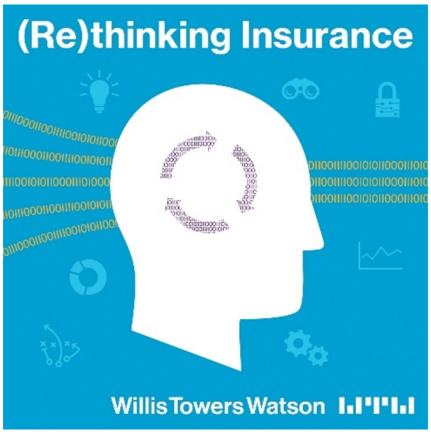

Episode 8: COVID-19 adds some new twists to pricing protection products

[MUSIC PLAYING]

ALASTAIR BLACK: We've already seen protection providers gain value from using more automation, more analytics. And that's only going to be accelerated by the events of the last year.

NARRATOR: You're listening to (Re)thinking Insurance, a podcast series from Willis Towers Watson where we discuss the issues facing P&C, Life, and composite insurers around the globe, as well as exploring the latest tools, techniques, and innovations that will help you to rethink insurance.

[MUSIC PLAYING]

[MUSIC FADES]

CARRIE KELLEY: Hello, and welcome to (Re)thinking Insurance. I'm your host, Carrie Kelley. Today I'm delighted to be joined by my guest Matthew Edwards, a director out of our London office. Hello, Matthew.

MATTHEW EDWARDS: Hello there. Great to be here. And thanks very much for inviting me.

CARRIE KELLEY: All right. And Alastair Black is also a director out of our London office. Welcome, Alastair.

ALASTAIR BLACK: Hi, Carrie. Thanks. It's a pleasure to be here.

CARRIE KELLEY: In today's episode, we're going to be discussing the article "COVID-19 adds some new twists to pricing protection products," authored by Matthew and Alastair. The article discusses the challenges that companies may face pricing and issuing products during the pandemic, while also seeing increased interest in protection products.

But before we get into that, the first thing we like to do on this podcast is ask our guests if you google yourself, what would the search come back with? And what would you really like it to come back with?

So starting with you, Matthew. If I google you, with the caveat that I'm in the US-- in Atlanta, Georgia specifically-- actually get a soccer, football player for our Atlanta United team. How close is this to reality?

MATTHEW EDWARDS: Yeah. I guess I should say that it's not the same person, despite my incredible football prowess from playing once every 10 years. So a long way from reality, which is no doubt good for the world of football.

CARRIE KELLEY: All right. And what would you actually like to see come back, related to your name or the actual you?

MATTHEW EDWARDS: Yeah. So the actual me and my dreams, if you like.

Well, it's quite boring googling me because I've got a bit of a common name. But if you go through enough pages, you end up finding a fun or strange book I wrote many years ago called Archibald and the Killer Daffodils, which then ties with one of my semi-aspirations, to instead of being an actuary, to be a writer and to write books that probably nobody reads. And to be even more extreme than that, instead of just printing them normally, to write them out longhand with fun calligraphy pens.

So probably nobody would read them because I'd never get around to getting as far as the last page. Anyway, that's a sort of semi-ambition.

CARRIE KELLEY: Nice. Well, maybe this podcast will help increase your readership by one or two.

[LAUGHTER]

All right. So Alastair, if I google you, the results were incredibly helpful. The primary returns in the US, at least, are-- let's call it some Friends Supernatural fan fiction. So are you actually moonlighting on Matthew's dream and writing fan fiction about yourself?

ALASTAIR BLACK: Not in this podcast. Maybe in the next one it might be a future topic.

CARRIE KELLEY: [LAUGHS]

MATTHEW EDWARDS: We could team up.

ALASTAIR BLACK: [LAUGHS] I tried this. And the first thing Google asked was, are you sure you can spell Alastair? Which is a fair question.

And then it came up with a professional WWE wrestler from the Netherlands called Alastair Black, which isn't quite me. I don't quite have the physique for that.

If you try a bit harder and put in "Alastair Black Willis Towers Watson," you start to get to some of the articles I've written.

What do I wish it came back with? Well, my dream job would be to be a international football, or soccer, commentator. So perhaps commentating on Matthew Edwards.

But in particular, based in South America, so I could see some great places. And I could be one of those very passionate commentators who, whenever there's a goal, screams at the top of his lungs, "Goooal!"

So that would be my dream job. And yes, this is a very close second. Very close.

CARRIE KELLEY: Well maybe someone will hear you yelling "Goal!" on this podcast and call you up for your dream job. You never know. Could be a gateway.

All right. So thank you for that. Let's get into discussing your article. And I guess specifically, the article discusses the increased interest in protection products within the COVID environment. What do you think are some of the opportunities and risks related to this? And maybe, Matthew, you can start.

MATTHEW EDWARDS: Yeah, sure. It's actually been a very strange year. I think at the start of the pandemic, everyone was worried that sales were going to go off the cliff.

What's in fact happened-- and to some extent, this isn't all that surprising-- is that sales in some types of protection products have actually gone up, because clearly, people have realized-- as the horror of the pandemic spread, people became more aware of just the basic risk of mortality, which I think we tend to shove under the carpet.

And so some types of protection insurance sales have increased. I think Royal London in the UK said their protection sales have gone up by 15% in the first half of last year. And there's been a general-- signs of similar trend in many other firms. So that's clearly good news.

On the other hand, protection businesses has generally been sold a lot on the back of mortgage transactions. When you buy a house with a mortgage, you'll have a protection policy to cover you in the event of an unfortunate death, leaving your family owing lots of money on the property. So that business has declined a lot, partly because-- mainly because the business, the property transactions themselves, have declined a lot. So that's not all one way up.

And then also some other forms of protection business, such as income protection-- which is workers' comp, effectively, in a US context-- has gone down for many providers, certainly because of the economic shock. And people have just haven't had the jobs to require them to be insured against accidents on the job. That sort of dynamic.

ALASTAIR BLACK: And we've also seen, particularly when the pandemic first hit, there was a big rush to get existing protection products through the pipeline, which led to increased sales.

And it was also-- we've seen this in a few markets, a trend where there was concern about whether physical medical examinations or physically getting hold of doctor's notes would be possible.

So there was an increase in customers choosing maybe slightly lower limits to avoid that, and have just a slight change in the market there, and obviously insurers reacting to that to try to find ways to still sell that business, even though there was a risk that it'd be harder to get hold of doctors' records.

CARRIE KELLEY: That makes sense. So yeah, I guess to go from there, COVID certainly puts more stress on the need to automate things such as the underwriting process, avoiding sending people out to doctors, or out to have to collect certain information, and then just generally being able to have agility in assessing risk around the still-unknown COVID mortality risk. But the movement away from physicians' statements and having more agility around risk, that isn't necessarily new because of COVID, is it?

MATTHEW EDWARDS: No, it's not new, certainly. I mean, everyone's been conscious and aware of it. It's good to have the agility. But it has been, to some extent, for many firms, I think, more of an aspiration than something they were really getting on board.

And one thing that's been strange about the pandemic is it's the classic example-- although people use the phrase "black swan" a lot, it's really the classic example of what's called a "gray swan." In other words, it's not in any sense an unknown unknown. It's something which everybody knew that there would be another pandemic at some stage, 10 or 20 years. And it's just been this year as opposed to some other year. So it's not as if firms could not have prepared for it.

So it's taken us all by surprise, despite the fact that it shouldn't have done. And with that surprise, I think firms have realized they often didn't have the agility they needed to have. And they've been making some sensible, pragmatic variations to procedures to allow for what was known at the time.

So for instance, I think Alastair was mentioning medical litmus and so on. So that's one good way to get around the logistics problem that you can't easily go off and visit your doctor for a medical report is simply to increase the limits whereby you need a medical report, or just stop selling business above that limit. That sort of thing.

So there's that aspect. And then the other interesting aspect created by all of this is thinking through your underwriting questions. How do they change in the light of COVID-19?
Well, clearly, one big thing that's going to be on everybody's mind from now onwards is the vaccine. If you've been vaccinated, then are you now a lower risk? Well, clearly, you are lower risk. And otherwise we wouldn't have the vaccine.

But are insurers actually going to want to use that as an underwriting question? It's the sort of thing where you want the agility to be able to use that.

What one survey I saw from the US market was saying that on the whole, insurers were not intending to have that as a question for various challenges it poses, but also for the younger ages, which are typically the ages where protection business is sold. The mortality risk is so low from COVID-19 that it may not be a material thing. But interesting question.

ALASTAIR BLACK: Yeah. And we saw a rush and need to add an underwriting question related to COVID towards the start of the pandemic, which some firms were able to do quite easily. For some firms, that was really hard to do. I think that really highlighted-- it was a really good use case of, is the underwriting process sufficiently agile to cope with big changes in the market?

CARRIE KELLEY: OK. So then knowing that these-- especially around the agility in assessing risk that has been a topic in the industry for some time, and I think many companies, we believe, have the tools they need to implement agile underwriting or even advanced analytics programs to help with some of these issues, are you seeing more companies push forward with the advanced analytics programs with the additional pressure from COVID?

ALASTAIR BLACK: Yes. This is definitely-- you're right-- something companies were already exploring and investing in pre-pandemic. And some of them already had the tools. The tools and techniques exist.

But like across a whole range of aspects of our lives, the pandemic has accelerated trends that were already happening. So more of us are working from home more of the time. There's been an increase in online shopping.

And that's no different for the insurance sector. It's increased the use of automation, digitalization, and getting that agile underwriting and onboarding new business. That's all been accelerated, too.

Well, we recently ran a predictive analytics survey based in Europe, which we might elaborate more on in another podcast. But just to bring out one interesting snippet from that, we asked life insurers whether the pandemic had changed their plans for the use of advanced analytics in the future. And we actually asked that with a bit of trepidation because we thought some might say the experience now and in the future is so different from the past that actually, we might use less analytics because the past data was less reliable.

But that wasn't the case at all. No one said they plan to use less analytics. Many said the same. Quite a few said they plan to use more analytics. In particular, a third of multinationals, who tend to be at the leading edge of analytics use, said they had increased their plans for analytics use.

And I think the driver of that has been, as we just mentioned, that need for increased agility, the increased digitalization of a lot of the sales process and the customer interaction. So that increased data has all further driven the need and the benefit from using analytics.

MATTHEW EDWARDS: And there's a very interesting thing coming out of the last year, I suppose. It goes on top of Alastair was saying, which is this word which has been much used, the word "resilience." So the big challenge for insurers of surviving as insurers, as functioning insurers surviving the pandemic has been this idea of how resilient are your processes, whether it's the process of underwriting business, or doing the financial reporting, or analyzing the experience?

And the more firms were already automated, the more resilient they've been. So that's certainly a very good use case for being better prepared for more automatic procedures around your analysis and feeding those into the underwriting procedures.

And then there's also the interesting point that insurers have not fared as badly as many more have. So we're in a market where there's still everything to play for. Times are clearly a bit tougher.

But we can still compete on the cost, on the price we charge for the underlying risk, and try and find other ways to compete, such as better use of analytics, too, to get a better picture of customer behavior. So everything is actually pointing in the direction of more, as opposed to less, use of analytics, and potentially in a more automated way.

ALASTAIR BLACK: And with that increased awareness-- Matthew mentioned previously of the value of protection products. Again, that's another reason to be optimistic and for companies to try and push forward that use of analytics to increase their market share, perhaps, amongst new segments of the market who previously hadn't thought of insurance. There is definitely an opportunity there.

CARRIE KELLEY: That makes sense. So I think many of the people listening to an insurance podcast are going to be aware of the benefits of advanced analytics. And you list a number of those in your article, particularly from the pricing and underwriting perspectives.

One of the things I thought was interesting in your article that I don't think has been pushed to the forefront much is, especially in the uncertainty around the COVID environment, the feedback loop and how analytics can help with that. Can you talk a little bit about that?

MATTHEW EDWARDS: Mmm. Yeah, sure. It's often, I think, taken a bit for granted. Or people think it's obvious, or they know all about it, which hopefully, the concept is obvious and well-known.

But the point, I think, in the pandemic and post-pandemic, becomes more important. And then the basic concept in this context is once you've written the business, you need to be monitoring what's happening to that business you've written. And the lessons you learn from any of that monitoring should then be able to feed quickly into potentially revising your pricing basis.

But there's a particularly interesting thing here, going back to something I think we've now already touched on twice, is that we're getting, with a pandemic, a slightly different, or potentially very different segment of new policyholders who may not previously have been interested in life insurance, as many people are not, strangely enough.

But they've gone off and gotten their life policies because of their understandable concerns about the risks of the pandemic. So that's a new type of customer that a lot of firms are bringing on board.

And it's therefore particularly important to monitor their experience, whether it's the mortality experience itself, which will hopefully take many, many years to emerge. But more actually monitor their lapse experience because that can be a very big driver to profitability, and making sure we're pricing new business appropriately, and also making sure we got appropriate assumptions just for that in-force block of business.

And again, the more you automate this and the better you do your analysis, clearly the better it is for your business, both managing the in-force, but also pricing the new business.

ALASTAIR BLACK: And I think I'd add to that, when we talk about analytics, quite often the image that springs to mind is very advanced, very clever algorithms. There's a place for that. Absolutely.

But there's also, particularly in terms of this feedback loop, part of the idea of getting analytics embedded within an organization is that use of data to make decisions. So looking for where those data are available, using appropriate analytics to help drive different decisions, and then have that feedback loop of well, actually, was my model correct? Does it need adjusting?

Having that kind of data and feedback loop, rather than potentially just using experience and gut feel, which has its place, but is quite hard to have in that feedback loop. So it supplements that, and really helps drive improved decisions over time.

CARRIE KELLEY: So we've talked a lot about the benefits of advanced analytics. But what are some of the risks of not implementing it, both from a risk assessment standpoint and from a market share present standpoint?

And I'm asking that from the perspective of, most companies are aware of the benefits. But obviously, they only have so much time or resources. What are some of the risks they're taking by not making this higher-priority or pushing this to the forefront?

ALASTAIR BLACK: So I guess from a insurance risk assessment standpoint, use of analytics can clearly help better understand and quantify risks, and pick up trends that might not otherwise be obvious. And in particular, we've seen as a driver for the use of analytics being in large transactions, whether that's bulk annuity purchases, M&A activity, where the analytics is being used to help better understand and quantify the risk.

But I think probably the more significant driver, which you hinted at, Carrie, talking about market share, market presence, would be around having that granular understanding of risks to help insurers understand where they want to play in the market, where there might be more profitable segments to help them stay ahead of the competition.

And particularly, it helps them avoid anti-selection. So if others in the market do have this more granular understanding, they might well price to get the better quality customers. So it's important to stay ahead of the competition.

And also, it helps them-- on a more positive side, it helps insurers focus more on the customer and improve the customer centricity of their products. So that might be something like quicker underwriting and claims payment times. It might be having faster service or being able to produce more personalized product options. But a whole load of things that can really-- insurers can point to as helping to improve customer centricity and improve their brand value and their market presence.

MATTHEW EDWARDS: I like many of those points, Alastair. I think the key risk, really, as the market becomes more sophisticated, is really this risk of being left behind as other firms segment more, and they cherry-pick the good risks. The main risk to you is not doing enough and being left behind.

And it's not just the natural market dynamics which are making this happen. There's also clearly shareholders of shareholder-owned companies will want to be seeing that their firms, the firms they've invested in as shareholders, they want to know that their firms are leading the way, or at least not being left behind.

And even regulators are actually getting in on the act. So in Spain, they've just introduced some regulation which came into effect on the 1st of January, making sure that the firms are doing more to be monitoring mortality in a more realistic and fast and automated way.

So it's not just the natural market dynamics. But there's a whole range of stakeholders that should make firms want to be doing more in this direction.

CARRIE KELLEY: So if we sum it all up, looking at your article and our discussion today, what is the key takeaway you would want people to have from this topic?

MATTHEW EDWARDS: I suppose I was trying to think of something catchy, using acronyms or whatever. The letter A for "actuary," which is obviously a catchy word, makes me think of two other As-- A for "agility" and A for "automation." So it'd be nice if the word "underwriting" also started with the letter A, just to complete the list.

But agility and automation here, I think, are key. Firms need to have the agility to be able to change their rating mechanisms for such events. And maybe the vaccine question will become a very big topic over this year as a potential underwriting factor in different markets for different types of products.

And automation because clearly, the more automated these things are, then the more resilient you are to further problems of this kind. So I'm leaving Alastair with two As to improve on.
CARRIE KELLEY: Alastair, that leaves you with B.

[LAUGHTER]

MATTHEW EDWARDS: There aren't many other letters you can choose from.
ALASTAIR BLACK: Starting to think up two more words that begin with A. Not sure I can manage that.

CARRIE KELLEY: [LAUGHS]

ALASTAIR BLACK: Alastair's amazing insight. So yeah. I think the takeaway message for me would be we've already seen protection providers gain value from using more automation, more analytics.

And that's only going to be accelerated by the events of the last year. The techniques and technology are available now. They're being used now. There are a range of use cases, from quite simple use cases that are driving value, to bigger, more complex projects.

So I mean, have a think about where in your business there's a key question that drives business value, and where analytics can give you a key competitive edge because your competitors are certainly thinking of that.

CARRIE KELLEY: All right. Thank you, Alastair, for joining us today.

ALASTAIR BLACK: You're very welcome. It's been a pleasure.

CARRIE KELLEY: Thank you, Matthew.

MATTHEW EDWARDS: Thank you very much indeed. And it's been good to talk about my career as an American footballer.

CARRIE KELLEY: [LAUGHS] And thank you, everyone, for listening to this episode of (Re)thinking Insurance.

[MUSIC PLAYING]

NARRATOR: Thank you for joining us for this Willis Towers Watson podcast. For more information, visit the Insights section of willistowerswatson.com.

[MUSIC PLAYING]