



REVITALIZING LIFE INSURANCE FOR TOMORROW WITH LIFESTYLE VARIABLES

Abstract

There is no better time than today to relook the construct of life insurance products. Swift and significant changes in DTE (demography, technology, and expectations) are making it inevitable for insurers to offer many more bundled features and services along with life insurance products besides the core intent of life insurance coverage. Moreover, the competition to excel in this field has recently started with quick differentiators; and due to the nature of the life insurance product, insurers will need to capture, analyze and process many additional lifestyle variables, besides the current ones to satisfy customer's expectations. This paper explores how using a comprehensive set of lifestyle variables can help develop new, differentiated offerings catering to today's customer expectations, and posits that such products can only be fulfilling through extremely competitive pricing.



The need to revitalize the current life insurance value framework

The core value proposition behind life insurance is the financial transfer of mortality risk. The long duration nature of the contract — inherently due to the longevity of life — has enabled insurers to also package long-term money management services along with the life insurance. Notably, the tax incentives associated with the risk transfer and long-term investments further enhance the product's appeal. Apart from all this, the various riders available for the many other risk transfer needs related to human

life, complement the overall life insurance value framework.

The current offerings by life insurers use certain risk-assessment parameters to quantify and price various risks. But in the face of changing customer expectations, these parameters may not suffice to offer new and improved services. Moreover, while technology has created many opportunities to collect and process risk-assessment parameters efficiently, on the other hand it has also made their

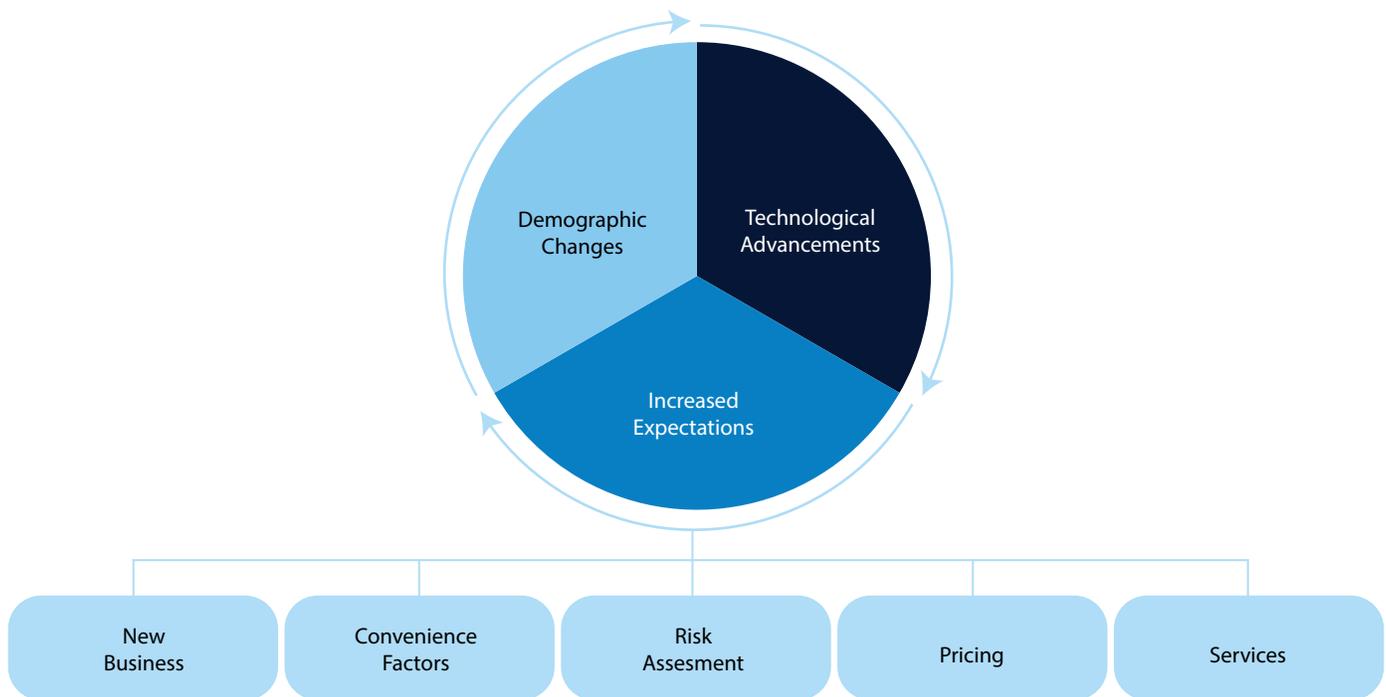
exploration mandatory for marketplace competitiveness. More so, because several tech-driven alternative risk-transfer models and processes are dismantling the entry barriers to the highly-regulated insurance business. Consequently, there is an all-round need to revitalize and enhance the existing life insurance value framework to meet the needs and expectations of modern-day customers.

Lifestyle variables to the rescue

Technology advancements have revamped the possibility equation, having readily made available several products and activities that were once thought impossible. With new technologies in many areas of operation, we now need far fewer resources to achieve similar or

better results than in the past. Life insurers too need to take advantage of such technology innovations, and with a much broader scope than they are currently exploring, to fast forward their offerings. Moreover, the rapid changes in DTE have precipitated the need for timely action

on this front. Interestingly, demographic changes, technological advancements, and increased expectations, are fueling one another and are making the task more complex.



The increased expectations from customers require insurers to collect and process an improved set of lifestyle variables so that they can enhance and customize their offerings as per the customer needs. The critical enablers in this exercise are the advancements in technology. As per several findings, listed below are the top five areas to focus on with inclusive and impactful lifestyle variables.

- **New business** – An improved set of lifestyle variables can enable many new business opportunities. With more details about customers, insurers will be better equipped to offer and customize appropriate products and services to customers.
- **Convenience factors** – The definition of convenience is continually changing, particularly for millennials who take

the current offerings for granted. Moreover, convenience requirements are dynamic, and consequently, insurers need more details about their customer lifestyle preferences to shape offerings accordingly.

- **Risk assessment** – Traditional underwriting methods typically done at the time of buying a life insurance policy may not be enough to provide customized services and time-sensitive risk-based pricing. Therefore, insurers need to capture and process lifestyle-related variables continuously to assess risks as and when warranted.
- **Pricing** – Undoubtedly, whatever be the product, customers usually prefer the ones with lower prices. In life

insurance, pricing is also dependent on operational costs and commissions, apart from the riskiness of the coverage. Customers' preferences for operating and transactional models can help in determining the right price for the life insurance product.

- **Services** – In today's competitive marketplace, across industries, various players offer many additional services, substitutes, and complementary products. Insurers also need to prepare such a delivery model wherein they also can offer related— or to some extent unrelated — services to their customers. Towards this end, insurers need more comprehensive details about their customers and their preferences.



The next-generation service delivery model

Interestingly, the basic principle of a customer-centric approach in service delivery has been replaced. With an unprecedented focus on delivery standards, 'experience delivery' is the new normal. Today's customers are not only looking for multi-touch points, but they also want these touch points to be user-friendly. In the context of such a marketplace, below is a list of real-world customer necessities for which insurers not only ought to be ready to cater to, but their solutions also need to be instant, available 24X7, competitively-priced, simple, and appealing.

- Waiver of exclusion relating to a specific activity, for a price.
- Temporary additional coverage for a particular period, at a price.
- Continuous underwriting to offer risk-specific discounts or loadings, through collecting wellness variables from wearables.
- Premium discounts for lifestyle changes such as reduction in smoking or completing a fitness class.
- Improved life events management for

better tracking, educating, planning, and ensuring a required (at least minimum) life cover at all times.

Additionally, insurers can also expand their offerings in unrelated areas, starting from near-related services such as financial management, and going forward based on customer preferences into other directions such as travel, entertainment, education, or rewards programs.



From uniqueness to a commodity perspective

Insurers do not have the luxury of not responding to the changing market needs. They must fast-forward the development of new offerings based on lifestyle variables, taking advantage of the latest technologies, and act fast to create eco-systems where customers can find one-stop solutions for all their life insurance needs. But while meeting the needs and expectations

of customers through unique services may appear to provide significant value, however the proof of the pudding is when competition among insurers delivers such services at commoditized pricing.

The cost-benefit analysis of these new offerings may remain skewed towards cost in the initial years but will reach a steady state in the medium to long-term.

Considering their importance, the focus on sustainability of the offerings should pre-empt cost-benefit analysis in the short run. Furthermore, over the long run, these initially-unique offerings are likely to become generic and standardized and will lead to commodity-like pricing.

Wrapping it up

Competition is making it mandatory for life insurers to provide unique services to prospects and customers at a place, time, and price of their choosing. That being the case, insurers need to enhance and customize their services, and consequently, they need additional, customer-specific details. Lifestyle variables of life insurance customers provide significant information about their preferences, needs, and expectations, but they are innumerable.

Accordingly, insurers need to work on the right strategy to define, price, and position their offerings by using a reasonable sub-set of these lifestyle variables, and technology can be a huge enabler in this pursuit.

Despite the low-expected benefits from these new offerings in the short run, insurers cannot skip the much-required and necessary investments to create an eco-system of 'experience delivery,'

mandated by changes in DTE. The countdown for sustainability in tomorrow's marketplace has already started, and life insurers need to respond sooner rather than later to gain a competitive advantage among their peers and competitors.



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