Future of Life Insurance in Australia

Profitable growth in challenging times

Executive Summary

For an industry with a noble purpose, life insurers are doing it tough.

Life insurance plays a vital role in Australia's social construct, and in providing financial protection to those policyholders in need, it truly has a noble purpose. Indeed, with increasing pressure on government budgets and life expectancies extending, life insurance must play a greater role in our society.

Yet, for an industry that pays more than $8 billion[1] in claims annually, the life insurance industry is facing unprecedented challenges.

The public trust that is vital to the insurance model is a key issue on which the industry has found itself on the back foot. The industry is also seen as being one of the ripest for disruption. Non-traditional players are looking for ways to use technological advances to create more valuable customer propositions and greater efficiency across the life insurance value chain.

This is also a sector where legislative and regulatory parameters have prescribed the extent of the customer offer and where innovation has focussed around the edges of benefit design and distribution enhancements. Life products are typically long term contracts and yet the increased competition for customers is bringing a shorter term dynamic to life insurance business. Competition and the risks of first mover disadvantage around pricing on products which customers find hard to differentiate mean that the continued pressure on pricing and return of capital is unlikely to abate.

No more important time than now for focussing on one's strengths

Even with the noble purpose, in this environment life insurers can be forgiven for asking themselves: Is it actually worth being in the life insurance business?

The answer is 'yes'. But life insurers can no longer afford to be masters of all domains. We believe successful insurers must have absolute clarity around their purpose, intent, capability and ability to focus. With this clarity, the most competitive life insurers going forward will be the ones who have a focused way to participate in the market, a differentiated proposition their target customer values, and the capabilities to support their chosen 'ways to play'

This paper puts the case for why an increasing focus on strategic strengths will be key for life insurers competing to win in challenging times and proposes some critical questions to help life insurers shape this strategic focus. .

[1] $8.2bn in Death and Disability claims paid in 12 months to Sept 2016, APRA Life Insurance Statistics (Nov 2016)

1 Making sense of a changing market

The Australian life insurance sector has experienced steady premium growth of 12 per cent over the last four years, but has seen margins decline from around 15 per cent in 2010 to approximately 9 per cent in 2015.[2] While the importance of its role in Australian society remains, and could well increase, we believe that the future delivery of Australian life insurance will be shaped by changes to customer profiles, trust, regulation, technology, gradual integration with Asian economies and re-baselined economic expectations. These changes are discussed below.

The new customer profile

The customer base for the Australian life insurance industry is heavily influenced by two distinct trends – an increase in the number of older customers as well as tech-savvy customers, particularly millennials (i.e., those born after 1982).

The number of Australians over 65 is growing rapidly – between 2012 and 2025, it is expected to increase from 3.2 million to 4.9 million people. By 2050, more than 50 per cent of the Australian population will be over 40 years old, and a further 20 per cent will be 65 or older.[3] In China the expectation is 400 million people (30 per cent of the population) over the age of 65 by 2050[4],

At the other end of the spectrum, millennials are growing in importance. They are already one of the largest demographic groups in the workforce and by 2025, will represent 75 per cent of the global workforce. [5] Millennials are highly educated, care deeply about social impact, are accustomed to transacting online, and expect most transactions to be high quality digital experiences.

This bifurcation has profound impacts on how insurers position their brand in the market, their core value proposition and how they engage with customers. Insurers must be deliberate about which customers they target – focusing on the over 65 segment, for instance, will require tailored products to meet the needs of an ageing population, with their unique longevity and financial challenges. On the other hand, high quality digital experiences aimed at millennials require significant upfront investments to build infrastructure and a complete rethink of the current customer experience, but may have lower ongoing operating costs in the long run.

The issue of trust

A recent PwC survey demonstrated that Australian customers have high confidence in their ability to self-manage their finances. The same survey found that Australians generally understand the need for life insurance, and believe they have adequate coverage. However, as a population, Australians are in fact underinsured – a life insurance premium as a proportion of GDP is much smaller than in comparable developed countries (e.g., 1.5 times smaller than in Sweden, and 2 times smaller than in Japan). The survey suggests that the underinsurance gap could be due in part to

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2 *Credit Suisse Life Insurance Report*, 2015

3 Most recent *ABS Population Projections, Series B*, published November 2013 (projections from 2012).

4 UN Probabilistic Projections based on *World Population Prospects: The 2015 Revision, 2015*

5 Forbes Workforce 2020: What You Need to Know, *May 2015*.

the perception by consumers that life insurance is a low engagement purchase, but it may also be a consequence of a lack of trust and product complexity.[6]

A Kenyan telecom company entered the "banking" industry based on customer trust in its brand and the breadth of its network – today, there are nearly 18m active customers and daily transaction value equals ~$200m

It is easy to see why a natural human scepticism might affect trust in life insurance – for example, "why pay premiums for a low likelihood event in the future, and even if it occurs will they pay?" Exacerbating this sentiment, media investigations have led to perception of serious cultural problems, and regulatory pressures have increased. Trust in life insurance remains an issue no one has addressed – the same survey found that while 78 percent of Australians view life insurance as important, only 42 percent believe their life insurer will be there for them in their time of need. Several recent high profile reputational scandals have only widened the gap between insurers and customers when it comes to trust and responding to these concerns remains a near term focus for several insurers.

The challenge is exacerbated by customer centric businesses in other sectors that have their customers' trust. Life insurance, which lacks the supply chain complexity of general insurance, might be easier to disrupt, if one has the capital. The imperative for life insurers to claim back the mantle of trust has never been stronger.

A more progressive approach to regulation

As the level of regulatory intervention in the provision of financial services continues to increase, this will have a correlated impact on the life insurance sector. Proposed changes include standard terms for life insurance products, the elimination of exclusions from fair contract protections, and the capping of sales commissions.

In addition, the Financial Services Council's Life Insurance Code of Practice aims to commit insurers to a higher level of service in order to increase trust and confidence in the industry, while encouraging greater transparency for life insurance products. The code came into effect in October 2016, with a transition period until June 2017.

These changes are likely to have a direct impact on existing business models, particularly in relation to distribution and revenue streams. Furthermore, policy setters, insurers and individual players have a critical role to play in tackling underinsurance (and ultimately growing the sector). There is a need for these parties to come together and co-develop their future propositions – and through this co-creation process, insurers will be better placed to update their distribution and pricing models, and demonstrate their commitment to increasing transparency.

Each life insurer must decide how they respond to the introduction of the new Code of Practice. Tempting as it may be to respond with targeted, compliance-driven interventions, there are greater competitive advantages for those who chose a more progressive response. We believe that more holistic responses are likely to drive positive, enduring impacts on the trajectory of an insurer's premiums, claims and operating expenses.

Technology – Disruption and innovation

A UK based start-up is using wearable technologies and superior digital experiences to capture and use data to simplify underwriting and reduce premiums

Life insurers have traditionally been slow to adopt new technologies, but rapid improvements are transforming the industry and forcing participants to confront change. However, a recent PwC FinTech survey showed that while nearly 75% of insurers believe that some part of their business is at risk of disruption, almost a third did not deal with FinTech at all[7].

While regulatory and capital barriers limit the impact of 'standalone' FinTechs, the marriage of such capabilities with a successful backer who brings in capital, willingness to meet regulatory hurdles, a recognised brand and customer trust could significantly disrupt the sector (*and many would argue that the likes of Apple, Amazon and Alibaba are all successful businesses with capital and customer trust*).

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6 PwC survey of 2,002 respondents (representative sample of Australia), April 2016.

7 PwC Global FinTech Survey, June 2016

Irrespective of the source of the disruption, in coming years life insurance will make a fundamental shift from being a risk- and process-based business to one oriented around digital capabilities, data and insights, and one where digital plays a critical role in customer engagement.

Developments in analytics, wearable devices, connected health, and artificial intelligence will increase the breadth of insights that can be generated. PwC's Life Insurance Survey in 2016 suggests that certain customer segments could be more interested in products that include health-related propositions (*e.g., gym membership, premium discounts for leading a healthier lifestyle that is measured by a wearable health tracking device, etc.*) and that similar offerings to existing clients would increase customer engagement.

Digital technologies pose a slightly different but equally significant opportunity from a customer perspective. The incorporation of digital solutions – underpinned by analytical models – can result in a better client experience and an opportunity for better touch points in a business where experience delivery has historically been oriented around only two events: purchasing and claiming. Such approaches will be critical to building sustainable business with digitally savvy millennials over the long run.

Many insurers are starting to use analytics based insights and robotic process automation to enhance internal operations and some are exploring ways to use analytics to improve staff engagement and well-being.

Few doubt the breadth of technology and digital disruption that is likely to occur in the coming years – the question for life insurers is whether they can demonstrate the agility needed to adopt these technologies or quickly partner with FinTech players to rapidly build capabilities and leapfrog the competition.

A Japanese life insurer recently used analytics and machine learning supported automation to rethink core processes that calculate payouts to policyholders

Australia in the Asian Century

By 2050, 52 per cent of the world's GDP will be in Asia, the majority of which will reside in Japan and China[8]. As such, Asian markets represent both opportunities and threats for Australian insurers. Japanese and Chinese firms will continue to seek higher yields and capability overseas. Their deep pockets enable them to invest while weathering short-term pressures and their participation is likely to increase as the Australian Free Trade Agreements with China and Japan mature.

Alibaba recently opened its Australian headquarters in Melbourne – how long before it follows it's (highly successful) China strategy and starts using its platform for financial services products?

Already, foreign players – particularly Japanese ones – are having a significant impact on Australia's life insurance industry. These entrants have access to large capital pools, are used to operating in a low-yield environment, and possess extensive claims management expertise. This, combined with their willingness to focus on longer term gains, suggests that the market dynamic could be shifting towards a greater emphasis on competitive pricing and increased customer churn.

The greater opportunity, however, is in exchanging knowledge and capabilities across markets. Australian insurers can learn valuable lessons from their Asian counterparts on disrupting traditional markets, multi-format and -channel distribution models, and product innovation. In exchange, they offer a wealth of information on customer centricity, risk management, and fulfilling the social contract with customers.

Recalibrating economic expectations

More so than many other industries, life insurers are subject to macro-economic vagaries beyond their control – interest rates, exchange rates and investment returns. While underlying drivers may appear positive – affluent society, longer life expectancy, stable economic conditions – this masks a degree of uncertainty, volatility and competitive dynamics that are rebasing economic assumptions. Compounding all of this are customer expectations of limited premium increases –

[8] Asian Development Bank, *Asia 2050: Realising the Asian Century,* 2011

though there is some evidence to suggest this is merely cyclical. The successful insurer of the future will therefore need to be selective about where and how they will derive value to realise above average returns.

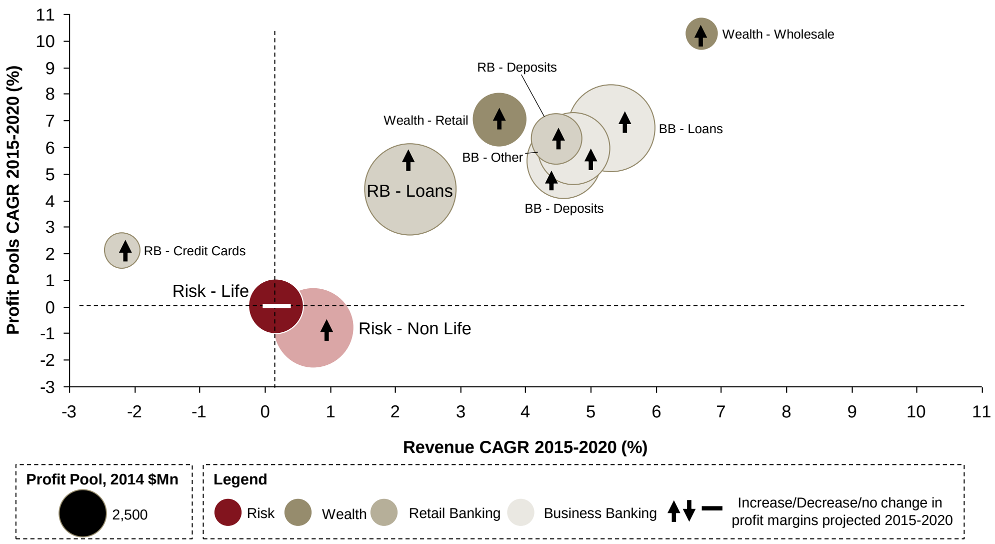
The impact is already being felt from a return on capital perspective in the life insurance sector which is likely to rebase from the current ~13 percent to ~10 percent due to changes in competitive dynamics. Consequently, some insurers are likely to reallocate capital to more profitable parts of their portfolio, such as asset and wealth management or into other geographies to meet shareholder expectations.

We are already seeing warning signs – Standard & Poor's recently downgraded its long-term ratings for Colonial, OnePath Life and Westpac Life from AA- to A+, reflecting its view that the strategic links of these companies to their parent banks are weaker than previously considered (ANZ, for instance, has publicly announced its desire to sell its life insurance business).

The outlook remains subdued for other key profitability drivers. Competitive pricing and affordability considerations are likely to place a natural limit on premium growth. Investment income is likely to remain volatile and Australian insurers are still in the midst of reinventing their claims philosophy and approaches to meaningfully claw back claims costs. Complex operations and legacy systems coupled with limited transformative investments drive structurally higher cost bases. The only silver lining is the regulatory focus on sales commissions aimed at limiting payment growth and adviser led policy churn.

Against this backdrop, the prospects for revenue and profitability growth in the life insurance sector are lower than for other Australian financial services sectors.

Figure 1: Estimated changes in profitability in financial services, 2015–20



Sources: PwC, APRA, RBA, Rice Warner, Strategy& Analysis

In this environment, life insurers face a choice between tinkering with the business, refocusing to drive sustainable step changes in economic benefits, or exiting the industry – and this choice is particularly acute for subscale players or those who have the option to deploy capital more effectively (i.e. banks and multi-national insurers).

Consolidation amongst smaller players, simplified product portfolios, analytically enhanced underwriting, aggressive pricing and token investments into lower cost channels are likely to manifest as short term responses to the economic challenge. Our view is that while these are valid short term responses, without a corresponding focus on the insurer's identity and capabilities, these benefits will not be sustainable.

Irrespective of the choices life insurers make on where to focus, those who stay will do so because of clarity on their purpose in providing a critical service and confidence in their ability to meet evolving customer needs.

2 *What does the future life insurer look like?*

One thing that will not change is the core purpose of life insurance – to protect customers and offer them peace of mind in their time of greatest need. To do this, the successful insurer of the future will combine skillsets, processes, mindsets and technology to create unique capabilities to provide customers with a clear point of difference – they will have a compelling way to play. If they fail to integrate these disparate parts into a coherent customer offering, current players will struggle in the new, ultra-competitive environment.

We have already discussed the challenges in today's life insurance markets – new customer demographics, ongoing trust issues, heightened regulation, foreign entrants, technology and innovation exacerbating competition. All of these points to further pressure on profitability, and the task of retaining a positive balance sheet may simply be too challenging, particularly for smaller players, who may be forced to exit the market.

For those that remain, establishing and retaining the trust of their customers will be critical to their success. Regulatory oversight will continue to intensify, as regulators focus on conduct in addition to financial risk. This in turn will lead to an increase in compliance costs for insurers (to varying degrees depending on the level of scrutiny).

As the market continues to evolve, the differences between segments will become starker. While the retail segment has grown by about 8 per cent over the last five years (albeit with declining profitability due to the increase in claims) we expect the pace of growth to taper – driven by declining adviser numbers, an increased focus on sales compliance and overall market saturation. Growth rates in the group segment will also slow as it, too, sees an increase in competition – particularly from industry funds seeking to provide customers with self-manufactured life products.

Above system growth in the future will come from break-out areas. Those who innovate around customer solutions, as well as those who co-create distinctive propositions in partnership with policy setters and third party providers will earn the customers' keep. At a minimum, insurers need to be much more disciplined on aligning how and where they deploy capital with their business model.

A California based life insurer is using a digital and mobile centric proposition oriented around a simplified under-writing process and permissible data sources to redefine the notion of an insurance ladder – scaling cover to match short term needs becomes a lot simpler.

Simpler, leaner and more innovative

Gone are the days when an insurer could be all things to all people. The successful insurer of the future must be extremely focused – both in terms of which markets / segments they compete in, and the specific capability set they will need to differentiate in those markets. This is also essential to addressing the affordability challenge that must be met in tackling underinsurance and low penetration.

They will take advantage of the new opportunities that arise from the blurring of traditional geographic boundaries as well as the capabilities that can be imported from other markets. Already we have seen the Asian financial services industry draw on the technologies and innovations of companies like Alibaba with direct-to-customer models and customer engagement platforms.

Additionally, the insurers who can work with policy setters and third parties to co-develop changes and take a lead in updating their distribution and pricing models will be better placed to gain the trust of their customers and establish an advantage over their competitors.

'Table stakes' capabilities for insurers

Operational, structural & regulatory challenges are all contributors to the compounding pressures on profitability. The challenge remains to stay diligent around the effectiveness of an organization's "table stakes" capabilities to deal with these pressures. Operational challenges (historically attributed to poor systems, processes, data quality and analytics), the impact on claims experience, and structural challenges from high lapse rates driven by adverse adviser incentives are all collectively impacting P&Ls. The result – profit pressure, accelerated DAC write off and increased capital drag.

We have identified five 'table stakes' capabilities that are essential to competing successfully in this market and mitigating the operational and structural challenges that are dragging on sector performance. They are not in themselves a prescription for creating sustainable competitive differentiation, and every insurer possesses these to some degree. However, most have struggled to master the execution of each, particularly trust, claims management and analytics – areas where insurers have previously expended significant effort with varied results.

Figure 2: Table stakes capabilities

What it looks like

- Mechanisms in place to consistently capture and disseminate customer insights
- Clear organisational focus on a differentiated customer value proposition and engagement
- Common understanding of the customer – that staff apply in their day to day activities
- Understanding value in varied customer groups
- Use of insights to improve operations across the board (e.g. lapse rates)

What it looks like

- Greater accountability for value creation and management – end to end view
- Management / leaders understand value drivers and their business impacts
- Increased focus on measures like Embedded Value to holistically manage the business
- Common information and reporting infrastructure

What it looks like

- Consistent view of customer, operational and financial data from a range of sources – 3rd parties, transactions, interactions, wearables,
- High degree of data quality and model fidelity, with strong governance in place for ongoing innovation and management
- Analytically minded staff who are able to collaborate with analytics teams and confidently derive insights to make business decisions

What it looks like

- Clear communication of brand and insurance promise to customers
- Transparency and high level of responsiveness in critical customer facing activities (e.g. sales, claims)
- Highly skilled and empathetic staff who can consistently execute complex activities
- Staff and customers are clear on how a culture of integrity is brought to life

What it looks like

- Proactive management using a variety of tools and data
- "Designing in" controls and feedback loops for key processes
- Ensuring clear accountability for key processes – including for risk management and customer outcomes
- Staff able to assess and trade-off multiple dimensions of risks – financial, customer, operational – to drive customer outcomes

Any insurer hoping to compete effectively must achieve at least a moderate degree of competence in each of these 'table stakes' capabilities. There is no 'right' configuration, as the degree of competence (and degree of focus) will vary according to the strategic choices of the insurer.

Archetypes for the life insurer of the future

Today's life insurer would typically identify themselves either as a 'group' player and/or a 'retail' player, with distribution models largely driven by either group superannuation affiliations and/or advised relationships either through independent or proprietary channels. However, to create sustainable differentiation and to become a successful insurer of the future, insurers will need to think critically about what type of organisation they want to be and not just orientate their identity according to a product category classification.

It is clear that what makes an insurer successful in the future will be different from what has brought them success in the past. They will need to be a lot more digital in how they organise their businesses and engage with customers. They will need to be a lot more analytically driven and diligently manage for value across the business. They will need to rethink the role of analytics and organisational culture in managing risk, and the steps they will need to take to build back trust with customers and the market. This is a tall order, but all of these are only the 'Table Stakes' capabilities required to participate in this industry.

To differentiate in the market and create sustainable, above average growth insurers will need to be a lot more focused about how they participate in the market. To this end, we have identified seven likely archetypes (noting that many come with preconditions that impact their efficacy and likelihood of success). For example, an insurer who chooses to become a Distribution Specialist would no doubt be aided by existing distribution assets (*e.g. banks*) or by the institutional knowledge to rapidly scale distribution through partnerships (*e.g. telcos*). Similarly, a Market Extender would benefit from a strong brand that customers identify with across categories (*e.g. an airline's frequent flyer program*).

We also note that the archetypes we have outlined may not be a perfect fit 'out of the box' – they will likely need some refinement based on the specifics of an insurer. However, what matters most is that each insurer is clear on their identity – *i.e. why would a customer give them their next dollar* – and the resulting archetype and capability set that will help them win and own that customer relationship. The main 'Ways to Play" (and examples of how they could transpire) are outlined below and Table 1 overleaf outlines our perspective on likely accompanying capability sets.

Table 1: Ways to Play for the life insurer of the future

'Way to Play' and Key to Value Capture	What Could This Look Like?	Key Differentiating *and* Critical Table Stakes Capabilities
Solutions innovator Develop innovative solutions that are easily understood by customers and the intermediaries who help distribute them	*A life and health insurer working together to develop solutions that encourage and reward healthy lifestyles*	• **Solution innovation**: the ability to innovate beyond incremental changes to products and value-added services to meet customer needs and paradigm shifts • **Selection and pricing**: the ability to leverage analytics to improve customer selection and pricing of risk • **Product economic management**: the ability to account for economic trade-offs across solutions and manage for complexity in a deeply innovative business
Table Stakes Capabilities Value Management · Trust · Risk Management · Analytics · Customer Centricity		
Segment specialist Focus on risk selection and persistency management – for a particular type of customer or segment to maximise profits over the customer life cycle	*An insurer and the government work together to develop income oriented solutions for an aging population*	• **Solution innovation**: the ability to innovate beyond incremental changes to products and value-added services to meet customer needs and paradigm shifts • **Selection and pricing**: the ability to leverage analytics to improve customer selection and pricing of risk • **Deep Customer Insights**: the ability to truly understand customers within particular segments and ensuring that this insight guides daily actions
Table Stakes Capabilities Value Management · Trust · Risk Management · Analytics · Customer Centricity		
Market extender Efforts to increase customer loyalty and advocacy to ensure brand "travels" to adjacent markets	*A non-insurer using trust and the strength of their brand to enter and disrupt the life insurance market*	• **Brand**: the ability to stand out in a crowded market with a clear position • **Customer engagement platform**: enabling customers to engage with the insurer and partners within the platform to satisfy their needs • **Partner Management**: the ability to engage and manage third parties whilst expanding into adjacencies • **Customer insights**: a deep understanding of customer behaviour and unarticulated needs to identify suitable solutions
Table Stakes Capabilities Value Management · Trust · Risk Management · Analytics · Customer Centricity		
Distribution specialist Engaging customers at the right time and manner. Managing economic trade-offs across channels and distribution partners	*A retailer using their channel reach and footprint to offer life insurance to existing customers and attract new ones*	• **Privileged access**: the ability to reach a wide range of customers through a number of different channels • **Product configuration**: to enable a base set of products to be easily packaged for different channels; advanced architectural expertise • **Partner management**: the ability to engage and manage allied parties as well as independent agents who distribute the product • **Brand**: the ability to clearly position the brand to ensure a clear and consistent message from insurer to customer (via distributor)
Table Stakes Capabilities Value Management · Trust · Risk Management · Analytics · Customer Centricity		

'Way to Play' and Key to Value Capture	What Could This Look Like?	Key Differentiating *and* Critical Table Stakes Capabilities
Regional Diversifier Ensure clarity on decision rights to fully realise scale benefits across geographies (e.g., avoid duplication)	*An established insurer using common processes and methods to create scale and diversify risk across the region*	• **Operational excellence**: scale in common processes across geographies to drive scale benefits, combined with clear decision rights • **Brand**: a consistent brand promise across geographies that further enables commonality • **Capital management**: the ability to deploy capital across geographies or markets to maximise returns
Table Stakes Capabilities	**Value Management** · Trust · **Risk Management**	Analytics · Customer Centricity
Scale player Ensuring critical mass and scale for key processes and activities within chosen field (e.g. share of a particular market, scalable claims processes, etc.)	*An established insurer investing in scalable core systems to enable easy product innovation*	• **Flexibility**: the ability (particularly in systems) to easily scale the business • **Operational efficiency**: to efficiently and effectively scale back office processes and claims management • **Product innovation**: the ability to continue product innovation without adding to the burden of legacy systems / complexity
Table Stakes Capabilities	**Value Management** · Trust · Risk Management	**Analytics** · **Customer Centricity**
Back book aggregator Portfolio selection – being clear on which portfolios are an operational fit and value in them (i.e. integrate and operate portions of books more efficiently than incumbents)	*A private equity house using sophisticated analytics to cherry pick attractive backbooks*	• **Superior Product Administration System**: PAS needs to be flexible enough to allow multiple legacy products to be consolidated within the same system • **Product economics management**: including the ability to manage trade-offs across product types, and manage persistency • **Capital management**: including the ability to raise and deploy large amounts of capital to secure advantageous portfolios
Table Stakes Capabilities	**Value Management** · Trust · **Risk Management**	**Analytics** · Customer Centricity

3 The way forward

What does this mean for Australian life insurers?

In the past, insurers have tended to apply a very traditional model to generate revenue – they identify value pools (typically focusing on the largest ones), then develop a structure that is oriented around the channels and segments of these value pools, all under the mantel of being a 'group' or 'retail' life risk player. While this approach may have worked well in the past, it is unlikely to be a successful formula for the future where a life insurer's identity and focus will matter immensely.

When we looked at the players in the Australian life insurance industry, we found few players who were clearly articulating what they stood for, how their brand was positioned, and how they were differentiated in the market. Many players had a mix of business models which would result in competing interests when it came to prioritising capability builds.

As we have highlighted in this report, more than products or processes, the successful life insurer of the future will be defined by their identity and purpose, how they choose to participate in the market, and the capabilities they invest in to create sustainable differentiation. Undoubtedly, this will entail some strategic repositioning and a combination of the many tools that insurers continue to explore (digital, analytics, risk management, etc.).

What is critical is that each insurer aligns on an identity, focuses on how they will participate in the market and build specific capabilities to aid differentiation – i.e. what is the right combination of a process, supporting tools, the right talent and information flows to help ensure the company can differentiate with customers.

What stems from this is a set of investments to reposition the business and build new capabilities – examples of these might include an operating model that aligns strategy and activity, increased use of analytics to improve the fidelity of common processes, increased focus on customer engagement through HCD and digital means, a renewed focus on organisational behaviour to drive collaboration and performance, etc.. We have no doubt that most insurers have pursued some combination of these over the years.

We have even less doubt that few companies have pulled this off successfully – the challenge now for life insurers is to maximise the impact of investments to reposition their businesses at a time when the industry is under pressure from multiple factors. This is a tall order.

Important next steps

In our experience, companies that transform successfully are clear on their strategic intent and a high degree of change readiness. What we have also experienced is that organisations – *including those in other industries* – embark on transformative programs before being clear on their purpose, how to participate in the market and the capabilities they need to do so. More often than not, the investment is wasted.

The first step for life insurers – therefore – is to be clear on their strategic intent before pursuing function or business unit specific strategies (e.g. an analytics strategy, new claims models, strengthening risk management, etc.)

Given the challenges and current state of the industry as summarised in this paper, all life insurers should use 2017 to reassess their readiness for the future by answering five fundamental – and inter-related – questions:

- *Are we the natural owners of this business?*
  Natural owners are those who have clarity of social and organisational purpose, enduring capabilities that enable ongoing differentiation and financial resources to maintain rapidly evolving 'table stakes' capabilities? These beliefs about 'natural ownership' may be challenged by factors such as timing, market context and economic expectations, and is the first hurdle that life insurers must cross
- *What is our strategy and is it differentiating?*
  Long term participants know their purpose and are able to communicate their strategy. A much smaller group is able to consistently articulate a strategy that can build lasting differentiation and position the business uniquely in the market. Going forward, insurers must ask themselves "*How will we differentiate in a changing market*" and also if their leadership is collectively aligned on the "right answer" for the organisation.
- *Are we clear on how to capture value?*
  Are you and your team clear on where and how we are going to focus in the market? More importantly, are you confident you have a sufficiently different proposition to make customers want to give your their next dollar?
- *Do we have the capabilities to compete effectively and differentiate?*
  What are the limited number of capabilities where we will overinvest and what it is that we will stop doing? Are we collectively aligned that these are the right capabilities to drive sustainable differentiation?
- *Are our people up for the challenge?*
  Engaged staff are at the heart of a successful life insurer – future models place a higher emphasis on talent and staff collaboration in service of the customer. No doubt, repositioning the business causes significant change and disruption. How ready are your staff for the change – not just in terms of being emotionally bought in to it, but also in terms of having the hard and soft skills to succeed in what could be a very different business?

Once the leadership and the rest of the organisation are aligned on the answers to these questions, focus can then shift to addressing current challenges in the context of long term strategic intent. We believe that the outputs from answering the above questions will help lay the essential groundwork for these strategic choices which in turn will drive more focus (*i.e. less wasted investment, better execution*) on key decisions such as:

- What functions, systems and activities should be insourced v managed v outsourced (including decisions on what parts of the back-book can be economically administered in house vs. outsourced)?
- What partnerships and joint ventures are key to delivering best of breed execution on the chosen way(s) to play?
- What talent and capability is required to lead through change towards a refocused business?
- How to strengthen your organisation's identity and perceptions of trustworthiness among customers, regulators and communities?
- What data is critical, how to capture, maintain and use it with agility and to best advantage to support your strategy?
- How will your organisation remain aligned yet agile around its mission, opportunities and risks in turbulent times?

We recognise the burden of addressing current challenges – *growth, strengthening risk management, maintaining profitability, remediation, etc.* – whilst rethinking a business is not easy. However, for typical life insurers operating today, repositioning business to drive sustainable, long term value in tomorrow's world will require greater strategic focus and choices than in the past.

We are convinced that life insurance is a sector with inherently attractive characteristics, yet for incumbents successful on-going participation will require challenging some long-held beliefs. Ultimately, the successful insurers of the future will be those who are able to make a coherent link between their identity, their unique and more granular 'right to win', the differentiating capabilities they develop, and the specific markets in which they choose to compete.

This is the year Australian life insurers must decide what they want to be and how they will participate in the market.

4 About PwC | Strategy&

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