Market summary

Canadian life insurers will enter 2016 in relatively good financial condition, but facing exponential changes from rapid advances in technology, rising customer expectations and growing competition. These market shifts will require insurers to reinvent their strategies, services and processes, while coping with nagging financial, economic and regulatory uncertainty. Furthermore, disruptive forces in other sectors are leaving insurers wondering what the impact will be on their company and what strategic response is needed.

Customer-centric approach

Customer expectations are being influenced by what is going on in other sectors. From anytime, any-device digital delivery to customized services, today’s diverse insurance customers will demand flexible solutions that go beyond one-size-fits-all product offerings.

Insurers must shift from a product-driven mindset to a customer-centric approach that relies on deeper relationships, more personalized advice and more rigorous information. Insurers must understand how to improve the customer experience at key touch points across the insurance value chain.

Technology innovation

Digital technology will continue to transform the life industry in the coming year. Millennials and mass-affluent consumers, in particular, are seeking the latest digital tools, such as on-demand insurance apps and robo-advisors for automated, algorithm-based financial advice.

Meanwhile, some insurers are starting to establish omni-channel platforms to reach and serve customers more effectively, and exploring the use of wearables and health monitors for usage-based life insurance. Advanced analytics, such as predictive models, combined with cloud and on-demand technologies, will provide insurers with the instruments to re-engineer front and back offices.

But digital innovation also carries greater risks. Digital technologies make insurers more vulnerable to financial fraud, data theft and political activism. Privacy breaches are becoming a bigger concern as insurers gain wider access to sensitive financial and health data. Even the use of social media is exposing firms to reputational risks.
Competition heating up
As technology becomes more pervasive, insurers will face greater competition from new digital startups. Although much of the recent innovation in financial services has occurred in the banking and payments sector, insurance is now squarely in the crosshairs of new digital providers. With the recent launch of OSCAR, a new kind of health insurer which is using technology to design plans and enhance customer experience, the rise of InsuranceTech will gain momentum in 2016.

Insurance firms reluctant to embrace innovations for fear of cannibalizing their own market space may be overtaken by more nimble firms able to capitalize on a shifting insurance landscape. Also, legacy systems are no longer viable with digital trends and increased complexities. This requires insurers to rethink strategies, business models, product offerings and distribution channels.

Insurers, like all businesses, need to search for profitable growth. This continues to drive acquisitions into higher growth and emerging markets. But with ongoing transformation and increased sophistication across sectors, there is also a drive to achieve growth in new areas of capability such as distribution, wider insurance consulting and risk management, and technology.

Uncertain economy, greater regulatory and accounting change and added complexity
Life insurers are operating in a tenuous economic and financial environment with sizable downside risk. In 2016, global economic weakness will continue to be a worry, particularly as emerging market growth decelerates and financial volatility escalates.

Interest rates in Canada will likely stay low in an effort to spur investment and growth. This is in sharp contrast to the US situation, where the economy has rebounded and interest rates have risen.

International regulators are moving ahead with further development of Solvency II and IFRS. In Canada, insurers have implemented ORSA and are now working through operationalizing it into their day-to-day activities. They’re also preparing for the implementation of IFRS 4 and 9. Insurers are also getting ready for modified policyholder taxation effective in 2017 and new risk-based capital requirements effective in 2018. This evolving regulatory and accounting landscape will lead to intensifying data requirements and will translate in a need for transformation of the complex actuarial valuation models.
Impact of external forces on the Canadian life market in 2016
(0 = Very Low impact, 10 = Very High impact)

**Technology**
Digital technologies will redefine the life insurance business in 2016, as customers push for new tools, from robo-advisors to omni-channel access. These same technologies will enable insurers to transform their front and back offices.

**Customer expectations**
Demands for customized services, digital platforms and personalized support will grow sharply in 2016. Insurers will need to move to a customer-centric approach built around personal relationships, better access to data and a strong service attitude.

**Cyber risks**
Digital transformation will expose insurers to higher risks from fraud, data theft and political activism. With greater access to sensitive data, privacy breaches will become a bigger worry, as will reputational risks from the use of social media.

**Competition**
Competition will heat up as established insurers act fast to capitalize on game-changing market shifts. Challenges will also come from non-traditional sources, such as FinTechs, offering innovative digital solutions.

**Regulation**
In 2016, insurers will need to stay on top of the potential implications of changing regulations such as modified policyholder taxation and start planning for risk-based capital requirements in 2018.

**Economic and financial conditions**
Uncertain financial and economic conditions will continue into 2016. Slow economic growth, decline in the Canadian dollar and weakness in the oil and gas industry are major downside risks for insurers.
Roadmap for transformation: priorities for 2016

In 2016, life insurers will need to take decisive measures to cope with market upheavals — or risk the consequences. By staying in front of change, insurers can strengthen customer relationships, build market share and gain competitive advantage. Tapping their strong capital positions, insurers will start investing in new technologies, systems and people that will allow them to capture their future.

Specifically, leading insurers will focus on the following path to change:

1. Pick up the pace of business transformation and innovation
2. Reinvent products and services for the new digital customer
3. Adjust distribution strategies for technological and regulatory shifts
4. Reengineer processes to drive efficiency and market growth
5. Bring in the right talent to lead innovation
6. Put cybersecurity high on the corporate agenda
New era, new thinking
The life insurance industry has never been considered highly innovative or nimble. EY’s 2015 Retail Life and Annuity Survey of senior insurance executives identified the need to embrace new market realities in 2016, highlighting innovation as a top strategic priority. Customer expectations are changing, influenced by their experiences in other sectors. They are seeking innovative solutions that address their lifestyle needs. And life insurers are lagging behind. To cope, industry leaders must act now to rethink their business approach. Digitization is opening new avenues for insurers to leverage sales and service channels and accommodate rapidly changing customer preferences.

Priorities for 2016

Foster an enterprise-wide culture of innovation
To foster transformation, insurers will need to break away from their conservative leanings, and create a culture that encourages new thinking and creativity. Such a culture should allow for greater experimentation, and even short-term failures, to achieve long-term success. Senior leaders through to middle managers should champion change and avoid the danger of the status quo.

Drive innovation and prioritization
Insurers may turn creativity into a core capability by developing innovation labs to nurture new thinking. Forward-looking insurers will invest in product experimentation and develop new metrics to gauge their progress. Offerings need to be flexible to provide value even within a lower range of acceptable price points. Crucially, product features and transaction processes must be easy for new customers to understand. However, it’s important for insurers to prioritize efforts based on where there is greater impact on the bottom line.

Encourage information sharing through cross-functional teams
In 2016, life insurers will need to cut across organizational silos to drive innovation. Executives should ensure that information-sharing occurs at the right time and that teams are working from the same set of high-quality data. Establishing cross-functional teams of sales, underwriting and policy administration can lead to new ideas that enrich the customer and distributor experience. Similarly, a cross-functional team of actuarial, finance and risk management can help build consensus around new analytical and risk approaches.
A changing dynamic
In 2016, life insurance products will need to accelerate innovation to meet changing customer expectations and behaviors. Driven by their experiences in other industries, customers will demand greater digital access, better information and quicker service. This means developing end-to-end digital capability and innovative, flexible products that offer a positive customer experience. Failure to respond will make it difficult for insurers to acquire and retain customers. Fast-moving insurers are redefining their customer relationships and products and services to cope with these new market dynamics.

Priorities for 2016

Tap social media and analytics to understand customers
Social media usage continues to increase, with penetration approaching 70% in Canada. Social media can be a useful tool for populating consumer demographics, beliefs and behaviors through customer-insurer engagement and data capture. Analysis of strategic data from social media will help insurers identify profiles of high-potential customer segments. Insurers building customer-centric marketing activities will want to create a tailored approach for penetrating these high-value customer segments.

Expand two-way communication and transparency to customers
Today’s consumer wants better communication and service, and clearer product information and pricing transparency. Creating a dialogue with customers requires more advanced communication and listening skills to develop a strong insurer-customer relationship. By nurturing such customer relationships, insurers will be better equipped to design products that fit the needs of millennials and the middle class, which remain untapped markets. Insurers should also reduce the complexity and definitional rigidity of current life insurance products, while providing a more streamlined and transparent issuance process.

Deliver more flexible solutions
Shortened life of insurance policies is a trend. Insurers will need to emphasize product flexibility to cost-conscious customers and offer hybrid products that combine income protection, such as long-term care and disability insurance, with life and retirement coverage. For high-net-worth customers, insurers should stress the tax advantages of life insurance and annuities and develop attractive features to compete with alternative investment products.

Rethink products and customer interactions for the digital marketplace
Insurers will need to reimagine their products and services from the customer’s viewpoint, rather than from an inside-out perspective. Becoming more customer-centric will require insurers to recast many aspects of their business, from organizational culture and structure to performance measurement.

To differentiate themselves, insurers will want to shift from a product placement to a trusted advisor approach. With established personal relationships in place, and access to more flexible products and services, new sales will occur more naturally in response to customer needs.

Embrace wearable technology
As insurers move to a health advisory orientation, the development of wearable health technologies will play a vital role. With data from wearables – such as wristbands, wristwatches or glasses – insurers can set targets and incentives for policyholders to live a healthier lifestyle, encouraging them with the possibility of lower premiums.

Although still in their early stages, wearables will likely help insurers promote wellness and measure risks more accurately, thereby improving profitability and efficiency.
Adjust distribution strategies for technological and regulatory shifts

Broaden reach through new distribution channels
Technological and regulatory changes are prompting life insurers to think beyond traditional distributors. For example, robo-advisors, growing in popularity in the wealth industry, could offer insurers a way to reach the underserved mass-affluent market. Yet, unlike property and casualty carriers, life insurers have made little progress in selling through digital channels.

Offer anytime, anywhere, any-device access
Banks now provide customers with unprecedented 24/7 access and self-service on multiple devices, from PCs to smartphones. In 2016, life insurance customers will expect a similar anytime, any-device experience from insurers from point of sale and throughout the relationship. Developing an integrated, personalized digital experience that makes use of the latest mobile and video technology will be a key to success across all product lines.

Explore the use of robo-advisors as a new distribution channel
Insurance firms, particularly those focusing on retirement services, will find themselves under pressure to transform their distribution platforms. In 2016, insurers will need to consider the best way to incorporate robo-advisors into their current distribution platforms – through internal development, partnership or acquisition. Insurers will need to evaluate the costs and potential impact of integrating systems to improve sales and service. And with regulators uncertain about the use of robo-advisors, firms will want to give compliance and suitability careful attention.

Grow wealth and asset management capabilities
As demographics of the life insurance markets shift, an aging population of investment advisors will mean a talent shortage over time. This will need to be addressed by attracting younger advisors who bring a technology focus.

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At the same time, many baby boomers have moved to the digital world, but some may want to retain personal contact with an agent. Growing wealth and asset management capabilities will be vital to attracting a larger client base. Retaining capital from baby boomers as they age will mean exploring alternative investment products such as private equity funds and a new generation of living benefit segregated fund products (GMWB). Other drivers for growth include innovation in morbidity risk insurance (long-term care, living allowances and critical illness) and longevity risk coverage.
Build operational agility
Changes in the regulatory environment and customer expectations are opening up new opportunities for life insurers to grow their business through innovative products, solutions and go-to-market strategies that focus on the customer experience. However, existing process silos and legacy systems can restrict operational flexibility. To stay competitive and drive growth, insurers will need to further improve their operational, administrative and distribution systems.

Priorities for 2016

Fast-track transformation through shared services and outsourcing
Leading insurers seeking to fast-track operational transformation are turning to outsourcing or shared services capabilities. This transformation requires breaking down silos and will play out across several areas of the company – IT, finance, customer service, marketing, distribution – all directed to achieving the dual objectives of managing costs and delivering a superior customer experience.

Enhance efficiencies through digital technology
Built for less complex times, many legacy systems cannot support today’s digital market imperatives. To cope, insurers will need to shift from inward-focused legacy infrastructure to customer-centric systems that accelerate speed-to-market and provide a platform for ongoing innovation. Managing such a shift will be challenging since companies will need to balance the move to a digital world with the need to maintain, retain and/or migrate their legacy customers.

Invest in next-generation IT processes and analytics
Recognizing the importance of operational excellence to future strategies, insurers will continue to invest in straight through-processing in 2016 to speed up application turnaround times.

Unlike past investment cycles in IT systems, when one generation of hardware replaced another, the emergence of cloud technologies and on-demand solutions has created new, flexible options that can be implemented more quickly. These will support more advanced analytics to enable underwriters to minimize the amount of required medical data, slash decision-making time and improve accuracy. However, data consolidation projects will remain a high priority for many IT departments.
A growing talent gap
Life insurers are finding that driving innovation will take fresh ideas and new talent. As they age, distribution teams are falling out of sync with emerging consumer demographics. Life insurance sales to younger generations are declining, a trend that will only build momentum over time.

Executives recognize that simply burnishing the industry’s image will not be enough to draw in new talent, such as data scientists and digital experience designers.

Priorities for 2016

Take concrete actions to compete for talent
The talent shortage affects every layer of the organization, from gaps in senior executive roles to deficiencies in technical skills. At the same time, the industry’s image as staid and risk averse often does not appeal to the brightest and most promising young people, who view fast-growing technology companies as their employers of choice. Insurers will need to compete fiercely for the talent required to build the next-generation insurance company.

Make diversity a strategic imperative
Workforce diversity is more than a compliance exercise. It offers a powerful way to achieve key strategic objectives. An employee base that reflects the customer universe is better equipped to respond to changing customer needs. Diverse teams make better decisions by avoiding groupthink. In 2016, life insurers will broaden their efforts to attract a workforce representing a mix of cultural, demographic and psychographic backgrounds.
Protecting against cyber risks

Social media, the cloud and other digital technologies will expose life insurers to greater cyber risks. These risks can run the gamut from financial fraud and corporate terrorism to privacy breaches and reputational damage. Inadequate cybersecurity can cause serious financial, legal and reputational fallout.

To protect their businesses and their clients, insurers will need to take strong measures to keep their technical platforms airtight.

Priorities for 2016

Take a broad view of the potential risks

Cybersecurity is not the only data-related risk for insurers to consider. Privacy issues surrounding consumer and distributor information are a mounting area of concern, especially as insurers use that data in product pricing, underwriting and target marketing. In addition, social media can make insurers vulnerable to reputational risks – in real time.

Safeguard customer data from misuse

Although customers have grown accustomed to providing personal information to third parties, there is still uneasiness over usage, especially when it involves sensitive medical and financial information.

Insurance companies, particularly those with a global client base, need to stay abreast of emerging privacy regulations that could affect the use of digital technology and analytics. Crucially, insurers must invest in robust internal firewalls that protect personal data from misuse.

Assess your exposure to data sovereignty risks

As insurers move toward cloud computing and on-demand solutions, issues surrounding data sovereignty are becoming more complex. In a hyper-connected world – where a Canadian insurer might partner with a US firm using a data service in India – the concept of data residing in one jurisdiction is difficult to apply. To cope, insurers will want to set up processes to monitor changing data regulations around the world and their impact on their businesses.
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