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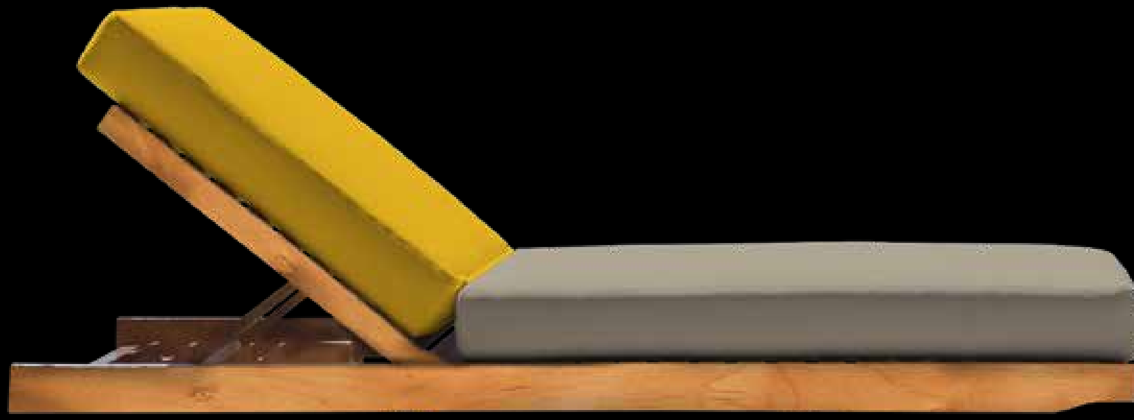
Radical convenience: #1 of 7 – What If?



REIMAGINING LIFE INSURANCE

MARSH & McLENNAN COMPANIES

People view life insurance as a mature industry, one that has stabilized around well-understood and accepted offers. We take a different view: there's potential for huge growth and high profitability by pleasing the customer and daring to break out of old management traps.

Put another way, the low-growth category known as insurance could well be poised for high-growth category reinvention, by rethinking the core propositions around customer needs.

It's clear there's a massive opportunity to help US consumers improve their financial lives:

OVER 40% **OF US ADULTS HAVE NO LIFE INSURANCE[1]**

80% **LACK DISABILITY INSURANCE[1]**

85% **HAVE NO LONG-TERM CARE COVERAGE[1]**

1 LIMRA Insurance Barometer Report 2019

Only

1 in 10

Private-sector workers are actively accruing a defined-benefit pension[2]

A little more than

1 in 2

Have a defined contribution pension plan[2]

Only

1 in 3

Have an IRA[3]

Less than

1 in 5

Americans have a financial adviser[4]

While almost

1 in 2

Lack basic fiancial literacy

2 US Department of Labor, Private Pension Plan Bulletin Historical Tables and Graphs (https://www.dol.gov/sites/dolgov/files/ebsa/researchers/statistics/retirement-bulletins/private-pension-plan-bulletin-historical-tables-and-graphs.pdf)

3 Board of Governors of the Federal Reserve System, Report on the Economic Well-Being of U.S. Households in 2018, May 2019 (https://www.federalreserve.gov/publications/files/2018-report-economic-well-being-us-households-201905.pdf)

4 CNBC and Acorns Invest In You Savings Survey, April 2019 (https://www.cnbc.com/2019/04/01/when-it-comes-to-their-financial-future-most-americans-are-winging-it.html)

Against this backdrop, it doesn't seem sensible that US Life insurers should be struggling to add significant shareholder value. The industry's distinguishing characteristic is the ability to underwrite biological and financial risks, and its core purpose is often expressed as improving financial safety for consumers. However, over the past five years[5]:

+1%

AGGREGATE MARKET CAPITALIZATION

of the top 17 publicly listed US Life insurers increased by just 1 percent, and eight saw market cap declines

32%

TOTAL SHARE-HOLDER RETURN

for the sector was 32 percent compared to the S&P 500's 67 percent

≤1x

PRICE-TO-BOOK RATIOS

have bounced around between 0.75–1.25x and are currently below 1x and Price/last-12-months earnings are trading at 10x. By way of comparison, US Property & Casualty insurers are trading at 1.6x book and 18x earnings, and brokers at 4.6x book and 32x earnings.

5 S&P Global & Oliver Wyman calculations. Figures are for US public Life & Health insurers with market caps of more than $1 billion for the five years to September 23, 2019. The companies include MetLife, Aflac, Prudential Financial, Lincoln National, Globe Life, RGA, Voya, Unum, Primerica, CNO Financial, Genworth, American Equity, FBL Financial, and National Western Life.

The causes of the industry's struggle are readily apparent to those operating in the trenches day-to-day:

"Sold, not bought" products

Expensive distribution models

Persistently high-cost operations

Fragmented legacy systems

Multiple layers of intermediation
between insurers and the end customer

The net effect of all these factors is scarcity of the kind of deep insight about customers and channel dynamics that is the life-blood of modern solutions.

While we see a gradually growing appetite to address these issues, we have yet to see large players really "grasping the nettle of change" in the fundamental ways required to raise the growth trajectory of the sector and address society's most pressing needs.

SOME OF THE WHAT IFS THAT WE KEEP COMING BACK TO AS WE THINK ABOUT A POSSIBLE FUTURE FIVE YEARS FROM NOW ARE…

What if there was a “TurboTax” for retirement available to consumers?

Is creating a retirement plan for regular people really any more difficult than completing a federal tax return? TurboTax submitted 38 million federal returns for 2018 – a staggering 27 percent[6] of all filings received by the IRS. Intuit, the owner of TurboTax also serves small businesses and the self-employed with its QuickBooks solution and is now connecting consumers, accountants, lenders, and other partners through its ProConnect and other platform offerings.

Intuit’s market cap is $70 billion – almost twice the size of the largest US publicly quoted Life insurer. It trades at a 46x earnings multiple. It’s taken Intuit more than 30 years to reach this point.What if an insurer could become the TurboTax for retirement and create similar value for consumers, small businesses, and the self-employed and do it in five years?

6 Deutsche Bank, dbDIG Tax “Survey Says” – Another Big Year for TurboTax ARPU Expansion, April 2019

What if there was a radically better way of reducing risk for families from death or disability of a wage earner – while at the same time, creating the kind of viral adoption that Spotify or iPhones have enjoyed?

When was the last time someone you know raved about their life insurer? Or even mentioned anything remarkable about a life insurance experience?

The face amount of life insurance in place in the United States is $25 trillion.[7] Ownership rates have held stubbornly steady and mortality rates (on which premiums are based) have been declining by about 1 percent per year. Many insurers have, as a result, been managing their life businesses as mature, late-stage endeavours, with limited investment and innovation bandwidth.

US households, however, are "under-protected" for life insurance to the tune of a staggering $19 trillion.[8]

Under some reasonable assumptions that's a

$40 BILLION

GROWTH OPPORTUNITY

7 US Survey of Consumer Finances, Oliver Wyman analysis

8 Oliver Wyman analysis calculated at a household level using the US Survey of Consumer Finances. The "Protection Gap" is calculated as the difference between the level of life insurance a household should be buying and what it holds today

What might a solution geared to viral adoption look like? At a minimum, it will be zero hassle, with automated underwriting and straight-through processing. These will be necessary but not sufficient. Most critically, it will “meet me where I am” – when I am thinking about these risks to my family – and will move with me as my life and circumstances evolve. We refer to this as an active solution – one that uses data to shape the experience, surface the right products, at the right moments and in the right context.

What if, in five years’ time, everyone had an app on their phone that automatically suggested (and could continuously execute) the right level of protection for you and your family, that integrated with whatever your employer at the time was offering by way of protection benefits, and that decreased and increased cover over time as your savings changed and family evolved?

What if legacy technology could be simplified in months rather than years?

It seems like every industry executive you meet has an apocryphal story involving a 50-year-old mainframe still in service – and that would pose a huge problem if the three people in the organization who still know how to make it work were to win the lottery and make a quick exit for early retirement. Almost every Life insurer is grappling with technology rationalization involving scores of legacy policy-administration systems. Economies of scale have been impossible to realize. General and administrative (G&A) expenses as a proportion of revenue for the top 10 Life insurers by assets in the United States for 2018 was 6.9 percent, for the next 60 it was 6.5 percent[9].

9 SNL, Oliver Wyman analysis of US statutory filings for 2018. Figures rank insurers by net total assets and include all stat filers with assets of $10 billion or more.

The problem, of course, is that resolving this fragmentation has been impossible in some cases, viewed as prohibitively expense in others, and a costly and long journey even for those insurers who have made the trek.

Solutions, however, are now available that can facilitate the migration to modern environments in months with certainty. We know from first-hand experience that this is possible. Our early innovation efforts on this front have achieved conversion of legacy data into modern formats in six to eight weeks instead of three to six months, we have developed clustering algorithms to quickly reconcile product logic – a process which used to take years, and can fully validate products in four to six weeks – a process which was traditionally never fully completed.

It doesn't seem far-fetched to expect that a radically simpler environment could be operated at 80 percent of current cost levels. Given current US G&A expenses of $52 billion, a 20 percent saving would be $10 billion per year falling directly to the bottom line or available for funding future growth initiatives. The economic potential for shareholders would be $100 billion at current earnings multiples.

We think the upside is likely significantly higher – particularly for an early mover who can achieve a radically lower cost infrastructure and use it to consolidate legacy liabilities and take share from slower incumbents.

What if one insurer could do all of the above and more?

What if one insurer could really transform the industry and grab the lion's share of the value created for its investors?

This insurer would delight people, supporting progress and connection in their financial lives, and would join the ranks of Apple, Amazon, Google, and Harley-Davidson as a "Go-to" Brand. And not coincidentally, this opportunist could break out of "value stock" expectations and enjoy the premium valuation of growth leaders.

Sounds implausible? We don't think so, and we're working with incumbents and innovators to make it happen.

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