Six Big Opportunities in an Evolving Market

What’s on the Minds of Life Insurance Executives 2023

OCTOBER 2023
Growth is the top challenge for life insurance companies

Top challenges by year

<table>
<thead>
<tr>
<th>Year</th>
<th>Change management</th>
<th>Customer experience</th>
<th>Growth</th>
<th>Distribution</th>
<th>Innovation</th>
<th>Technology</th>
<th>Interest rates¹</th>
<th>Growth</th>
<th>Regulation</th>
<th>Customer experience</th>
<th>Change management</th>
<th>New ways of working¹</th>
<th>Technology</th>
<th>Interest rates¹</th>
<th>Growth</th>
<th>Regulation</th>
<th>Customer experience</th>
<th>Change management</th>
<th>New ways of working¹</th>
<th>Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>32%</td>
<td>23%</td>
<td>22%</td>
<td>19%</td>
<td>19%</td>
<td>18%</td>
<td>16%</td>
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<td>2021</td>
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<td>37%</td>
<td>26%</td>
<td>24%</td>
<td>22%</td>
<td>21%</td>
<td>20%</td>
<td>19%</td>
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<td>2023</td>
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<td>33%</td>
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</tbody>
</table>

Sources: BCG and LIMRA’s 2023 global survey of life insurance executives; BCG analysis.

Note: New ways of working was added as a category in 2021.

¹The challenge appears only once among the top challenges since 2019.
Insurers should take advantage of six opportunities to address growth and other key challenges.

<p>| | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>1</td>
<td>Focusing the portfolio</td>
</tr>
<tr>
<td>2</td>
<td>Personalizing the journey</td>
</tr>
<tr>
<td>3</td>
<td>Helping advisors to help clients</td>
</tr>
<tr>
<td>4</td>
<td>Modernizing technology from front to back</td>
</tr>
<tr>
<td>5</td>
<td>Partnering to accelerate innovation</td>
</tr>
<tr>
<td>6</td>
<td>Attracting and retaining talent</td>
</tr>
</tbody>
</table>

Sources: BCG and LIMRA’s 2023 global survey of life insurance executives; BCG analysis.
Mutual insurance companies have grown their market share, while public companies have focused their product portfolio.

Individual life insurance by premiums written\(^1\)

**TOP TEN MUTUALS’ MARKET SHARE (%)**

- 2013: 33%
- 2022: 43%
- Increase: 10 pp

**TOP TEN PUBLIC COMPANIES’ MARKET SHARE (%)**

- 2013: 28%
- 2022: 23%
- Decrease: 5 pp

Public companies continue to narrow their product offering

- **2017**: MetLife spins off its US retail business, which launched Brighthouse Financial
- **2021**: MetLife sells its US P&C business to Farmers
- **2022**: Principal Financial Services sells its retail business to Sixth Street
- **2022**: Prudential Financial sells its retirement business to Empower
- **2022**: AIG spins off its US retail business, which becomes Corebridge Financial
- **2023**: Corebridge Financial sells its Irish health care business to AXA

**51%** Share of respondents who plan to focus on products with higher profit margins as a top-three strategic priority.

Sources: BCG and LIMRA’s 2023 global survey of life insurance executives; executive interviews; BCG analysis.

Note: \(\text{pp} = \text{percentage point; P&C = property and casualty.}\)

\(\text{LIMRA’s US Retail Individual Life Insurance Sales Survey, 2013–2023, and LIMRA’s estimates.}\)
Leading carriers are enabling data-driven personalization

The customer experience—and the critical capabilities that enable it—will drive growth

Simplifying the customer journey will enhance the customer experience and improve the conversion rate

74%

Share of respondents who view data science and data analytics as crucial to success

66%

Share of respondents who view customer service technologies as crucial to success

The ability to engage customers in meaningful ways will be critical to persistency over time.

– An in force management executive

Sources: BCG and LIMRA’s 2023 global survey of life insurance executives; executive interviews; BCG analysis.

Note: The conversion rate is the percentage of qualified customers who buy an insurance product.
Many insurers are focused on improving tools and offering insights to help advisors build and maintain customer relationships.

**Assisting advisors requires investment**

| 60% | Share of respondents who identified helping advisors as a top distribution challenge |

**New capabilities are being deployed to meet advisors’ needs**

| Lead generation and analytics | - Ecosystem-based leads (from social media and partners, for example)  
- Propensity models  
- Outbound engagement and marketing tools  
- Personalization solutions |

| Holistic advice | - Interactive outreach solutions (for example, data intake apps)  
- Co-browsing and co-pitching assistance  
- Customer calls that include an insurance expert  
- Financial planning tools |

| Automation | - Straight-through processing methods  
- Self-serve account updates  
- Chatbots  
- Automated reminders |

Sources: BCG and LIMRA's 2023 global survey of life insurance executives; Working with Intermediaries 2.0, LIMRA and the National Association of Independent Life Brokerage Agencies, 2022; executive interviews; BCG analysis.
The consolidation of IMOs and BGAs is an expanding threat to carriers

Consolidation trend in distribution is top of mind

~50%
Share of respondents who ranked consolidation as a top distribution challenge

>50
Number of M&A deals made by the big three aggregators of life annuities, 2022

As distribution consolidation threatens margins, carriers are making several strategic moves

- Investing in affiliated agencies
- Acquiring distribution
- Partnering with IMOs and BGAs for product development
- Executing hybrid distribution strategies

Sources: BCG and LIMRA’s 2023 global survey of life insurance executives; executive interviews; S&P Capital IQ; BCG analysis.
Note: IMO = independent marketing organization; BGA = brokerage general agency.
1The big three life and annuity distributors are AmeriLife, Integrity Insurance, and Simplicity Group.
Technology modernization is table stakes for long-term success, and leaders do not believe their companies are prepared.

### Technology is a top challenge that insurers are not prepared to address

Respondents ranked technology among the top three challenges.

Only 27% of respondents consider their company prepared for the challenge.

### Insurers are investing in technology across the value chain, and automation, data science, and analytics are the most crucial

<table>
<thead>
<tr>
<th>Technology Area</th>
<th>% of Respondents Prepared</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital automation</td>
<td>77%</td>
</tr>
<tr>
<td>Data science and data analytics</td>
<td>74%</td>
</tr>
<tr>
<td>Customer service technologies (such as chatbots and NLP)</td>
<td>66%</td>
</tr>
<tr>
<td>Business process management</td>
<td>61%</td>
</tr>
<tr>
<td>Cloud technologies (such as cloud at scale)</td>
<td>60%</td>
</tr>
<tr>
<td>Legacy systems and modernization</td>
<td>60%</td>
</tr>
<tr>
<td>Artificial intelligence and machine learning</td>
<td>57%</td>
</tr>
<tr>
<td>Cybersecurity</td>
<td>57%</td>
</tr>
<tr>
<td>Digital marketing</td>
<td>55%</td>
</tr>
<tr>
<td>Distribution technology</td>
<td>52%</td>
</tr>
</tbody>
</table>

**Technology modernization falls behind several new capabilities.**

**Sources:** BCG and LIMRA’s 2023 global survey of life insurance executives; executive interviews; BCG analysis.

**Note:** NLP = natural language processing.
<table>
<thead>
<tr>
<th>Insurers</th>
<th>PARTNERING TO ACCELERATE INNOVATION</th>
<th>Source: BCG analysis.</th>
<th>Note: EHR = electronic health record.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Improve customers’ longevity</strong></td>
<td>Offering rewards for healthy choices and tools that customers can use to improve their overall well-being</td>
<td><strong>John Hancock</strong></td>
<td><strong>Vitality</strong></td>
</tr>
<tr>
<td><strong>Enhance agent efficiency</strong></td>
<td>Working with a digital native underwriter to issue coverage in less than ten minutes</td>
<td><strong>Equitable</strong></td>
<td><strong>Bestow</strong></td>
</tr>
<tr>
<td><strong>Embed insurance at convenient purchase points</strong></td>
<td>Promoting policies outside of the traditional life insurance purchase journey</td>
<td><strong>Haven Life</strong></td>
<td><strong>Kinly</strong></td>
</tr>
<tr>
<td><strong>Underwrite policies profitably and quickly with expansive data sets</strong></td>
<td>Accelerating the underwriting process by providing access to hospitals’ EHR systems</td>
<td><strong>New York Life Insurance</strong></td>
<td><strong>Cerner</strong></td>
</tr>
<tr>
<td><strong>Enable simplified digital product sales</strong></td>
<td>Offering consumers simplified and less expensive life insurance products digitally</td>
<td><strong>Ameritas</strong></td>
<td><strong>Ethos</strong></td>
</tr>
<tr>
<td><strong>Streamline back-end functions and manage expenses</strong></td>
<td>Intelligently sourcing data to resolve claims quickly and minimize costs</td>
<td><strong>Pacific Life Insurance</strong></td>
<td><strong>Appian</strong></td>
</tr>
</tbody>
</table>
Companies are also partnering to reduce risk, although investments from private equity firms are beginning to attract regulatory attention.

**New partners are strategically sharing risk via coinsurance and reinsurance**

~$350 billion

Modified coinsurance reserves for US life insurers (the 20-year average is less than $200 billion)^1^.

Numerous reinsurance deals were ceded from the originating insurer, sometimes to a carrier with an inferior credit rating.

**PE-backed competitors have advantaged financial approaches**

<table>
<thead>
<tr>
<th></th>
<th>Revenue Growth, 2018–2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Athene</td>
<td>+78%</td>
</tr>
<tr>
<td>Global Atlantic Financial Group</td>
<td>+122%</td>
</tr>
</tbody>
</table>

PE-backed carriers significantly outgrew the industry average of 15% over the same time period.

**Regulators are increasingly attentive to offshored risk**

~$800 billion

Offshored life insurance reserves by year-end 2022 (about 20% CAGR).

Regulators are initiating discussions on solvency and policyholder protection.

**Sources:** S&P Capital IQ; SNL Insurance data set; Dow Jones Factiva; Life and Annuity Specialist; BCG analysis.

^1^Modified coinsurance is a type of reinsurance where the ceding company retains the assets with respect to all policies reinsured and also retains the total reserves on the policies, while transferring the investment risk.
Talent management is a leading challenge, and rapid industry changes require insurers to plan and act now to build the workforce of the future.

**New roles and skills needed**

1. **Digital roles**
   - Data scientists
   - Product managers
   - UX and UI talent
   - Digital marketers

2. **Twenty-first-century skills**
   - Creativity and agility
   - Critical thinking
   - Collaboration
   - Design thinking

**Key actions**

1. Reassess the hiring process and job requirements
2. Develop programs to reskill and upskill talent
3. Build ecosystems of shared, temporary talent
4. Build a strategy and infrastructure for remote work

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Sources: BCG and LIMRA’s 2023 global survey of life insurance executives; LIMRA’s survey of chief human resource officers; BCG analysis.

Note: UX = user experience; UI = user interface.

1 These are only a few examples of roles and skills.