Sustainable insurance in an increasingly interconnected world
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Life2018

20-21 June 2018
"Sustainable insurance is a strategic approach where all activities in the insurance value chain … are done in a responsible and forward-looking way…

Sustainable insurance aims to
- reduce risk,
- develop innovative solutions,
- improve business performance and
- contribute to environmental, social and economic sustainability” (PSI, UNEPFI, 2012).
Sustainability impacts all aspects of an insurer

- Stakeholders
  - Proposition design
    - Pricing and underwriting
  - Distribution
    - Sales and marketing
    - Advice
  - Responsible investing
  - Policy administration
    - Claims management

- Culture, values and behaviours

- Purpose and vision

- Strategy
U.K. Demographic Projections

What is driving demand for new solutions?
So what? Demographic change is common knowledge, isn’t it?
What story are we trying to tell?

1. Ageing population
2. Worsening health
3. Declining labour force
4. Increasing state pension recipients
5. Increasing state pension recipients
6. Increased NHS budget demand
7. Demand for social care
8. Impact on GDP growth
9. Public health budget vs. GDP
10. Inflation of cost of providing public health
11. Shortfall of care workers
12. Tax burden on e.g. millennials
13. Expanding savings gaps
14. Unsustainable public service provision
15. Demand/Need for private solutions
So what? Demographic change is common knowledge, isn’t it?
What story are we trying to tell?

Demand for / Need for private solutions

Technological innovations across a wide range of industries

Opportunities for insurers to partner with other industries to provide…

Social benefit + Synergetic services
Population age structure and impact on demand for care
From 3.3 to 2.3 working-age persons per elderly dependent within 30 years
Population age structure and impact on demand for care
Prevalence of age-related diseases expected to grow significantly

If the prevalence of dementia in each age group remains constant, population changes imply an increase of 400,000 dementia patients in the U.K. by 2048.

Non-WTW projections predict from 400,000 to 1,000,000 more dementia sufferers by 2050.

Source: Quality Outcomes Framework (QOF)
Recorded Dementia Diagnoses - December 2015

- Only recorded diagnoses – some may not be recorded
- Prevalence increases dramatically at ages 80+
Population age structure and impact on demand for care
Demand-based budget projections for the NHS

- Average cost at age 85+ more than 4.5 times the average prior to age 65.
- If the cost of providing the same care increases by 2% p.a., then the increase in the demand-implied NHS budget is £138 billion.
- That’s an increase of more than 2.5% per annum.
- Whilst we can’t predict the exact increase in the cost of care, it’s clear that funding will not be able to match demand.

If the cost of providing the same care increases by 2% p.a., then the increase in the demand-implied NHS budget is £138 billion.
Demographic changes contribute a 23% increase in annual pension payments.

Assuming 2% p.a. inflation, the real-terms increase in the best-possible ‘triple lock’ scenario is 1.2% per annum.
Demographic change induced stagnation/recession?
Impact of an ageing population on the labour force, productivity and GDP

Other than in low PPP inflation scenarios, real-terms GDP falls over time, even with migration, under central estimates of 0.5% productivity growth p.a. and cutting migration makes things much worse.
Demographic change means the state can’t pay
Something has to give, implying growing demand for private solutions

- The proportion of GDP required for NHS spending, social care funding and the payment of pensions may increase by two thirds.

- The U.K. government collected just under £600 billion in taxes in 2017/18. This means that the cost in 2018 (over £250 billion) is over 40% of tax revenues.

- Even with an increase in taxation, the 2048 position may be close to 70% of tax revenues.

- This is not sustainable if other public services are also to be funded.
Savings gaps at retirement
Preparing for retirement not seen to be a priority

Credit culture
- Average non-mortgage debt of about £10,000 per household by end-2016 (PWC, 2014).
- Additional high tuition fees for university students – can result in debts of £40,000 or more.

Cost inflation (e.g., rent/mortgage)
- Cost of servicing debt, plus high property price/rent inflation, has reduced saving potential.

Wage stagnation
- Pension auto-enrolment is improving provision at retirement. However:
  - Poor choice of ‘default’ funds/lack of asset life-styling can mean poor returns.
  - Automatic contributions are insufficient to build a pension pot sufficient for retirement.
  - Individuals do not see value in additional voluntary contributions, preferring ‘cash now’.
  - Repayment of debts at retirement will erode the value which has been built up.
Drivers of demand for insurance protection
(As well as quality accumulation and decumulation products for pensions)

Growing ‘risk’ of the state not providing care to the same extent that we’re accustomed to

Increasing demand for long-term social care and healthcare services

Savings gaps predicted at retirement
(Worse for younger generations with higher debts)

Growing risk of ‘burdening’ families with high debts on death, critical illness or incapacity

- Private health insurance market?
- Insurance against long-term care costs, e.g., in case of dementia?
- Growing demand for cost-effective protection products in 30s/40s?
- Life-styled funds and innovative asset solutions for pension accumulation?
- Innovative decumulation products?
How our customers view retirement

I want a place to live

I don’t want to run out of money

I don’t want to be lonely

I want to be looked after when I am sick / ill

A good life in retirement
Imagine if…

…insurers provided long-term care insurance and partnered with residential/nursing care home providers.

Increase in claims for care cost matched by…

…expected increase in revenues from care homes
Sustainable, socially responsible partnerships
Insurance companies and technological innovators

Imagine if…

…insurers worked with technology providers to keep the elderly mobile for longer?

- Reduced burden of LTC claims
- Expected growth in value of technology sector equities
Imagine if…

…insurers worked with technology providers to develop robotic aids which reduced the rate of cognitive decline amongst dementia patients?

Shift from nursing to residential care

Improved outcomes at reduced long-term costs
Sustainable, socially responsible partnerships
Insurance companies and the medical sector

Imagine if…

...insurers worked with medical technology firms to develop smart home products and wearables with diagnostic functionality?

- Earlier diagnosis and successful treatment ➔ healthier people
- Leads to reduced claims on mortality and CI products
Recent proposition innovation and use of behavioural economics
Spotlight on “mental accounting”

2-IN-ONE SAVINGS PLANS REPLACES CURRENT SAVINGS RANGE

Our current offerings:
Focusing mainly on disciplined Long Term Savings

Our new offering (2-IN-ONE SAVINGS PLANS):
One savings plan with TWO pockets, allowing focused disciplined Long Term Savings as well as addressing Short Term Savings needs

- Long Term Pocket
  - Smoothened Bonus
  - Existing Events:
    - Part Withdrawals, Surrenders, Death & Disability, Cancellation

- Short Term Pocket
  - Existing Events:
    - Part Withdrawals, Surrenders, Death & Disability, Cancellation
  - New Events:
    - Part or Full Withdrawals, Savings Top-Up, Premium increase, Premium decrease

PRESENTATION TITLE
**Spotlight on “mental accounting”**

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<th>Low savings target 40 rupees</th>
<th>High savings target 80 rupees</th>
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<td>Cash savings delivered in one envelope</td>
<td>40</td>
<td>80</td>
</tr>
<tr>
<td>Cash savings delivered in two envelopes</td>
<td>20</td>
<td>40</td>
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Results: Partitioning savings had a significantly positive impact on the level of savings:
### Spotlight on “mental accounting“

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<td>Cash savings delivered in one envelope</td>
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<td>373</td>
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Total savings when cash delivered in one envelope

Total savings when cash delivered in two envelopes

World Economic Forum: How We Can Save (for) Our Future
Positively different investments

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There's no other investment company like VitalityInvest. Not only do we aim to help you reach your financial goals, but we also help you lead a healthier life. And we reward you for doing both.

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Thomas, discover your LifeSight Age

Your LifeSight Age is when you can most likely afford to retire. Use our LifeSight ageOmeter to answer some questions, play with the numbers, and discover how you can improve your tomorrow, today.

55 58 61 64 67
YEARS OLD

1 Other savings 2 Contribute 3 Invest 4 How to retire 5 Summary
the world’s first lifestyle insurance company
MEET INDIE
Traditional insurance models WILL be challenged
Rethinking insurance

- Analytics
- Socially responsible products
- Gamification
- Creativity
- Technology
- Risk mitigation
- Smart partnerships
- Wearables
- Trust
- Behavioural finance
- Engaging experience

Redefining the boundaries

Positive influence

Not a one-size-fits-all!