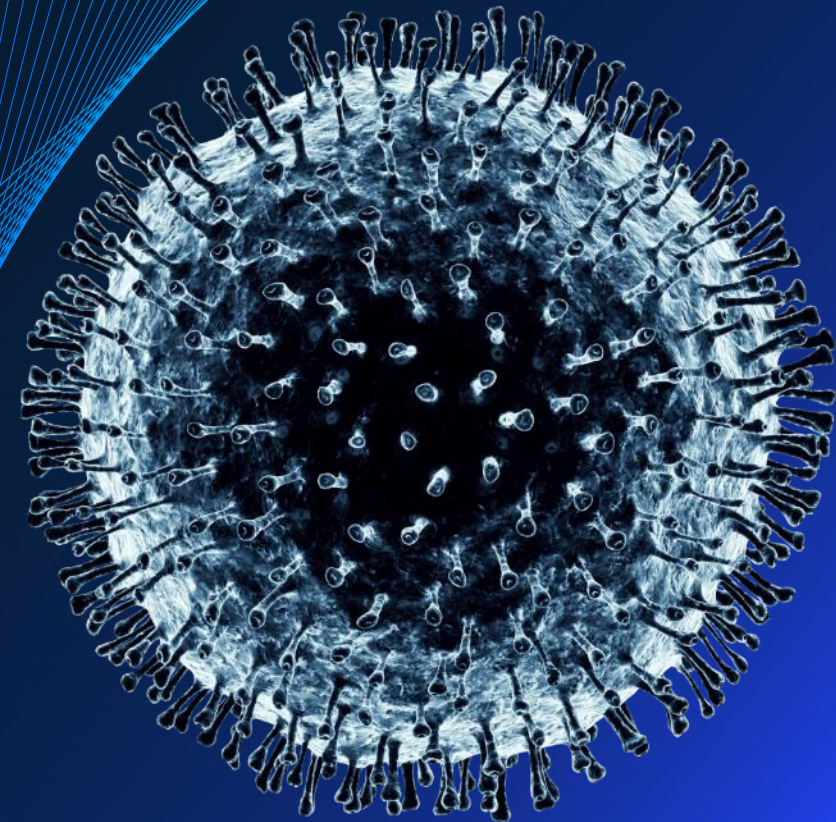


NCOIL: COVID-19 implications for U.S. Insurance Carriers

September 26, 2020

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Outline of our discussion

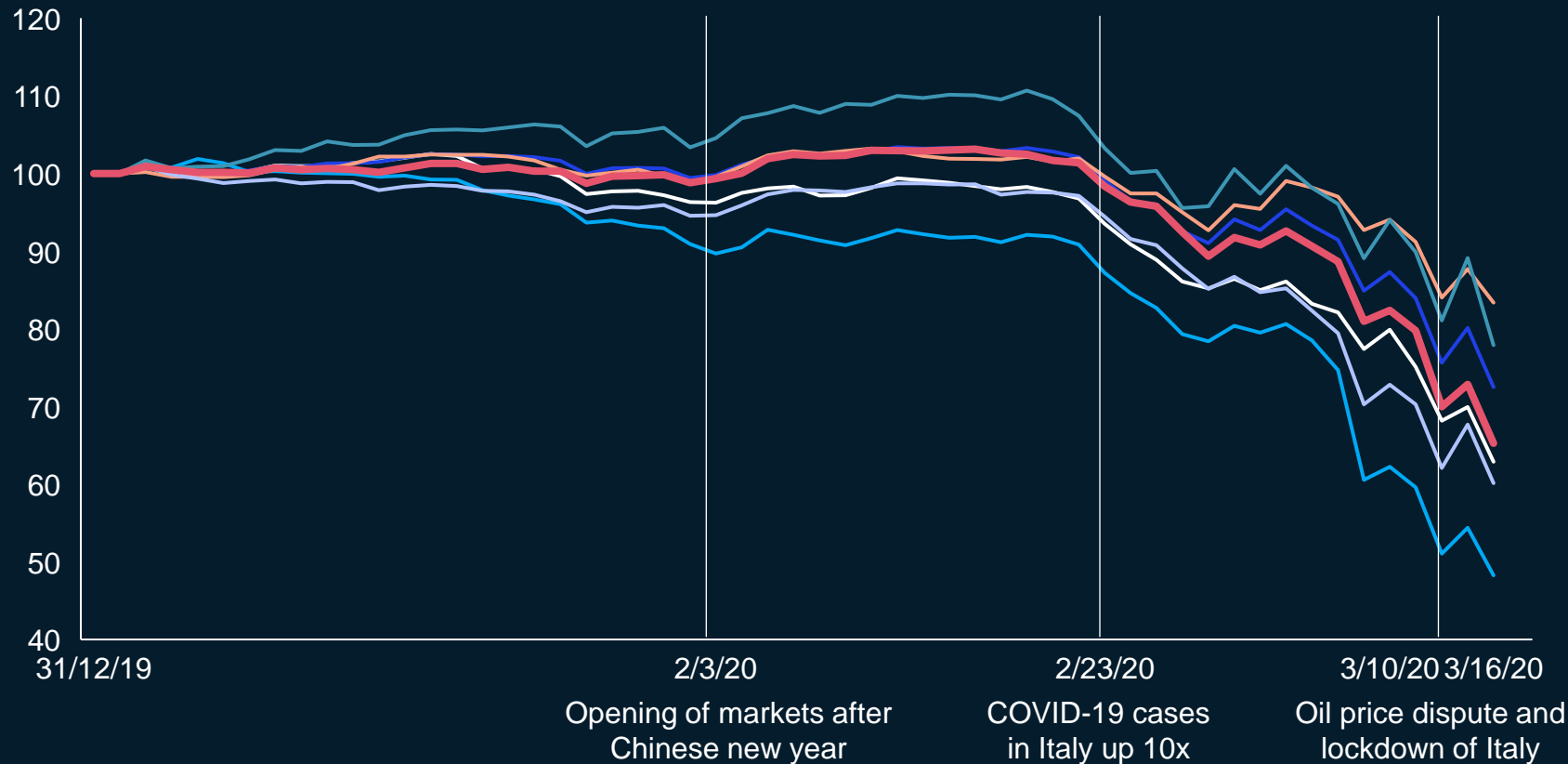
- A** Impact of COVID-19 on life insurers
- B Acceleration in digital and analytics
- C Imperative for product innovation
- D Actions related to in-force



Insurance has been impacted more than many other sectors

Selected global sector share prices January-April 2020

Indexed to 100 as of 12/31/2019



North American insurance carriers face a multi-pronged challenge



Operational disruptions

Question of whether COVID-19 is covered from a commercial insurance perspective

Potential reduced appetite for higher value policies given economic volatility

Disruption of new business and underwriting processes due to dependence on paper and in-person blood draws for life insurance

Inforce operation disruptions (e.g., call centers with performance erosion in the absence of robust remote capabilities)

Cyber exposures due to remote ways of working



Pricing, product and balance sheet disruptions

Low interest rates forcing life carriers to examine pricing and products

Fewer miles driven forcing P&C carriers to examine pricing and give premium rebates

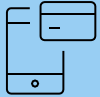
Significant pressure on inforce blocks with rate sensitive guarantees, particularly those written before the Global Financial Crisis

Potential credit migrations leading to further balance sheet challenges (e.g., declining reserve ratios)

Risk of broader instability in financial markets (e.g., disruption of normal money movements)

Possibility of variable annuities with equity linked guarantees breaking their hedges in case of further declines in equity markets

Navigating these challenges requires a comprehensive response

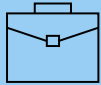


Drive digital and analytics

Promote digital channels for all steps of the value chain (e.g., remote capabilities for advisors, digital payment submission and claims)

Potentially shut down paper forms for portions of certain processes

Use advanced analytics across a broader set of use cases



Innovate the product portfolio

Shift away from capital intensive, rate-sensitive products with embedded guarantees to more capital efficient products

Accelerate advancement of products that can be priced and underwritten without a medical exam



Make inforce management a strategic priority

Explore reinsurance, buy-outs and closed block transfers

Consider a broader set of levers (e.g., retention optimization, cross-sell and up-sell, data-driven management of claims)



Get serious on cost

Adopt practices adopted by restructuring industry to address the fact that industry's cost structure as percent of premium remained unchanged since the crisis

Consider other levers such as zero-based budgeting mindset



Exploit strength

Take a long-term view and leverage M&A to accelerate fee-based earnings growth or gain scale (providing the carrier is well capitalized or can access relatively inexpensive sources of capital)

Explore opportunities to partner with private capital



Upgrade talent and shift ways of working

Go beyond hiring within the industry and extend to hiring scarce digital and analytical talent

Reskill employees to operate in a more digital world and embed new ways of working including remote deployment of agile practices



Accelerate the move to fee-based earnings

Accelerate execution of in-flight initiatives

Reassess portfolios to determine whether to invest in logical adjacencies (organically or inorganically)

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Trends significantly accelerated with COVID-19: Digital agendas across industries have leapfrogged by 5+ years in past ~6 months

A Accelerated shift to Digital



Winning in digital is more important than ever in a post-COVID world; customers are now accustomed to Digital interactions across categories (e.g., up by 2-3X in insurance)

Life and annuities agents are looking to carriers to support them **by providing more digital tools, self-service capabilities, and lead generation support**

B Continued evolution of Analytics



Analytics has evolved rapidly from a foundational capability to a real differentiator and unlock of business value; insurance as an industry lags behind (e.g., only 17% of carriers have a defined, sustainable analytics roadmap in place)

Leaders in analytics **2x more likely to use agile teams, 2.5x more likely to employ more analytics talent, and 4x more likely to devote invest in “last mile” adoption**

C Shifting Technology efficiency frontier



CIOs are taking bold actions to reach an efficient digital frontier by reimagining the role that technology function plays with respect to other business functions

They are **shifting their operating model** to enterprise-wide agility as a means to **support CEO aspirations for revenue acceleration and faster time to market**

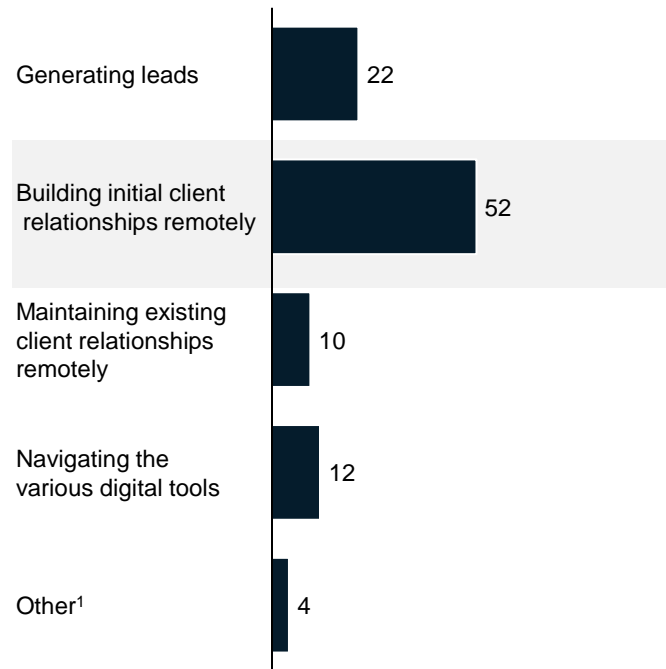
Establishing **technology foundations as consumable services** (e.g., micro-services on cloud) has become table-stakes to delivering on these aspirations

A Agents are expecting carriers to support them with digital capabilities, including self-serve capabilities and lead generation

Building new customer relationships remotely has been the biggest challenge for agents during the COVID crisis...

Q: What has been the biggest challenges working with customers during the COVID-19 pandemic?

% of Agents Ranking Each Challenge #1

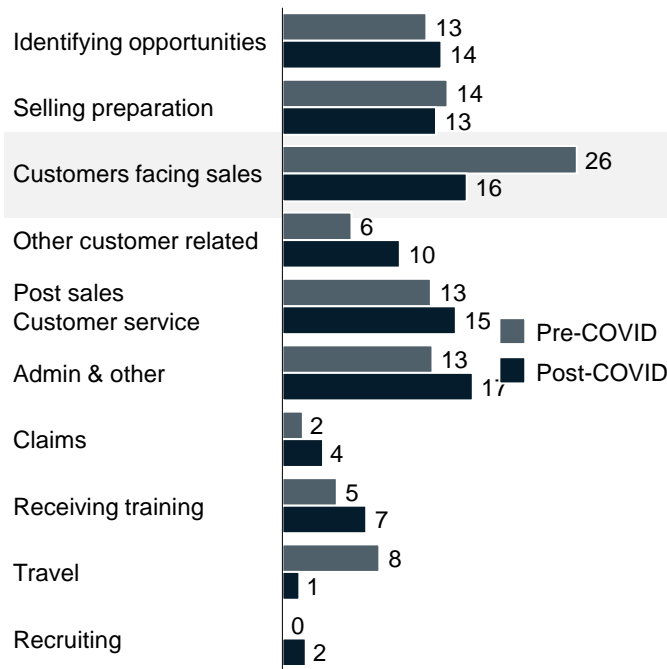


1. Other includes: lack of face-to-face meetings, reaching clients, and general client anxiety

...with agents having to spend less time on sales and more on service & admin

Q: What portion of your time do you spend on the following activities in a typical week?

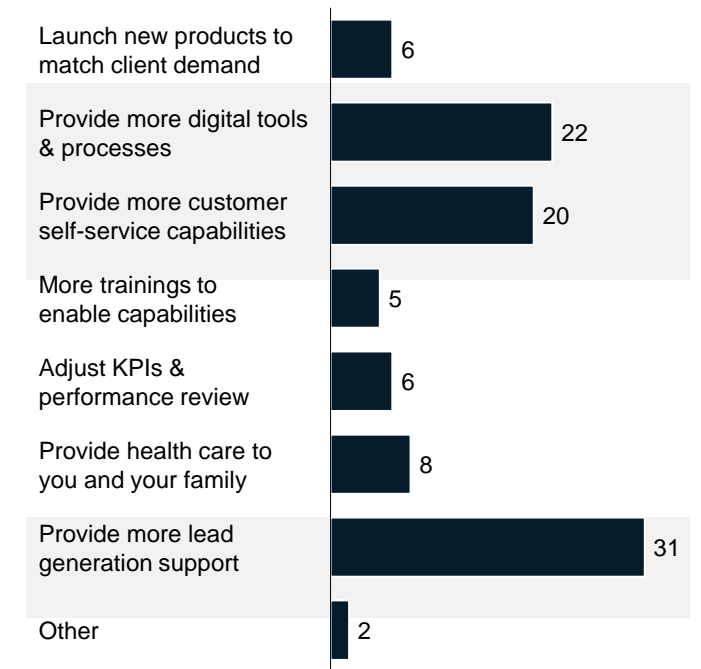
% of time spent by Agents



To support them, agents are looking to carriers to provide more digital tools and lead generation

Q: What can carriers do to best help you through this crisis?"

% of time spent by Agents (Ranked #1)



B Successful companies tend to focus on several key “rules” that enable them to drive significant analytics impact vs. competitors

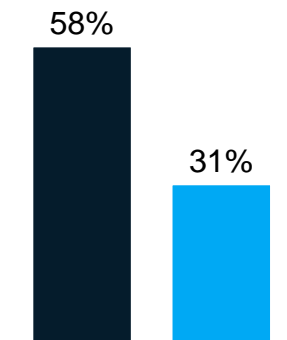
■ Breakaway companies
■ Other companies

Breakaway companies set a sound strategy for scaling analytics



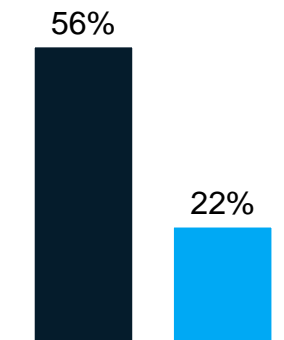
2X more likely to use cross-functional, agile teams

% of respondents who strongly agree that their analytics operating model revolves around cross-functional teams



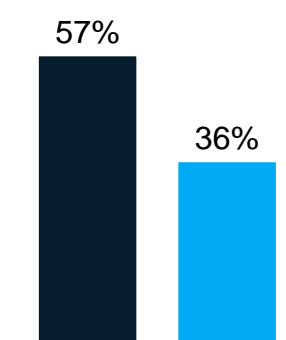
2.5X more likely to establish decision-making rights and accountability

% of respondents who agree that their organization has established clear accountability and decision rights by role, with clear escalation processes



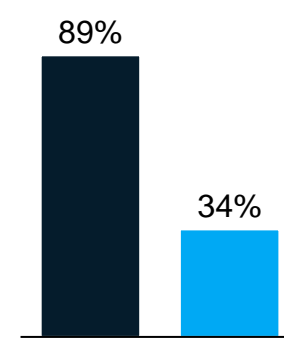
1.5X more likely to continually refine decision making

% of respondents who strongly agree that their organization continually refines as it learns more



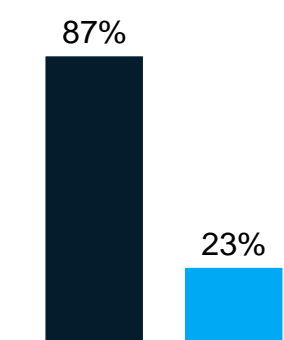
2.5X more likely to employ more analytics talent (incl. translators)

% of respondents with more than 25 analytics professionals per 1,000 FTEs



4X more likely to devote more of analytics spend to “last-mile”

% of respondents spending >50% of analytics budget on embedding¹



¹ For example integrating analytics into workflow

Successful carriers are shifting their operating model to continuously deliver impact for the top business priorities

Iterative process to derive agile operating model



Value

- Understand where value is created in the industry and where company needs to be distinctive
- Define end-to-end value streams
- Identify elements that can benefit from greater agility, either more dynamic or stable

Structure

- Design the overall structure (e.g., organizational axes, reporting lines)
- Identify organizational groupings, informed by value streams to create an organization map
- Define the “capability” axis, e.g., chapters or disciplines

Agile teams

- Identify teams and define missions to deliver value streams
- Select best agile way of working for each mission, e.g., cross-functional, flow to work

Backbone

- Outline requirements on the core processes, people, and technology to enable agility
- Select best agile way of working for each mission, e.g., cross-functional, flow to work

Road map

- Decide on implementation approach
- Develop high-level road map
- Create backlog
- Prioritize for immediate next steps

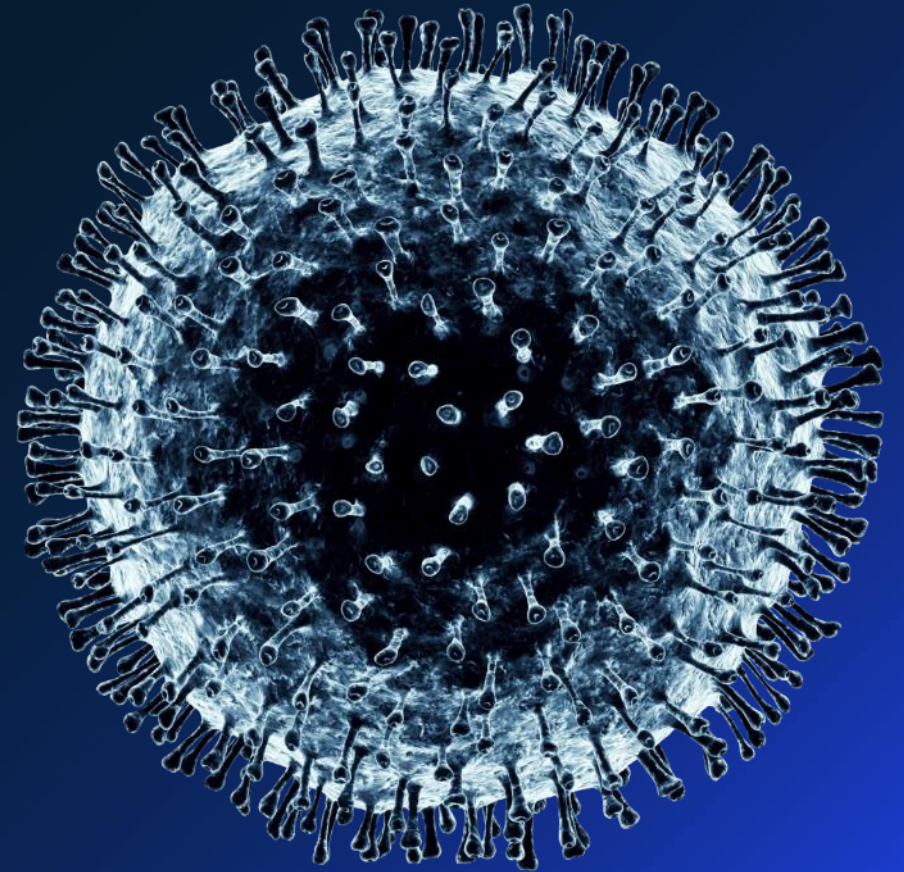
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COVID-19 is driving renewed product innovation

- 1** Carriers that rapidly introduced new products increased market share during periods of high market volatility
- 2** Sustained, low interest rate environments globally **require life insurers in particular to innovate** as traditional guaranteed products are less viable
- 3** Carriers in countries with persistent low interest rates have **aggressively pivoted their source of risk** exposure or exited the market
- 4** Lessons in **agile product development** from the technology industry can be appropriated by the life insurance and annuities industry



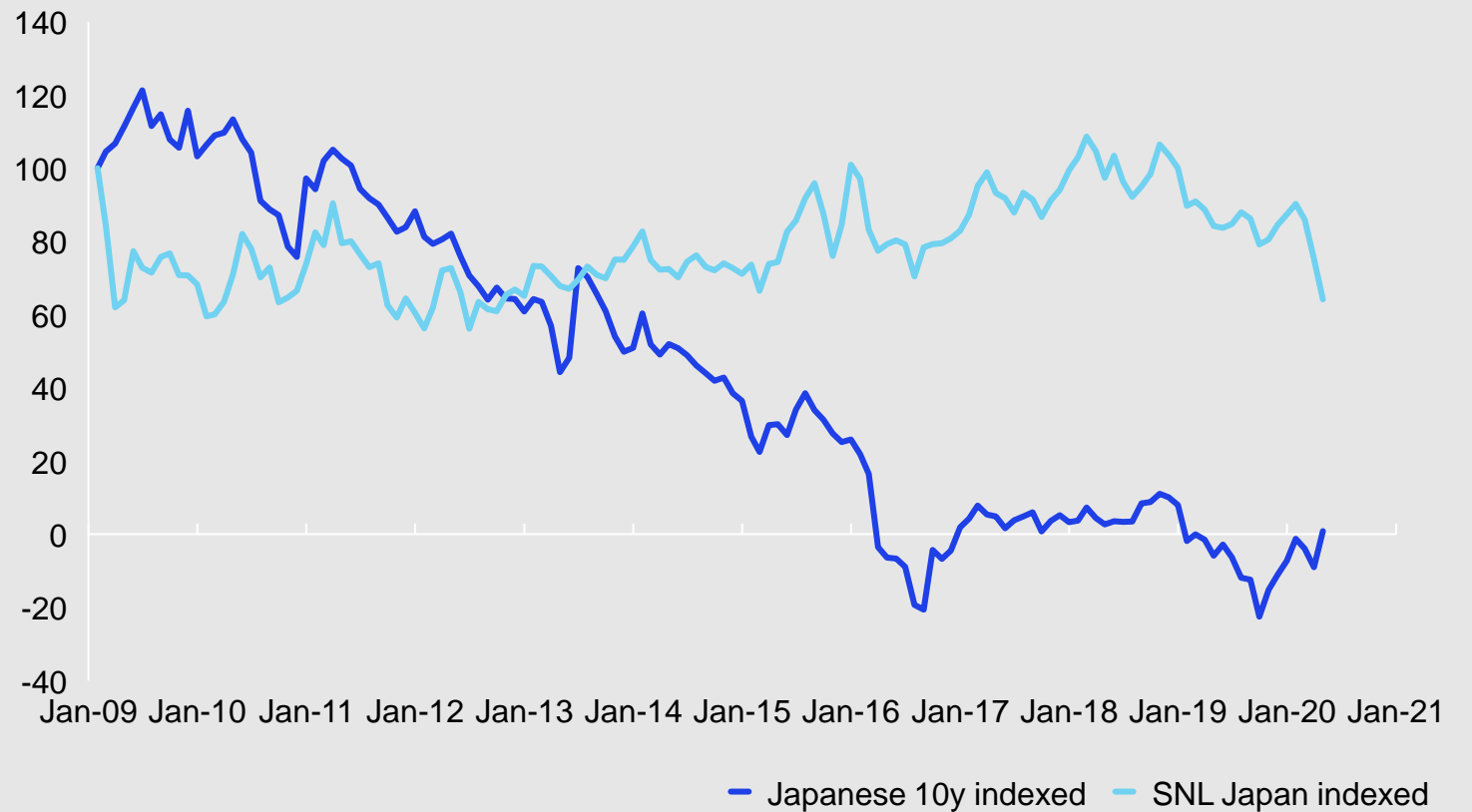
Lessons from Japan:
Carriers have long faced ongoing low-rates and managed to create value for shareholders, while “untethering” from the 10-year rate



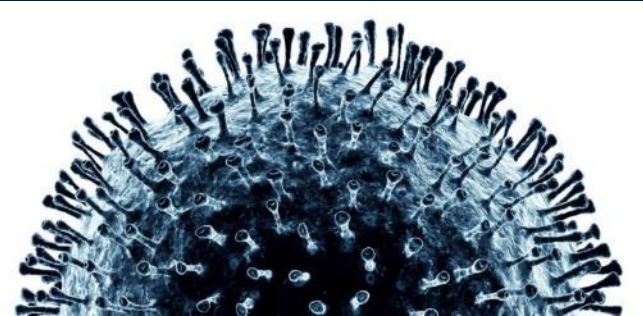
Source: SNL

Carriers can still perform when rates are at zero

Indexed to 100 as of 2/28/2009, SNL Japan Life insurance index, Japanese 10 y bond yield



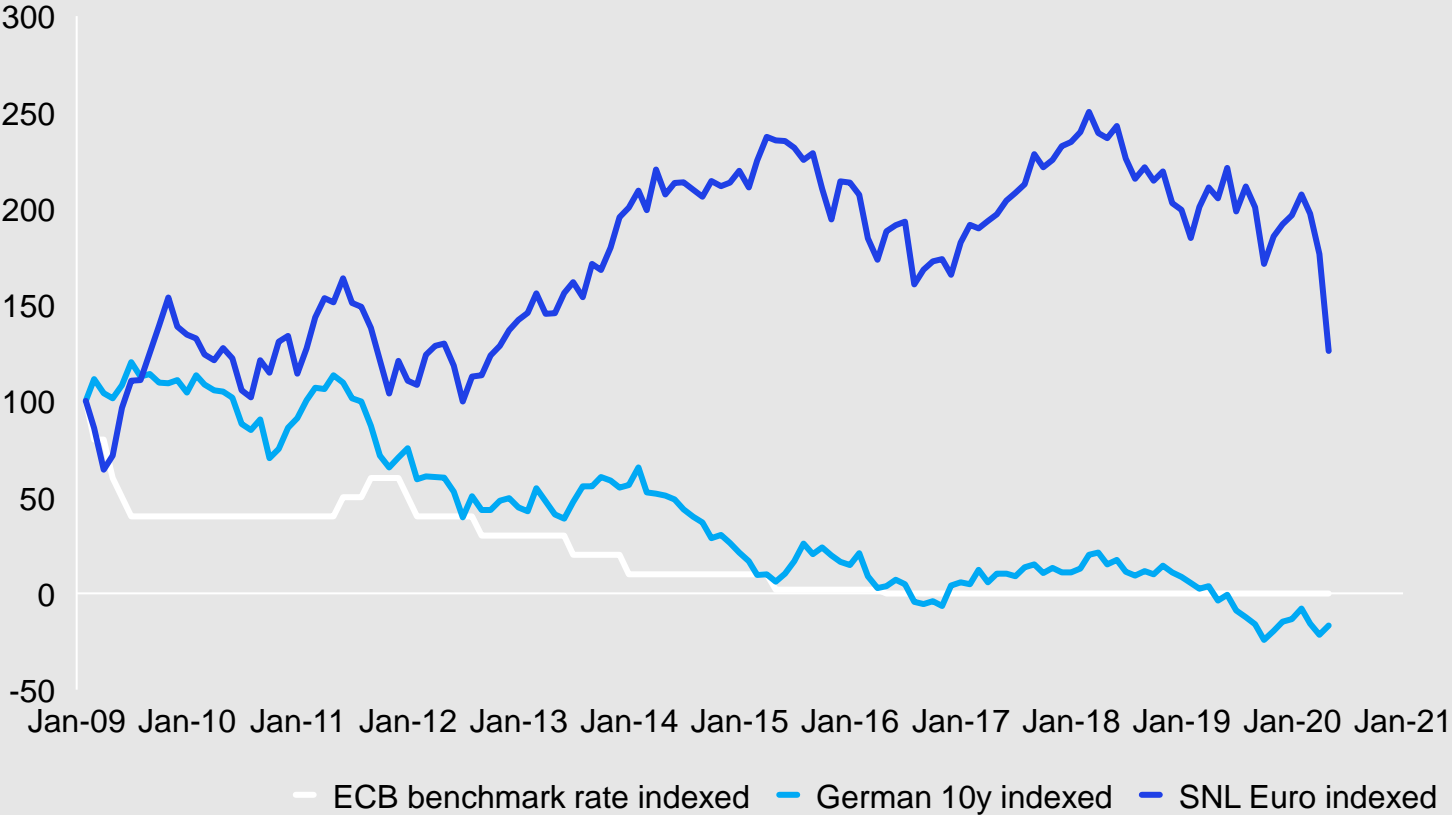
Lessons from Europe: European carriers have aggressively pivoted their source of risk in the past decade



Source: SNL

Carriers can still perform when rates are at zero

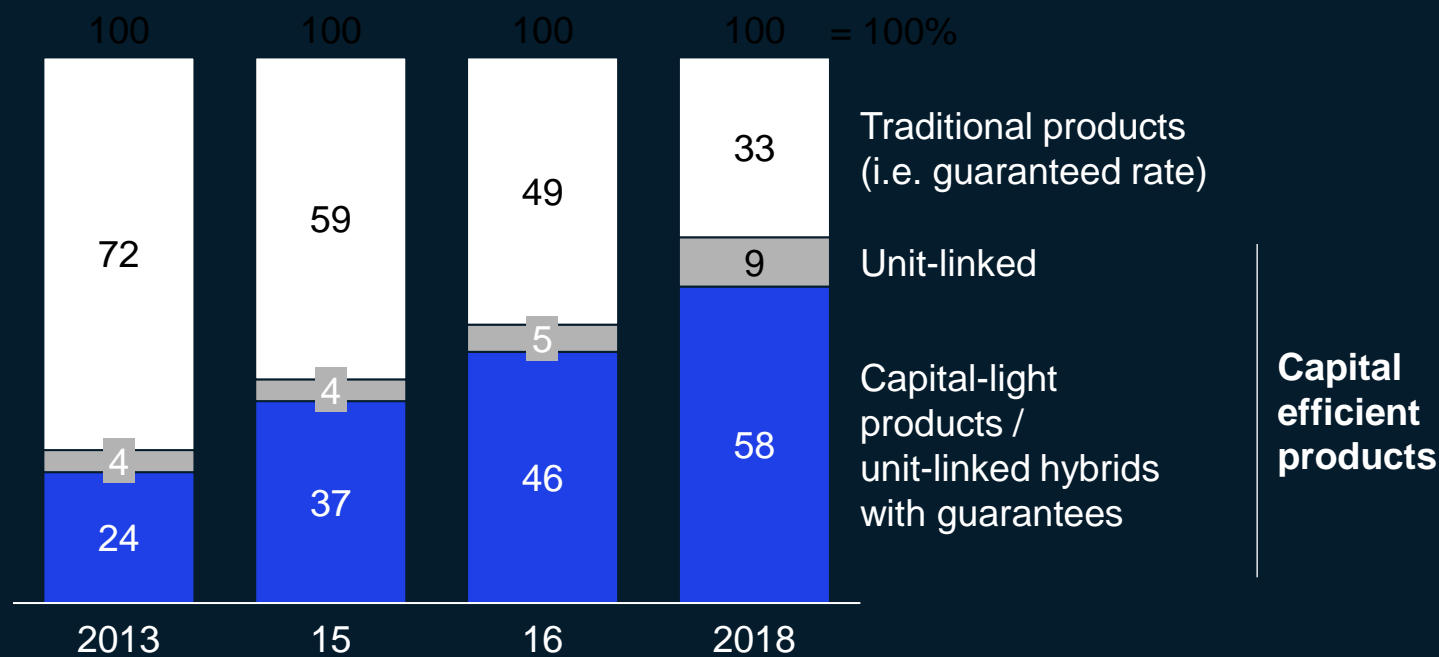
Indexed to 100 as of 12/31/2008, SNL EU Life insurance index, ECB benchmark rate, German 10 y bond yield



In Germany, carriers shifted to selling capital efficient and disability products

Sales of capital efficient products increased from ~28 to ~67%

Share of new business sales¹ by product category, %



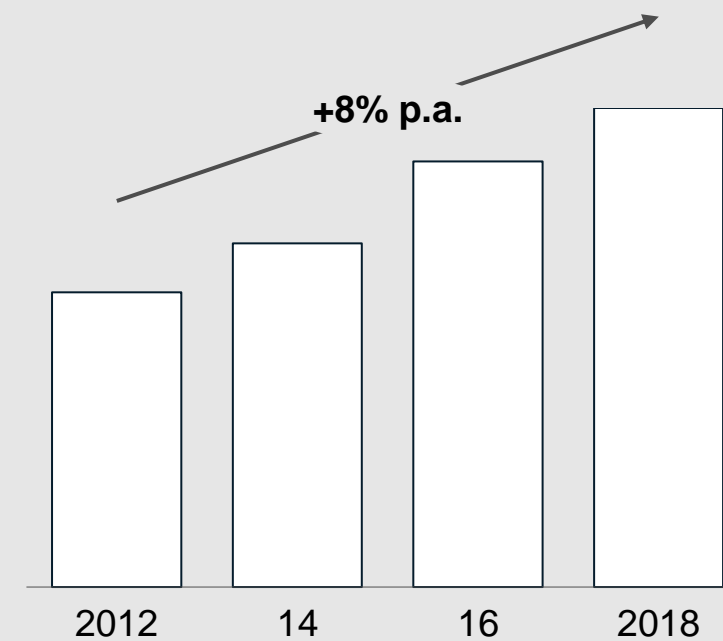
1. New business sales defined in terms of APE: Annualized Premium Equivalent
2. Traditional products with capital or rate guarantee
3. Fixed exchange rate used: EUR/USD of 1.11 as of Dec 2019

Source: Corporate disclosures, expert interviews



German disability market has grown by 8% p.a.

Disability insurance Sales³, USD Bn⁴

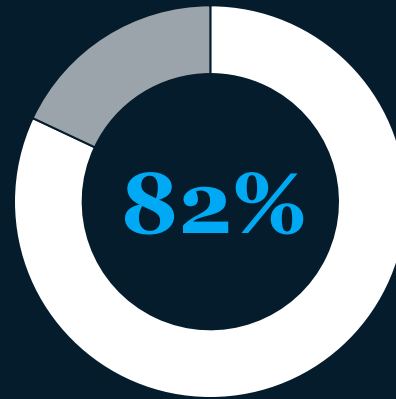


How to move quickly: Lessons in agile product development can be appropriated by the insurance industry

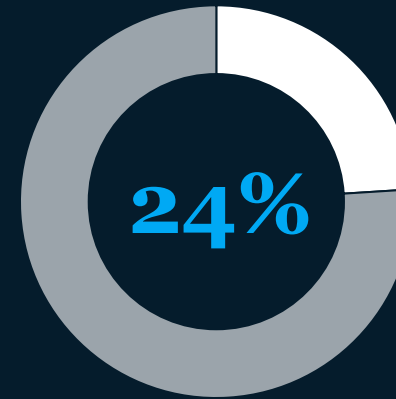


Source: Society of Actuaries, Understanding the Product Development Process of Life Insurance and Annuity Companies (December 2017)

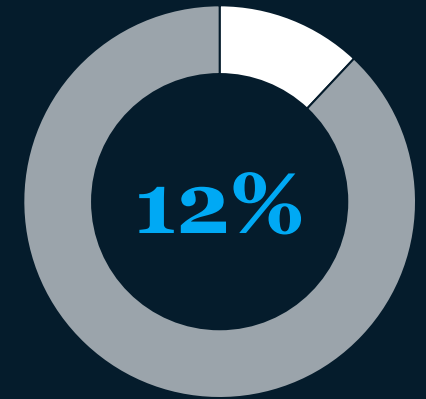
Of insurance senior management surveyed ...



Believe product development is a core competency



Do not have a defined product development strategy



Believe they have a process that delivers strong product innovation

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Typical challenges with in-force management actions

Why it is challenging to act on inforce

No one owns inforce... or has any incentive to act

There is a risk of "backlash" from customers, distributors and regulators

Lots of ideas and things to do... where should we start?

Terms & conditions are largely defined at inception. Degrees of freedom are limited.



What can be done?

Creating a cross-functional process – that drives the process across all impacted functions and clearly articulates trade-offs

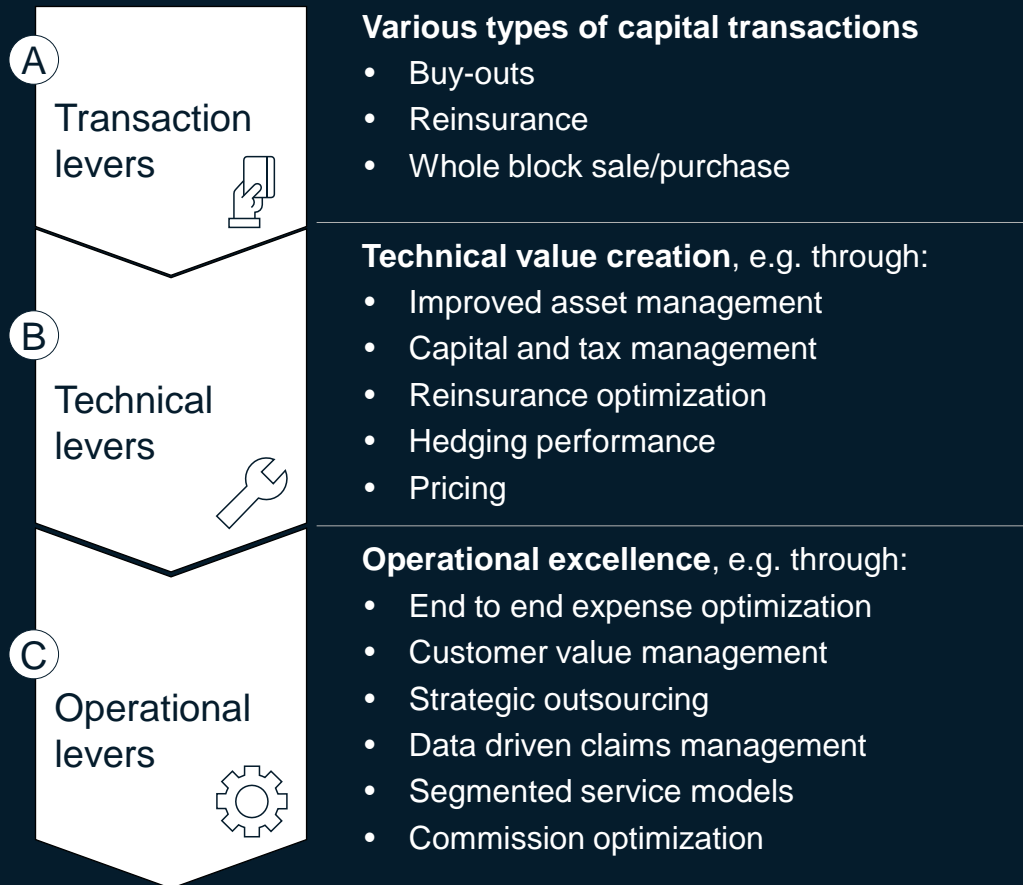
Consumer and distributor reactions will need to be taken into account, but carriers who have taken inforce actions have been able to avoid major push-back

Leveraging an exhaustive list of levers, and quickly prioritize (80/20) based on the structure of the book and contracts

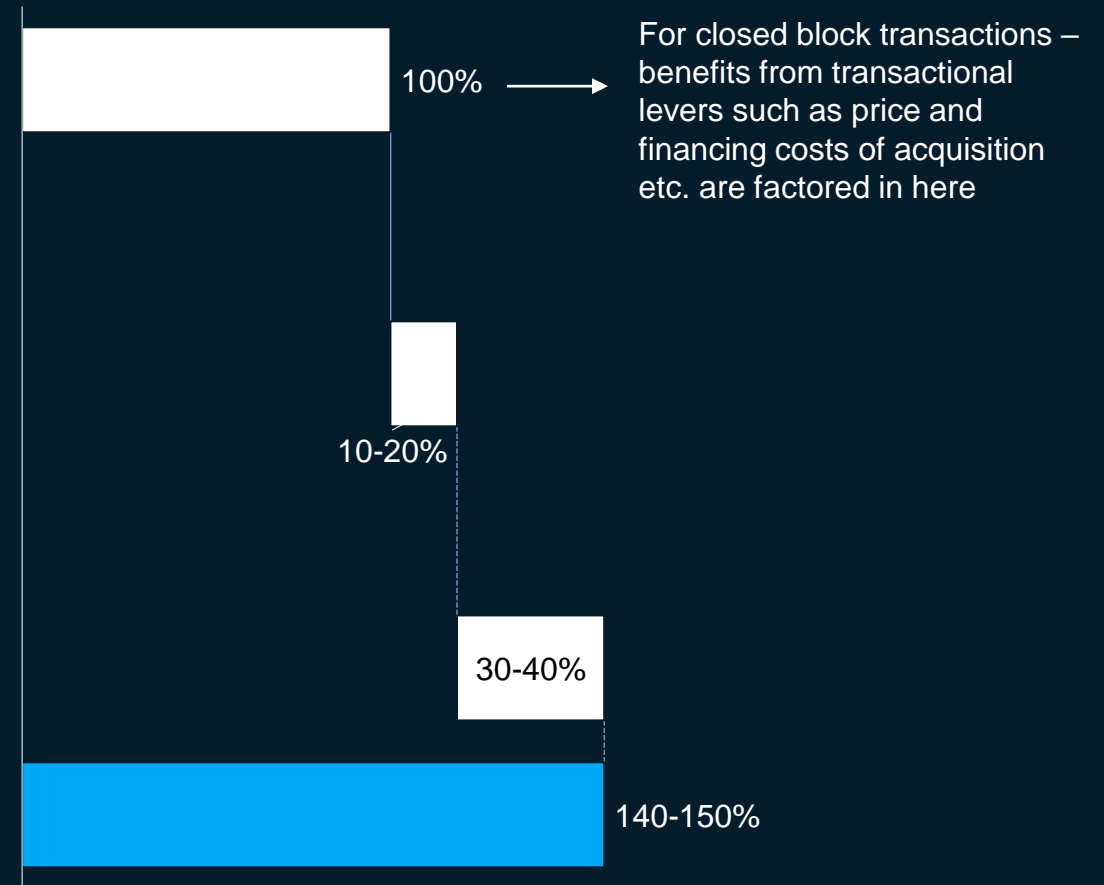
Within contracts, there is often substantial room to adjust and improve inforce economics. Given the volume, even small changes have major impact

There are 3 main value drivers behind effective inforce management

Value driver and non-exhaustive description of levers



IRR (Percent)¹



1. Based on real cases and transactions

Depending on desired balance sheet exposure and operating model, carriers choose different strategic postures

