

Transcript – The Future of Life Insurance

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Guest: Ilan Leas

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John: Hello and welcome to your Actuaries Institute Dialogue podcast I'm John McLenaghan from the HQ public policy team. This podcast aims to give a high-level overview of the actuaries thought leadership series The Dialogue - leading the conversation.

The Dialogue papers cover a wide range of topical issues from genetics and climate change to private health insurance affordability.

Today we're looking at the paper, the Future of Life insurance, written by the convenor of the Life Insurance and Wealth Management Practice Committee (LIWMPC) Ilan Leas.

Ilan's paper paints a picture of what the life insurance industry might look like in the future as it strives to meet consumer expectations in a fast-changing environment, but to find out what those drivers of change are and the policy barriers that need to be overcome, I'm joined by the author of this paper, Ilan Leas. Welcome Ilan.

Ilan: Thanks John

John: It's a really interesting topic and one that's a focus of a lot of media and political attention at the moment. What prompted to write this paper?

Ilan: It was perhaps born out of a frustration at how our industry was being portrayed, not from a defensive point of view because we've got plenty, plenty cracks but rather the balanced story wasn't being told in my mind, at least fairly. In particular, the complexity of 'how do you balance affordability with consumer needs and expectations?'

Of course, we'd love to pay out all the claims or cover all risk groups but it comes at a price and I think this half of the story is important for policymakers to consider. Part of this is also understanding what the future would look like for consumers and life insurance.

John: That's a pretty broad canvas. How did you go about gathering thoughts together to write this paper?

Ilan: So, I don't have all the answers, but I spent a considerable amount of time listening to industry experts, actuaries among them of course but much broader, for example spoke with advisors, doctors, claims managers, even plaintiff lawyers.

What I found fascinating is how different everyone's views here were, sometimes like chalk and cheese but also how little time was being spent and what the industry might look like in 10 years' time.

So, really what I did was take in all these views, including from the life practice committee members and try to find some common themes along with my own personal thoughts.

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John: Given a number of issues that you've highlighted in the paper, is there a unifying theme that draws together some of your conclusions?

Ilan: Yeah some I'd probably call out there John, two themes. One is this consumer balance. This trend that consumers are really now the lens we need to look at everything through going forward. The second one is we're on this treadmill of fighting fires at the moment. The world's changing so fast and we really can't keep up, so we need to stop and form a view or a vision of this future world so we know where we're going.

I'll give an interesting example around medical knowledge. In 2010, it was estimated that medical knowledge was doubling every three and a half years right, so someone who goes to medical school finishes after seven years, by the time they finish they've missed out on two doublings up of medical knowledge in the world.

Or another example in 2015 it was estimated that more data had been captured in the previous two years than in all of history and only 0.5% of it had been analysed.

We just can't keep up with this, so we have to look as far forward as we can. It's probably not the domain or the sole domain of the strategy teams in the various companies. This affects all areas of a company's business so not just the strategy side and whether my view is right or wrong or the collective view that's been formed through the paper is right or wrong is another story, but it maybe gives a start that everyone can disagree with.

John: Ilan, one of the things I like about the paper is this view of the future. I think you're right a lot of time now we're looking at past experience, dealing with the present, but it is important to look for the future.

What are some of the key predictions that you've proposed in your paper?

Ilan: Well that's actually John, my favourite section. It's the real crystal ball stuff and where there are no right answers or wrong answers, only some hopefully educated guesses.

If I maybe call out a few, some of the more interesting ones to me were this idea of how spending on life insurance will change, in particular calling out that that's potentially going to reduce.

Ironically, price might go up. The budget changes a few weeks ago are an example where we'll end up cutting off insurance for younger members and low income balances right and on the face of it, it's a great call, but those weren't the consumers claiming to the same rate, so the premiums go down but the overall pool of claims stays in the system, and from the people who were claiming before, which actually means prices rise for remaining members. So I have a particular worry about the backlash coming, you know when that all comes through.

Another interesting thing for me was about risk pools. I think our risk pools perhaps are heading for a bit of a breakdown. As asymmetric information becomes available, a good example recently: someone invented a test where you can check whether you've got diabetes on your Apple watch, you know with an 85% certainty.

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Consumers have all this additional information that's through genetic testing you know which can be done anonymously, it's off shore blood test etc and with this additional medical information, they'll buy up cover as they should do, and that's going to lead to a cost for the risk pool for the other members in the pool. And the high risk of course is that eventually healthier people as or if price goes up, healthier people leave the system and the costs spiral.

The third one maybe is interesting which is broader for the business models and who's going to win out and here I think that superannuation distribution where super funds are far more trusted brands will win out over of the life insurers. At the same time, I think that you know insurers, super funds and reinsurers will all creep into each other's value chain to grow and alongside all of this of course are new entrants that appear to target risk a different way, you know be it through data or their pricing strategy, are really going to disrupt the existing models. So those are just three sort of areas I could probably go on for a long while on my favourite section.

John: I'm sure you could but given that you've got a number of these proposals already how do you actually prioritise what the sector look needs to look at to overcome the present difficulties?

Ilan: Yeah, so that's a good question and I think the paper tries to simplify here to some extent and actually try to call out just four areas to start, and I would probably preferred three just to narrow it down even further.

The areas that are called out, these four were all through a consumer lens and all about:

- making life insurance easier;
- helping consumers understand;
- making it fairer; and
- fixing a unique problem in our industry around how you deal with old products and modernising them.

So, it's trying to almost suggest that there are four key areas that we could focus on, whether there are four I think will be the debate and hopefully that that's a really good thing, but not try and do everything. Focus on a few key areas which I think would make the majority of the difference going forward.

John: You chair the Life Insurance and Wealth Management Practice Committee (LIWMPC). How is the committee dealing with these issues? Is it following your lead to investigate emerging issues and try and tackle the problems?

Ilan: Well look that the committee is a big group of actuaries from all different areas I guess and you know we meet regularly we discuss all of these issues. One of the ways we've tried this year as a team to deliver more is to restructure ourselves to focus on specific areas, and what it means for the actual profession and for consumers. So working groups have been set up, where you know really we were inviting members to join these working groups which are going to deliver some of the papers to this one around specific topics over the year that that are relevant in this changing world, so you know just maybe if I can John, probably a

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good point to invite members listening to put their hands up and we could use all the volunteers we can get, and the more views that we get the better.

John: I'm sure there are plenty of willing volunteers out there Ilan. One big question though, is the sector capable of changing?

We've just recently seen with the APRA review of the Commonwealth Bank's culture that that's one of the big drivers in achieving reforms, you have to get the culture right.

What's your view of the profession, do you think it's up for the challenge?

Ilan: I'd have to answer that question as absolutely and there's never going to be a more exciting time to be a life actuary than the next few years coming. We've seen the world changing, we've seen our industry changing, we've got a bunch of new things that are going to be coming through because of all these changes over the next few years and what an amazing time to be an actuary where I can see you know life companies, other industries perhaps looking to us to articulate the consequences of these changes; unintended consequences sometimes; and how we might structure our businesses and products and the way we go about serving consumers in a different way.

As actuaries, that's right up our alley and I hope everyone's up for that challenge, it's very exciting and once we put you know some of these past challenges to bed.

John: Ilan, what can the profession do to facilitate this process?

Ilan: Let's try and be specific and in my view, we should be debating it and talking, but really at some point we need to stop talking and do. I'd love our profession and perhaps the practice committees to get behind three to four initiatives, and throw all our energy at making them happen. And maybe not these four, fine, but you know let's not create and try to live on a long laundry list. The way through is to take our company hats off and do this with an actuaries hat on. I talk in the paper about the quote that when your neighbour's house is on fire, it's in your interest to go and help put out that fire.

John: Good point. Just looking forward again, what sort of time frame do you think it will take to realign the industry to customer expectations?

Ilan: Yeah that's a tricky one. Lucky as actuaries we think about the long term or we train to, but consumers don't. So, right now, change is being forced on us and I expect a lot more to come out before the years up. The impact is that this realignment might lead to some unintended consequences. For me, it's something we don't have the luxury of waiting on. We have to be very clear and pick the key issues and make sure we're addressing them now.

John: Thanks Ilan, that's been a terrific presentation and on your final point I also encourage life actuaries out there who want to get involved in the work of LIWMPC to get in touch with Ilan. That's about all we have time for today in this episode. I hope you enjoyed the discussion, I really did. A big thank you Ilan, for joining us.

Ilan: Thanks John.

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John: Listen up for other episodes and papers in our Dialogue thought leadership series and head to the public policy and media section of our website for more of the latest research from the Actuaries Institute. You're listening to your Dialogue podcast from the Institute in Australia.

I'm John McLenaghan. Bye for now