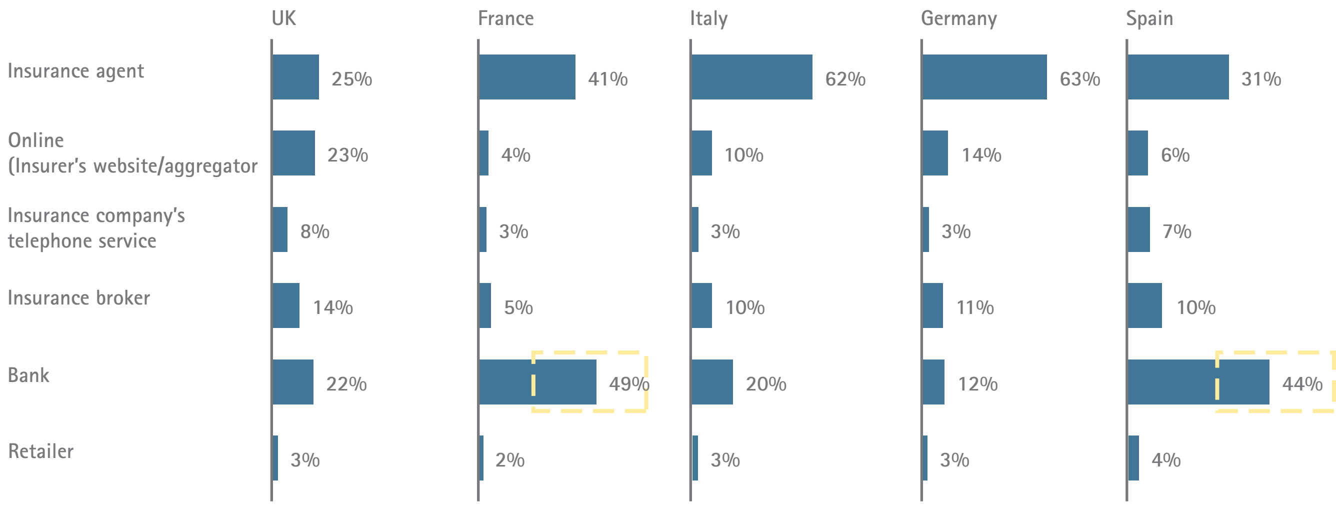
And what are the components of that business model?

- Rich customer insight
- Multi–channel sales
- Simple products
- Simplified advice
- Slick sales processes
- Low-cost operations.

In this paper we look at why we believe developing those capabilities will be so important for banks to take advantage of the opportunities presented by RDR.

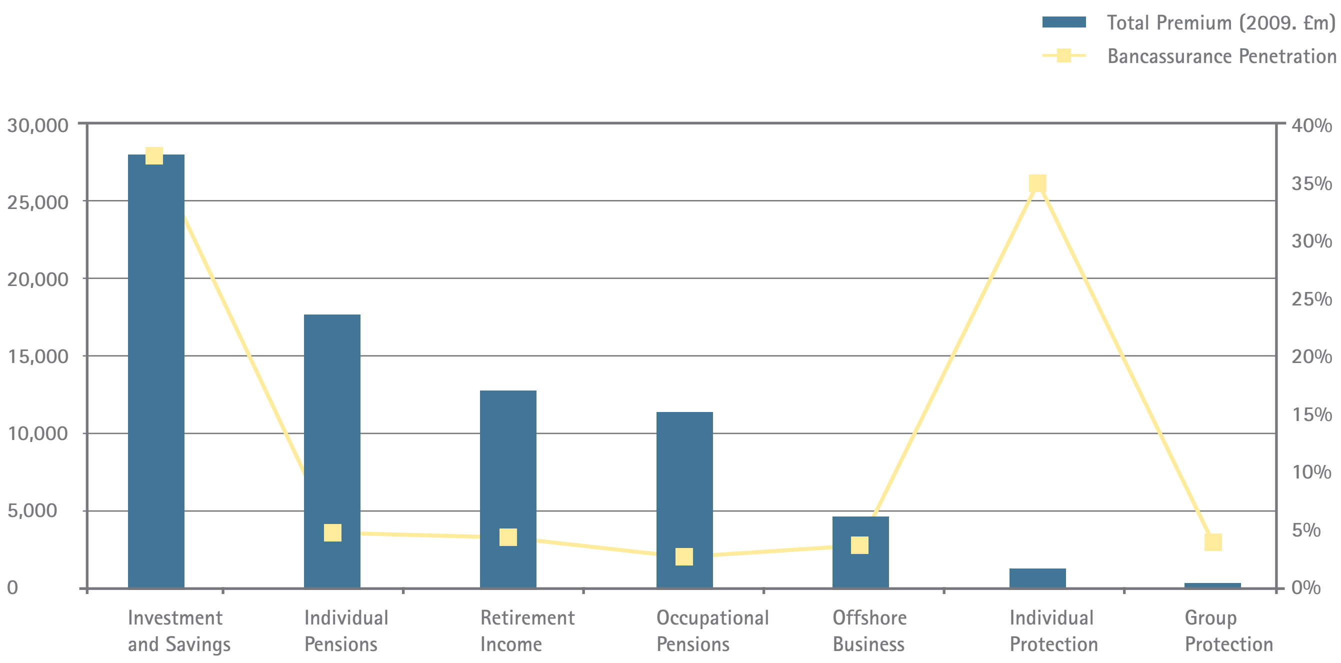
Figure 1: Consumer preferences in Europe compared

Consumers in France and Spain most likely to buy Life Insurance through their bank



Source: Accenture Multi-Channel Distribution Consumer Survey, 2010

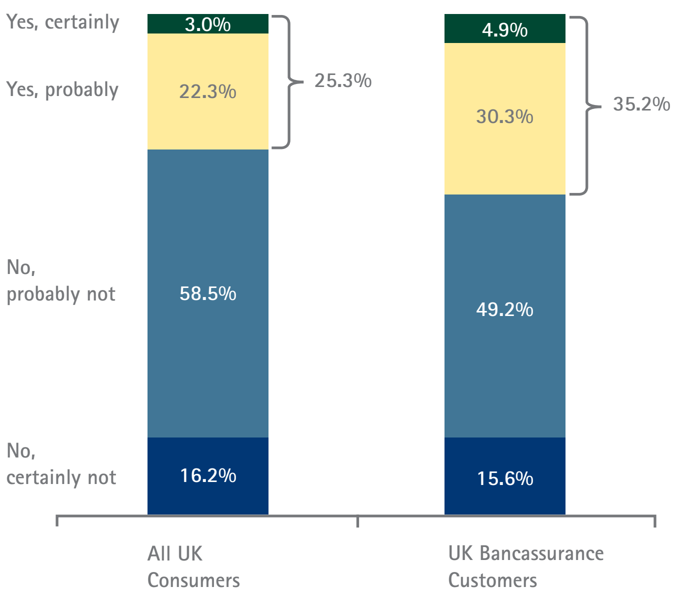
Figure 2: Bancassurance share of UK market



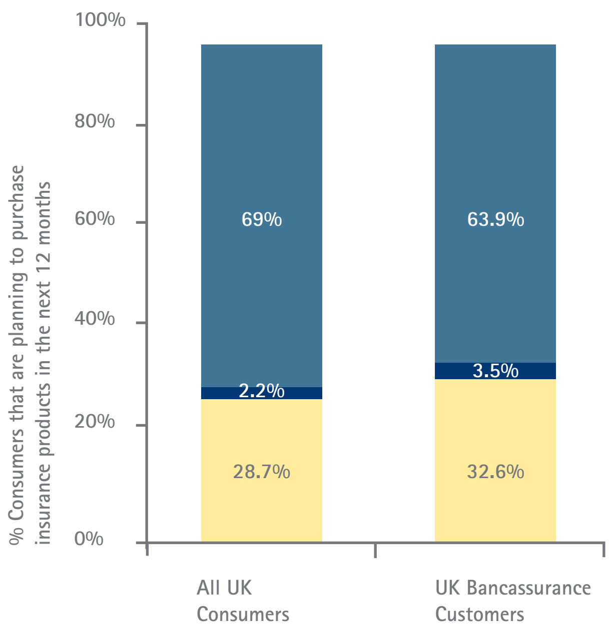
Source: ABI

Figure 3: Bancassurance customer loyalty

Q. Would you be ready to pay more to get personalized advice or assistance when purchasing insurance products or services?



Q. Do you plan to purchase your insurance products with your current provider?



Source: Accenture Multi-Channel Distribution Consumer Survey, April 2010
Base: UK Consumers Note: questions refer to all insurance products, not just life insurance products

A mountain to climb...

Comparing the relative sales of life insurance products by UK banks with those made by their European equivalents reveals a big gap. In France and Spain, for example, consumers are twice as likely to buy life insurance from banks than they are in the UK. (See figure 1 on page 2).

In the UK, banks had a 14 per cent share of new insurance business in 2009* (declining from 17% in 2008 and 19% in 2007) and a very low rate of penetration in some products such as pensions and retirement where their share is as little as between 2% – 5%.

...but a new, quicker route to the summit?

However, in some areas of insurance banks in the UK enjoy a relatively high market share. Where products are tied to other products – for example individual protection policies tied to mortgages – banks have a high market share (even with the likely demise of Payment Protection Insurance) as shown in the graph on the previous page. (See figure 2 on page 3).

Bancassurance customers have some attractive characteristics that make them candidates to form a potentially very profitable segment. They are, for instance, more likely to pay a premium for personalised advice or assistance than non-bancassurance customers. And those people already buying life insurance products through their banks are more likely to purchase again than those buying through any other sales channel. (See figure 3 on page 3).

Customers in the lower age ranges also present characteristics and tendencies that could make them a key market for banks. Accenture's research shows that many more individuals in the age range between 18 and 34 have bought – and intend to buy in future – insurance products online. What's more, over half in the same age range see banks as their preferred financial adviser and a much higher proportion of this age range would be prepared to pay more to receive personalised advice or assistance when they buy life insurance products. (See figure 4 on page 5).

The combination of RDR and their existing customer base's loyalty and willingness to pay a premium could give banks the springboard from which to launch a concerted – and successful – drive for a greater share of the life insurance market.

Winning hearts, minds and wallets

Yet despite these favourable signs, banks still face a number of major challenges if they are to persuade existing and new customers that the bank is the best channel from which to buy their life insurance. Not least of these is the general erosion of trust in banks that consumers feel following the financial crisis. And compounding the challenges created by this erosion of trust is depressed demand for most financial products. Consumer caution is impacting heavily on their willingness to buy life insurance products. And they are looking at safety first and foremost as the criteria for choosing where to place their investments and assure their financial futures.

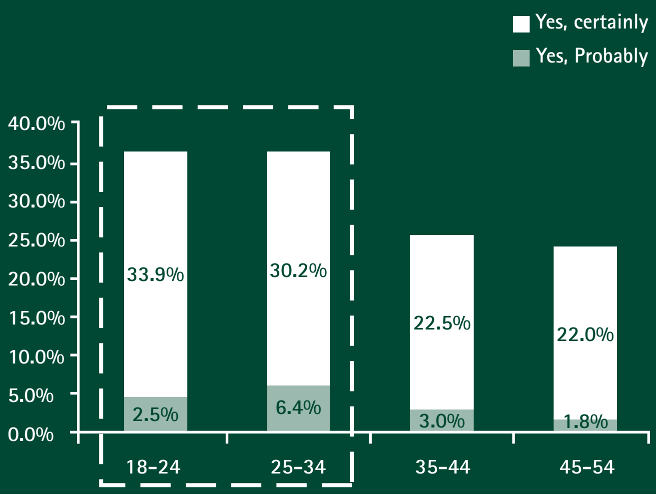
A new model for a new world

These factors together mean that banks need to build a new business model for successfully selling life insurance products. They need to leverage their customer data effectively to create deep and actionable insight into their customers' behaviour and circumstances that can help them promote the right products to the right people at the right time. They need to use the right channels and connect them together effectively to give consumers a seamless experience. They need to simplify the advice and sales processes in order to take advantage of mass-market demand for straightforward, easy to understand products. And, behind the scenes, they need to access low-cost, efficient administration that can turn low customer charges into profit.

* Source: ABI

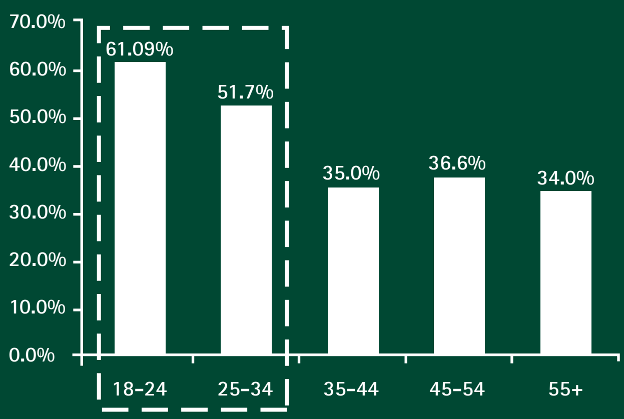
Figure 4: Demographic differences

Q. Would you be ready to pay more to get personalized advice or assistance when purchasing products or services? By age group



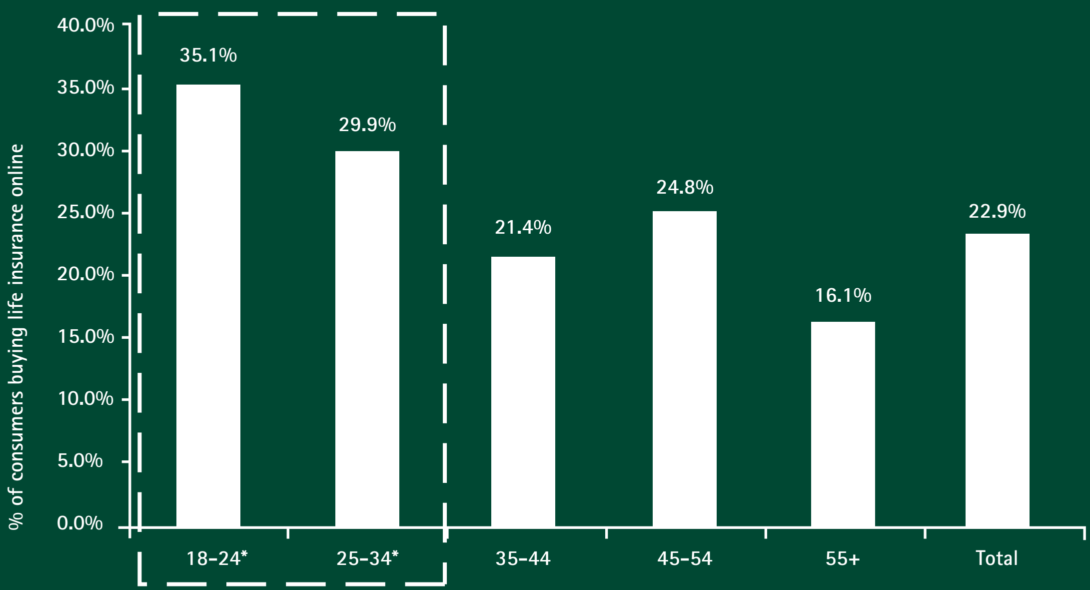
Source: Accenture Multi-Channel Distribution Consumer Survey, April 2010
Base: UK consumers

Q. How do you feel insurance companies compare with banks on the following statement? Please indicate to which the following statements best applies
Statement: Banks are the preferred financial advisor



Base: Those consumers that responded – Banks, by age group

Figure 5: Online trends



Source: Accenture Multi-Channel Distribution Consumer Survey, April 2010

Building blocks of success

Each of these capabilities depends on the other to build a successful new approach to the new market for insurance. For example, customer insight is worthless without the right sales execution behind it. Below we describe the five building blocks of what we believe is the required new business model and why each is an integrally important element of the whole.

Rich, timely and actionable customer insight

Accenture's survey of consumers' channel preferences shows that younger customers are more likely to think of their bank as their preferred financial advisor and are willing to pay a premium for personalised services and advice when they are buying insurance products.

However, to capitalise on this willingness banks need to understand their customers' behaviour in detail and relate this understanding to the opportunities to sell life insurance products. The rich data that banks hold on their customers needs to be effectively and efficiently analysed and interrogated in order to spot the right opportunities to sell to the right people, at the right time.

Banks have an unarguable advantage over other financial institutions. They have access to patterns of income and spending that could be used to pinpoint the appropriate opportunities to trigger a sales message that meets a particular customer's circumstances.

Technologies now exist to allow providers automatically to tune the product, price and even the buying experience to the exact profile of the individual customer. Predictive data analytics can be used to discover new products and new market segments. These are capabilities that the life industry has yet to grasp fully. Banks, with their access to a wealth of data, can use this opportunity to differentiate themselves.

Multi-channel distribution capabilities

Selling insurance provides banks with an opportunity to leverage the high fixed costs of their branch networks. This high-street presence gives them an immediate headstart over other players in the industry. And this inherent distribution advantage extends beyond the branch network into other channels.

The success enjoyed by general insurers – particularly motor and home insurance on the Internet has not yet been achieved by life insurers. However, there are signs that life insurance – particularly for simpler products – is beginning to take off online. Accenture's survey shows that nearly one quarter of UK consumers that have bought life insurance in the last year have purchased online and it's a trend that is only likely to grow as the propensity for buying online increases, particularly among the younger demographic. (See figure 5 on page 5).

Of course banks have been very successful at moving their services online. According to the UK Payments Administration, more than half of the 30 million-plus regular Internet users in the UK now bank online. So given that existing propensity, it should be possible for banks to capture a significantly higher share of the market. To do that they will need to make sure that their distribution provides a seamless experience between branch, Internet, mobile and any other relevant channels.

Simple products, simplified advice – powered by technology

Product complexity is typically at the heart of the operational issues of a life insurer. Product complexity drives protracted sales and expensive administration processes. It creates an operating environment where exception processing is hardly ever the exception.

Products can be made far more efficient by adopting menu-driven and rules-based approaches that provide more consistent and predictable outcomes as well as reduce the risk of mis-selling and any adviser errors. Customers with particular characteristics – for example excessive short-term debt – can be weeded out early in the process and either rejected or directed to other, more suitable, products.

Banks enjoy a relative strength as financial advisers. They can use this to their advantage as they sell life insurance products. However, the process will need to be carefully managed as many customers are wary of banks' sales techniques and feel overwhelmed by banks trying to sell as many products to them as possible.

When compared to insurance companies, customers generally regard banks as their primary financial adviser that is present at significant milestones in their lives. However, they also have a very low rating for the perceived neutrality of advice. (See figure 6 on page 7).

With simpler products banks will find it easier to build more effective and more transparent advice regimes.

Slick, no-touch sales processes

Sales processes need to be as swift and easy to navigate as possible. This avoids the delays, referrals and requests for additional information that can delay a potential sale and might lead the customer to take their business elsewhere. Lessons from the Internet and telephone sales channels of the leading UK general insurers – who have successfully embraced sales processes that deploy straight-though processing and rules-based decision engines – provide some useful pointers. Underwriting engines are typically at the heart of getting this right. Where a typical life Insurer aspires to automatically underwrite 80 per cent of risk cases and accept 90 per cent of cases on standard rates, a profitable bancassurance should look for a step change level of improvement.

This can eliminate expensive manual interventions, reduce the costly delays in the process and transition pricing to a more granular level.

Step change improvement in operating costs

Driving higher volume sales of simpler insurance products will require a new approach to supporting administration. Product platforms administering more complex products typically operate with higher costs but these are often compensated for by higher margins. Selling more, lower margin products calls for a simplified, lower cost approach.

While it may be possible to extend platforms designed for more complex products to handle greater volumes of simpler, cheaper products, it is unlikely to be either a sustainable or cost effective route. In addition, operating in a high volume market requires agility in order to develop and launch new products in response to new opportunities. Complex platforms typically can't offer this.

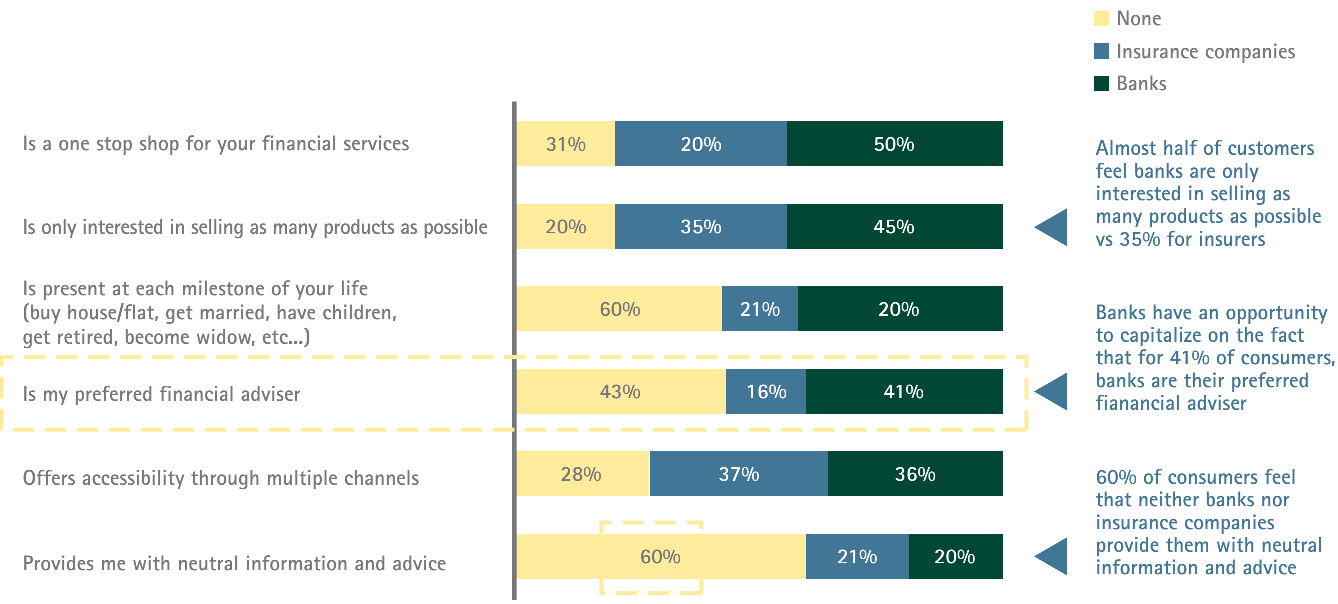
Life insurers in the UK have typically failed to master a low cost, industrialised approach to the administration of life products, partly owing to the complex nature of their products. The result is that UK life insurers are typically high cost administrators. Against the commonly used industry metric of policies per administration FTE (full time equivalent), UK life insurers tend to operate at 3,000 to 4,000 policies per FTE. While through business re-engineering they may be able to improve this to 5,000 to 6,000, it will be difficult to achieve a significant improvement beyond this level. In contrast, continental bancassurers target performance of 10,000 to 20,000 policies per FTE. This represents a quantum leap improvement that requires a fundamental rethink of administration. And performance at this level is not simply a 'nice to have'.

Lower charges associated with simpler products will demand this degree of efficiency to turn a profit. If providers are unable to achieve this level of efficiency they may find that new entrants, unencumbered by complex legacies, will be able to capitalise.

Getting the right business model in place could allow banks to create a successful, dominant presence, targeting new and growing demand for life products from new customer segments. Banks need to start planning today for what could be a very profitable future.

Figure 6: Consumer perceptions of banks vs insurance companies

Q. How do you feel insurance companies compare with banks on the following statements? Please indicate which of the following best applies.



Source: Accenture Multi-Channel Distribution Consumer Survey, April 2010
Base: UK Consumers

How Accenture can help

Accenture is well positioned to help insurers respond to the opportunities and challenges likely to arise in life insurance operations and distribution, drawing on its experience of working with leading insurers in the UK and globally.

Specifically, Accenture can assist with

- Operational and IT strategy
- Strategy and Operating Model design
- Strategic cost reduction
- IT solutions and services
- Life insurance consolidation services
- Customer insight and analytics
- E-commerce capabilities
- Product, underwriting, pricing

Contacts

If you would like to hear more about Accenture´s views on this topic or would like to discuss how you may address the strategic and operational questions highlighted in this paper, please contact:

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