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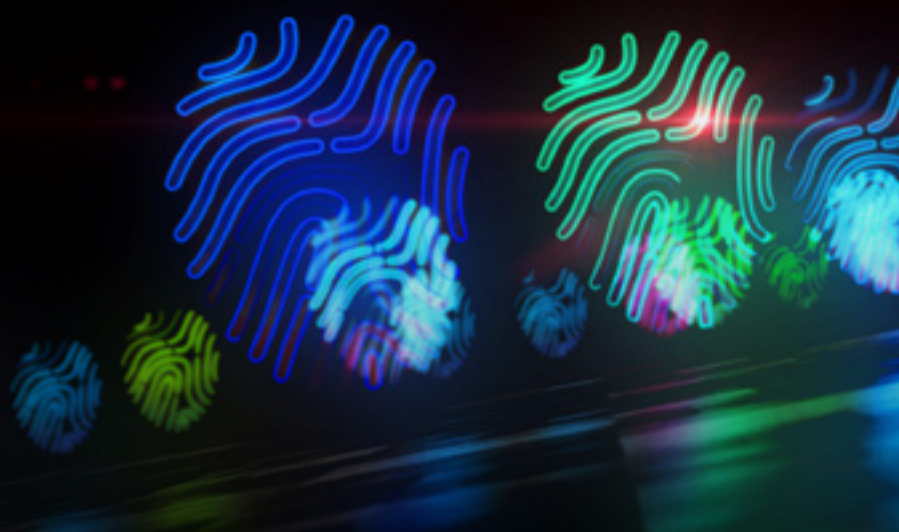
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JOURNAL
OF FINANCIAL TRANSFORMATION

TECHNOLOGY

How digital capabilities can drive innovation in life insurance and annuities

PAULA NELSON



INSURANCE

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DEAR READER,

Welcome to edition 54 of the Capco Institute Journal of Financial Transformation.

In this edition we explore recent transformative developments in the insurance industry, through Capco's Global Insurance Survey of consumers in 13 key markets, which highlights that the future of insurance will be personalized, digitalized, and connected. Other important papers cover topics high on global corporate and political agendas, from ESG and climate change to artificial intelligence and regulation.

The insurance industry has been undergoing transformation in recent years, with insurers responding to the needs and expectation of tomorrow's customers, for products that were tailored, flexible, and available anytime, anyplace, and at a competitive price.

COVID-19 has accelerated such change, forcing insurers to immediately implement programs to ensure they can continue selling their products and services in digital environments without face-to-face interaction. New entrants have also spurred innovation, and are reshaping the competitive landscape, through digital transformation.

The contributions in this edition come from a range of world-class experts across industry and academia in our continued effort to curate the very best expertise, independent thinking and strategic insight for a future-focused financial services sector.

As ever, I hope you find the latest edition of the Capco Journal to be engaging and informative.

Thank you to all our contributors and thank you for reading.

A handwritten signature in black ink, appearing to read 'Lance Levy', with a stylized, flowing script.

Lance Levy, Capco CEO

HOW DIGITAL CAPABILITIES CAN DRIVE INNOVATION IN LIFE INSURANCE AND ANNUITIES

PAULA NELSON | Co-Head of Individual Markets, Global Atlantic Financial Group

ABSTRACT

New insurance technologies and digital tools can help financial professionals integrate insurance into a client's holistic wealth management plan with ease and transparency. This space is rapidly evolving and transforming how financial professionals conduct business on a daily basis. This evolution brings operational efficiency and simplifies business not only for financial professionals with insurance product expertise, but also for the many other financial professionals who lack adequate knowledge and understanding of how life insurance and annuities can be used to provide a complete wealth management experience. By clearly demonstrating the products' potential within the context of their client's overall strategy, even less experienced professionals can confidently offer these solutions to their aging clients. These new wealthtech tools can also help professionals comply with regulatory and administrative requirements embedded in the legacy business practices of the industry. We believe that by leveraging existing digital capabilities, as well as supporting the development and standardization of new technologies that are under development today, we can drive innovation in the areas of new product development, user experience, and sales access for life insurance and annuities. This paper discusses how technology can make it easier for professionals to incorporate annuities, life insurance, and other insurance-based solutions alongside traditional stock and bond portfolios. The paper also discusses specific technology tools that we believe can make an impact.

1. INTRODUCTION: WHY WE NEED INNOVATION

Technology can play a key role in enabling financial professionals to bring sophisticated financial products to their clients, complementing their overall investment strategy and meeting needs related to income and protection. New innovations can also help professionals comply with regulatory and administrative requirements to develop more holistic outcome-based financial planning strategies for clients.

From a digital experience standpoint, life and annuities (L&A) have trailed property and casualty (P&C), homeowners, and even health insurance. Old legacy systems have made it difficult for L&A to go digital. The necessary paperwork can be time-consuming, and electronic forms have not done a whole lot to help the industry.

P&C faces regulatory challenges that are in some ways similar, but it is predominantly regulated by state insurance laws. The L&A space, on the other hand, is governed by federal law in addition to state law. At the federal level, some of these products are governed by the Securities and Exchange Commission (SEC) and Financial Industry Regulatory Authority (FINRA), due to the use of equity or securities in the structure of the product. As a result, the insurance companies need to be able to deliver a consistent experience with other securities products offered by those financial professionals.

In the past, some financial professionals felt that managing all of the complex paperwork was part of their value proposition. However, this mindset began changing, particularly as technology has become more integrated in our daily lives. The shift was then accelerated as many found themselves working remotely during the pandemic. With social distancing

mandates and lockdowns in place, many Americans have been less interested in meeting face-to-face. Financial professionals have generally learned to meet with clients and prospects virtually, through video conferences and webinars.

LIMRA and Boston Consulting Group (BCG) surveyed 4,000 Americans between July and August 2020 about the experience of buying life insurance [Sims et al. (2020)]. The survey found that 4 in 10 consumers purchased life insurance through a hybrid approach (online and consulting with a financial professional), a significant increase from before the pandemic. This has accelerated the digital transformation that had already been taking place in the industry.

At the same time, insurance companies have faced tighter margins and pressure to become more efficient and scalable. Carriers have begun adopting more digital capabilities, such as electronic forms and electronic underwriting.

There are a number of examples to illustrate technology driving growth in financial services. In the 1980s, a technology transformation allowed mutual funds to become mainstream and easy for retail investors to use in their portfolios. A more recent example on a smaller scale is what has transpired with structured notes over the last five years. Structured notes use technology to enhance both the user experience and the construction of products and make them available to a wider market. These technology enhancements create efficiencies that have led to lower minimums needed to purchase a structured note, enabling real-time quotes, and reducing the time to issue from days to hours. All of this resulted in an increase in annual sales. Data from Structured Products Weekly of Prospect News [Liu (2021)] shows that in 2020, more than U.S.\$72 billion worth of structured notes were issued in the U.S., an increase of 36% from the previous year. Wealthtech, albeit still in the early stages, is enabling a similar evolution for insurance products.

One industry-specific example is online marketplace Policygenius. Policygenius allows consumers to compare and purchase life, home, auto and other types of insurance. According to its website, the company has served over 30 million shoppers and placed over U.S.\$120 billion of insurance, including over U.S.\$90 billion of life insurance. In addition to using innovative technology, Policygenius employs licensed insurance brokers to assist customers. All of this shows that digital innovation can improve the experience of buying life and annuities, making it faster and easier while educating the end-user on personal finance and insurance.

2. AVAILABLE TECHNOLOGIES

Today, there are a number of tools that can help financial professionals be more holistic and efficient in how they manage client portfolios. These tools include: technology platforms, financial planning software, wealth management platforms, annuity product stores, annuity planning tools, and outsourced insurance desks. Detailed below are some of the more interesting offerings:

- **Technology platforms:** a leading technology platform is Fiduciary Exchange LLC (FIDx), a network that provides connectivity with carriers and financial professionals to offer annuities and insurance solutions. FIDx was designed to make it easier for financial professionals to conduct business electronically across solution providers rather than have to use carrier-specific experiences.
- **Wealth management platforms:** financial professionals use wealth management platforms (WMPs) to help them track their clients' investment portfolios. This technology can either be outsourced to one of the vendors, such as Envestnet, or custom built in-house as done by some of the larger firms (e.g., Morgan Stanley).
 - Envestnet launched the Envestnet Insurance Exchange as part of the company's popular wealth management platform in 2019 to integrate insurance-based solutions into the financial planning process [Envestnet (2019)]. The goal is to deliver a unified insurance and annuity experience within financial professionals' existing workflows. Envestnet also offers MoneyGuidePro, a suite of web-based financial planning and retirement planning software, for wealth management firms.
- **Annuity product stores:** annuity product stores are "storefront" interfaces that provide financial professionals with access to a variety of annuity products in a single location. These include the capability to run multiple scenarios for case design including risk tolerance and performance back-testing. Some are connected to platforms like FIDx.
 - In 2020, FIDx announced a partnership with Halo's protective investing platform, an independent marketplace for annuities [FIDx (2020)]. In the press release, the companies said that the integration would "elevate the availability and distribution of annuities to users of the Halo platform."

Digital technology can help financial professionals better understand life and annuity products. Professionals frequently ask, “If I’m going to use a product, how do I pick one and recommend it to my client?” The technology described above can help with that smart learning. The professionals enter data about their clients’ financial situations, and the technology provides recommendations on what products should be used and how they should be actively managed within a portfolio. There are also AI-powered tools like the The RightBRIDGE annuity wizard, which is a tool that can financial professionals determine suitability of a product. Ultimately, technology can help find products to be used as part of the clients’ broader wealth management strategies.

3. WHAT THESE CAPABILITIES CAN DO FOR THE FINANCIAL SERVICES INDUSTRY

The financial services industry can benefit in many ways from these new and improved capabilities. I believe that these benefits fall into three categories: development, experience, and distribution access for life insurance and annuities.

3.1 Product development

Digitization allows insurance companies to leverage unique investment strategies that improve client outcomes and offer educational tools to improve product transparency for financial professionals and their clients. Two product types that exemplify this are indexed-linked annuities and registered index-linked annuities (RILAs). Platforms like HALO, Simon, and Luma have enabled innovation for structured notes, and I believe that they are doing the same for annuities.

The innovation is well-received. In a recent article about the best annuities on the market today, Hube (2020) has called RILAs “the industry’s newest innovation” and attributed their growth to “a compelling trade-off that they offer to investors who are risk-averse but need growth – some protection on the downside in exchange for a cap on a linked stock index’s performance.”

3.2 Experience

By leveraging existing digital capabilities and developing new ones, we can improve the experience that financial professionals and consumers have with buying life insurance, understanding existing policies, and submitting claims. As Sims et al. (2020) stated in their recent report, “If technology can help make life insurance easier to understand, less trouble to apply for, and quicker to get, it will be a dramatically better experience for customers.”

- **Transparency:** consumers and financial professionals should be able to use online portals to review documentation and check the status of insurance-related items such as applications, withdrawals, and claims, without having to make phone calls. They should also be able to access information about their policies online, any time they choose, without any difficulty.
- **Speed:** the process of filling out paper applications, obtaining signatures, faxing or mailing in applications, and waiting for carriers to receive and process them is manual, time-consuming, and inefficient. This weeks-long application process can and should be replaced with turnarounds in as little as 24 hours, resulting in higher transaction volumes and increased client satisfaction. An added benefit is that the claims process can then also be much faster.
- **Quality and accuracy:** we currently rely on people to manually enter information into multiple forms. This introduces the chance for human error into a process that can be automated. Information provided by clients should be checked for accuracy, entered once, then automatically cascaded through both internal and external systems.

3.3 Distribution access

Customer and agent expectations are evolving, and rightly so. A recent Edward Jones survey of more than 1,200 investors found that almost all (95%) would like their financial professionals to use the latest technology tools [Edward Jones (2021)]. While many clients do not seem to want technology to replace financial professionals, there are tools that can provide greater operational efficiency, thereby freeing up time to meet with clients and manage their business.

Technology can also give registered investment advisors (RIAs) broadened access to insurance products. This is especially helpful for RIAs who may want to incorporate insurance strategies into their practice. Digital platforms offer several alternatives to support RIAs either through advice planning tools, digital business submission embedded into their operating platform, and licensed insurance or brokerage professional product recommendation and execution.

Digital capabilities will continue to improve the overall process and experience of delivering comprehensive wealth management services to consumers.

3.4 Digitalization of the industry

The life insurance industry is moving away from a traditional, paper-based and manual underwriting process to a more modern experience. Digital underwriting with the use of data improves speed, accuracy, and consistency of decisions.

Today, there are several well-established third-party underwriting rules engines including Swiss Re's Magnum, Munich Re's ALLFINANZ, and Hanover Re's ReFlex. These engines help automate underwriting decisions by using dynamic online questionnaires and evaluating responses in real time. Some underwriting decisions are made by the engines, while others are referred to an underwriter for further review. With automated underwriting, customers can sometimes get same-day or even instant decisions instead of having to wait weeks or months.

Other tools available to carriers allow them to access data that they can use for underwriting. This includes the electronic delivery of consumer data, as well as medical data such as pharmacy history, laboratory test results, and medical claims. This combination of digital data allows carriers to predict a person's health profile and whether they qualify for insurance coverage without further evaluation.

The industry also uses several innovative technology platforms that serve as storefronts where financial professionals can compare products and submit electronic applications. Two examples of vendors offering these platforms include iPipeline and FireLight. These tools can help deliver a more modern insurance buying experience for financial professionals and customers.

4. CONCLUSION: WHAT THE LIFE AND ANNUITY SPACE CAN LOOK LIKE WITH INNOVATION

With Baby Boomers aging and younger generations losing access to defined benefit retirement plans, their financial needs are becoming more complex and they need more help than ever before. We are excited about the innovation that we are seeing that will enable professionals to provide that help in a holistic manner.

Digital advancements provide a significant opportunity for financial professionals to seamlessly incorporate insurance strategies into their wealth management practices. Financial professionals who are interested in learning more may contact their firm's sales technology resource lead.

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Capco, a Wipro company, is a global technology and management consultancy specializing in driving digital transformation in the financial services industry. With a growing client portfolio comprising of over 100 global organizations, Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to deliver end-to-end data-driven solutions and fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its Innovation Labs and award-winning Be Yourself At Work culture and diverse talent.

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