Willis Towers Watson

The UK Life Insurance Market 2019-2020: a snapshot

Five issues that are setting the tone

The turn of a year is, traditionally, a time for reflection on what's happened during the year gone by and what the next year may bring. So, as an industry that is steeped in tradition but where significant changes are taking place or are in the offing, why should UK life insurance be any different?

We recently asked some of our senior UK Life practitioners to pool their thoughts and identify some core themes that they saw running through assignments in 2019 and that are carrying through in to 2020, and beyond.

Don't worry – while we all of course have to be mindful of the wider economic impact of Brexit, this is the last time we'll mention it in this article. It also goes without saying that the five themes we've picked to feature at a high level won't necessarily correspond exactly with your own view of risks and priorities. But we believe there will be some observations on situations and circumstances that you can recognise in your own business. Where we see challenges and opportunities, hopefully they will give you some additional perspectives on them.

If you would like to talk with us about any of the subjects featured and our views on them, please do speak with your regular Willis Towers Watson contact, or email using the details below.

Matthew Ford
Senior Director, UK Life
matthew.ford@willistowerswatson.com

Waheeda Narker
Senior Director, UK Life
waheeda.narker@willistowerswatson.com

Brian Ring
Director, UK Life
brian.ring@willistowerswatson.com

The march of consolidation

The UK life insurance industry has been a sector in consolidation mode for some time. Many insurers are becoming more selective about the markets in which they want, or feel able, to operate in profitably, be it a result of competition, regulation, economies of scale, management and operational capacity, or capital efficiency – or a combination of them. Some could even be said to be moving away from being life insurers, in the sense that the market has understood the label up to now, and to be moving closer to an asset management style model.

Whatever the nature of the repositioning and reshaping taking place though, the practical tasks involved, and on which we've been supporting UK life insurers in 2019, are broadly similar. All paths generally lead back to objectives such as revisiting business strategy, reducing cost in the immediate and longer term, identifying business and capital (in)efficiencies, delivering investment yield, and optimising product portfolios and associated distribution to fit with strategic goals.

Nor is there any sign of a reversal in these trends in 2020, as companies continue to target efficiencies and expectations harden about interest rates staying low for longer. Markets naturally become more competitive as insurers become more specialised, fuelled in some cases by newer market entrants with a technology focus. The interest rate situation will continue to put a premium on activities such as effective hedging and strategic asset allocation, including for example, increasing investment yield opportunities with illiquid assets.

As for further consolidation, the UK life market is already quite heavily consolidated, but that doesn't preclude further activity. There are still blocks of business that will remain attractive to specialist consolidators and more narrowly focused organisations that typically have both access to affordable capital and that seek additional economies of scale.

Regulatory and reporting upheaval rolls on

The pressure has been on, and will remain on, as companies prepare for IFRS 17, the new international insurance accounting standard, even after the International Accounting Standards Board (IASB) delayed implementation until 1 January 2022 back in November 2018.

In 2019, UK insurers, many with our support, took steps to rise to the challenge of the often complex technical requirements of the new standard, such as calculating the contract service margin. While many still have a long way to go to be fully ready, detailed implementation plans and, in some cases, technology investment programmes are generally in place to enable them to further ramp up activity in 2020. Calls for a further delay until 2023 that surfaced towards the end of 2019 shouldn't distract companies from maintaining their momentum as there is no guarantee that further delays will be allowed.

Far fewer companies, however, have so far invested anywhere near the same degrees of time and effort in assessing the financial and business strategy consequences of IFRS 17. What we're referring to here are things like impacts on investor messaging, profit resilience and investment mix. For some companies, these could be quite substantial.

Altogether less discussed these days is Solvency II. To a large extent in the UK market, compliance activity is now business as usual, but the regular reviews and updates of the Directive can still throw up the odd surprise or issue to be dealt with. The consultation launched in October 2019 relating to advice for the 2020 technical review is an example. This not only puts the spotlight on the capital treatment of interest rates but will also require companies to enhance (or indeed create) pre-emptive recovery and resolution plans.

The case for finance transformation

The previous two sections highlight the pressures that most insurers' actuarial and financial systems are under. Whichever way you cut the associated challenges, they normally boil down to needing to do more – faster, better and cheaper. Hardly surprising when IFRS 17, coming on the back of Solvency II, has effectively almost doubled what UK life insurers have to complete in a working day timetable for reporting.

During 2019, we were helping more companies deal with just how difficult the workload can be to achieve, often complicated by their networks of unconnected legacy systems. There comes a point for most companies in this situation where patching what exists can no longer get the job done and skilled and expensive people are spending more time on keeping the systems fed and running rather than analysing results to support better decision-making.

At the risk of a blatant plug for our Unify product, workflow software has become a real game-changer in recent years. Speed, connectivity, automation of routine tasks, governance, control, auditing and tailored reports, increasingly packaged up in outsourced arrangements, are just some of the reasons why several more companies have undertaken or initiated at least some degree of finance and actuarial system transformation over the last year.

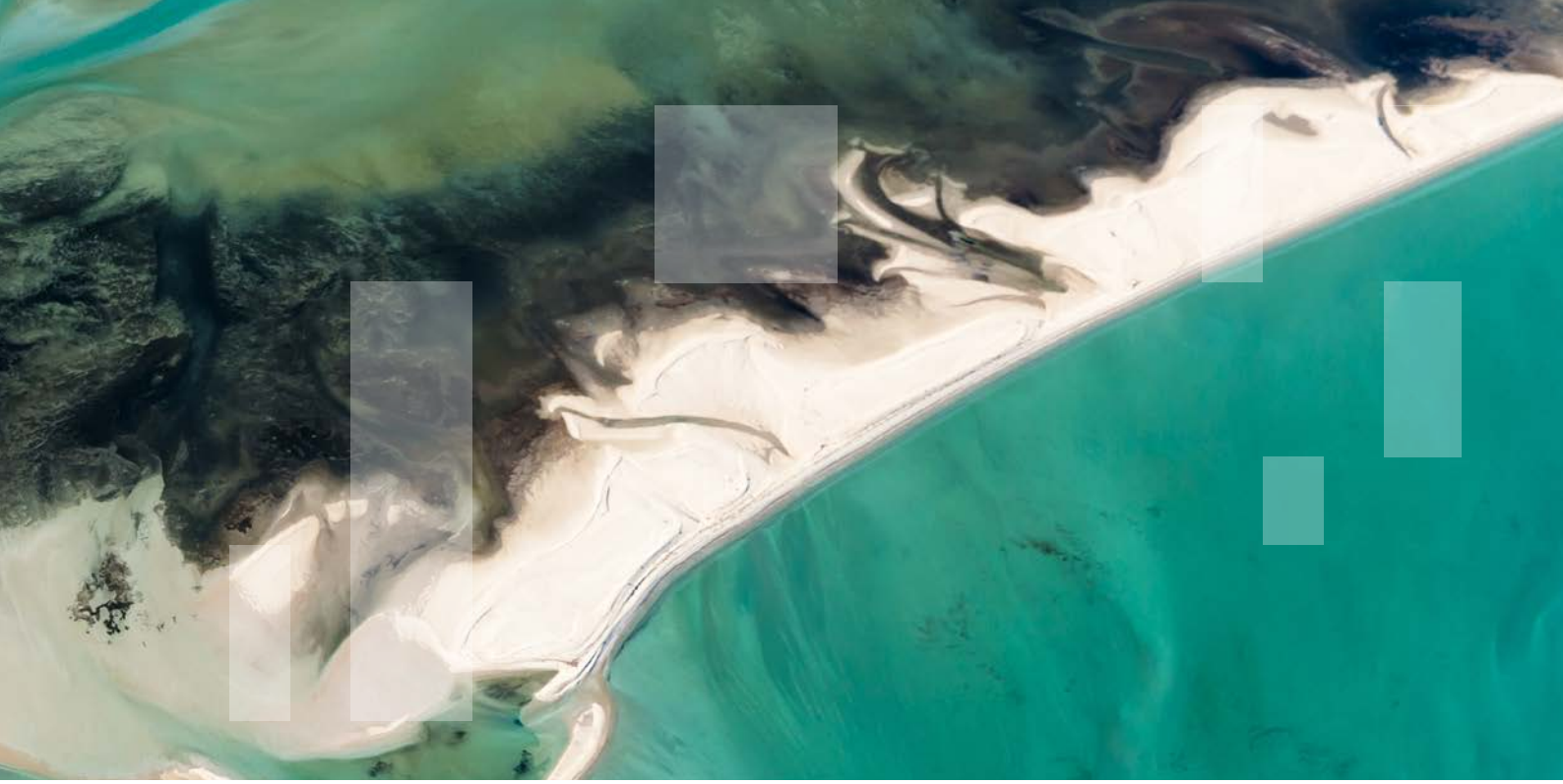
Looking ahead, solutions are now frequently enhanced with the added flexibility, scalability and cost effectiveness of removing owned IT infrastructure constraints to undertake more work in the Cloud, on virtual grids and on a software-as-a-service basis. Artificial intelligence (AI) and machine learning capabilities are starting to add and will continue to add to the automation possibilities.

Technology means choices

Looking at technology more widely, what we've continued to note and demonstrate in 2019 is that significant business improvements can result from relatively small investments. For example, internally held policy and claims data, when more effectively handled and analysed in products such as our own Emblem, often yields useful business insights without necessarily resorting to the wider big data universe – as useful as the expanding range of available external data assets in that universe can be.

Modelling improvements, some of them building on techniques originally developed for property and casualty (P&C) insurers, in areas such as mortality projections, have also proved widely beneficial. Automation technologies in general, and the expanded use of Cloud resources as already alluded to above, should offer significant untapped potential given the widespread industry aims for greater operational efficiency.

A burgeoning aspect of technology strategy going forward is the role that InsurTech businesses may have to play, particularly as our research (see Willis Towers Watson's quarterly InsurTech reports) shows that most of these businesses are moving away from an end customer focus to concentrate on developing applications that help improve insurers' back office operations. But with literally thousands to potentially choose from, not all offering immediately obvious value, insurers will need some clarity about selecting those with which to work.



Emerging risks

A handful of categories of risk stand out to us as shifting in their relative importance to not only UK life insurers, but regulators, investors and customers alike.

Climate risk has of course always been significant to the P&C side of insurance for those companies underwriting assets vulnerable to weather-related natural catastrophes and events. Today, as well as many companies being motivated on principle to address climate change, there are multiple external drivers pushing it up the agendas of all UK insurers.

On one hand, the Prudential Regulation Authority (PRA) is pushing for better quantification of climate risk in capital management. On another, you have the Task Force on Climate-related Financial Disclosures requiring improved disclosure of climate risks to financial markets. And as major investors in their own right, insurers are being increasingly pressed to take a lead on sustainable investing and stewardship. A common challenge in all of these that we're helping insurers to address through our specialist industry consultants, modellers, experienced catastrophe analytics team, investment practice and the Willis Research Network is more effective quantification of climate risks.

Cyber risk is clearly another area of growing concern for regulators, even if life insurers aren't directly underwriting cyber insurance policies. Regulators are certainly giving it more attention. Following an initial supervisory statement in 2017 that was primarily directed at P&C insurers, the PRA has continued to issue guidance and expectations related to risk management, appetite and strategy more widely. One thing that has become apparent about cyber risk is that mitigation isn't only a matter of technology. Our research shows that the majority of cybersecurity incidents, where data and/or systems are potentially compromised, result from employee actions, such as opening phishing emails or non-secure data transmission. So, much of our work in this area involves working closely with our HR and organisational consultant colleagues to improve protection measures through tighter working practices and workforce education.

A third area of risk we would highlight as coming under increasing regulatory scrutiny is operational risk. The ongoing focus on conduct risk, stemming from Treating Customers Fairly, is an example of how operational risks are increasingly important for capital management and may require further action on the part of some companies. Meanwhile, the PRA has started to focus on new aspects of operational risk, including supply chains.

Open for discussion

That's it – our brief overview of some key issues that we feel are important in defining the shape and direction of the UK life insurance market. It's not intended to be a comprehensive list and you will, of course, have your own views of priorities and other important topics. We look forward to discussing and debating these with you in the months to come.

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Willis Towers Watson
51 Lime Street
London
EC3M 7DQ

willistowerswatson.com/social-media

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