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The challenge of making life insurance ageless

Selling the prospect of death to invincible 18-24 year olds

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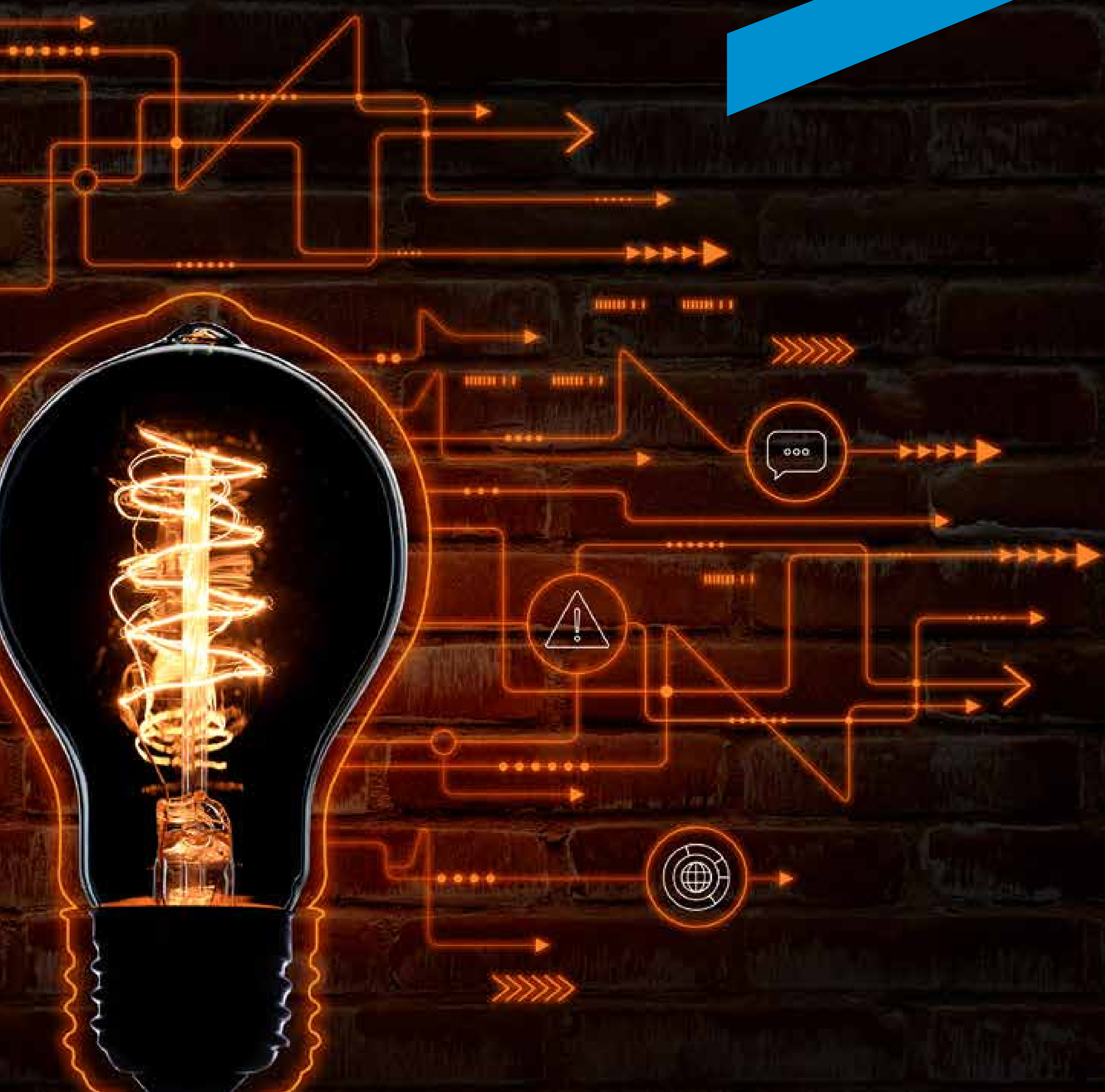
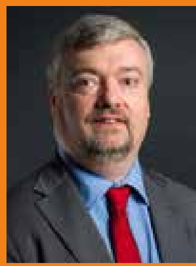


Foreword

Time for a new perspective

How often do organizations give their youngest people the opportunity to shape thought leadership and client communications? Not often enough, we believe. So we've decided to change things. This report is one of the results of that decision. We gave some of the most junior members of our LP&I practice the opportunity to research and present on a topic that they felt really mattered to the industry and to them as consumers. Following a 16-week introductory programme during which they learned about the insurance business – and how Accenture works with it – they had a chance to give their perspective. The brief we gave them provided plenty of room for manoeuvre. Whatever topic they selected, it needed to be something they felt passionate about. And it had to feature, at the least, distribution channels and analytics. How they developed the project from there was up to them. We didn't know what to expect. What they came back with was fascinating. Not just a fresh look at one of our core markets, but radically new insights into the future of an industry from the young people that industry must be ready to serve. Insights like the need for life insurers to become more customer-centric rather than pushing product: using digital to engage with the customer more closely and show the product's real value. With perspectives like that, this report has been essential reading for us. We hope you agree.



Richard Pryor
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Life insurers are missing out on a big opportunity by failing to properly address the 18-24 year old segment of the market. These customers are low risk, they offer high life-time value, and they are open to interacting through digital channels.

Historically the life insurance industry has struggled—or perhaps not really tried—to engage with this younger generation and to make its products relevant and tailored to their needs. In addition, the traditionally dated nature of life insurers' distribution channels (which often focus on face-to-face interactions and telephone calls) has created further barriers to engaging with a demographic that has come to view cutting-edge user experiences as a birth right.

Providers who wish to develop longer-term business plans and remain competitive in a changing market should make engaging with 18-24 year olds a strategic priority. The inherently low risk profile of these customers represents a substantial, profitable opportunity for life insurers. They offer high life-time value, and the sooner the industry can capture its long-term customers the better. And these youngsters could also teach insurers a thing or two about the future of their industry.

Life insurers currently lag behind their non-life counterparts when it comes to engaging and selling via modern, digital channels. However, the 18-24 year old segment could be seen as offering the industry a valuable learning opportunity. Providers could use today's younger consumers to experiment with digital and improve their own capabilities while the volumes and stakes are still relatively low. As one generation comes to replace another, these digital interactions will gradually become the expected norm across the mainstream customer base—and life insurers need to be ready in time to meet that challenge.

Mobile and Social. When it comes to living and breathing digital, today's 18-24 year old really is a different animal from the one traditionally courted by the life insurance sector. As shown in Figure 1, Accenture's Financial Services Customer Survey 2016 reveals that everyday digital behaviours such as mobile internet browsing, online shopping and social media usage are significantly higher among these younger consumers. 15 percent of 18-24 year olds shop online on a daily basis (compared to just 6 percent of respondents across all age groups), and the use of online payments services to send or receive funds is twice as high among 18-24 year olds than for the population overall.

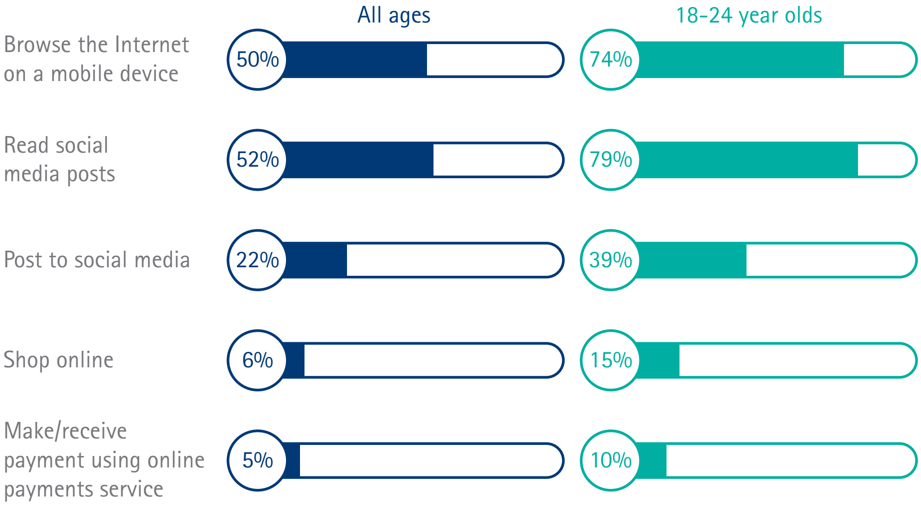
Younger customers are also more open to sharing new types of personal data with insurers in order to benefit from cheaper premiums or more personalised cover. Accenture's survey found that 17 percent of 18-24 year olds would consider letting their life insurer have more personal data in return for better insurance cover, and 23 percent would consider doing so in order to benefit from more personalised products and services.

The rise of wearable tech means that life insurers could harness this younger, data-embracing generation to develop a new range of Connected Life products—helping to improve and prolong their customers' lives rather than simply underwriting their deaths. Furthermore, the increasing use of analytics across insurance makes having access to these new types of data even more valuable, as it allows providers to drive personalised engagement and build deeper relationships with their customers.

By making investments in these areas, and by continually evolving in line with the behaviour and expectations of their customers, life insurers will be able to future-proof their businesses and operating models in order to remain competitive.

Figure 1: 18-24 year olds lead significantly more digital everyday lives than the mainstream population

Percentage of consumers who perform each task on a daily basis



But it's not going to be easy. This young generation feel healthy and invincible, their lives have often not reached the typical 'purchase trigger' points, and life insurers need to be careful not to burst the optimism bubble with too much talk of mortality.

18-24 year olds undoubtedly represent a hard sell for life insurers. Whilst actuaries can demonstrate that people in this age group have a need for life and protection products, insurers are battling against the optimism of a generation at an age when they feel invincible. These customers do not typically perceive the need for life insurance, and they are not actively looking for cover.

So what is important to 18-24 year olds, financially speaking? This generation is hard to pigeon-hole. On the one hand they are more aware of their financial responsibilities than their predecessors—largely as a result of being burdened by student debt and facing the prospect of an impenetrable housing market. Conversely, 33 percent of the 18-24 year olds surveyed by Accenture think they are too young to worry about financial planning.
In reality, many are just too engrossed in the present, as they complete their educations, kick-start careers and spend what little cash they have on paying rent and having a good time. The desire to purchase an insurance policy which doesn't appear to relate to the present simply isn't there.

Furthermore, the traditional triggers for obtaining life insurance—first home purchase, first child, the sense of responsibility that comes with growing up—may still be a long way off the radar.

Insurers therefore face a challenge. How can they educate young people about the benefits of life insurance without simultaneously bursting their optimism bubble? Part of the solution is to move away from waiting for the traditional needs and triggers to present themselves, and to instead create an engagement model that strikes a chord with 18-24 year olds by protecting the life they are in the process of building, and by focussing on their aspirations. Products need to become less rigid, more personalised, and easier to understand. Providers should seek to position themselves as proactive partners that can enhance life rather than simply compensating for death.

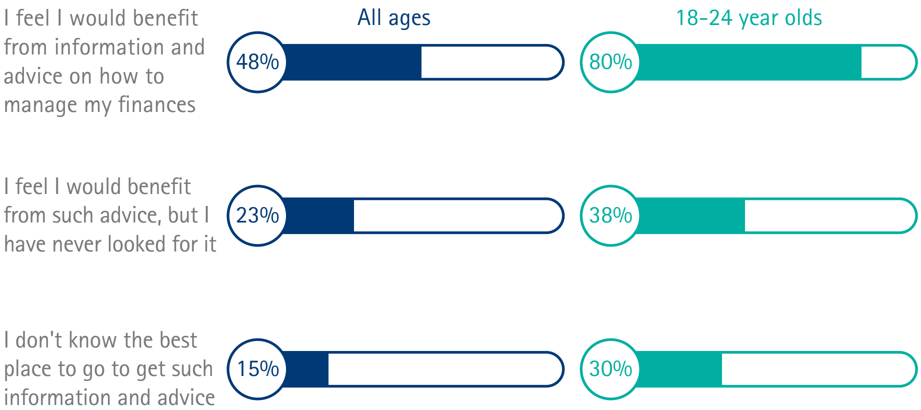
The vast majority of 18-24 year olds feel they would benefit from information and advice on financial planning, but few have looked for it, and many simply don't know where to find it.

There is a significant knowledge gap among 18-24 year olds regarding financial planning and insurance products. However, and perhaps counter-intuitively, this is not due to a lack of appetite for such information. 80 percent of the 18-24 year olds that took part in Accenture's Financial Services Customer Survey 2016 thought that they would benefit from financial advice, although roughly half of these had never actively looked for it. The main reason? Not knowing where to look; this reason was cited by more than three quarters of the 18-24 year olds who thought they would benefit from advice but had never sought it.

This means that there is a considerable opportunity to engage with and educate this segment of the market. The information needs to be made widely available and easily accessible—and in ways that young adults can understand and relate to.

Figure 2: Many more young adults would seek financial advice if they simply knew where to look

Percentage of consumers who agree with each statement



Insurers in general also have a bit of an image problem: many people perceive them as being old-fashioned, faceless and untrustworthy.

Furthermore, in spite of the fact that insurers hold large amounts of their customers' personal data, only 16 percent of consumers think insurers offer products and services that are personalised and relevant to them. And just 18 percent of people consider insurance companies to be convenient to deal with.

This lack of convenience and personalisation can be particularly off-putting to 18-24 year olds who, almost by definition, desire personalised offerings and effortless interactions. Life insurers are also not helped by the fact that, for many young people, their first contact with the insurance industry comes via car insurance. As a high-risk demographic for motor cover, these initial customer experiences can turn out to be negative and expensive, and may leave 18-24 year olds with a perception of being overcharged and not treated as an individual.

However, much of this comes down to perception. If 18-24 year olds and insurers can start to see beyond the traditional stereotypes they hold of each other, then a brighter world of possibilities may emerge for both sides, as shown in Figure 3.

Figure 3: Life insurers and young adults have fallen into the habit of misunderstanding each other

	Negative stereotype	Positive opportunity
Life insurer's view of an 18–24 year old	• Too hard a sell • Disengaged • Lacking funds • Reckless • Financially unstable	• Low risk • High life-time value • Likes digital channels • Thirsty for advice • Catalyst for change
18–24 year old's view of a life insurer	• Old-fashioned • Irrelevant • Faceless • Money-grabbing • Untrustworthy • Hard to deal with	• Good source of financial planning and advice • Help to build and protect the future • Low premiums

Specific issues around product complexity, outmoded IT and ageing workforces may have to be overcome. And some providers will need to wean themselves away from reliance on their legacy back books.

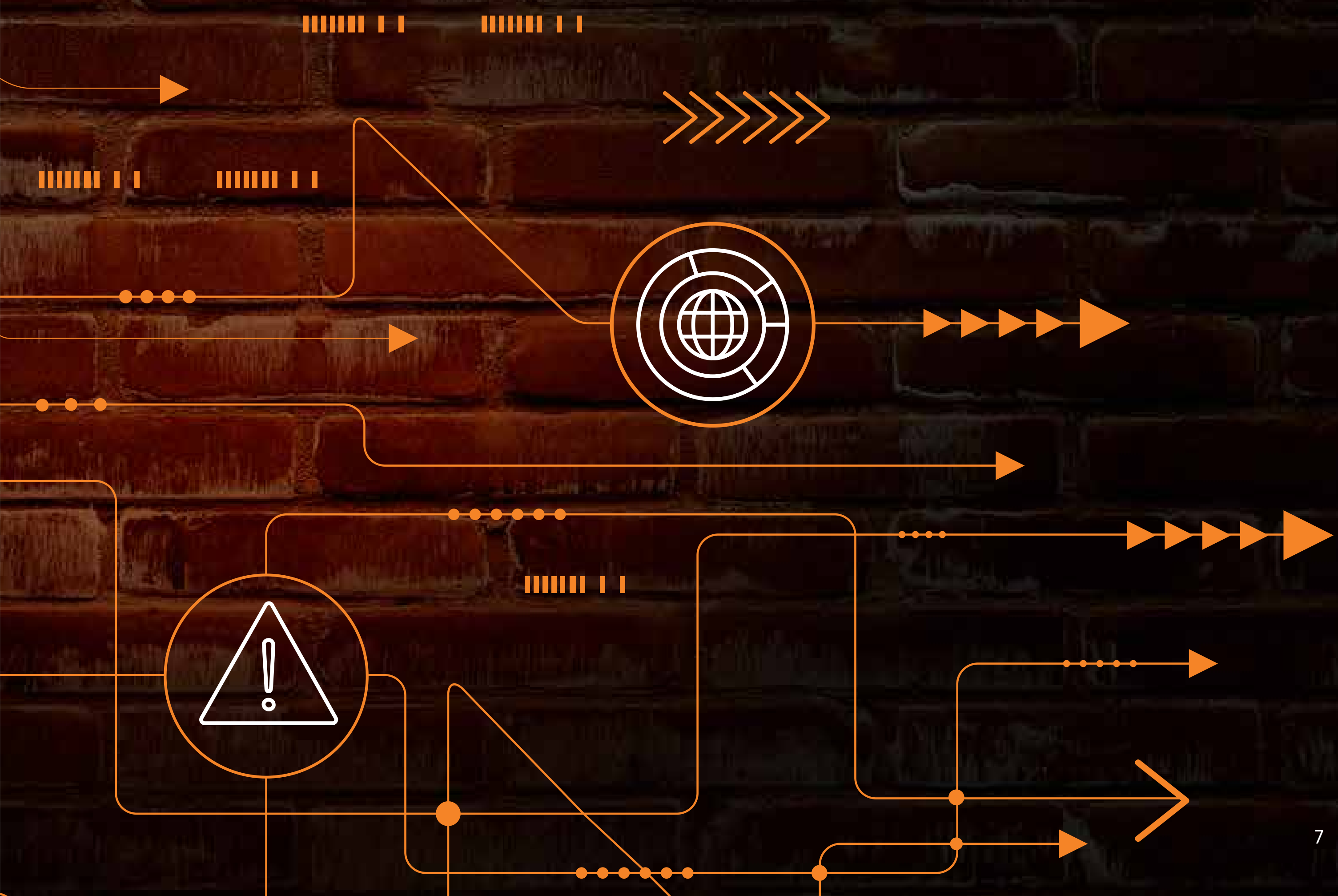
Life insurance products have traditionally been very complex and difficult for the end-customer to understand: 41 percent of the customers surveyed by Accenture felt that life insurance products were too complicated and unnecessarily confusing. Younger customers have consistently shown a strong desire for simplified and personalised products, but many providers have been slow to respond. Similarly, younger customers are generally more open to alternative types of provider and are less loyal than older customers. Life insurers will need to properly understand, and act upon, these and other generational preferences if they want to tap into the 18-24 year old customer segment.

Ageing workforces within the sector's IT departments present both a human and a technological challenge to established firms. Legacy technologies supported by an ageing workforce are preventing some life insurers from responding to market demands. Firms will need to adopt a proactive solution, migrating to new technologies and training new and existing staff in innovative and emerging technologies.

Whilst legacy back books can provide established companies with a consistent, highly profitable revenue stream, this can also create a disincentive to penetrating new customer segments. The cost of change, both technological and people-related, can lead to further inertia. However, innovation is necessary, even for an industry based upon history and expertise. So why change a model that's still delivering success? In order to move away from outdated structures and attitudes, and to become a progressive insurer of the future.

So what should life insurers bear in mind?

1. Recognise that there is valuable, untapped potential within the 18-24 year old segment.
2. Learn to engage with these younger customers through modern, digital channels—it's your future as well as theirs.
3. Use new types of data to create personalised offerings that are relevant and helpful throughout life.
4. Attack the knowledge gap by educating young adults about insurance, but avoid puncturing their optimism.
5. Overcome traditional stereotypes and operational barriers.



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