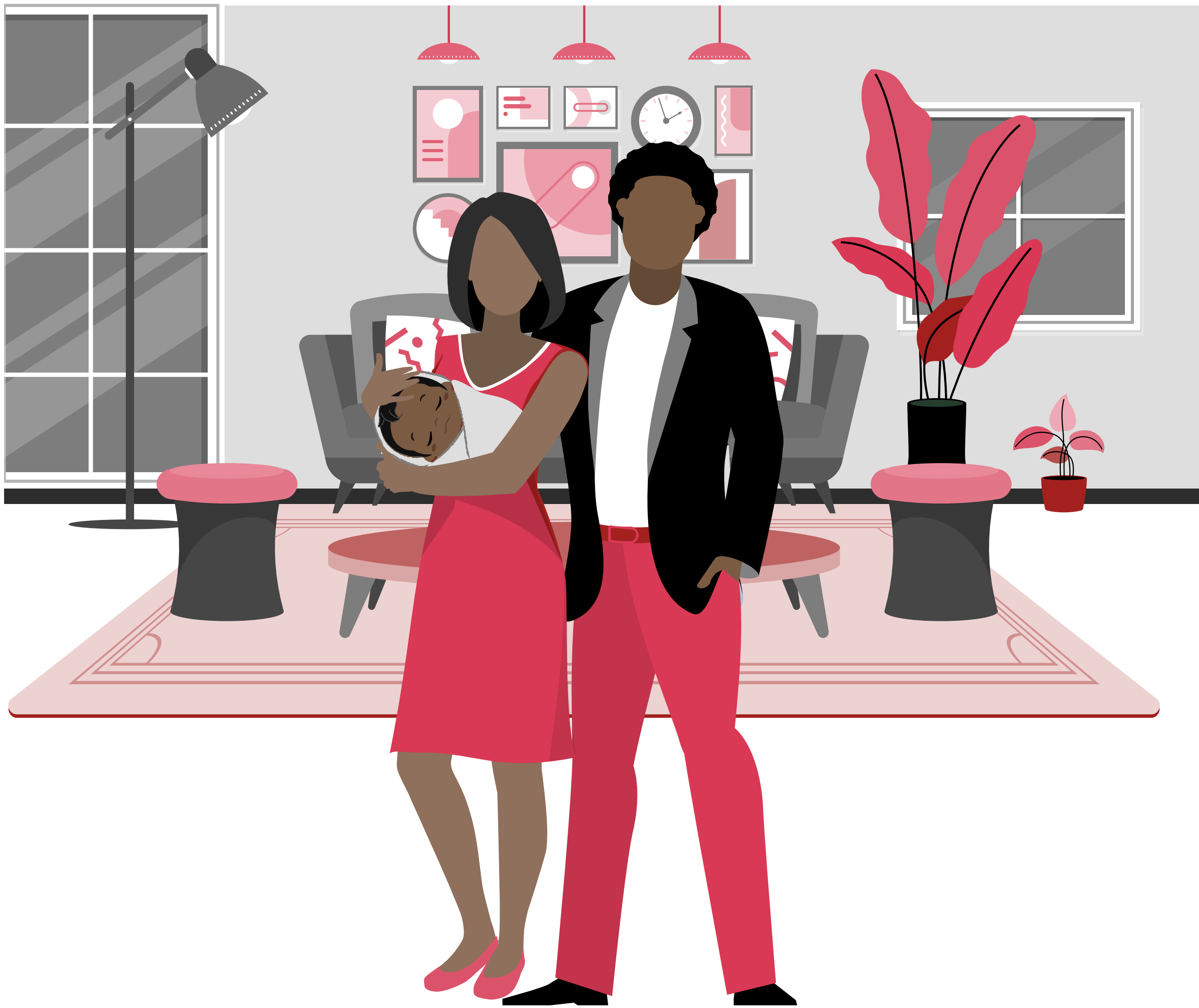
strategy&

The future of advice and engagement in insurance



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Exec summary

Most South African financial services organisations are focusing on their customer and intermediary experiences through the application of technology to improving the business of today. To truly differentiate themselves and build the winning business of tomorrow, providers need to set about…

- Defining your purpose as part of your brand, clearly outlining the measurable change you want to drive and the outcomes you want to improve.
- Developing a coherent customer and advice strategy leveraging fit for purpose distribution on top of target state architecture
- Reshaping product propositions based on deep customer and behavioural insights and relevancy
- Embracing more agile ways of work using new skills, new mindsets and co-creation with customers and brokers
- Adopting a progressive approach to compliance by not only doing the right thing, but also through "being seen to do the right thing" by those you are providing a service to.

On the whole, the desired financial well-being outcomes are not being delivered at scale. There is a vast opportunity to provide enhanced assistance to a far greater section of the population and these individuals require different forms of 'advice'.

Advice, but not as you know it

South Africans of all segments crave greater assistance in navigating their financial futures

Advice vs. 'advice'

Consumers typically consider advice to be product information, plain language explanations, and factual or visual simulations of their options. The aims underlying various regulatory enactments (e.g. FAIS[1]) were introduced with a focus on consumer protection but, in reality, have actually reduced access to 'appropriate advice' or made it available only to those who can afford it.

As a result, the desired financial well-being outcomes are often not being delivered at scale. Enhanced assistance needs to be given to a far wider section of the population — and these individuals need different forms of 'advice'.

Financial services providers in South Africa have been long under pressure to reimagine advice and engagement with their customers and intermediaries

1 Financial Advisory and Intermediary Services Act

Access to advice

Very few South Africans get appropriate financial assistance over their lifetimes. In many cases advice is accessible only to those who can 'afford' it. We believe the paradigm should be reimagined in order to ensure a scalable model that can deliver demonstrably better outcomes.

Prior to the COVID-19 crisis, the increasing convergence of a number of factors was already prompting a strategic rethink from progressive companies in the industry. These include:

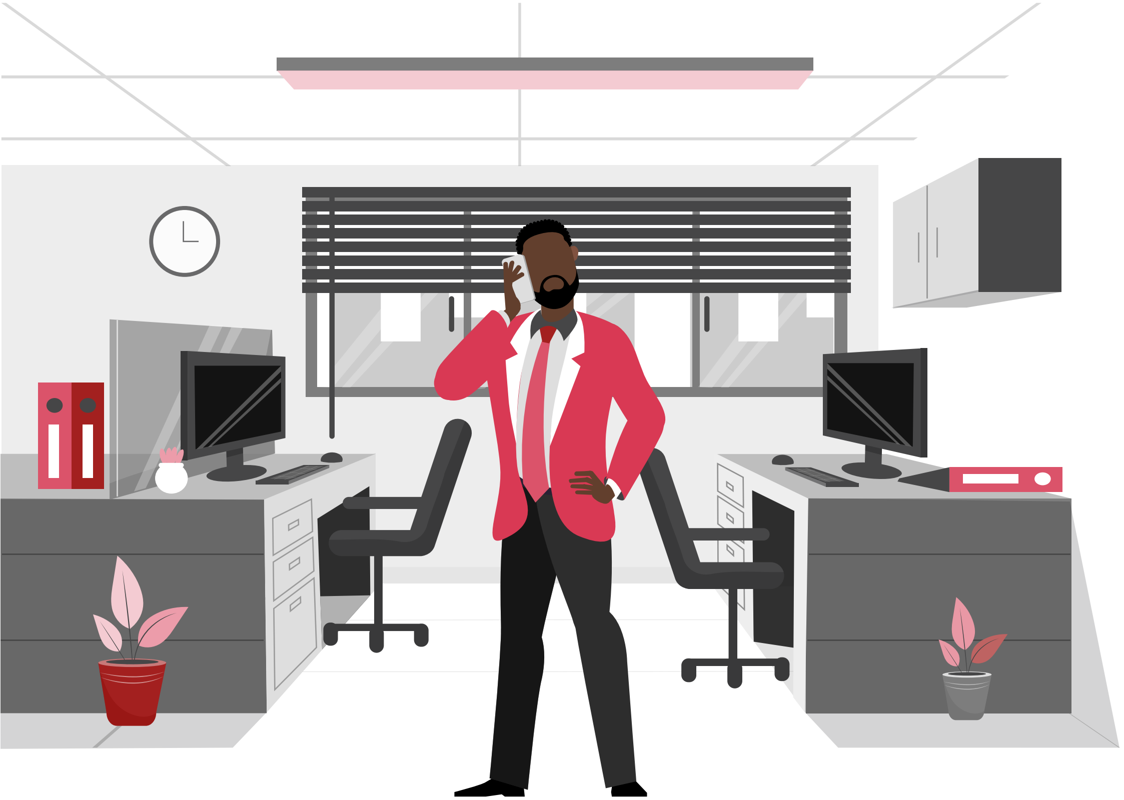
- The changing nature of the customer landscape as wealth has shifted to new segments and purchase decisions are increasingly being made by females and a more diverse, younger population that wants to consult with people they can identify with.
- The emergence of the Retail Distribution Review (RDR) and Treating Customers Fairly (TCF) is changing how advice is given, how advisors are incentivised and remunerated and how customer outcomes can be improved.
- Increasing fee and margin compression, as well as product simplification, is changing the economics of distribution.
- Poor macroeconomic growth has meant stagnant market sizing.
- The challenge of norms driven by the convergence between banks and insurers, the entrance of new challengers, fintech and insurtech players, and the increasing focus from the telcos.
- The increasing maturity of South African consumers utilising mobile or online purchasing for a variety of products and services.

The pandemic has accelerated the need for change. For many local banks and insurers, more than 90% of all sales came through face-to-face channels and the resulting crisis has caused a steep drop in revenue from new sales, especially in insurance where the prevailing narrative is that it is 'sold and not bought'.

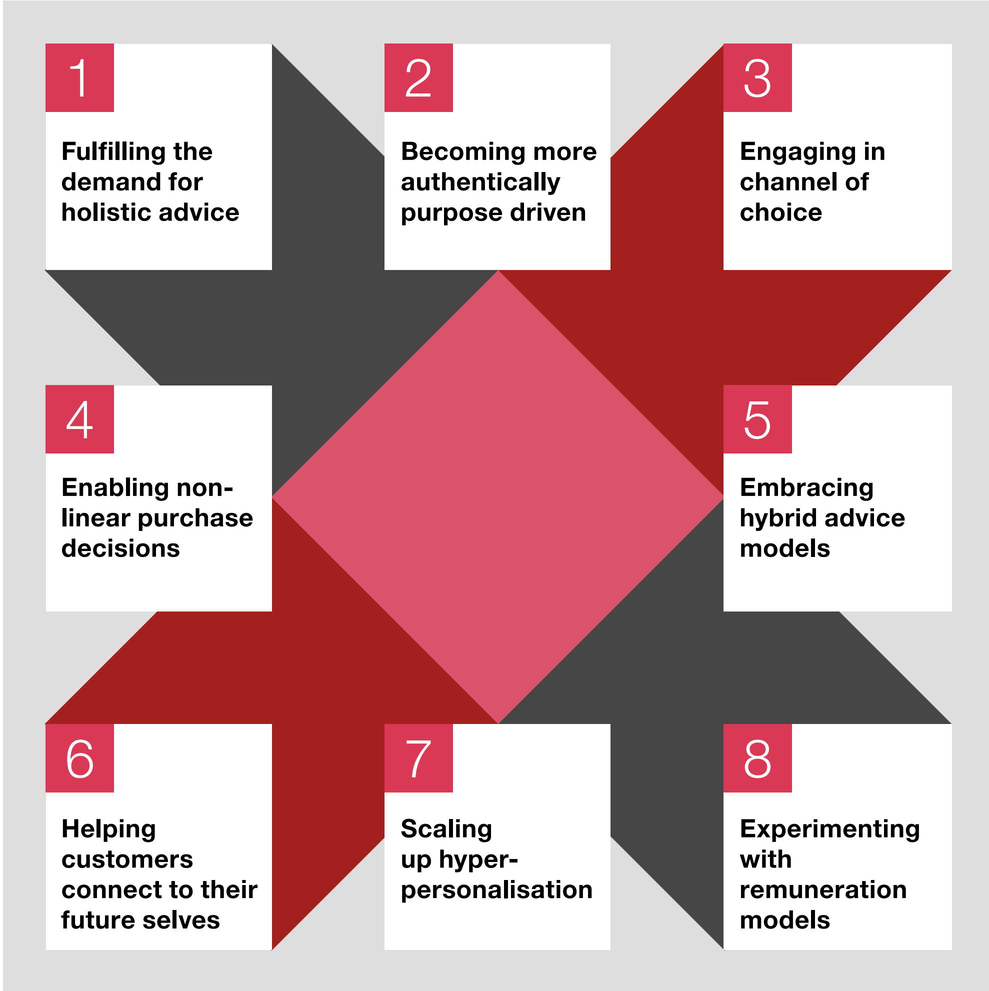
In response to the crisis, SA financial services (FS) organisations have largely focused on digitising their existing processes and enabling virtual engagements to continue with the current advice, sales and engagement models.

The insurers that prosper and win in the future will be the ones that successfully navigate the factors driving the future of advice and engagement

Many FS players are focused on building capabilities such as end-to-end digitised/seamless processes, a single view of holdings, better practice management for intermediaries, 24/7 self-service availability and are rationalising tools/touchpoints.



Looking to the future, the following will be the minimum required to succeed:



Fulfilling the demand for holistic advice

What's going on?

Many South Africans' perception is that advisors and the industry have engaged with them in a siloed manner driven by individual product lines, selling individual solutions and not fully addressing their and their family's holistic needs. This has been driven historically by remuneration structures and the products that an advisor is trained and experienced in.

Customers are increasingly expecting more meaningful and diverse value than to just be sold a product or service. They are looking for partners to help them achieve their personal goals by blending many different components.

What comes next?

The next step requires providers to — at scale — look beyond an individual's traditional insurance and savings/investment products and take into account a wider range of goals and solutions:

- reviewing all of the customer's financial assets and incorporating non-traditional assets into the financial plan
- assisting in purchase versus lease decisions and helping customers to responsibly manage debt
- helping to maximise the benefits from customers' loyalty programmes
- helping customers understand the link between their physical and financial health
- coordinating marketplaces and ecosystems that deliver a complete set of services to help customers meet their financial goals

As an example, Planswell is a Canadian start-up that provides its customers with free, clear recommendations about how they can optimise their investments, mortgages and insurance. In the spirit of speaking to holistic goals, they even have a child affordability calculator that provides an accurate estimation of all the costs involved over a lifetime to ensure that the financial plan has the right inputs.

Locally, LifeCheq is a South African start-up that helps create detailed, personalised life plans that cover key life goals, such as understanding the difference between career planning and career strategy, starting a business or side hustle, starting a family, getting married or building intergenerational wealth.

Our thinking

Incumbents should seek to get a deeper understanding of their various customer segments. Specifically, more broad-based ethnographic research is required to understand the holistic goals customers are trying to achieve.

The research should also aim to understand how customers are trying to solve a complete set of problems, some of which could be outside of the products and services the incumbents are currently offering. For example, an effective retirement solution that seeks to deliver an income for life would require an additional suite of services beyond a single retirement savings or annuity product.

This suite of services may need to deliver:

- an emergency savings solution that minimises the need to dip into long-term savings
- a learning platform that allows customers to increase their skills pre and post 'normal retirement age' to enable them to find additional sources of work
- access to a micro-jobs or gig job platform to match the skills possessed by customers to available jobs
- help in navigating loyalty and reward systems and other pensioner benefits in order to stretch finances in retirement further
- potentially helping lonely single customers make new relationships to provide companionship and share expenses.

Industry players looking to engage on a more holistic basis would need to revisit their advice models, ensure they have a fit-for-purpose distribution network and refine their business/technical architecture, to support these increasing consumer demands.

Becoming more authentically purpose driven

What's going on?

Price, product quality and customer service are still key purchasing considerations. But they became entry requirements long ago when purpose was already rising in importance. Sustainable investing was already a hot topic before COVID-19 and was the focus of many investing conferences and think tanks in 2019. Now it matters more than ever, as an increasing number of people recognise that we are all in this together.

We are seeing the rise of 'zero-based-habiting' — whereby each product category, brand, or behaviour will need to re-establish and re-earn their regular place on people's essentials lists as they are being reset to near zero. Many brands will be back to square one, back to category development and habit-building.

With the global Black Lives Matter movement, it seems that social change has reached a permanent tipping point. Companies are now expected to even more openly encourage and promote diversity and equity, and actively promote responsible outcomes, and customers are rewarding companies that do.

What comes next?

A number of investment houses have embraced sustainability principles and launched related offerings.

BlackRock Asset Management has announced a number of initiatives to place sustainability at the centre of their investment approach, including making sustainability integral to portfolio construction and risk management, exiting investments that present high sustainability-related risk, launching new investment products that screen for fossil fuels, and improving transparency.

Doconomy, a Swedish fintech start-up, has launched the world's first credit card with a carbon footprint limit, DO Black. DO Black not only helps users track and measure CO_2 emissions associated with their purchases, but also puts a limit on the climate impact of their spending, not just on the funds remaining in their account.

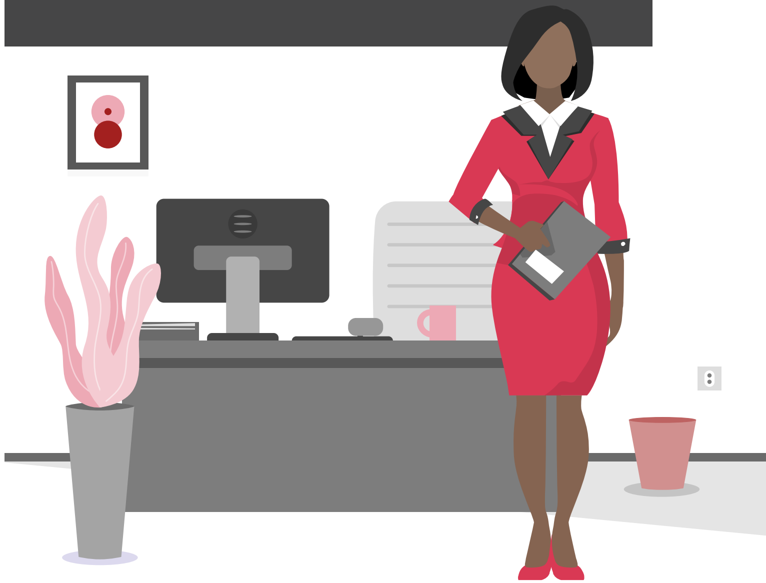
Lemonade, a US-based insurtech company, has achieved exponential growth in part due to its business model, which seeks to transform insurance from a necessary purchase into a social good. Their business model sought to align social and financial outcomes and introduced the Lemonade Giveback, where leftover premiums are donated to charities chosen by customers. Lemonade has customers contact them to tell them that they managed to find their missing items, and that they wanted to return their claim payout, citing Giveback as the motivation.

Our thinking

Companies should refine their advice models, solution offerings and engagement strategies to promote a socially sustainable approach to engagement that resonates with and wins the hearts of their customers.

They will need to focus their communications on becoming more relational, not transactional and become far more transparent with external stakeholders regarding why they are doing something, how hard they tried, and the good that came from it.

Companies should define the hard metrics and outcomes by which they choose to measure their contribution to fulfilling their purpose — be it enhancing retirement income levels, responsible debt management or increased discretionary savings — and build these customer outcome objectives and key results (OKRs) in group-wide scorecards.



Engaging in channel of choice

What's going on?

Customers want to engage in ways that are convenient for them — not for the insurer. In South Africa, high data costs, lower internet penetration and sub-optimal smartphone adoption have meant limited success for apps and websites that seek to be used by their customers a few times a year.

FS businesses with high frequency engagement (banking and medical) have seen greater success with digital engagement, whereas insurance and investment apps/portals struggle to gain the same traction unless they can link higher frequency reasons for engagement.

Businesses with low-frequency engagements have struggled over the last decade to exponentially drive up adoption of their digital channels in South Africa, as they compete against non-FS apps for precious space on entry level smartphones.

Approximately 70% of South Africans can be classified as belonging to the Millennial, Gen Y, Gen Z or younger generations. About 30% of the population is younger than 15 years. Customers in this segment are largely comfortable switching across devices, and communicating digitally with friends and family.

Providing an omnichannel or cross-channel experience for this segment of the population isn't a luxury — it's a necessity.

What comes next?

Gartner research shows that customers who encounter a low-effort service experience in resolving their issues are 61% more likely to stay with the company. On the other hand, a high-effort customer service experience drops that probability to only 37%. Similarly, in a survey conducted across four markets by Facebook, more than 60% of respondents said messaging is the easiest, most convenient way to contact a business.

This has seen an explosion both globally and locally in customers using channels such as WhatsApp and other social messaging services as the channel of least effort. A number of FS players in South Africa have launched WhatsApp services over the past year, including Retirements Benefit Counselling. Abroad, WeChat has already provided compelling evidence that messaging is the future of financial services platforms. Gartner also estimates that 'by 2022, 70% of all customer interactions globally will involve emerging tools like chatbots, machine learning and mobile messaging, up from 15% in 2018'.

The advantage of interactions being sessionless is that customers can pick up where they left off and continue the conversation across channels leading to much faster issue resolution. A customer could reach out for help over Facebook, be contacted by an advisor who requires sensitive information and be transferred to a secure web chat or encrypted messaging channel like WhatsApp. While there, customers could form a 'group chat' with other members of their immediate family, their advisor and the company's chatbot helping with service so that everyone has a common view of the conversation.

Our thinking

Incumbents should aim for true omnichannel capabilities rather than being merely multichannel, which entails having a number of different services available on a multitude of channels.

Providers should seek to deeply understand their customers' behaviour and preferences and understand the right channels and experiences for each segment for each type of interaction and then invest in the architecture to enable this.

While WhatsApp is the current channel many South African organisations are seeking to launch and scale, incumbents need to recognise that although it might be the right answer to invest in now, it is equally important to build the capabilities to continually monitor and evaluate channel effectiveness, run experiments and pursue the agility to pivot to new channels that may emerge in the future.

Nike is a great example of mastering true omnichannel expertise. The company uses personalised suggestions that mesh with in-person retail. Each step of the customer journey has been enhanced to optimise the customer experience — and this has driven exceptional sales.

Enabling non-linear purchase decisions

What is going on?

It is not in human nature to follow a straight line in making significant financial decisions. People want to speak to their family and those they trust. They want to shop around. They want to compare. They want to hear what others who have bought the relevant service have to say. And they are inherently skeptical of the salesperson pushing the product. The notion that advice comes from an individual person, company or brand is changing, with many placing a higher trust in advice from the crowd.

People trust the wisdom of the crowd, not the wisdom of the expert. In the same way that very few individuals solely trust the advice of their travel agent anymore, customers are looking for a variety of inputs in making purchase decisions for financial products. They want to be able to share their portfolios and offers within their circles to collectively understand what it means for them.

Customers are shifting towards a DIY mentality creating a need for innovative solutions, resulting in the growth of direct purchases and independent advice channels. The growing DIY mentality has changed the view and role of the advisor, while the demand for holistic and trusted advice is growing (beyond individual product lines).

What comes next?

In the same way that companies such as Airbnb, TripAdvisor and Amazon are enabling transparent feedback and ratings to enhance their product offerings, the future winners in financial services will be those players that can enable platforms for potential customers to make better purchase decisions, not just monitoring the customer feedback platforms.

In one survey, 91% of respondents said they read at least one online review before making a purchase decision on a product, business, or service.[2] In another, 89% of customers said they wouldn't take action until they read online reviews.[3] These underlying behaviours will drive financial services purchases too.

The winners will also evolve their offerings with the feedback of their customers and promote trust through crowdsourced advice and feedback as we see the increased 'democratisation' of advice (e.g., peer comparisons, peer reviews, peer advice). The data asymmetry that used to exist between insurers and their customers has gone.

State Farm acknowledged this when they launched Next Door Chicago. It was launched as a blend between a coffee shop and a community space where anyone could come, work and chill, but also ask questions about finances and insurance from financial coaches and get answers for free. These coaches can also provide classes on various financial wellness matters, but are not allowed to sell products.

2 "Customer Reviews' Impact on Purchase Decisions," Bizrate Insights, last modified April 8, 2021, https://bizrateinsights.com/resources/shopper-survey-report-the-impact-reviews-have-on-consumers-purchase-decisions/

3 "69+ Online Review Statistics - Grow Your Reputation in 2021," HostingTribunal, last modified January 22, 2021, https://hostingtribunal.com/blog/online-review-statistics/#gref.

Our thinking

Companies should investigate ways to create meaningful two-way engagements with customers. The first aim would be to understand the trusted networks that customers turn to for help and support, and how to position your offering in a transparent, simple way that aids decision-making. Secondly, to put in place the mechanisms to learn from customer feedback to improve solutions and experiences.

Embracing hybrid advice models

What is going on?

It is a false choice to choose between human and robo-advice. The emergence of robo-advice is increasingly being complemented by a human touch. The most successful advice models are blending both robo-advice and human interactions.

Advisors are struggling to reach people due to advice being offered predominantly through face-to- face meetings. For those they do reach, they spend a significant portion of their time doing admin-intensive tasks instead of giving advice.

At the same time, certain younger segments of customers eschew face-to-face interactions, maintaining rich interactions with their social circles online and expecting the same of companies they engage with.

This also facilitates greater uniformity in the compliance around advice given. Historically it has been impossible to measure the quality of advice given the degree of customisation and subjectivity, and lack of agreed industry-wide standards. Increased adoption of hybrid-powered advice models will drive greater quality controls and reduced advice risk.

What comes next?

Industry leaders are using technology to enable advisors both in the advice they dispense and how they dispense it. Technology is enabling intermediaries to sell more, with greater alignment to their needs, as artificial intelligence (AI) and other tech reduces admin, aids decisions and lowers the bar in terms of previous education required, thus reducing distribution cost.

Businesses such as Betterment, BlackRock, Nutmeg, Vanguard and Wealthsimple have moved away from offering pure robo or pure human advice to blending the two worlds. Invesco created advisorDUO, an advisor dashboard that enables their advisors to have easy access to relevant tools and simplified connection to their clients.

Locally, there is a question whether the regulatory environment is 'ready' for the advent of digitally-based advice — there is focus on moving from rules-based to principles-based TCF outcomes. The FAIS General Code of Conduct (GCOC) automated advice requirements indicate that the regulator recognises its arrival and is adjusting its requirements to ensure it moves with the times and still provide relevant 'protections'. This is a positive step forward and there could be first-mover advantages for the first South African player to implement at scale.

Our thinking

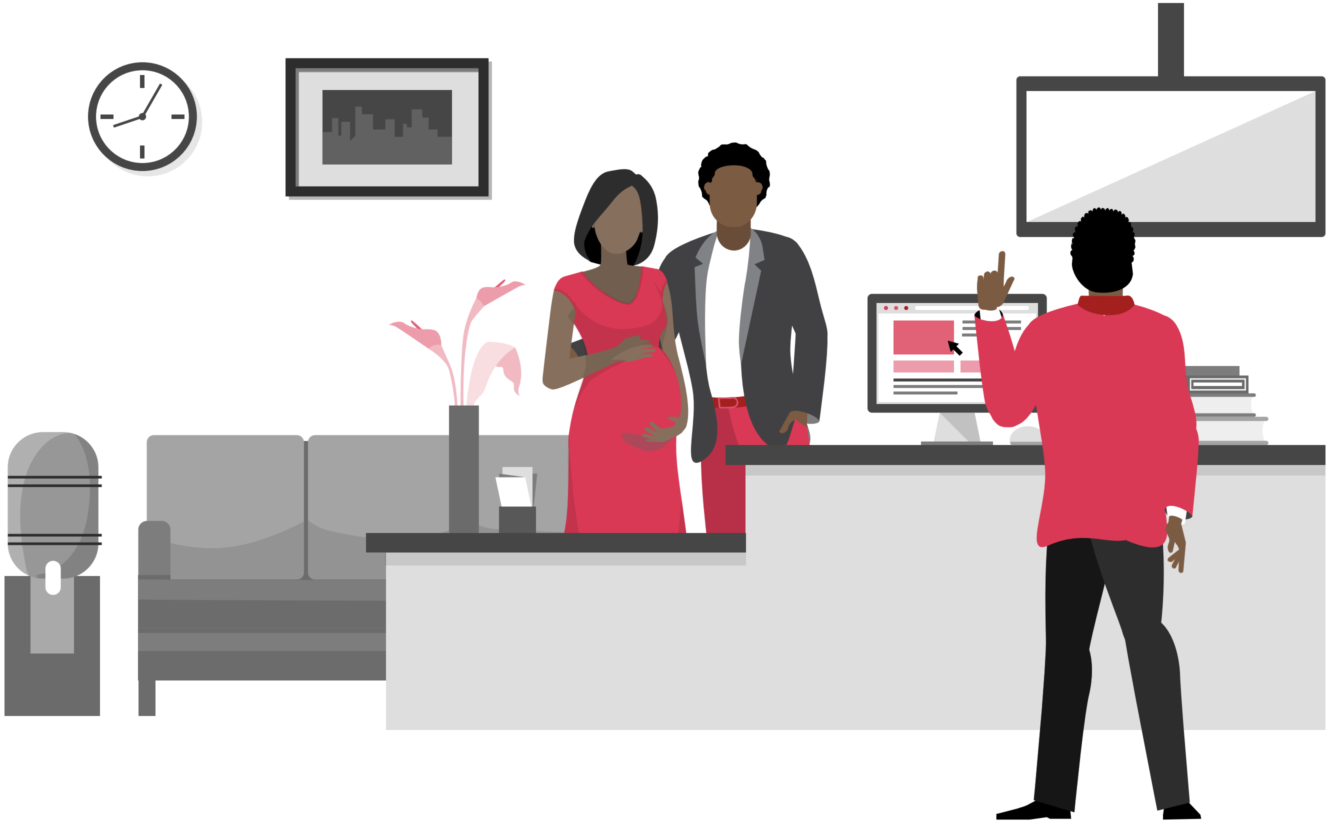
Providers should redesign their existing advice models and streamline their product offerings accordingly. In many cases, this will require a simplification of the product set. Rather than merely reducing the existing product set from many to few/one, products should be rationalised by simplifying against a clear target state.

In launching or refining their robo capabilities, providers should examine their current target state technologies and capabilities and make clear-eyed decisions whether to build or white-label/rent the needed components.

In tandem, an assessment will need to be made to ensure that the distribution channels can support the change with the correct training, incentives and tools.

Finally, incumbents should debate their brand strategy for the pivot — whether to launch under the current brand and operations or launch as a new venture.

Helping customers connect to their future selves



What's going on?

FS providers in South Africa often communicate poorly with consumers around their financial goals. Customers struggle to understand the trade-offs and the impact of the decisions required. Information is often communicated in technical product terms that regular people find hard to interpret.

Behavioural economics research has shown that when individuals are forced to visualise their future, they often make better financial decisions. The key is to make individuals connect to their future selves, and make the impact of their decisions real and tangible to them.

What comes next?

One of the legislated objectives of the Financial Sector Conduct Authority (FSCA is to protect South Africans by providing current and potential financial customers with financial education (FE) programmes, to promote financial literacy and the ability of financial customers to make sound financial decisions. Because of the extent to which FE initiatives can influence consumers' financial decisions, there is a real risk that inappropriate FE initiatives can adversely impact consumers and, in some instances, even negatively affect financial decisions made by consumers.

The challenge in designing these FE programmes is to make them accessible, understandable and available at the exact moment of making a consumer decision.

There are already examples in the South African financial services landscape of established providers designing and launching digital products which have shown that gamified experiences that help customers connect to their future selves drive better financial outcomes for them, and increased premiums/assets for FS players.

Our thinking

It is not enough for incumbents to simply rationalise or standardise their existing engagement and advice tools and financial education capabilities. Many need a complete reimagination of the entire process with a view of what is likely to really drive better-informed decision-making using a blend of gamification, multimedia content, peer sharing and scenario modelling.

Scaling up hyper-personalisation

What's going on?

Traditionally, bespoke advice provided by full-service brokerages and agents have been generally successful for the clients they have interacted with. However, these channels are expensive and difficult to scale. The challenge comes in industrialising this model to provide more access to the wider population.

Customers expect hyper-personalised services that meet their specific needs, in a time and place that is most convenient for them. Their expectations have been set by their interactions with modern platforms such as Netflix, Spotify, social media and the likes of Amazon.

This is compounded by the fact that it's almost impossible to solve for an 'average' South African as we are the ninth most diverse country in the world, meaning that boilerplate recommendations and 'people like you' comparisons rarely acknowledge the full picture of an individual's life and goals.

Financial freedom is an intensely personal definition that differs from one South African to another. The FS industry cannot define what financial freedom is for an individual. Rather, the approach must be to enable individuals to set their own goals, and then assist them in navigating there. A review of the latest South African social media banking sentiment analysis reveals that individuals are put off by generic content and engagement.

What comes next?

The combination of exposure to these hyper-personalised services and the intensely personal definitions attached to financial freedom means that insurers must tread very carefully when speaking to customers about how they compare to the average in the segment to which they belong. They also need to engage their customers about their individual goals and context in hyper-personalised ways at scale.

With the rapid growth of AI, hyper-personalisation and connecting to customers on their preferred channels is becoming ever more prevalent across many industries. It is estimated that by 2030, 'up to 80% of new wealth management clients will want to access advice in a Netflix-style model — that is, data-driven, hyper-personalised, continuous and, potentially, by subscription[4].

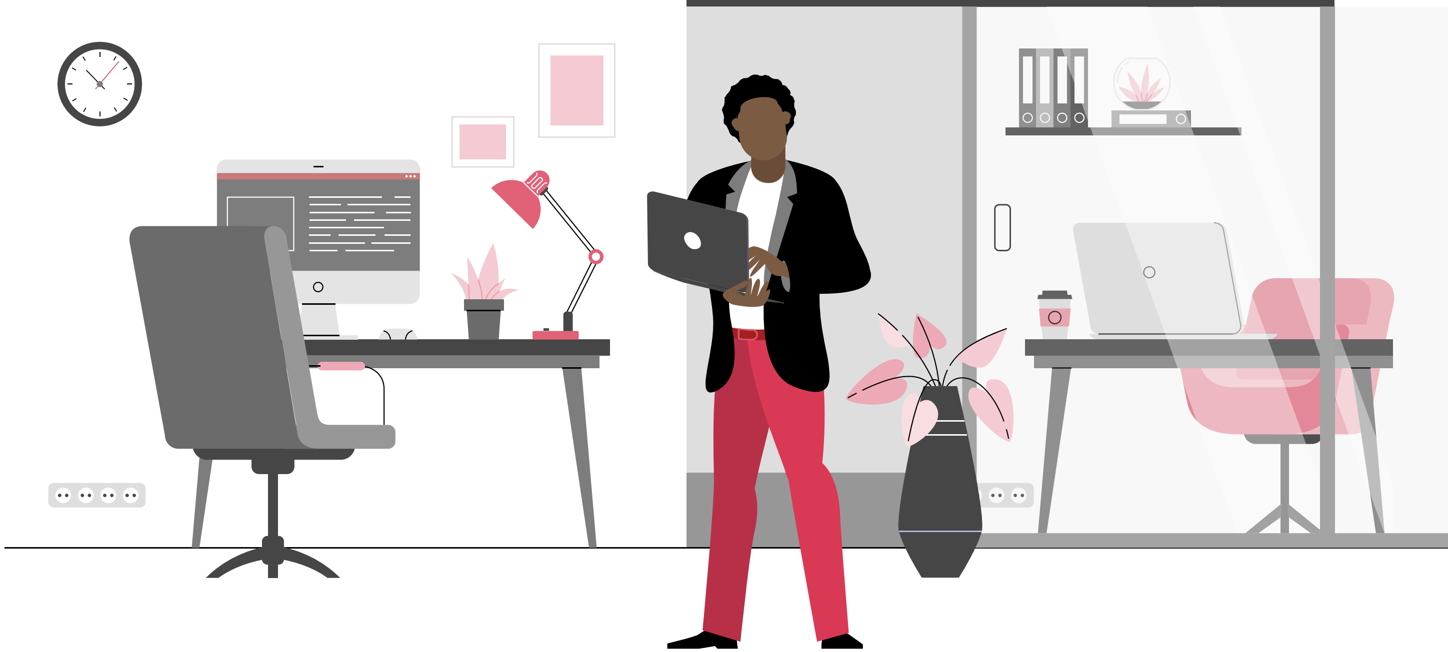
4 "Advice in a digital streaming age." Professional Planner, last modified 17 April 2020. https://www.professionalplanner.com.au/2020/04/advice-in-a-digital-streaming-age/

Our thinking

There is a need to think about how to deliver personalised communications, nudges and interactions at scale, while balancing personalisation and scalability.

To do so requires leading-edge data analytics capabilities to really understand customers. This will enable insurers to build new experiences and allow people to set goals and get more information. There is a need for significantly more sources of customer data. Customers will consent to sharing more data if they can see clear benefits to doing so.

Incumbents require the capability and experience engine to help them deliver highly personalised experiences. They also require a test and experiment culture.



Experimenting with remuneration models

What is going on?

The industry is faced by two winds of change — the introduction of new regulation and changing consumer expectations.

Traditionally, FS players have not explicitly charged for advice — it has been bundled with other products and services. The aim of RDR is to ensure more transparency and fairness for investors by changing the way that financial advisors charge fees and making it clearer to consumers exactly what advice they are getting. In many other fields, professional advice is paid for on a 'per hour' basis, but to date this has not taken off in FS in South Africa.

From an overall consumer perspective, there is a rise in services offering subscriptions, low cost or no fees, tiered and in-purchase services. From iTunes, Spotify, Netflix, Audible, Duolingo, video and even Tinder customers are expecting flexibility when paying for a product or service, and insurance will be no different. Customers buying solutions will be expecting a level of free value that accompanies any service and insurers will have to factor this into their engagement and distribution strategies.

Experiment with different renumeration or pricing models

Since the COVID-19 crisis, many South African FS organisations have had to shift sales to online channels or use virtual engagements. However, the fees being charged are still predominantly the same. We have seen from other industries that when transactions move online, there needs to be an acknowledgement that value is lost from face-to-face interactions. As a result, companies need to rethink how to make up that value elsewhere.

The implementation of RDR will change how advice is given and how advisors are incentivised and remunerated. In addition, customers are increasingly exposed to services from other industries that have disrupted how they consume and pay for services.

As an example, Charles Schwab announced it would start charging investors in its Schwab Intelligent Portfolios Premium service a one-time $300 fee for financial planning and a $30 monthly subscription. Services like Mint operate on a freemium basis in which a basic level of advice/help is provided free of charge, while more advanced features and more personalised advice must be paid for.

Our thinking

RDR introduces an activity based fee model where insurers and brokers will need to be able to justify their fees charged to a client based on the activities performed for the client. Insurers will need to align their business and fee models to the proposed changes ensuring full transparency on fees both on the insurer side as well with brokers and other third parties.

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