Building on belief

Harnessing the power of third-party partnerships to build ecosystems in the annuities industry

Abstract

Life Insurance and Annuities (L&A) carriers are witnessing the customer landscape undergo a tectonic shift. Evolved and with digital demands, the consumers of today remain under-protected but are wary of buying life insurance policies and annuity products because they find them quite complex.

The market is ripe for annuity growth, as evidenced by increasing life expectancy and the decreasing graph of death-benefit policies. But despite knowing that they have to fend for themselves through a longer post-retirement period, 53% of U.S. workers above the age of 60 are not financially retirement-ready. As per ICI (Investment Company Institute) retirement statistics, annuities constitute only 2.4% of the total U.S. retirement market. As an opportunity, annuities present[1] a huge untapped market: the youngest age segment (30-44 years) and the lowest income group($25K-$99K). These segments have been completely ignored by life and annuities carriers.[2]

It is unlikely, however, that L&A companies can leverage these market opportunities on their own. Instead, they will need to participate in dynamic digital ecosystems comprised of third-party technology and services providers to meet the evolving requirements of customers employers and regulators.

Introduction

The regulatory environment has been quite favorable for annuities. In 2014, the U.S. Internal Revenue Service (IRS) allowed 401(k) participants and Individual Retirement Account (IRA) account holders to buy annuities. IRS and the Department of Labor (DOL) also allowed plan sponsors to include annuities in target-date funds as a default investment option in 401(k) plans. Despite this regulation, only 10% of 401(k) plans currently offer annuities to workers. This is because plan sponsors need to abide by legal obligations to ensure that the annuity investments are in their workers' best interests[3]. This includes a thorough due diligence on annuity providers and their products before including them in their 401(k) offerings, and ensuring that annuity providers are financially strong and able to make annuity payments decades down the road.

In 2020, following the U.S. Congress' passage of the new SECURE Act retirement law, rules relating to how plan sponsors can select annuity providers for their 401(k) plans have been loosened a bit. It gives employers greater flexibility to include annuities in workplace-sponsored retirement plans.

In response to these changes, a new concept, sometimes called an integration hub, is quickly gaining traction in the annuities space, with third-party providers (TPPs) offering services such as

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[1] The Investment Company Institute (ICI), Retirement Assets Total $34.9 Trillion in Fourth Quarter 2020 (March 18, 2021), Accessed date May 21, 2021, https://www.ici.org/node/836811

[2] Deloitte, Voice of the annuities consumer Exploring innovative approaches to accelerate annuities market growth (May 22, 2015), Accessed date May 21, 2021, https://www2.deloitte.com/us/en/insights/industry/insurance/new-approaches-to-growing-annuities-market.html

[3] USA TODAY, Longevity annuities inside IRAs and 401(k)s (June 06, 2014), Accessed date May 21, 2021, https://www.usatoday.com/story/money/columnist/powell/2014/07/06/annuity-ira-401k/12178513/

portfolio management, custodian services, and data aggregation. In turn, technology vendors offer these as a bundle to L&A carriers for integration. This acts as the central control point with which all other applications can integrate — creating a dynamic ecosystem.

This concept has pros and cons. The pros are clear. A curated technology solution removes the pressure and challenge of weaving together an ever-growing number of independent tools to properly integrate and pass relevant data and actions back and forth. Cons include a company's inability to choose a favorite CRM, financial planning, or portfolio accounting system, since the technology stack is dictated by the chosen custodian or portfolio management services provider.

In one successful instance, insurance and financial services provider Nationwide partnered with Monument Advisor, an integration hub for services such as portfolio management, financial planning, and data aggregation. This gave Nationwide customers full access to the powerful tools residing in Monument Advisor's technology stack, including the online calculators and valuable research.

Challenges faced by customers/prospects and annuity providers

The consideration of industry ecosystems and their benefits comes at a time when customers, prospects and annuity providers all find themselves facing a number of challenges.

A higher life expectancy and a shift to defined contribution (DC) plans mean a greater onus on individuals to seriously consider retirement planning services. While most people do explore various retirement investment vehicles, the complexities inherent to annuities and the variants they offer prevent both prospects and customers from grasping their nuances and benefits.

Some annuity customers also have been victims of excessive churning by advisors' intent on nothing other than gaining huge commissions. There are enough instances of such advisors goading their customers to replace their old annuities with a newer annuity product. Sadly, the hope of better returns makes customers give in to their advisors' recommendations, which results in erosion of their retirement wealth because of the higher commissions and surrender charges. Additionally, annuities customers have been victims of frauds perpetrated by advisors who suggest products unsuitable for customers.

Another issue is that with age, annuity customers may lose track of retirement investments – such as 401(k)s, IRAs and annuities – they may have made with various providers during their working lives. They may also find it difficult to manage multiple retirement accounts, or even have forgotten to update their addresses in all existing accounts if they have moved homes.

Both annuitants and the annuity providers have been victims of account takeover frauds, wherein a fraudster gains access to an annuitant's account, changes information such as log-in credentials or personal information, and then makes unauthorized transactions in that account. These frauds have become quite common in the annuity world. Fraudsters can use this data to infiltrate accounts, often using call centers and websites as their entry points.

On the company side, L&A providers are witnessing many technological advances and are facing tough competition from insurtechs and other start-up firms, which are rapidly catching up to consumer challenges by offering high-value, low-friction experiences using digital-first asset-light models. Customer expectations also have changed drastically. They prefer to get advice on digital portals 24x7.

To address the various issues faced by customers and L&A providers, the latter can leverage the power of ecosystem providers such as TPPs, which offer varied services. These ecosystems have the potential to accelerate innovation and boost business for life and annuities providers.

Recommendations

Let us explore some business functions where industry-focused ecosystem that L&A carriers potentially can deploy to overcome the challenges faced by annuity customers and providers:

1. Financial education and awareness: To overcome the problem of product complexity, annuity providers should educate their prospects/clients on their variants and suggest suitable ones, based on the prospects' risk appetites and demography. Targeted, not generic, information and advice should be provided. Regulators must ensure that financial intermediaries have adequate training to provide appropriate advice. Gamification can be leveraged to equip customers with financial skills, thereby increasing their engagement and enabling them to make the right choices for their retirement. For instance, insurance, investment and financial services company CUNA Mutual Group uses gamification to educate potential customers about the features and benefits of complex annuity products. By way of gamified education, providers can also tap into the unexplored young-age segment. Providers can enter into tie-ups with start-ups such as XLPro Training Solutions, which enables e-learning courses and games for corporate learning across diverse sectors.

2. Churn control: Annuity providers should not only analyze churn patterns but also ask customers why they are cancelling their policies and switching to something different. Providers can also leverage the services of SaaS providers, such as Chanty, which look at the churn by customer segments. These could be based on annuities products, location, gender or age, and could provide L&A companies with invaluable insights to reduce churn.

3. Consolidation of retirement accounts: This can help solve customers' problems of tracking separate retirement accounts held with different carriers. Envestnet Yodlee helps integrate various accounts of customers in one portal and offers a consolidated view using data aggregation and analytics. Yodlee has partnered with more than 1,200 financial institutions and fintech innovators, including 15 of the top 20 U.S. banks, enabling a massive data network that is associated with millions of customers who use platform-related personalized apps and services[4].

4. Account takeover attacks: Instances of account takeover attacks have more than doubled in the past two years. About 98% of respondents in a recent LIMRA survey of insurance companies cited account takeover fraud as a significant concern for their individual annuities. To combat account takeover fraud, L&A providers can enter into tie-ups with TPPs such as FraudShare,[5] which works by creating a network of member companies to monitor and better

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[4] Envestnet | Yodlee, Data Aggregation, Accessed date May 21, 2021, https://www.yodlee.com/data-aggregation

[5] RGA, Combating Life Insurance Fraud in a Digital World (July 15, 2019), Accessed date May 21, 2021, https://www.rgare.com/knowledge-center/media/articles/combating-life-insurance-fraud-in-a-digital-world#:~:text=A%20staggering%2098%25%20of%20respondents,and%20defined%20contribution%20benefit%20plans.

understand new fraud trends and challenges. Such collaborations ensure fraud attacks are quickly assessed and reported to others in the FraudShare network. Since fraudsters often move from company to company, documenting details from attacks in a shared database significantly increases detection capabilities. Furthermore, increased and immediate awareness of new schemes allows member companies to proactively build defenses. Another player in this space is Experian, which provides customers the frictionless experience they expect while spotting risky behavior and suspicious device usage before bad transactions occur.[6]

5. Automation: L&A providers need to introduce a lot of automation into their processes to satisfy their digital-savvy customers. They need to explore innovations such as big data, electronic processing, wearable technologies, the internet, and social media as ways to continue to foster change in the industry. Annuities involve paper-intensive processes; therefore, there is a need to automate and streamline internal workflows while maintaining compliance standards. Machine learning and artificial intelligence can be leveraged to scan and index paper documents. Typically, L&A providers require policyholders to share their identification proofs if and when they want to withdraw/transfer funds or make updates (such as address changes) to their existing policies. In some cases, they are asked to upload their ID proofs and send them digitally.

6. For verification of ID proofs, L&A carriers can leverage the capabilities of vendors such as LexisNexis. For address verification, the capabilities of CODE-1 Plus can be utilized. Also, NCOA sends updates of change of address quarterly to the L&A carriers with whom they have tie-ups. Some L&A carriers also rely on EBIX and AN4 for post-issue transactions such as change of address and communication details update.

Conclusion

Ecosystem partners that deliver value propositions are the most important keys to success. L&A carriers will have to depend on TPPs for a lot of processes. Unlike in the past, they will not be able to control all the preferences and behaviors of digitally aware customers. Partnering with third-party providers will enable them to bring more efficiency into their processes. In such cases, an open architecture model (APIs, with third-party developers) will work best. With out-of-the-box capabilities and APIs to integrate with insurers and other partners, TPPs claim to set up new products and also reduce policy issuance times by 8-12 times over traditional products.

Leveraging ecosystem partners will help L&A carriers to make bold moves, such as enhancing their customer segmentation strategies to include unexplored segments; bolder resource allocation to the right markets and extensive asset classes; and introducing customized products and proactive customer engagement models. Carriers can educate different customer segments about the benefits of annuities. They must leverage the workplace channel to increase sales of annuities within retirement accounts. Real-time delivery and service through a personalized mobile device will go a long way in satisfying the expectations of today's digital customers for capabilities such as instant quote and bind, pricing, policy delivery and service. Annuity providers now can take advantage of a wide range of options to get into tie-ups with players that offer all-in-one bundled solutions or create their own technology stack by partnering with TPPs.

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[6] *Experian, Account takeover fraud, Accessed date May 21, 2021, https://www.experian.com/decision-analytics/account-takeover-fraud*

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