RESEARCH SUMMARY

Financial Wellbeing: Is it the key to reinventing life insurance?

Global Aging Institute

THE GENEVA ASSOCIATION

INSURANCE FOR A BETTER WORLD

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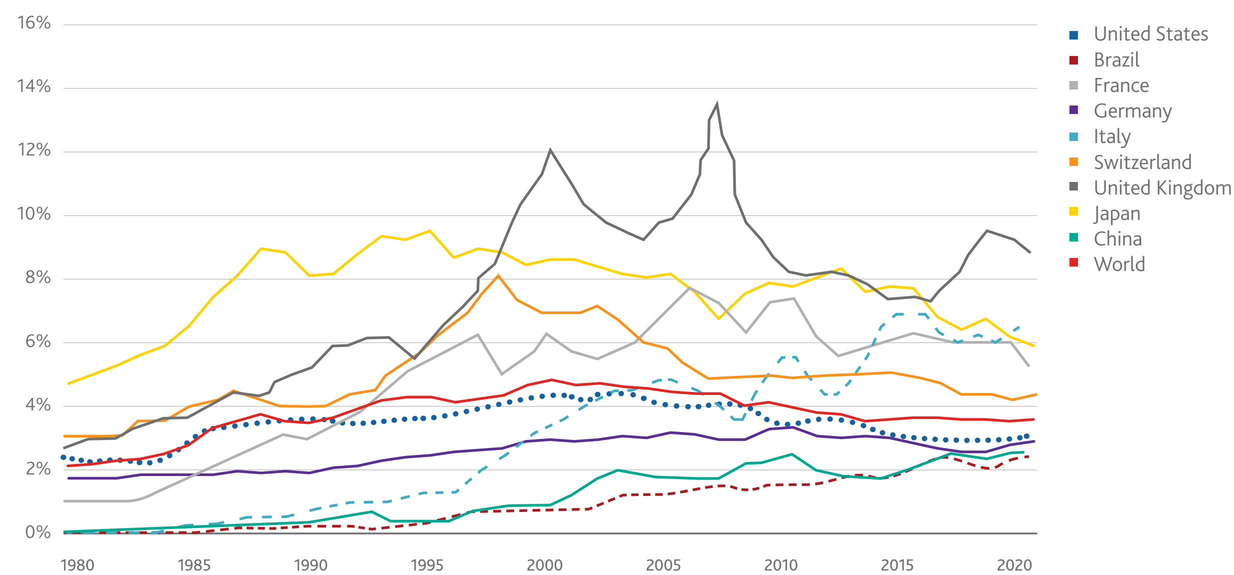
The concept of financial wellbeing recognises the link between the general wellbeing of individuals and the availability of sufficient resources throughout their life course to meet ongoing financial obligations and achieve future financial aspirations. While ensuring financial wellbeing is the core purpose of life insurance, traditional business models have come under stress in recent years as socio-economic, demographic, health and technological developments, combined with a protracted period of low interest rates, have dented the appeal of savings-oriented life insurance globally. (See Figure 1.) Not only has this gradually eroded the financial wellbeing of individuals, it has also raised questions about how the life insurance industry should evolve in the future.

How can the life insurance industry help people accumulate sufficient savings, promote healthy lifestyles and adequately manage risk over longer life spans that are likely to alternate periods of work, leisure and continued education? How can it help individuals themselves take a more proactive role in meeting their increasingly complex needs and achieving their financial and non-financial goals? Addressing these issues successfully will require life insurers to look beyond traditional business models and take a more holistic approach to financial wellbeing.

The Geneva Association's report on financial wellbeing discusses the socio-economic, demographic, health and technological drivers that are reshaping risks and vulnerabilities (with a particular focus on retirement); examines the current financial wellbeing strategies deployed by insurers; and gauges opportunities for an expanded role for life insurance. In addition to an extensive literature review, its findings are informed by a survey of 25 large life insurers representing insurance markets in Asia, Africa, the Americas and Europe.

Figure 1: Life insurance penetration (premiums as a share of GDP), 1980–2020



Source: Compiled from the Swiss Re sigma database

The forces shaping future financial wellbeing

Retirement insecurity is growing. In developed countries, ageing populations and slower economic growth are undermining the sustainability of the near-universal state pension systems put in place in the early post-war era. Governments have responded by reducing retirement benefits and raising retirement ages. In developing countries, where large informal sectors mean that coverage under state pension systems is limited, much of the population still depends on the extended family for old age support. Yet informal family support networks are weakening as countries urbanise and industrialise and family size declines. While governments around the world have responded with innovative approaches to expanding employer and personal pensions, retirement savings and insurance protection remain inadequate, with many facing impoverishment in old age.

Demographic and health trends are also putting pressure on *healthcare expenditure* and undermining financial wellbeing. Almost 60% of people aged 65 and over in OECD countries now report living with two or more chronic health conditions. While the level of observed disability among the elderly has fallen in recent years, helping to facilitate longer working lives, chronic morbidity has been flat or rising, which suggests that the underlying health of the elderly is not increasing in tandem with life expectancy. The fact that the incidence of chronic illnesses among younger adults is now rising in many countries is also a cause for concern and could put additional pressure on health and care budgets, undermine productivity and reduce wealth accumulation across the life cycle. Furthermore, there is clear evidence that financial insecurity in itself exacerbates poor physical and mental health, thereby creating a vicious cycle.

A macro-economic environment characterised by low interest rates is impairing the ability of funded pensions and private insurance to deliver benefits that can meet the income needs of future retirees. To make the situation even more challenging, the recent surge in inflation rates may result in pension savers facing (increasing) negative yields on their investments and an erosion in future levels of inflation-adjusted retirement income. Whether today's young adults will be able to save enough in the current macro-economic environment to ensure a secure retirement is doubtful. While behavioural adaptions, such as starting to save earlier and working longer, may help them achieve their goals to an extent, additional forces such as growing labour-market informality and rising life expectancy will also be weighing on their retirement income prospects.

Digital technology has become a key channel for consumer interactions. Unlike Baby Boomers, who have been the primary target of life insurers so far, Millennials and Gen Z are technologically savvy. There is evidence to suggest that insurers with digital capacity were most successful in meeting the needs of these cohorts over the past two years as COVID-19-induced insecurities led to a sudden surge in their demand for life insurance. For instance, U.S. life insurance companies with digital capacity and algorithm-driven underwriting have experienced 30–50% increases in sales since 2020.[1] However, while some life insurers have made headway, the industry as a whole has been slow to capitalise on digital technology. This has opened up a growing market for independent technology platforms positioned at the intersection between finance, ageing and health. Age tech venture funding alone is estimated to have increased more than tenfold since 2011 to reach over USD 1 billion in 2020, suggesting that this is an industry poised to make the most of the longevity economy.[2] However, it remains to be seen whether such developments will make a real difference in increasing financial wellbeing, improving consumer engagement and advancing financial inclusion or are simply creating new interfaces for marketing and distribution.

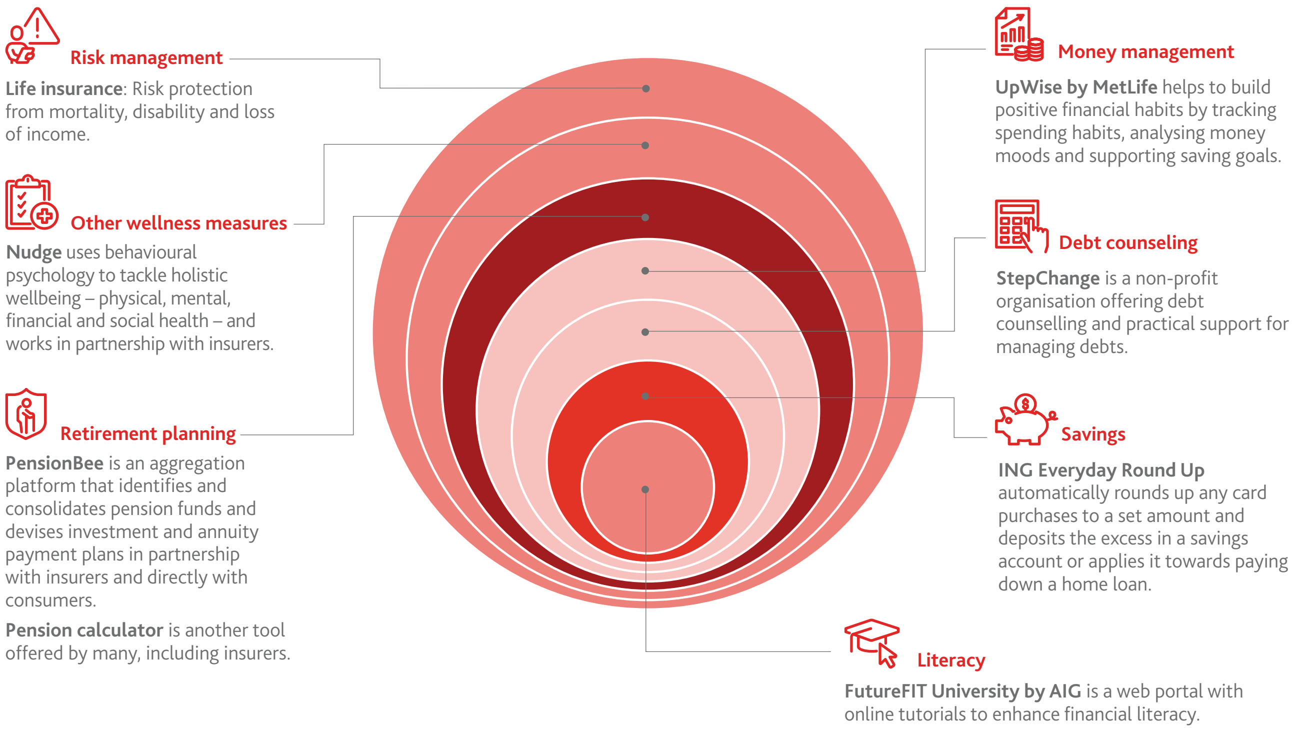
Financial wellbeing insights from the survey

The survey conducted for the report explored the perspectives of 25 large life insurers (with combined annual gross premiums for the life segment amounting to over USD 550 billion)[3] on the evolving concept of financial wellbeing. In particular, it focused on the following:

- Insurers' interpretations of and perceptions about financial wellbeing
- How the concept of financial wellbeing is being applied in practice
- Insights into the opportunities and challenges involved in cementing insurers' role in financial wellbeing

1 Kakar 2021.
2 Etkin 2021.
3 Calculated based on published data for the life segment (including health, life, annuities, accidents and disability) in 2021, and when not available, 2020.

Figure 2: Financial wellbeing: consumer needs



Source: The Geneva Association 2022

Based on the findings of the literature review, the report interprets financial wellbeing (and related products) as an ecosystem of consumer needs, including financial literacy, savings, debt, money management and general wellbeing, in addition to core insurance offerings such as retirement and risk protection. The survey reveals that some life insurers have started to expand their role to address all parts of this spectrum. But, for the vast majority of life insurers, the focus is concentrated on areas denoted in dark to moderately dark shades in Figure 2, such as retirement planning, savings and financial literacy, among others.

Most insurers agree that financial wellbeing should be considered comprehensively, but their emphasis remains on retirement savings – suggesting a gap between what is acknowledged to be important versus what is offered as a solution. There is widespread consensus that demographic shifts in particular are driving the concept and shaping their market. Surprisingly, technological drivers are seen as less important, except as an enabler of more sales, better marketing and improved access. Insurers and banks are viewed as the most active players in this space, followed by governments. Notably, independent (digital) platforms are seen as one of the least active players despite the growth seen in recent years.

All insurers offer products to enhance financial wellbeing that go beyond traditional risk and savings solutions. But most products are designed with retirement security as a primary goal, followed by financial literacy and encouraging general savings. Intriguingly, limiting risk exposures through more preventive strategies is the least cited motivation. Financial management, including tackling debt, falls outside the scope of the products offered by insurers, suggesting that insurers are largely working within the parameters of their traditional roles while taking some incremental steps to influence other financial behaviours. Product characteristics appear to mirror these findings. Few insurers focus on the young with financial wellbeing programmes, with the vast majority focusing on working-age adults and only some aiming at the elderly.

Most insurers deem financial wellbeing products to be successful in increasing customer numbers, retention and experience. There is an acknowledgement that more could be done to increase the number and improve the quality of touchpoints with customers to strengthen engagement and influence behaviour. Regarding consumer outcomes, there is a widespread belief that life insurers are well-positioned to enhance financial wellbeing by moving towards better customisation of products, reframing retirement savings as part of general savings goals to counter low prioritisation of insurance and tapping into the needs of the elderly with better integration of healthcare services. However, life insurers also face important challenges such as the squeeze on household disposable income, which makes it difficult for people to achieve meaningful savings, and the volatility of the political and regulatory environments, which makes instilling long-term savings habits difficult.

Four recommendations for insurers

Step up efforts to directly affect the determinants of savings and risk protection. Inherent in the concept of financial wellbeing is an ecosystem of consumer needs that transcends the traditional products offered by life insurers. If life insurers wish to position themselves more strategically, they will have to redefine their role to include directly affecting the determinants of retirement savings and risk protection through pathways such as financial literacy education, advisory services, mentoring and financial incentives in partnership with government, financial advisors and wealth and asset managers. Doing so may require insurers to either create or buy new capabilities, or else partner to bring them in.

Promote financial literacy in young age. The lack of attention to financial education leaves the young ill-prepared to navigate the insecurities of the current labour market and successfully prepare for their retirement. It also overlooks the opportunity to cement the role of life insurance at an early age. With a relatively modest investment, insurers can partner with national educational agencies, schools, communities and digital platforms to develop innovative ways of propagating broader financial knowledge, including by gamifying it, using social media and leveraging word of mouth and 'influencers'.

Improve risk exposures through preventive measures. Very few life insurers cited limiting risk exposures as a primary motivation for developing new products. Yet there are strong connections between financial wellbeing, general wellbeing and risky behaviours. Altering these behaviours will require insurers to embed data science at the heart of their products and indeed to see it as a key to understanding needs, shifting the paradigm from repair/replace to predict/prevent. Similarly, using data science to better integrate health and wellness products could have significant benefits.

Tap into the longevity economy. Life insurers' efforts to tap into the burgeoning longevity sector are currently modest. There is also little to suggest that their products address changing retirement patterns, such as unretirement, phased retirement and new careers post-retirement, or changing family structures. New solutions such as silver sabbaticals to enable middle-aged adults to re-skill and to encourage longer working lives as well as supplementary health and care benefits that take over where government leaves off could help insurers unlock the potential of the silver economy and increase their relevance to ageing societies.

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Much is at stake – not just for the life insurance industry but also for the financial wellbeing of future generations. The industry has an indispensable role to play in helping individuals and families navigate today's rapidly changing demographic, economic and social environment. But if it is to help them meet their goals more effectively, it will have to embrace a broader understanding of financial wellbeing and, while continuing to serve its traditional retirement savings and protection missions, also provide new products and services that holistically meet people's needs across the life cycle. There are encouraging signs that the industry is starting to move in this direction, but it is also clear that much more remains to be done.

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