



GLOBAL MEGA TRENDS

Alan Merten and John Nicholls

© 2014, Towers Watson. All rights reserved. A licence to publish is granted to the Institute of Actuaries of Australia.

*This presentation has been prepared for the Actuaries Institute 2014 Financial Services Forum.
The Institute Council wishes it to be understood that opinions put forward herein are not necessarily those of the Institute
and the Council is not responsible for those opinions.*



Insurance Industry Megatrends

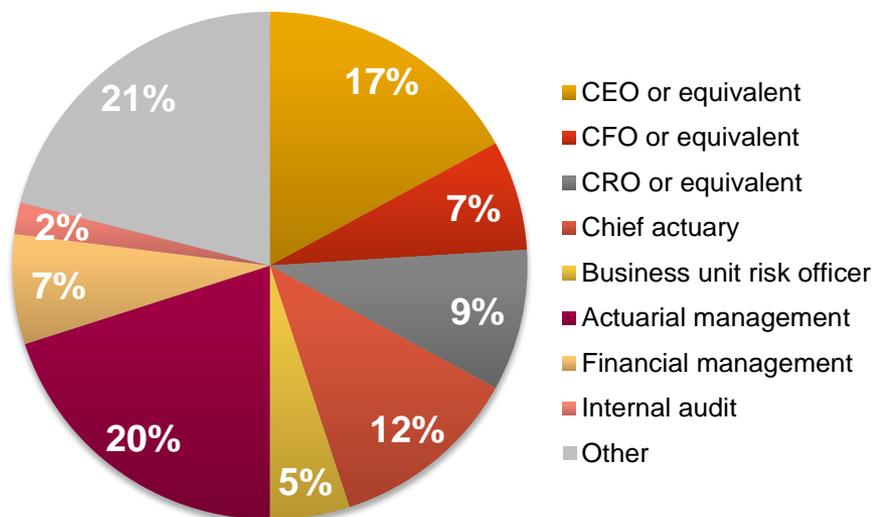
- What are the forces that will shape the future of the global insurance industry?
- In 2013, Towers Watson, in cooperation with the International Insurance Society (IIS), surveyed more than 500 insurance executives, academics and others to identify megatrends most likely to impact the business over the next several years



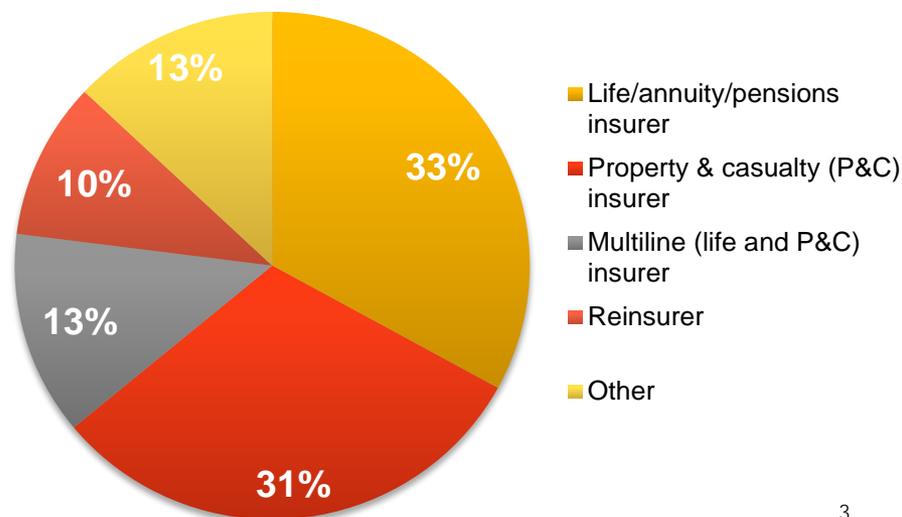
About the study

- In total 533 individuals participated in the survey
- 45% of participants held an executive title and 20% an actuarial management title
- Near equal representation of life and PC insurers
- 15% of respondents from Asia Pacific

Which of the following best describes your title or position?



How would you describe your primary business?





A simple lens view

1

What are the top 3 challenges and issues facing the industry in the next **2** years, that are on your mind?

2

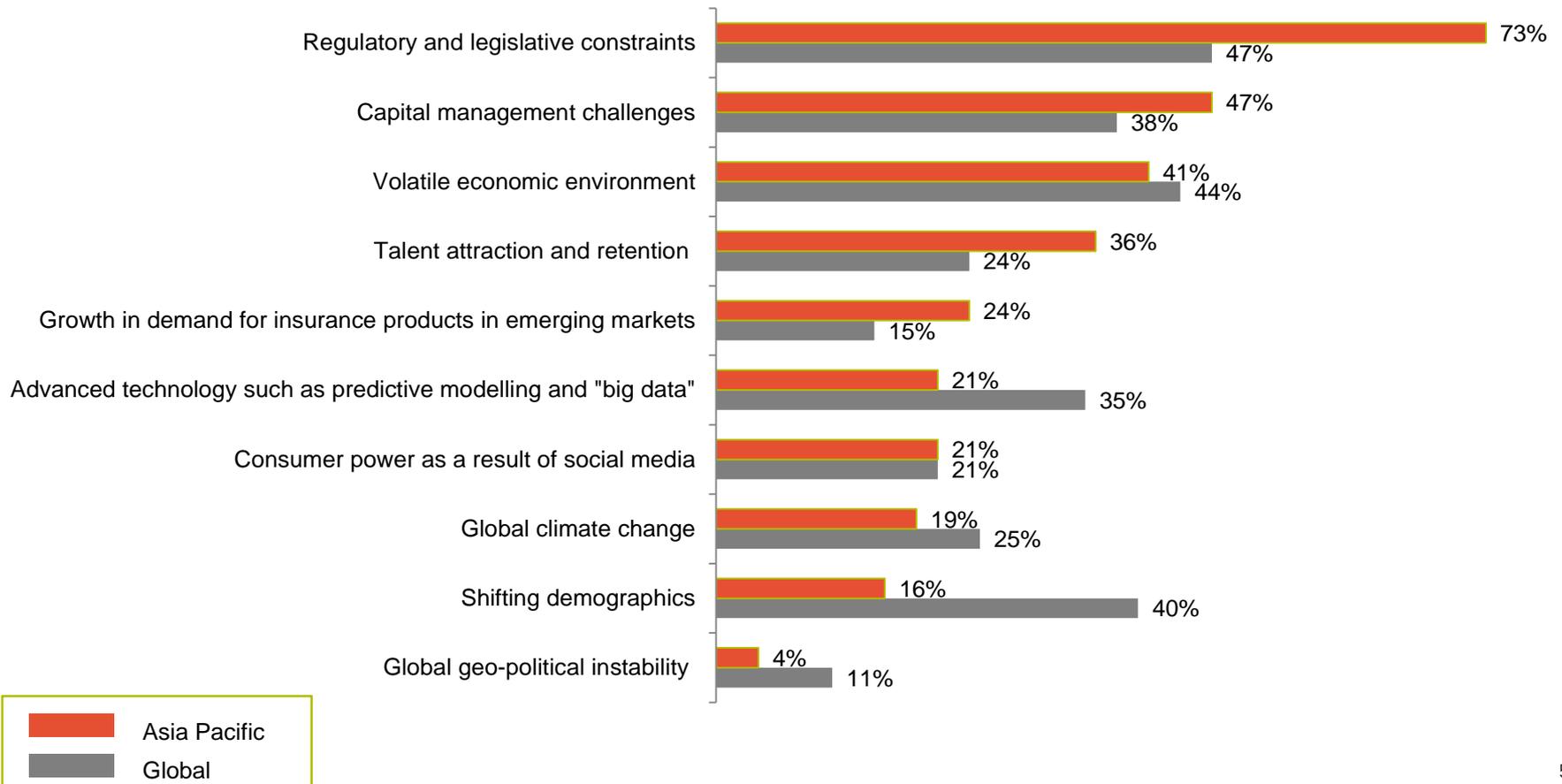
How do you see those issues and trends changing over the next **5** years, what will be the top 3 then?

3

How well prepared are you to face these challenges and issues?

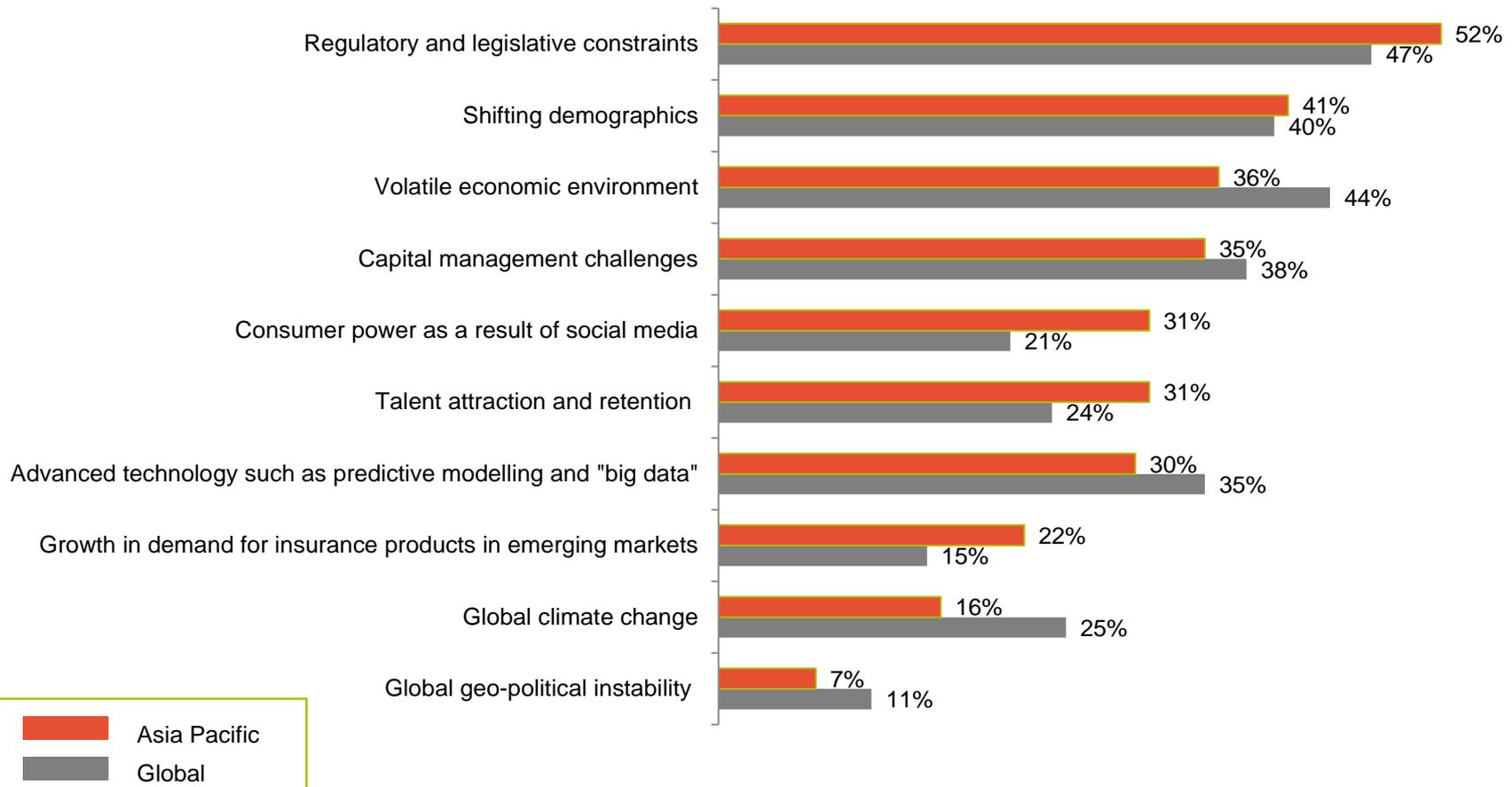


Top of Mind Challenges for the next 2 years



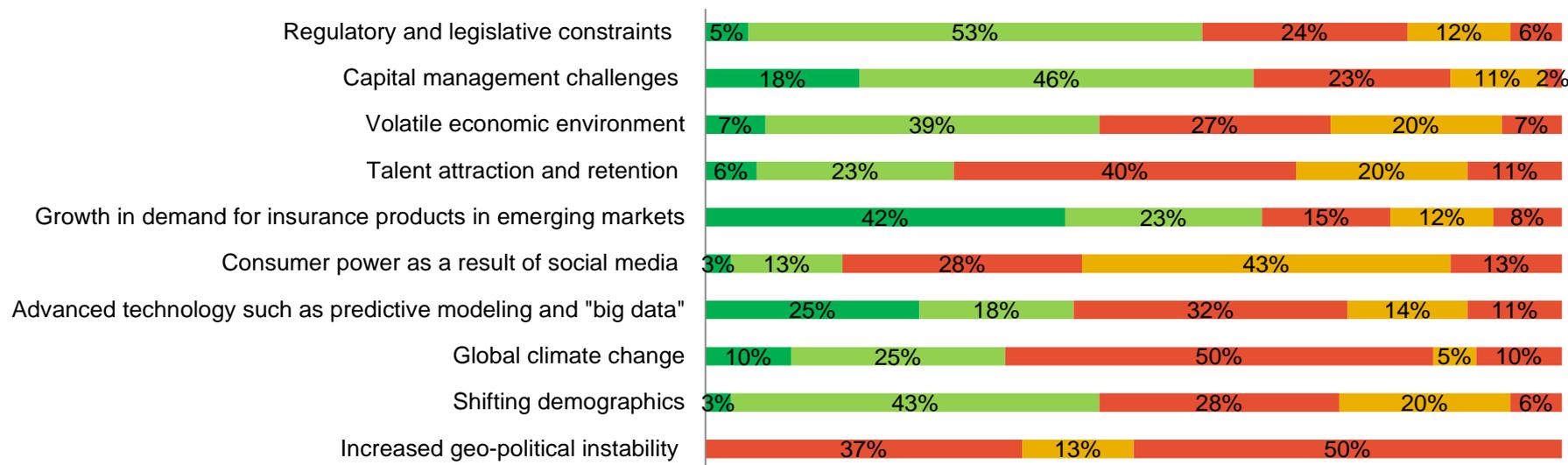


Top of Mind Challenges for the next 5 years





Level of preparedness – Asia Pacific



- Poised to leverage this into a competitive advantage
- Prepared to handle this as well as our competitors
- Somewhat prepared now and in the near term
- Not currently prepared at all; unlikely to be prepared in the near term
- There is little or no way to prepare for the eventuation of this trend



Key concerns and trends

- Key concerns amongst insurers:
 - volatile economic environment
 - regulatory change and public policy
 - capital management
 - talent shortages
 - “big data”.
- Trends that are likely to become increasingly important over time:
 - shifting demographics
 - increasing use of “advanced technology”
 - social media.
- Important local issues:
 - sustainability of retail risk market.



Volatile economic environment

Customer perspective

- Difficult to save enough
- Fee-conscious
- Seek out protection
- Lower appetite to pay for protection

New paradigm:
low returns
and high
volatility???

Insurer perspective

- Volatile profits
- Difficult to charge fees
- Value proposition more difficult
- Guarantees costly to provide



Regulatory change and public policy – Australia perspective

Capital changes

- LAGIC
- Global standard
- Solvency II
- Ratings agency views

IFRS 4

- More volatile profits?
- Less meaningful accounts?



Systemic risks

- Tighter regulations?

Taxation

- Need for broad-based review
- Impacts expected both on corporates and individuals
- Individual tax changes could have significant implications for life insurers



Attracting and retaining top talent

Financial services companies	Problems Attracting	Problems Retaining
Critical skill employees	72%	55%
High potential employees	59%	55%
Top-performing employees	55%	52%
All employees	29%	24%

Source: Towers Watson 2012 Global Talent Management and Rewards Survey

Other Key Issues Identified for PROFITABLE Growth Focused Companies:

- **Talent shortage means businesses can't pursue opportunities**
- **Ability to offer attractive compensation**
- **Employee disengagement**



Big data – an opportunity or a threat?

TOWERS WATSON

Usage-Based Insurance

Consumer Survey

In the winter of 2012, a usage-based insurance consumer survey that polled over **7,500 respondents** from the **U.S.** and six **European countries** was completed. Respondents expressed an **overwhelming interest** in **usage-based auto insurance**.

Some major U.S. findings

The marketplace is ready for widespread UBI adoption.

Almost **90%**

are open to buying a UBI policy if there is **no risk** of their premium increasing.

The majority of consumers interested in UBI are willing to change their driving behaviors, reinforcing the potential for driver coaching.

60% of those interested in UBI are **willing to change** their driving habits.

Consumers want value-added services, presenting insurers an opportunity to decommoditize their auto insurance product.

72% of those interested in UBI are **willing to pay** for value-added services.

Approximately 80% of consumers were interested in value-added services such as vehicle theft tracking, automated emergency response and vehicle wellness reporting. Higher-risk drivers showed more willingness to change their driving behavior, highlighting the potential for UBI to lower losses and make roads safer.

Take note

Concerned parents may be a particularly promising market.



81% of parents interested in UBI **are willing to pay** for value-added services.

Only **6.9%** of parents **would not want** safety-focused value-added services for their children.

Top of mind

Consumers' main concerns about UBI center on money and privacy.



49% worry that their premium **will increase**.

40% are worried about **sharing their data**.

Are you ready?

Start with strategy

The most successful will be those that have a foundation built on a sound UBI strategy, focusing on developing the core UBI competencies that contribute to sustainable value.



Don't get widget paralysis

Don't overinvest in technology. Technology is changing quickly; a sound strategy and the development of core UBI competencies will position you well as technology evolves.



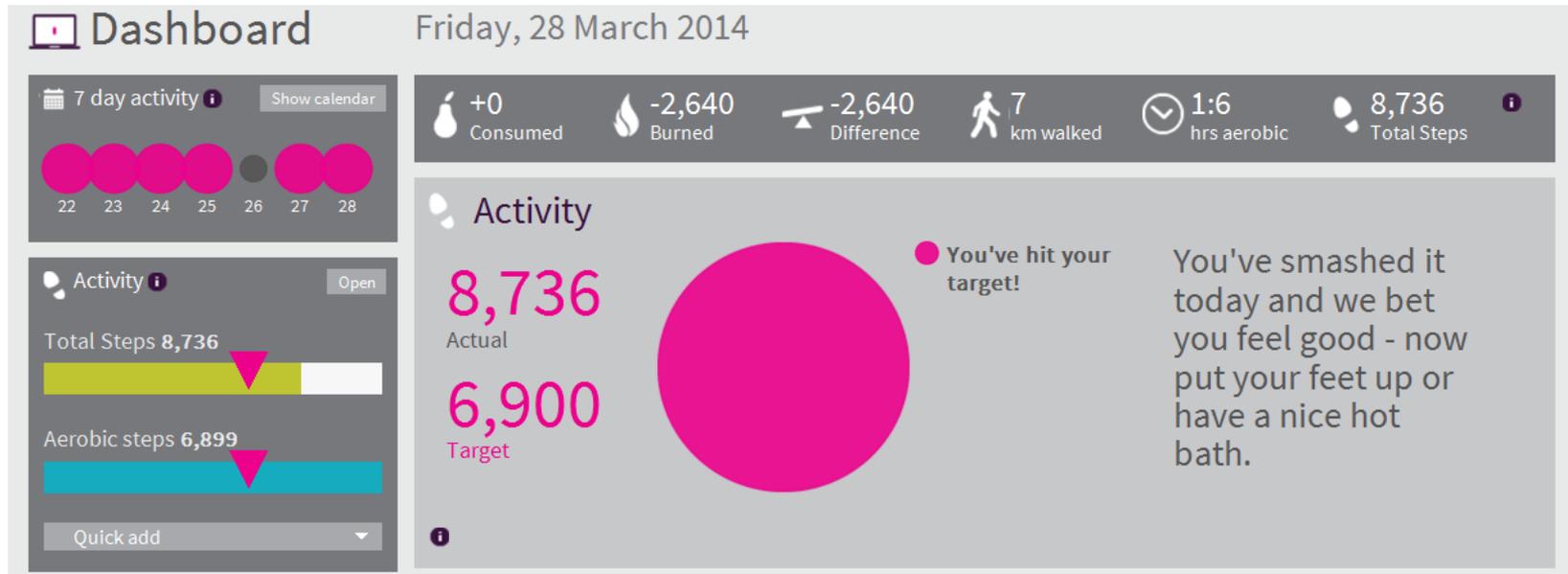
Start learning now

Implementing UBI introduces a new set of technological and business challenges not common in insurance. The road to full implementation is long, so get started with learning and experimenting now.





Technology





Social media and the internet



The rise of Social Media is, or perhaps we should say, has **revolutionised** the way customers communicate, share and form relationships

- **Nearly 63%** respondents in Asia Pacific¹ used social media sites to help make purchase decisions. Some product providers, of course, **exist solely** in cyberspace where Amazon has been trailblazing for years



Greater access to information via the Internet is putting ever-more knowledge and **empowerment in the hands of the consumer**

- A consumer who is both more financially educated and **more demanding** of their products and services providers than ever before



The way customers make purchase decisions has **forever** changed²

- Unless you understand the customer journey, and the experience, that **THEY** desire and demand, you run the risk of dis-engaging them

Sources: ¹Nielsen Global Survey of Online Shopping 2011

²Huthwaite Inc: Focus on the Buyer, www.youtube.com/user/Huthwaiteinc?feature=watch



Increased customer centricity and engagement ...

Is engagement ...

83%

of customers who said they liked – or even loved – when a company responded to them¹

Or dis-engagement likely to...

12

positive experiences to make up for one unresolved negative experience²

...lead to higher propensity to buy?

83%

of consumers globally are more likely to visit a website recommended by a friend on Facebook, and more than half say comments posted on a retailer's Facebook.... also influence their opinions⁴

78%

of consumers trust peer recommendations⁵

81%

of consumers receive advice from friends & family relating to product purchase through a social networking site³

... drivers of deeper penetration?

Sources:

¹ 3 Truths Every CMO Needs to Know About Social Media and the Customer Experience, ExactTarget

² Understanding Customers, Ruby Newell-Legner

³ Social Commerce Today

⁴ Channel Advisor

⁵ BizReport



Shifting demographics

Medical / wellness

Where do I go for better care?
How do I know I am getting the right health advice short-term and long-term?
What if I change employers?
How will I pay for it?
How can I reduce the cost of my insurance?

Preparing for and living in retirement

How much income will I need in retirement?
How much do I need to generate this income?
When can I retire?
How much do I have now?
How much do I need to save while working?
How should I do it?
What could go wrong?



Sustainability of the risk market

Basic YRT structure

Premiums increase

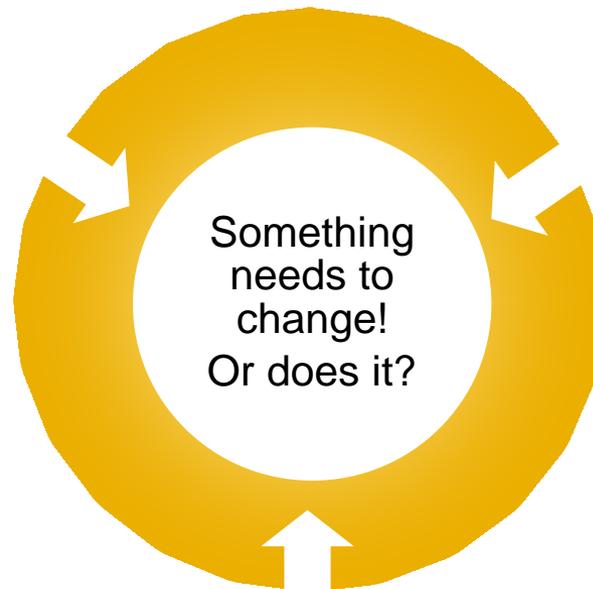
Rates not guaranteed

No incentive to keep policy

Adviser remuneration

Effort is front-ended

Difficult to charge customer



Nature of coverages

Insurance or lottery?

Are definitions clear?

True underlying claims rates



Insurance Industry Megatrends

- Given the forces that will shape the future of the global insurance industry....
 - What are the forces that will change the performance of your organisation?
 - What are you doing about them?



Thank You

This presentation has been prepared by Towers Watson for general information purposes only and does not constitute professional advice. The information, opinions and analysis contained are derived from various sources and have not been independently verified by Towers Watson.

John Nicholls
Director, Risk Consulting, Australia

john.nicholls@towerswatson.com

+61 3 9698 9327

Alan Merten
Director, Insurance Consulting, Asia Pacific

alan.merten@towerswatson.com

+65 9179 5045



www.facebook.com/towerswatson



[@towerswatson](https://twitter.com/towerswatson)



www.linkedin.com/company/towerswatson



www.youtube.com/user/towerswatsonconsult