

# The Future of insurance sales – to buy rather than to sell

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# Abstract

## The future of insurance sales – to buy rather than to sell

*Whereas it's now the norm for customers to research, compare, purchase and manage investments online, life insurance sales are still dominated by the client/agent relationship. This is certainly a function of the complexity and bespoke nature of insurance products, and increasingly greater regulatory oversight (e.g. SFC authorization for Investment Linked Assurance Products) on selling process. Hence in order to open sales channels where customers “buy” rather than are “sold” it's essential that communication of the benefits and risks of a specific product are clearly illustrated and that potential customers are (independently) able to access and digest the information required.*

*We introduce the concept of dynamic illustration – moving from static discrete returns assumptions, to a wide range of returns possibility. This keeps retail customers informed about probability of achieving their financial goals and potential downside risks, and perhaps more importantly, better manages their expectation of the products performance. The approach could be utilized by agents (to improve the selling process and customer experience) or online, direct to the customer, to generate new leads or , potentially, real sales.*

# Evolving sales environment – what do we need to consider?

## » Evolving (evolved) consumer preferences

- “Digital Natives”, the rise of online services, and shifting demographics
- Existing distribution channels

## » Insurance company aims

- Increase direct sales – lower cost?
- Increased market penetration – APAC?

## » Increasing regulatory scrutiny

- **Europe – UK – FSA investment suitability guidelines**
- **Asia Pacific – gaining some attention**
  - » Hong Kong – Investment Linked Assurance Products
  - » “China: Intermediary market faces unprecedented revamp”<sup>1</sup>
  - » “South Korea: Regulators to clamp down on insurance agencies”<sup>1</sup>

## Online as a sales channel?

- Clearly online sales an established channel for many services/products
- Evidence for customer demand for online insurance sales options
  - Recent survey/research results
    - Certainly at the research and information gathering stage
    - Uptake for more “vanilla” products – e.g. P&C, Health, Term Insurance
    - Of course not suitable for everyone

### **BUT**

- Sophisticated life insurance product sales still dominated by the traditional sales channels
  - e.g. products with an investment/guarantee/dynamic element
  - Agents (direct/tied/independent)
  - Bank Assurance
  - IFA
  - Insurance Brokers

## Online sales– challenges

Typically dominated by the agency relationship and face to face interaction - for a number of good reasons

- » Complexity of communicating risks/benefits
- » Suitability – accounting/assessing for specific needs and product choice
- » Customer education may be required.
- » Advisory element

Complements rather than replaces agents/financial advisors for these sorts of services

## To “buy” rather than to be “sold”

Need a solution that allows for:

» *Remote* communicate of risk/benefit and product features

- Which meets obligations to customers and
- Regulatory requirements

» Customers to carry out their own research/gather information

- Complete and sufficient to make independent informed decision
- For those that want to

» User experience of course key – but not unique to life insurance

## In summary

The challenge is to

- » Communicate a complex set of outcomes in a concise, readily assimilable fashion
- » Provide sufficient flexibility for the customer to assess the different options and determine which is suitable
- » Ensure duty of care and any regulatory requirements are covered

# Dynamic Illustration

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# Dynamic illustration - High level approach

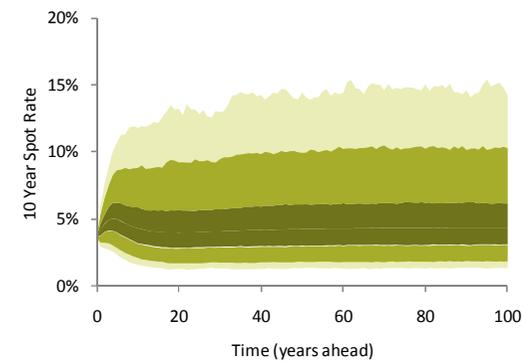
## Mean and standard deviation

Year	Value at Year (%)			
	1	10	30	100
Mean	2.43	3.45	3.48	4.79
Absolute vol	0.38	1.65	1.95	2.68

- » Key parameters for investors' comparison
- » Useful for strategic asset allocation
- » Does it give full information?

Vs

## Full distribution



- » More distributional features (e.g. fat tail)
  - » More information
- » Answers questions like “how likely can I achieve my retirement goal of X millions?”

# The Path Really Matters

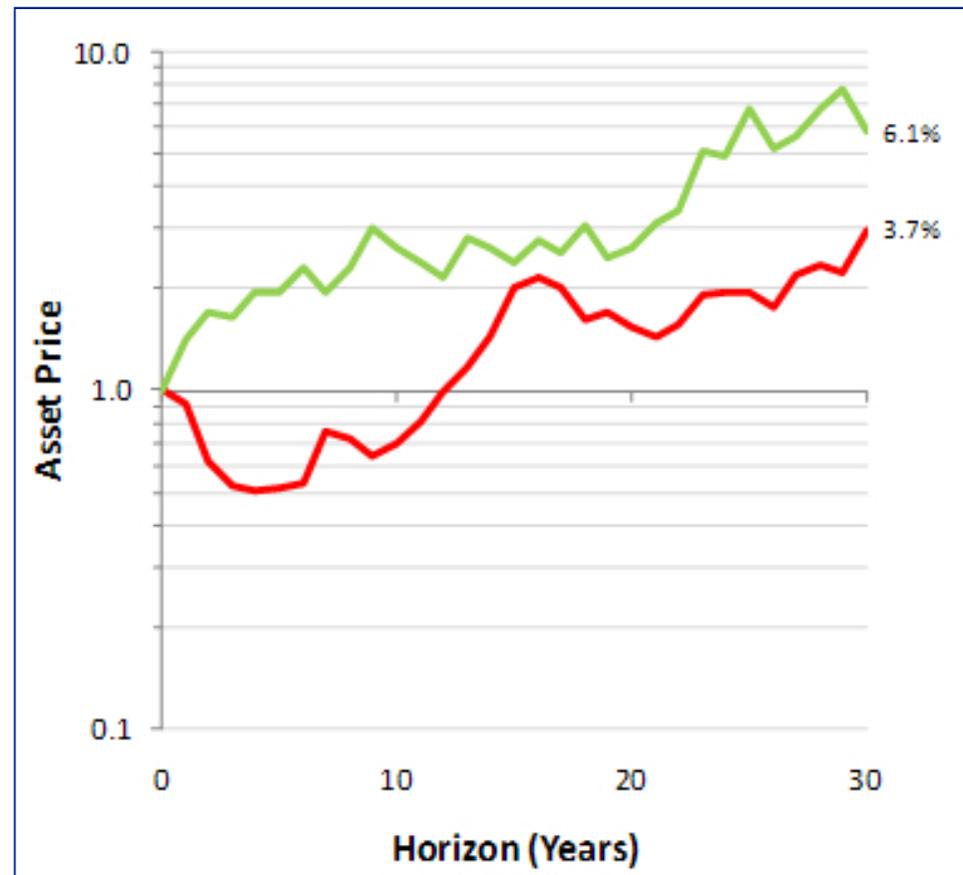
Invest USD 1,000 every month for 30 years

Red line vs. green line:

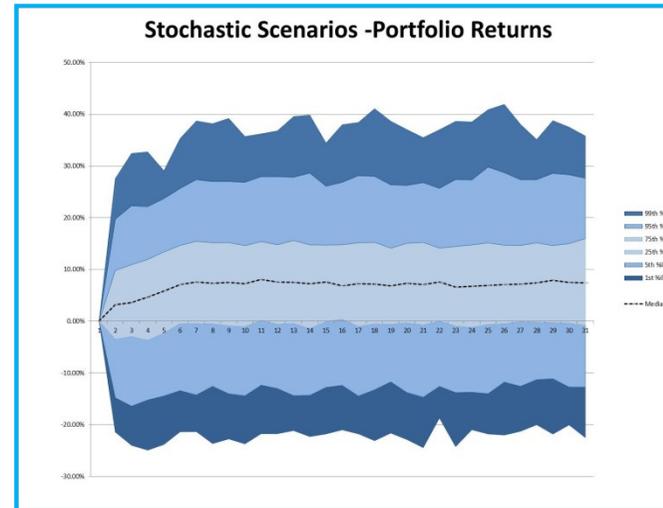
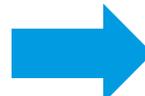
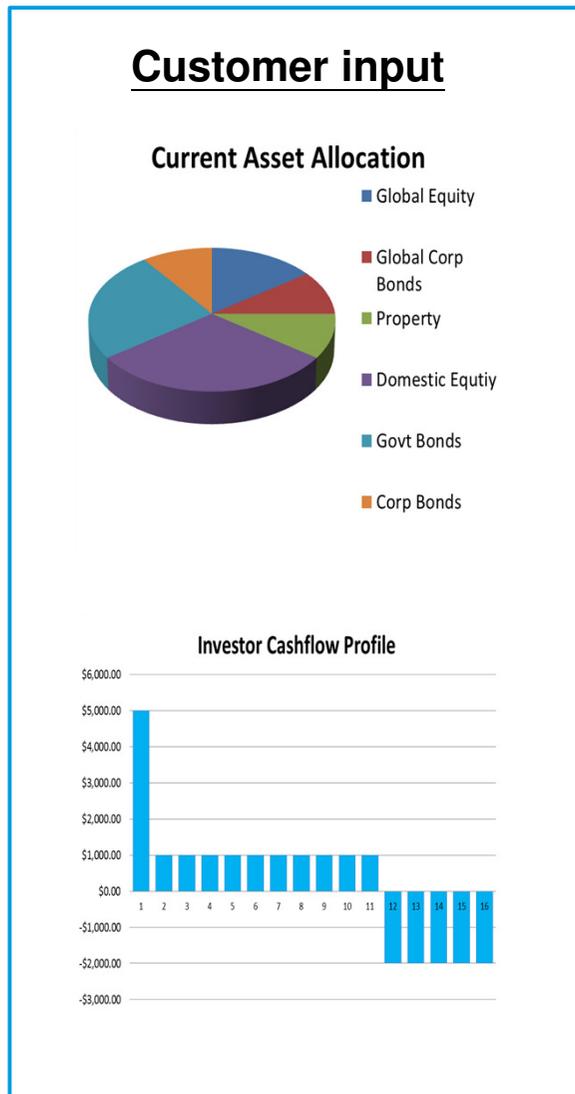
- » Which do you prefer?
- » Cumulative returns:
  - **Green**: 6.1% p.a.
  - **Red**: 3.7% p.a.

The obvious answer is the poor choice:

- » **Green**: USD 758,000
- » **Red**: USD 1,016,000



# Overview of the concept



Modify assumptions to gauge impact



Distilled to key metrics. E.g. probability of achieving goal

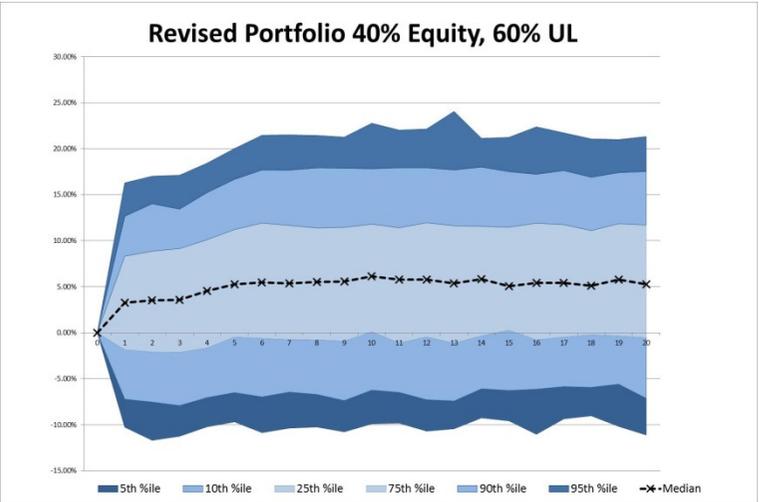
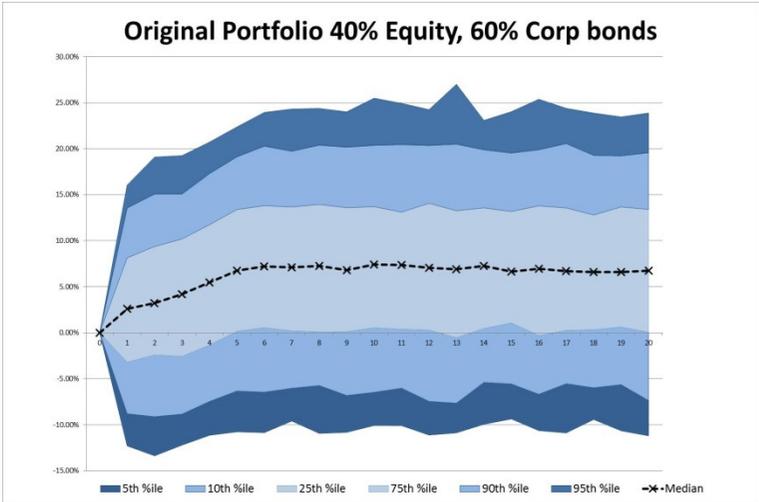
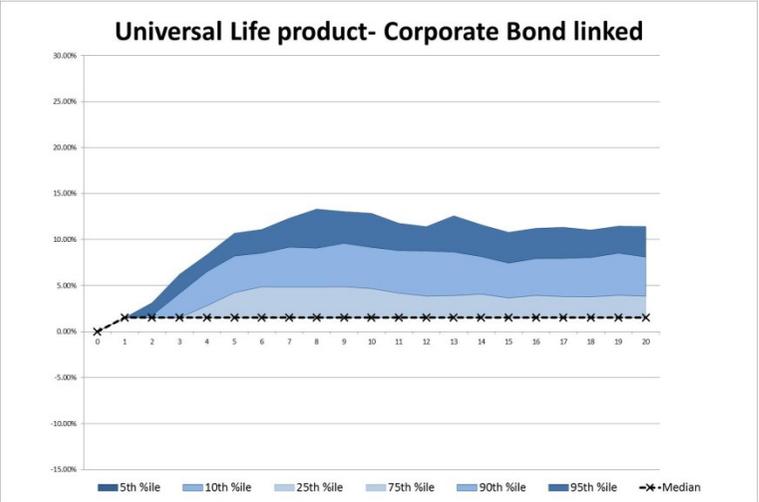
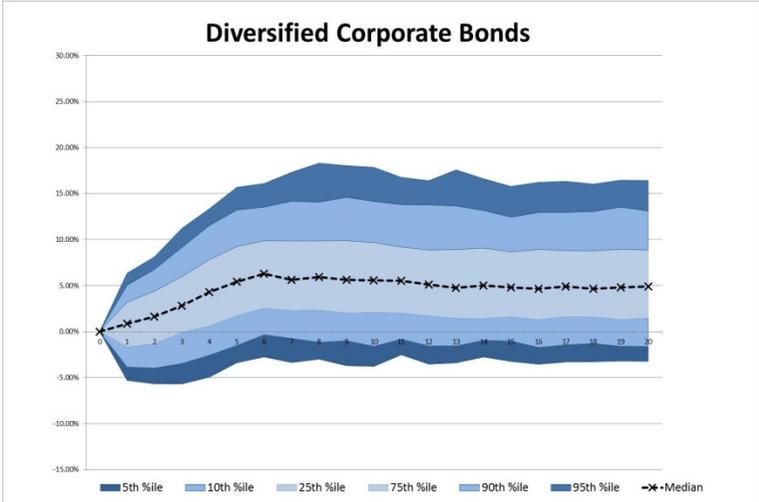
## Dynamic illustration – what's the benefit?

- » Seems complex but simple to communicate/for customers to understand
- » More useful qualification of risk – possible to clearly illustrate the range of possible outcomes
- » Capture realistic (complex) market structural dependencies and features without over complicating the communication process
- » Communicate risks in a meaningful context – i.e. there's a 60% probability of meeting your goal with this approach, rather than some abstract measure – e.g. the volatility is high

## For Complex Life Insurance products?

- » Transparency – capture product features
  - fees (e.g. cost of insurance, early surrender, fund charges, etc)
  - Guarantees
  - Investment options
  
- » In the context of customers existing portfolio of assets
  - Consider holistic investment portfolio
  - Or standalone
  
- » Simple to illustrate value of insurance over time in the same way

# Universal Life (investment component) example



## Approach in practice

### Requires

- » Underlying Economic Scenario Generator
- » Calculation engine (simplified ALM/cashflow calculation engine) that can remotely be sent requests
- » Front end user interface to illustrate results and accept user input
- » Automated underwriting system - if the aim is to enable completely automated sales

### Application

- » Online – desktop website – for customers to research and eventually buy
- » Mobile - via tablets/smart phone – as a tool for agents to help sell

## Final thoughts

Don't need to consider this a remote only process

- » Attract new demographic of customers to call agent or directly
- » Start the education process
- » Better communicate risk within the existing process
  - Useful tool for agents
  - Enhance customer experience
  - Duty of care / regulation

## Other Considerations

- » Consistent product design, risk management and governance
  - Use the same stochastic scenarios across the business – consistent message

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