THE FUTURE OF LIFE INSURANCE

HOW INSURTECHS ARE TACKLING THIS NOTORIOUSLY TRICKY AREA OF INSURANCE

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BI INTELLIGENCE

KEY POINTS

- **Life insurance is a fundamentally hard product to sell,** as it requires people to think about their deaths and promises no immediate benefits. Moreover, the way life insurance is sold makes it doubly unattractive, as consumers must go through a paper-based, lengthy application process and an inconvenient medical exam, with little guidance from their providers, and often high costs.

- **The problem is compounded by incumbent insurers' failure to innovate, even as personalized products and streamlined services proliferate in other areas of finance.** Many incumbent life insurers are hampered by decades-old IT systems that keep them from making better use of their data, for example, to process policies more quickly, better personalize products, and conduct more accurate risk assessments. As a result, the life insurance industry is far behind on the digital curve.

- **A small yet growing niche of insurtech startups is now finding different ways to digitize life insurance to make it more appealing.** Life insurance-focused startups are tackling a number of problems with the status quo, including a lack of consumer understanding of the product, inconvenient application processes, minimal customer loyalty, and inefficient data management and processing. Some are focused on improving products for consumers, while others are helping insurers to modernize.

- **However, these life insurtechs are disrupting a tightly regulated and emotive product, and their solutions carry regulatory and ethical risks.** That means such companies, and any insurers using their solutions, must take precautions to ensure these new services add value to the industry. Such precautions include bolstering compliance teams and prioritizing customer education in a thoughtful way.

- **If life insurance incumbents are to stay competitive, they'll have to make fundamental changes to their systems and operating models.** The innovation attempts incumbents have made are largely focused on front-end fixes that won't result in any real improvement in the product, or the way it's sold. Instead, incumbents must focus on modernizing their core systems first.

- **Life insurtechs are likely to spearhead change in this space, with incumbents following suit.** Such startups will set new industry standards and consumer expectations around this complex product. That, in turn, will serve as a catalyst for innovation among legacy insurers.

Download the charts and associated data in Excel »

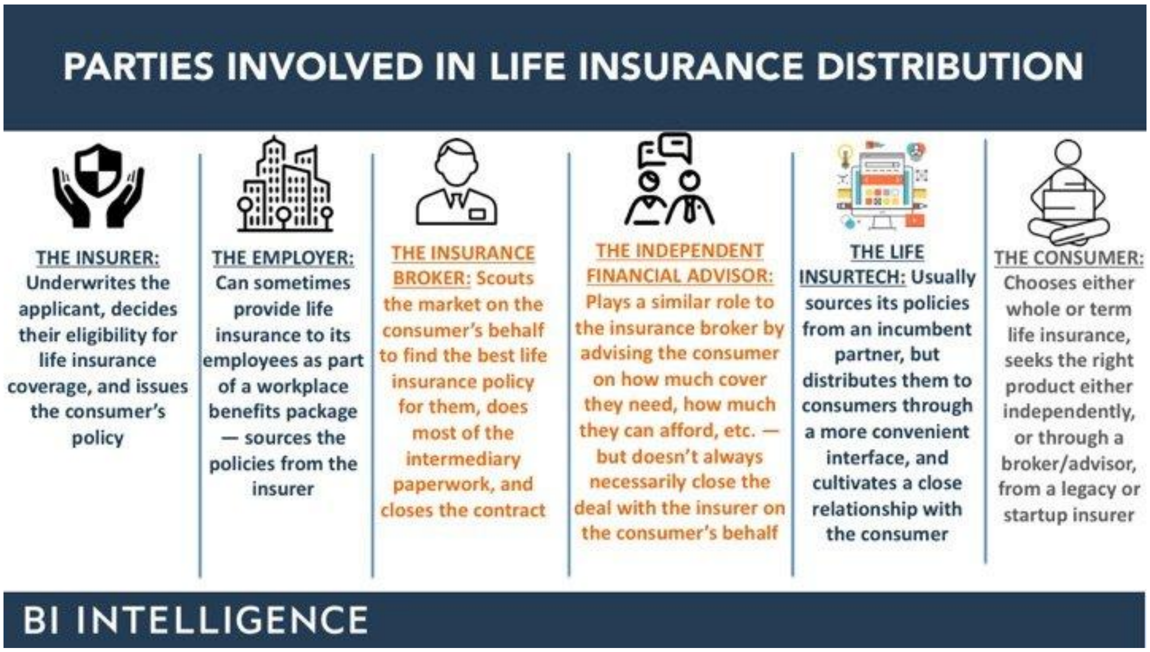
INTRODUCTION

Life insurance is a fundamentally challenging product to sell. It requires people to think about their deaths, can seem like an unnecessary precaution for a distant consequence, and promises no immediate benefits. The way life insurance is sold makes it doubly unattractive, as consumers must go through a paper-based, lengthy application process and an inconvenient medical exam, with little guidance from their providers, and often high costs. Even if an employer provides life insurance as part of a workplace benefits package, issues like a lack of understanding about the product itself, and how consumers stand to benefit from it, can remain.

Life insurers have failed to innovate, even as consumers become more accustomed to getting personalized products and streamlined services in other areas of finance and beyond, making life insurance's archaic distribution even more jarring. Many incumbent life insurers are hampered by decades-old IT systems that keep them from making better use of their data, for example, to process policies more quickly, better personalize products, and conduct more accurate risk assessment. This is because of strict regulations surrounding this complex and emotive product, and because life insurers typically have little interaction with their customers, reducing the urgency of making changes to the status quo.

However, a small but growing niche of insurtechs is using technology to improve returns on this tricky product. Some of these life insurtechs are focusing on the pain points consumers face when buying life insurance, while others specialize in making it easier for incumbents to sell the product. These solutions have the potential to make the product itself more relevant for modern consumers, to make it easier for the average consumer to understand and purchase life insurance, and to allow incumbents to maximize their returns on it. That said, these insurtechs are disrupting a highly regulated and conservative industry, so their solutions can carry risks that developers and incumbent adopters should bear in mind to ensure these innovations add value to the industry.

In this report, BI Intelligence examines the geographic markets at the forefront of life insurance innovation, details the problems putting consumers off the product and hampering incumbents' innovation efforts, and explains how life insurtechs are tackling these pain points and obstacles. Additionally, we take a look at the risks involved in disrupting this space and present recommendations for mitigating them.



THE LIFE INSURANCE MARKET LANDSCAPE

We've identified several global hotspots for life insurance, each of which is helping to define the trends that'll dictate the industry's future. While some of these hubs correlate with size, others are relatively small markets playing a part in the innovation charge. Meanwhile, some geographies have yet to be disrupted, but their established life insurance markets, combined with innovation-friendly conditions, mean they're marked for change.

- **The US.** The US is undoubtedly the largest market by annual life insurance premiums, at $559 billion in 2016, according to Swiss Re (all market sizes are from this source). This is partly due to the country's large population, but also comes from a historic lack of competition in the insurance market as a whole, which has driven up prices and made the space ripe for disruption. This combination of factors explains why the US is proving such fertile ground for consumer-facing life insurtech startups.

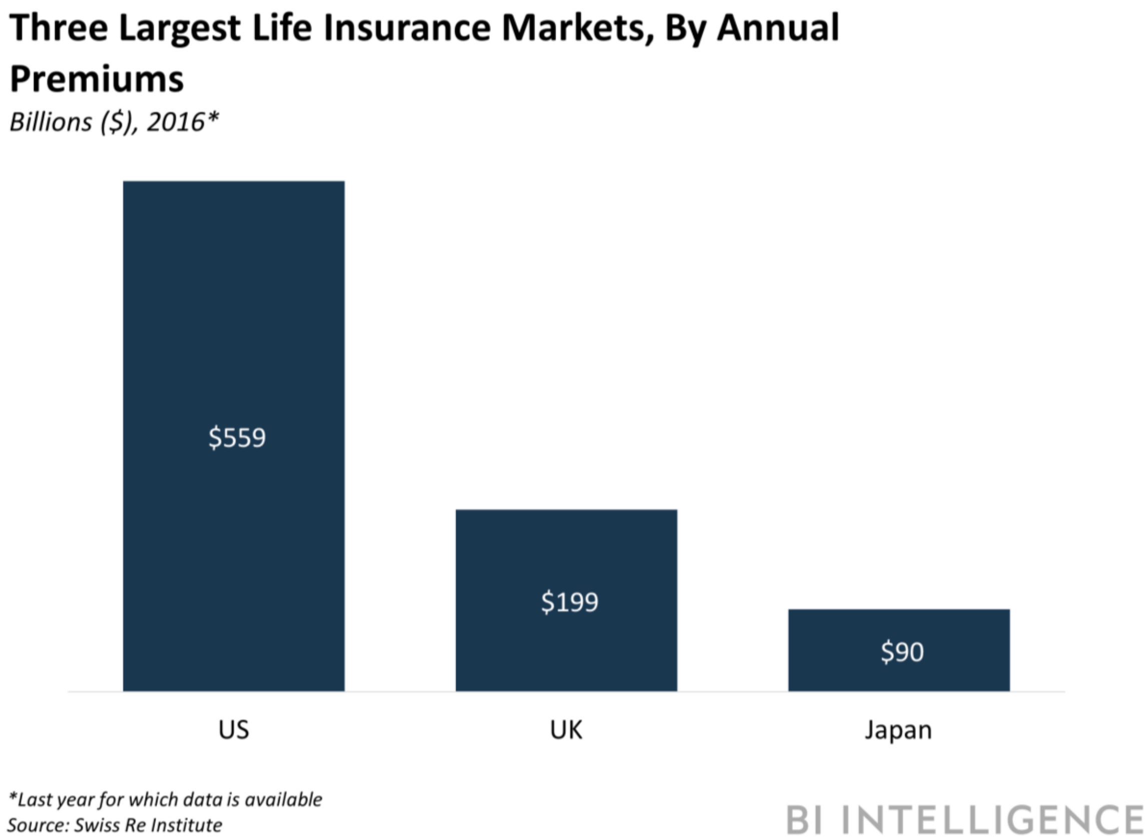
- **The UK.** London boasts a strong insurance pedigree and long legacy, which means it functions as an important yardstick of industry innovation and development. As such, the country is well positioned to attract startups looking to disrupt the space, and, combined with a fintech-friendly regulatory environment, seems like a probable candidate for innovation. Of note, the biggest innovations in the UK life insurtech space to date have actually been initiated by incumbents, albeit typically through partnerships with foreign startups.

- **Japan.** Given its small size, Japan's $90 billion in life insurance premiums in 2016 is impressive. This may be explained by the country's high level of natural calamities, which raises demand for products such as life insurance. Arguably, Japan's culture of conscientiousness and close family bonds also makes life insurance a valued and relevant product. There are few startups disrupting the life insurance space in Japan as of yet, but some of its biggest incumbents have begun applying technologies like artificial intelligence (AI) to increase operational efficiency in the back office. This is in contrast to other hotspots, where consumer-facing processes are of more focus.

- **Israel.** Israel is home to a growing number of mostly business-to-business (B2B) life insurtechs, perhaps reflecting the country's increasing recognition as a global technology hub. This reputation results from the fact that many of Israel's army-trained technicians go on to found their own technology businesses. In doing so, they bring with them their army training of solving apparently impossible challenges using technology, according to Atidot founder Dror Katzav.

- **South Africa.** Despite not boasting a particularly large life insurance market — the country had $34 million in premiums in 2016 — South Africa is seeing a disproportionate level of innovation efforts in the sector, principally by incumbents, but also from some B2B startups such as AllLife. South African insurer Discovery owns several large incumbents, including Vitality in the UK, and the parent company's adoption of emerging technologies, like wearables, seems to extend to its overseas subsidiaries.

It's likely that the US will set the standard for innovation in life insurance, with its market presaging trends that'll eventually spread eastward to Europe. On a more granular level, Israel will probably take the lead in B2B life insurtech, while the UK and South Africa may set the tone for how incumbent insurers approach emerging technologies, such as AI and wearables, to update their businesses.



Problems With The Life Insurance Status Quo

The need for innovation in life insurance has never been clearer — life insurance sales on the whole are slowing, and policy ownership is hitting record lows. Life insurance premium payments were flat in North America and Western Europe in 2016, and contracted by 0.5% from 2015 in advanced markets as a whole, according to Swiss Re. Less than half of US households (44%) have life insurance policies, according to data from insurance association LIMRA.

The consequence is a significant coverage gap that represents both a problem and an opportunity. There are 19 million "stuck shoppers" in the US who cannot buy policies despite needing them, according to LIMRA. These consumers account for a $16 trillion coverage gap in the US. Promisingly, however, 85% of US consumers believe they should have life insurance, although only 41% actually do, according to US life insurtech Bestow. If insurers want to capitalize on this gap, they'll have to address the biggest pain points for consumers, and the stumbling blocks for incumbents, that currently plague the industry landscape.

Lack of education. Forty percent of US consumers overall told LIMRA they feel "intimidated" by the life insurance application process, as they don't know how much coverage to buy, or what kind is right for them, suggesting a lack of knowledge about this type of coverage among the general public. This also extends to pricing — millennials overestimate the cost of life insurance by 213%, and Gen Xers do so by 119%, according to Life Happens and LIMRA. As a result, many prioritize other costs. Twenty-nine percent of millennials (aged 18-34), for example, told LIMRA that saving for a holiday takes precedence over buying life insurance. Meanwhile, 23% of Gen Xers said they'd rather spend on eating out, cinema tickets, and shopping. Almost half (49%) of those aged 65+ said paying for internet, cable, and cell phone bills is a higher priority than buying more or any coverage, with 60% of millennials agreeing.

Inconvenient application process. Because of the risk an insurer takes in issuing a life insurance policy, consumers typically must undergo meetings with multiple parties including the carrier, underwriters, often a broker, and a medical examiner, with paperwork involved at each stage. Medical records will often be combed through several times by underwriters, who will then revert back repeatedly to the applicant with questions. This means it can take between six and eight weeks for coverage to take effect. Such holdups are especially tedious for millennials, many of whom are not only busy professionals but also first-time parents, and don't have sufficient understanding of the product to begin with. This results in discouraged consumers and high attrition rates. Life.io, a life insurtech that provides white-label solutions to incumbents to streamline the application process, estimates that as many as 50% of consumers terminate their applications, resulting in lost business — and a tarnished image — for carriers.

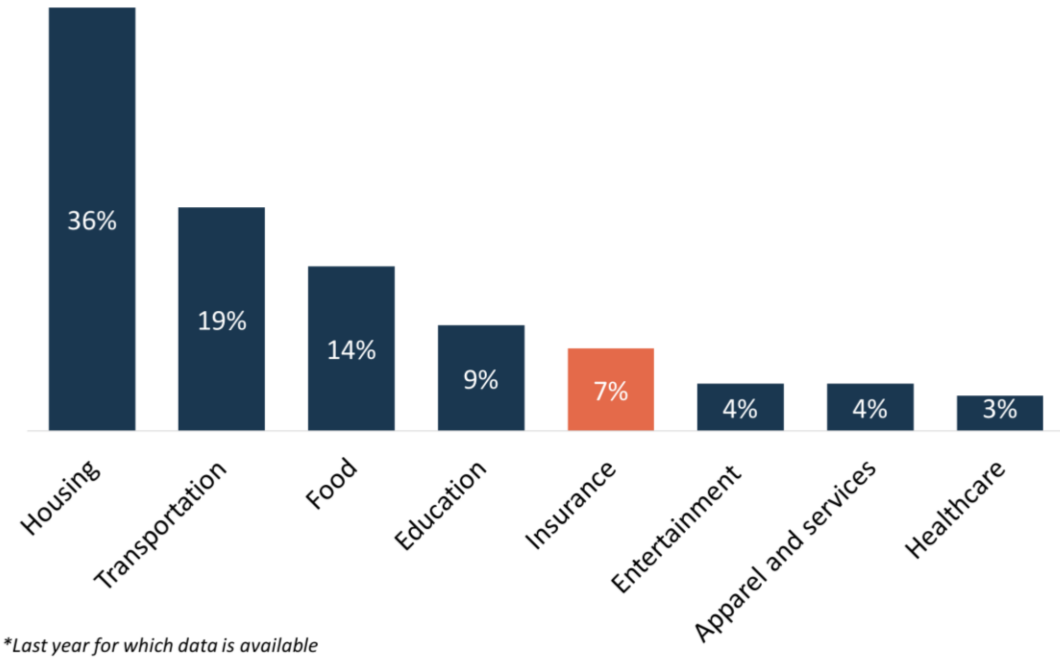
Low customer loyalty. Life insurance is a product usually bought once and seldom revisited, meaning that most life insurers have few touchpoints and limited interaction with their clients. The only communication most consumers can expect to receive from their carriers after purchase is an annual bill. This can diminish customers' loyalty to their carriers, and make it easy for rivals — especially those with better customer experience standards — to steal clients. Some 80% of consumers surveyed by Life.io couldn't name their life insurance provider offhand. Moreover, the insurtech estimates that roughly 95% of consumers never buy more than one product from their carrier.

Inefficient data management and processing. Life insurers typically rely on aggregate data about demographic groups that they feed into algorithms — but those algorithms often have broad, built-in assumptions about a particular population that frame the way this data is understood, resulting in unnecessary rejections. Moreover, insurers typically rely on medical documentation that's at least somewhat outdated since it isn't recorded in real time, further hampering accurate risk assessment. And most legacy insurers are encumbered with outdated data centers and software, and spend a lot of time sorting client data, leaving them unable to respond to it in real time. Their siloed organizational structures also mean different divisions often don't realize that others may have data they can use, McKinsey points out.

Even where efforts to revamp outdated data systems are initiated, McKinsey adds, data and analytics initiatives have a high failure rate. This is due in part to a lack of clarity on what an insurer wants an investment to achieve, as well as a failure to train staff to use a new technology to its maximum potential. The result is low risk tolerance and false negatives when conducting risk assessment, which leads to lost business; and a failure to construct nuanced, personalized customer profiles, which can result in higher payout rates. Moreover, by failing to gain real-time insights into customer behavior, insurers have been unable to better tailor their retention efforts, leading to inefficient allocation of resources.

Outlays Of US Consumers Under Age 25, As A Percentage Of Total Spending

*Published 2017, 2014 data**



**Last year for which data is available*
Source: Morgan Stanley Wealth Management, Haver Analytics, Bureau of Labor Statistics

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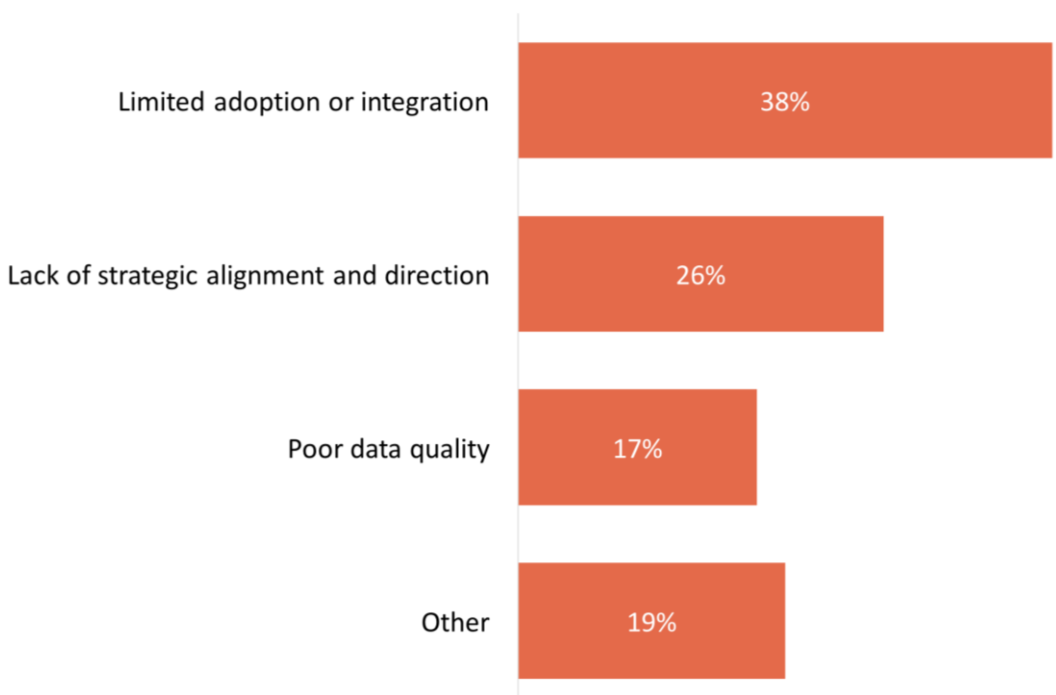
Why Insurers' Data And Analytics Initiatives Fail

Global, published 2017, 2016 data



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Source: McKinsey

HOW STARTUPS ARE REVAMPING LIFE INSURANCE

A rising class of insurtechs is tackling the problems discussed above to make life insurance easier for consumers to access, and easier for insurers to sell and manage. Life insurance-focused startups are approaching these issues from two angles: that of consumers, and of insurers. The ultimate result of both approaches, however, is an easier experience and greater benefits for both parties.

Consumer-Focused Startups

Although some startups in this class do partner with incumbents — to source their insurance policies, for underwriting purposes, or to leverage a license, for example — they're digitally native and iterative, and target their propositions at individual consumers. For this group, millennials are an especially lucrative potential market, as this generation features many new parents who have a vested interest in protecting their dependents, but are often cash-strapped or unwilling to prioritize insurance as an essential expenditure. To better win over such clients and others, these insurtechs focus on eliminating the pain points that put consumers off buying life insurance coverage.

Streamlining the application process. Most consumer-focused life insurance startups are tackling the most obvious problem in this space by finding ways to make it easier for customers to apply, and be approved for, coverage with as little hassle as possible. They are doing this by:

- **Improving underwriting techniques.** US-based Ladder, for example, has applicants fill out a short questionnaire with details like gender, age, smoking status, and a rating of their overall health, and ensures there are live personnel on hand to answer questions to avoid undue rejection or need for clarification later. Meanwhile, US-based Haven Life, which is fully owned by legacy insurer MassMutual, has built its own end-to-end underwriting system, which enables it to underwrite applicants in real time. The system draws on self-reported information from application forms, as well as details from public databases (like prescription drug history and motor vehicle records), and has ready access to MassMutual's historical data. This real-time approach to analyzing data enables Haven Life to offer an instant decision on coverage in as little as 5 minutes. German-based Getsurance, on the other hand, issues an initial questionnaire, and its algorithmic underwriting process generates tailored follow-up questions based on an applicant's answers. Algorithms gather up the information to generate an eligibility assessment quickly.

- **Reducing the need for medical exams.** Getsurance benefits from the fact that German law doesn't require medical exams in insurance underwriting, allowing it to do away with such exams entirely. Instead, it relies only on self-reporting by applicants. To mitigate the risk of fraud, the company reserves the right to demand an examination when a claim is filed. In the US, where medical exams are more of an industry standard, Haven Life reduces the cases in which an exam is necessary by using information gathered in the application process, as well as by analyzing third-party data in real time. Customers are notified once an application is submitted of whether or not they qualify for the company's InstantTerm, no medical exam process. When an exam is needed, Haven Life sends a medical professional to the client.

Making policy management easier. Life insurtechs are also trying to ensure that customers remain happy with their coverage over time. In this way, these firms can help combat the customer loyalty problems plaguing the industry, and build more long-lasting relationships with clients. They are achieving this by:

- **Reducing costs.** Most consumer-focused life insurtechs offer term rather than whole life insurance. This enables customers to choose a specific number of years for their coverage, and generally means fewer premium payments over time. By contrast, whole life insurance policies cover customers for their lifetime, and are more expensive due to indefinite premium payments. Additionally, these players have found other ways to make coverage more affordable. For example, Ladder doesn't charge annual policy fees, unlike most incumbents, and customers can layer on additional policies and extend a term if their circumstances change. This means clients aren't at risk of overpaying upfront if they overestimate their needs, and can adjust their policies over time, for instance, if they have more children.

- **Increasing flexibility and customization.** Life insurtechs try to make it as easy as possible for consumers to tweak their coverage as their personal circumstances change over time. US-based Fabric, for example, begins by offering Fabric Instant, an accidental death policy that can be obtained in two minutes online: It's issued to anyone aged 25-50 as soon as they provide basic details like date of birth, name, and a social security number. Instant users can then later upgrade to Fabric Premium, which involves a more complex questionnaire and a medical checkup, although the need for the latter is minimized by leveraging existing medical information from external sources.

Making the product more appealing. A more niche tactic to improve the life insurance experience for consumers is to create more incentives to buy the product, which involves giving consumers more returns on their investment.

- **Increasing value through add-ons.** US-based Tomorrow has an unusual model: Its core product is an affordable trust fund, which users can choose to top up by buying term life insurance through its app from carriers including Omaha Mutual, AIG, and Prudential Financial. The payout automatically goes into the trust fund if the person dies. By using a financial product normally reserved for the rich — a trust fund — as a lure, Tomorrow boosts the incentive to buy life insurance, making it not only a more practical investment, but also a more exciting one.

Insurer-Focused Startups

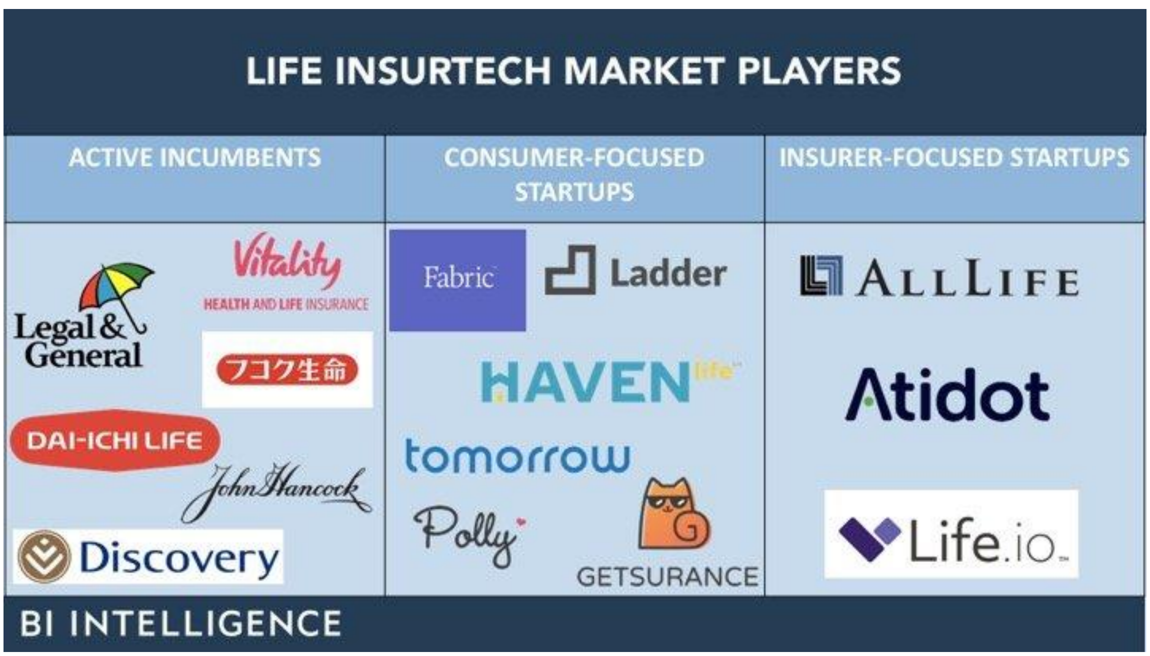
Startups in this category target their solutions at existing insurers in order to drive large-scale industry change from the top down. Focusing often, but not exclusively, on incumbents, these life insurtechs offer ways to improve processes and operations for the providers that still dominate much of the market.

- **Improving data use.** Life insurtechs are using new technologies to help insurers make better use of their data. For example, Israel-based Atidot provides insurers with a cloud-based, predictive analytics platform that makes policyholder profiling more efficient. Insurers upload their customer data onto the platform, which then automatically categorizes the data using AI and machine learning technology, processing up to 1 million policies in under an hour. The platform then creates “profile groupings” of customers by analyzing them based on metrics like age, occupation, gender, and average salary for their location, and runs models of a particular group's likeliest behavior. This model gives an insurer better insight into the predicted behavior of any policyholder, enabling it to adjust its business model either by upselling to more responsive clients, or by shifting retention efforts toward customers with policies at greater risk of lapsing, as well as enabling better policy personalization.

- **Improving customer engagement.** Life.io is one of a growing number of life insurtechs that curates customer journeys for insurers by selling them white-label software they can deploy to make it easier for customers to navigate the life insurance-buying process. The software syncs with many wearables and health apps (including FitBit, Apple HealthKit, Google Fit, Under Armour Record, Jawbone, and Garmin) to lower premiums for healthier customers. It also enables customers to set goals, and gives them tips, information, content, incentives, rewards, and encouragement to help them achieve those goals. This helps insurers engage their policyholders through personalized content, intuitive tracking tools, and health insights. The software is available in three languages, and is being used by several thousand large insurers in nine countries, the company says.

- **Broadening addressable markets.** South Africa-based AllLife, which specializes in providing life insurance to the chronically ill, [partnered with UK-based insurer Royal London]() in April 2017 to allow the latter to cater to people with type 1 and 2 diabetes. AllLife uses real-time risk assessment tech and continual underwriting (through its Kalibre platform) to give insurers a more accurate picture of the risk profile of a prospective diabetic client. This allows the insurer to price policies more fairly, and insulate itself against unnecessary risks. Moreover, it improves loyalty among such consumers by shortening the time it takes a diabetic to be approved for coverage. This process also means that if a client's diabetes management improves, their premium can be brought down.

There are still only a few insurer-focused startups, as most have begun by tackling consumer-facing problems. This reflects innovation patterns in other industries, where the earliest stages of digitization tend to focus on the front-end. As innovation in the life insurance sector picks up pace, we're likely to see more insurer-focused efforts emerge.

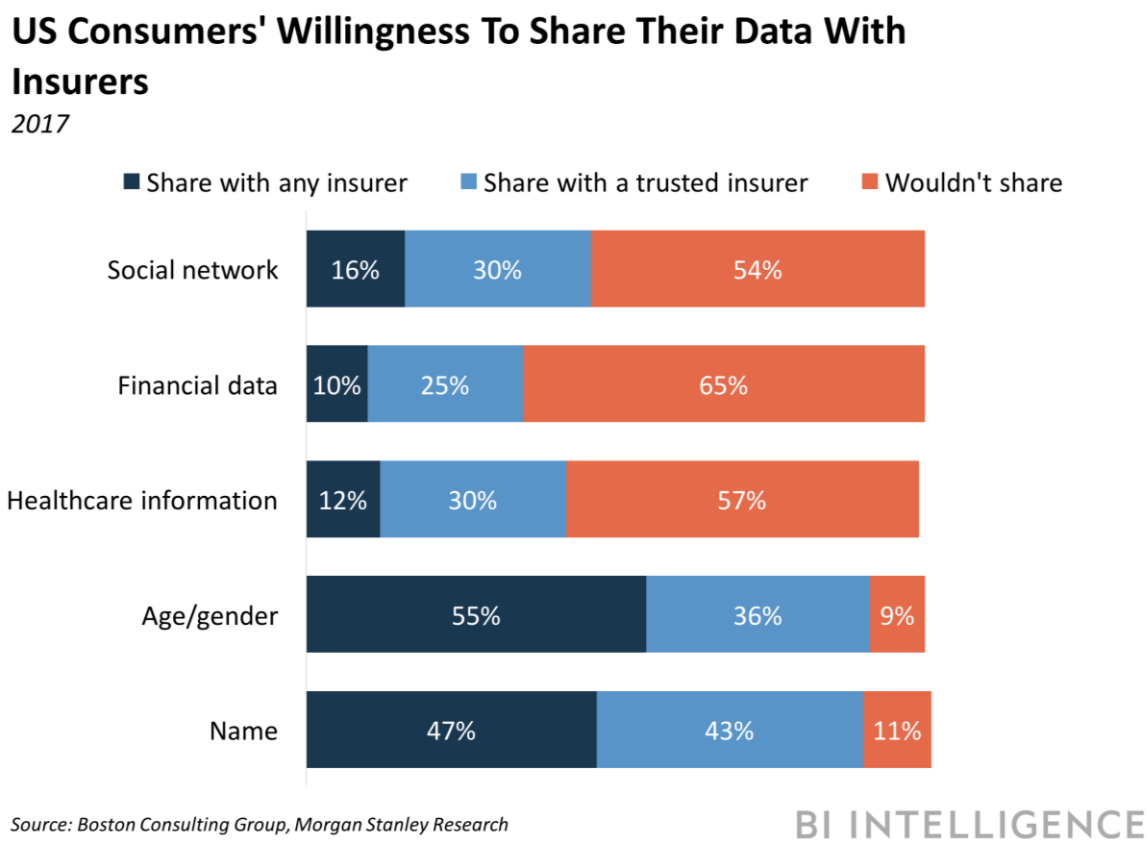


BEST PRACTICES FOR LIFE INSURANCE INNOVATORS

There are some risks attached to bringing technologies not typically used in insurance into this tightly-regulated space, but life insurers can adopt best practices to ensure their innovation efforts add maximum value for their customers and businesses.

Ensure compliance teams are well versed in third parties' data use policies. As both life insurtechs and incumbents begin drawing on a wider range of data sources for underwriting and risk assessment, including from third parties, they'll run a higher risk of breaching other companies' data use and privacy policies. UK insurer Admiral ran into this problem in November 2016 when it tried to use its auto-insurance clients' Facebook profile data to help determine premiums: Facebook quickly put an end to these plans by saying such use of its data is discriminatory. Incumbent insurers already spend heavily on their regulatory compliance teams, but it's now equally essential for them to ensure these teams include tech-savvy individuals who are thoroughly familiar with how parties like social media giants allow their data to be used.

Be vigilant about obtaining consumer approval for data usage. As strict rules on data storage and ownership come in under the General Data Protection Regulation (GDPR) in 2018, insurers will have to be doubly vigilant in seeking customers' approval to use their data for new purposes. This is especially important, as a recent Morgan Stanley and BCG study found that 57% of consumers wouldn't be willing to share their health data from a wearable, for example, with their insurer, even for rewards. Meanwhile, startups like Life.io are staking their proposition to a large extent on wearables, and incumbents like John Hancock in the US, Discovery in South Africa, and Vitality in the UK are leveraging such devices to optimize health data collection and improve premium pricing accuracy. Insurers can improve their chances of getting customers' approval by assuring policyholders that their information will be handled and stored securely — by explaining their security protocols and highlighting the penalties they face under GDPR for mishandling data, for instance. Additionally, insurers could survey customers more extensively on what rewards they'd be willing to give up their data in exchange for, rather than offering ready-made services.



Prioritize customer education about the product — but do it right. Greg Brown, a partner at Oxbow Partners, a consultancy that guides incumbents' strategy and digitization efforts, admits there's a significant knowledge gap in life insurance, with consumers often unaware of the benefits, or how exactly these products work. However, Brown says, more often than not insurers go about solving this issue by asking customers to educate themselves about the product, for example, through digital self-education tools. The problem with this approach is that it assumes too much about consumers' motivation to learn more — it's not guaranteed that they'll go out of their way to understand a complicated product. A better approach, he says, would be to make insurance comprehensible to consumers in a more intuitive way that doesn't place extra demands on them. This could mean creating simpler products in the first place, or better helping people access professional advice and guidance at the right times in their journey, preferably through digital channels for maximum convenience.

For startups, choosing a collaborator that's open to disruption and wants to try unfamiliar strategies is important. Given that a life insurtech will, to some degree, depend on an incumbent collaborator — whether for providing policies, underwriting, or reinsurance — choosing a partner with a fundamental aversion to risk-taking or a business strategy opposed to its own can be ruinous. Getsurance CEO Johannes Becher said the company chose US reinsurer Reinsurance General America (RGA) because it was one of few candidates that met these criteria. It also didn't insist on the startup demanding physical signatures from its customers, something Getsurance decidedly wanted to avoid.

Also, being backed by well-known incumbents is an asset. Life insurance is, regardless of price, a major commitment for most consumers on a financial and emotional level, and many might be reluctant to trust a startup to provide for their beneficiaries. Yaron Ben-Zvi, founder and CEO of Haven Life, said being fully owned by, and having all its life insurance policies issued by MassMutual — a household name in the US — is a major boon in overcoming the concerns a customer might have about buying a policy from an insurtech. As such, startups in this space should consider seeking such partnerships. Haven Life, for example, has the endorsement of a well-trusted name, and is also able to deliver a next-generation buying experience to its customers.

THE FUTURE OF LIFE INSURANCE

Incumbents' activity in life insurance innovation to date has been limited to implementing some shiny new technologies, largely on the front-end. For example, US incumbent Legal & General America (LGA) is using selfies to boost marketing and customer engagement, while John Hancock, Discovery, and others are leveraging wearables to appeal to the young and health-conscious. While these forays are welcome indicators of much-needed change, they don't go far enough — innovation has to begin from within the organization.

If life insurance incumbents want to stay competitive and relevant, they'll have to make more fundamental changes to their systems and operating models. To keep their share of the market, they'll need to do more than tweak the front-end of life insurance — many might want to consider following large Japanese life insurers Fukoku and Dai-Ichi, which are already leveraging IBM's Watson AI to remodel their back offices and fundamentally re-evaluate how they assess risk.

Incumbents are also going to have to decide whether partnering with fintechs — no matter how far-reaching and effective their solutions are — is enough to solve all the problems endemic in the life insurance space, or whether they want to compete more actively in the market on their own. If it's the latter, they'll have to equip themselves with the core systems needed to afford them the freedom to innovate and introduce changes on their own terms.

Change is already happening, says Atidot's Katzav — it just needs some time to spread now that it's started. Oxbow Partners' Brown adds that, as insurtechs get more funding and increase in numbers, this will act as a catalyst for more innovation among legacy insurers. As such, we're likely to see a grassroots effect on life insurance digitization as life insurtechs proliferate. Ultimately, life insurers' business models will have to make a pivot to become customer-centric, rather than product-centric. If this can be done, life insurance can successfully be adapted to attract new buyers who are conditioned by a digital economy of convenience.

THE BOTTOM LINE

- Life insurance is a fundamentally hard product to sell, as it requires people to think about their deaths and promises no immediate benefits.

- The problem is compounded by incumbent insurers' failure to innovate, even as personalized products and streamlined services proliferate in other areas of finance.

- A small yet growing niche of insurtech startups is now finding different ways to digitize life insurance to make it more appealing. Some are focused on improving products for consumers, while others are helping insurers to modernize.

- However, these life insurtechs are disrupting a tightly regulated and emotive product. That means such companies, and any insurers using their solutions, must take precautions to ensure these new services add value to the industry.

- If life insurance incumbents are to stay competitive, they'll have to make fundamental changes to their systems and operating models.

- Life insurtechs will set new industry standards and consumer expectations around this complex product, serving as a catalyst for innovation among legacy insurers.

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