

# **Current Trends in Life Insurance Industry – AI & Modernization, Competition for Customers & Agents, Alternative Capital and Cybersecurity**

SIFM Quarterly Conference  
December 2024

# Current trends in the life industry



## Modernization & Artificial Intelligence

Artificial Intelligence is assisting insurers to modernize core processes, operations, and technologies

## Competition for Customers & Agents

The consumer experience for life insurers will need to evolve to meet expectations set by other service experiences (e.g., Amazon)

## Alternative Capital

Alternative asset managers are increasing their industry presence through multiple sourcing strategies

## Cybersecurity

Cyber-attacks are on the rise impacting all businesses and industries

# Macroeconomic Update

# Survey Question #1

How many times has the Fed cut rates by 50 bps in 'Peacetime'?

- a) 0
- b) 2
- c) 5
- d) 6
- e) 8

**Answer: B – January 2001 on the heels of the tech bubble deflation, and September 2007 following the August 2007 bursting of the subprime mortgage credit bubble**

# The life insurance sector is benefiting from supportive macro economic factors

## Tailwinds



### Higher Interest Rates

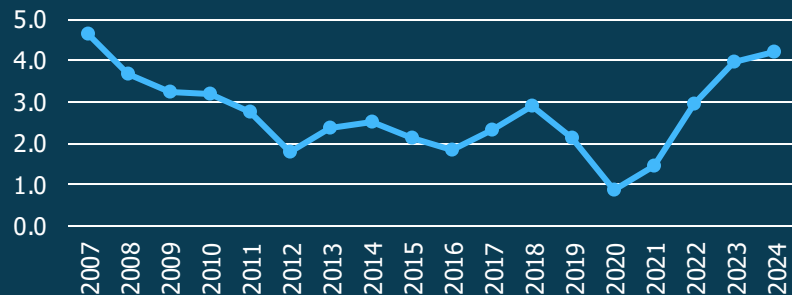
- Higher rates enable life insurers to generate greater investment income used to support pricing, to make payments to policy owners, and/or to increase profits



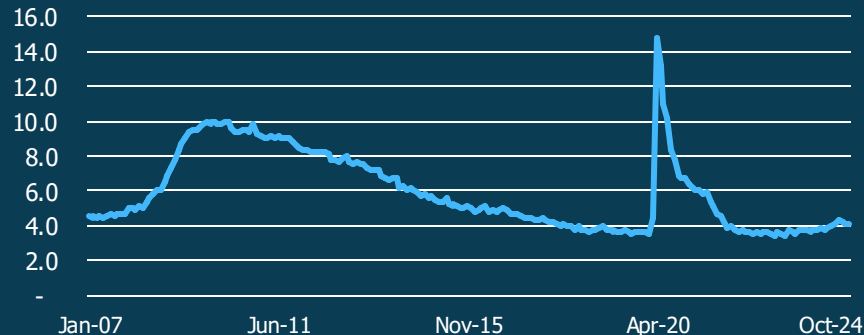
### High Employment Rates

- Robust employment and hiring trends enable consumers to have higher investable assets and purchasing power
- A greater number of insurable employees create growth opportunities for group insurance businesses

Yearly Average US 10-Year Treasury Rate



Civilian Unemployment Rate



# The life insurance sector is benefiting from supportive macro economic factors, while also facing some headwinds

## Headwinds



### Higher Inflation

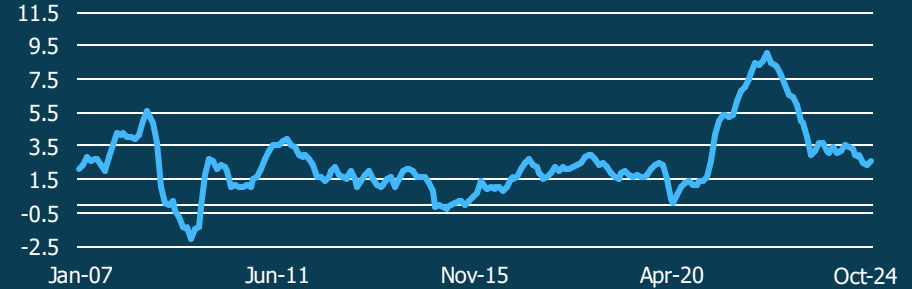
- Inflation remains elevated and is negatively pressuring consumer purchasing power and increasing corporate expenses



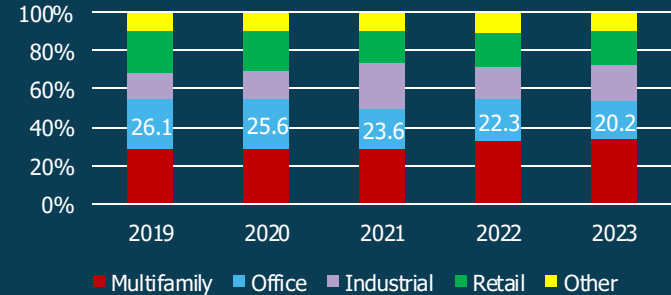
### Commercial Real Estate (CRE) Investments

- Uncertainty surrounding the long-term demand of office space and higher borrowing costs are negatively impacting asset values; any impairments are expected to be manageable in the context of total industry capitalization

### US Inflation Rate



### US Life – CML by Property Type



# Modernization and Artificial Intelligence

## Survey Question #2

What percentage of companies (Life Insurers) are leveraging data in decision making?

- a) None
- b) 1% to 25%
- c) 26% to 50%
- d) 51% to 75%
- e) Above 75%

**Answer: D – Shaping competitive positioning, opening new revenue related opportunities and leveraging data in decision making**



# Insurers are modernizing core processes, operations, and technologies to enhance capabilities and client experience

**Insurers are strengthening their technology capabilities, partially funding the investment with expense management**

## Technology Modernization

- Modernizing core operating platforms, migrating legacy mainframe platforms to the cloud, and building new cloud-based and AI tools to reduce technology operating costs, accelerate product enhancements, and improve client experience

## Analytics and Data Science

- Unifying data platforms to increase understanding of clients, uncover marketing opportunities, and enhance business intelligence
- Investing in data science teams and modeling capabilities to automate underwriting, enhance lead generation, and guide appropriate financial product recommendations

## GenAI / Artificial Intelligence

- Experimenting with GenAI to automate, augment, and accelerate work in areas such as lead generation, relationship management, customer servicing, claims processing, and fraud detection

# Technology modernization will be critical to the success and sustainability of life insurers

- Large insurers continue to struggle with legacy systems that can limit the nimbleness of the organization to execute on delivering modern experiences both internally and externally
  - Insurers remain challenged to provide a modernized consumer experience
  - The ability to provide new products to the market has also been hindered
- Most modernization will start with a good foundation, grounded in the migration to data platforms that provide the flexibility to adapt to future technological needs
- The “bottleneck” for many insurers to tap into new technologies remains the ability to modernize core systems fast enough
- The success of life insurers will be dependent on the pace and ability to:



Modernize Core  
Operating Platforms



Migrating Platforms  
to the Cloud



Build New Cloud-Based  
& AI Tools

# To achieve this modernization, companies must do the following



- ✓ Evaluate **existing technology infrastructure** for what needs modernizing
- ✓ Establish **clear goals** for AI implementation
- ✓ Invest in **talent and training** to develop a skilled AI workforce
- ✓ Foster a **data-driven culture** and promote collaboration
- ✓ Ensure proper **AI ethics and privacy**
- ✓ Monitor and **optimize AI systems**
- ✓ Embrace **continuous innovation** to maintain a competitive edge

# Artificial Intelligence is modernizing our industry

1

**Data-driven  
decision  
making**

2

**Improved  
customer,  
agent, and  
employee  
experiences**

3

**Improved  
operational  
efficiency**

4

**Get agents to  
"confident  
competency"  
faster**

5

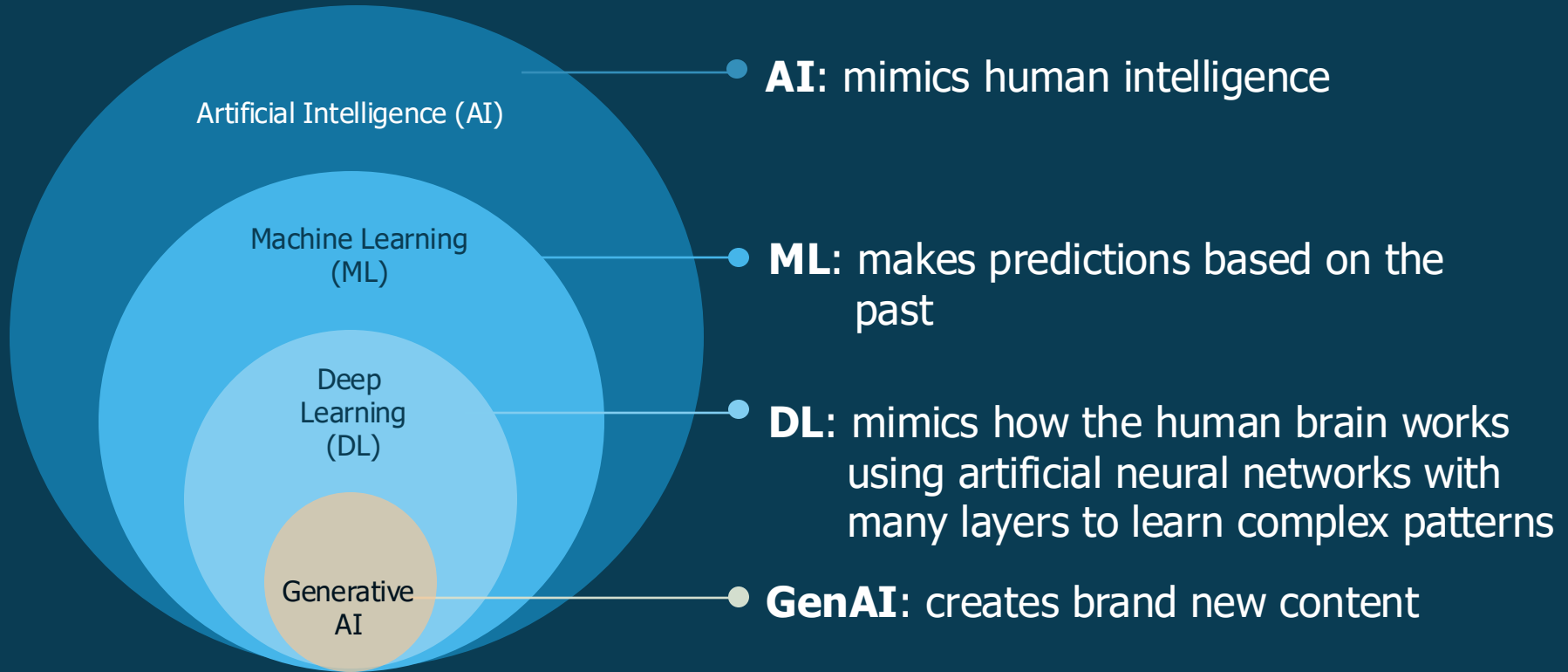
**Enhanced  
security, data  
strategy, and  
accuracy**

# How will AI help empower our users?

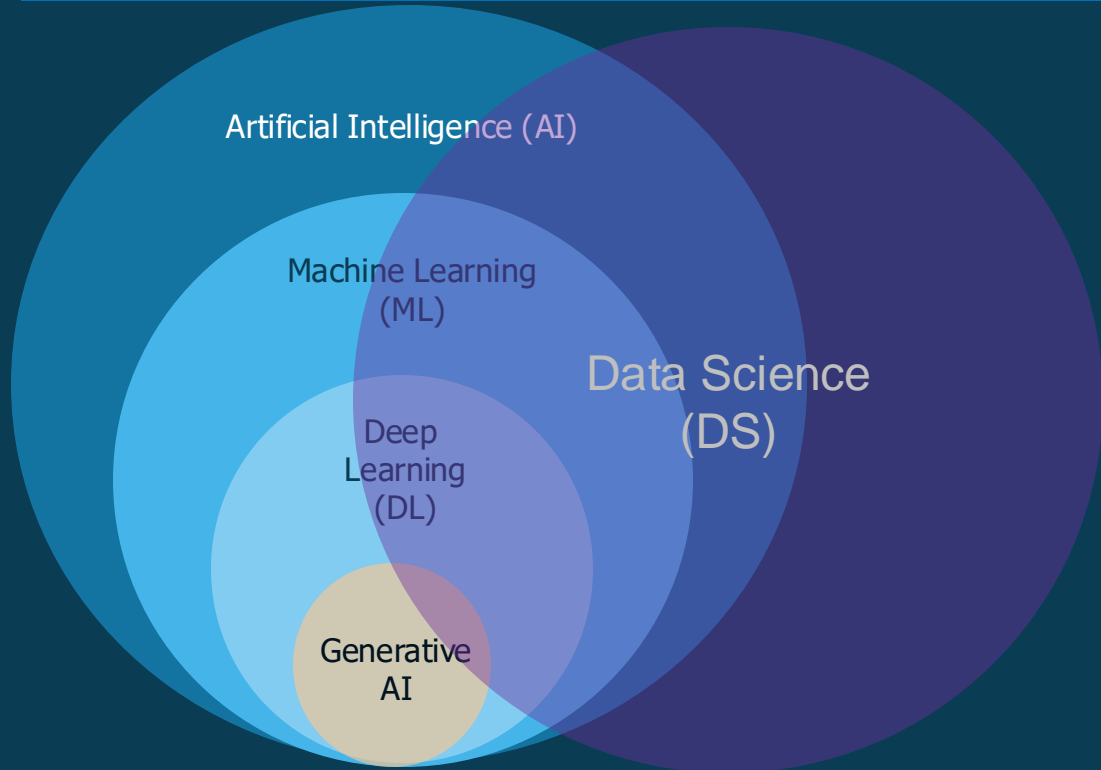


- Personalizes experiences
- Makes the process more intuitive
- Simplifies navigation
- Intelligently searches and filters information
- Automates tasks
- Provides content-aware guidance
- Offers intelligent recommendations
- Adapts to user preferences and behaviors

# The relationship between AI, ML, DL, and GenAI



# The relationship between AI, ML, DL, and GenAI



**Data Science** uses all these techniques in conjunction with deep business knowledge to help make informed decisions

# A brief timeline of AI



**1950** Turing Test

**1955** The term “Artificial Intelligence is coined”

**1964** Eliza first chatbot

**1997** IBM Chess Computer, Deep Blue, beats Garry Kasparov



**1999** Sony’s AIBO robot pet dog

**2002** iRobot’s Roomba

**2011-2014** Siri, Google Now, Cortana



**2011** IBM Q/A Computer -1<sup>st</sup> place in Jeopardy

**2014** Alexa



**2016** Founding of Open AI



# Survey Question #3

How long did it take ChatGPT to reach 1 million users?

- a) 1 day
- b) 5 days
- c) 1 month
- d) 3 months
- e) 6 months

**Answer: B – Five days**

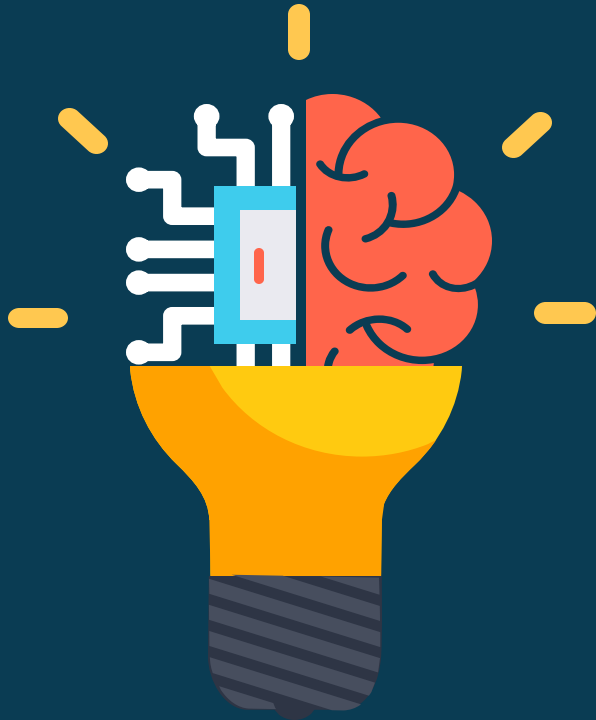
# November 30, 2022: ChatGPT is released

## Time to Reach 1 Million Users

Years/Months/days to get to 1 million global monthly active users  
KnowItAllApp.com



# How is Data Science used in Life Insurance



- What **business challenge** are we trying to solve?
- What are we trying to **predict**?
- What **behavior** are we trying to mimic?
- What **data** is available?

# Competition for Customers & Agents

# A renewed focus on the purchase experience will have long lasting impacts on consumers

- The pandemic has forced many consumers into a dynamic digital experience, that has altered shopping patterns, customer expectations and the competitive landscape
- Life insurers will need to reduce the frictions that occur in the purchase experience of the consumer
- The consumer of today wants:



Personalization



Self-Service



Less Invasive  
Underwriting



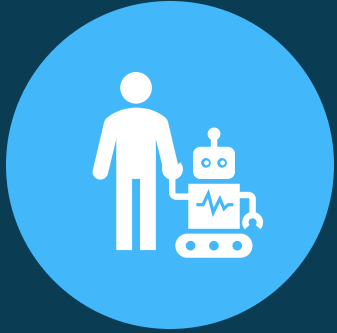
Better Claims  
Processing

# A renewed focus on the purchase experience will also require an enhanced scalable distribution model



- Distribution capabilities will need to evolve in order to meet consumers “where they are”.
  - Consumers still need to be sold life insurance, but how many people answer their phones?
- Consumer needs will vary significantly, and distributors need to be able to be nimble to adjust quickly to the changing needs of its clients
- Higher expectations from consumers will require distributors to be educated on several products and focused on a holistic approach to their clients’ financial needs

# Gen AI will deliver improved experiences for clients and agents across enterprises

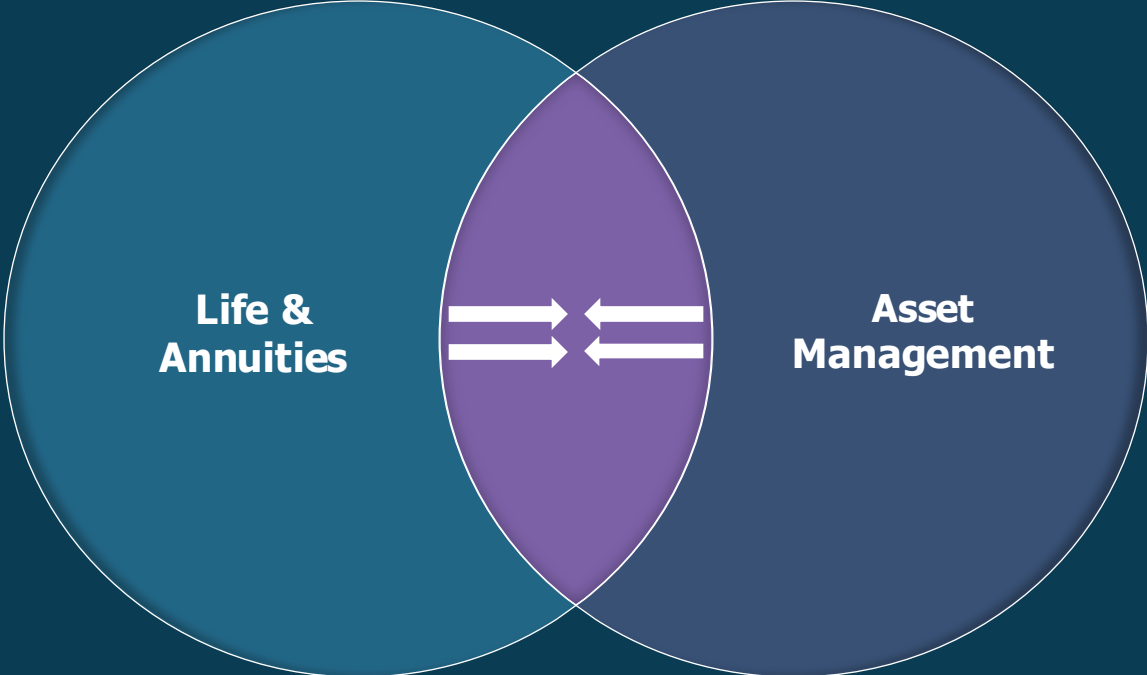


- Although there are definitive use cases for Gen AI, it is early in the life-cycle of this fast-moving technology. Life insurance and other industries will continue to evaluate the level and pace of the integration of this innovation
- Insurers are strengthening their technology capabilities, partially funding the investment with expense management
- Life Insurers are experimenting with Gen AI to automate, augment, and accelerate work in areas such as lead generation, relationship management, customer servicing, claims processing, and fraud detection
- We emphasize keeping the human in the loop
  - NYL's ongoing commitment to human advice and guidance
  - We are empowering our employees with better tools to ultimately help them in *exceeding customer expectations*
  - Always keeping a human in the loop for final decisions

# Alternative Capital

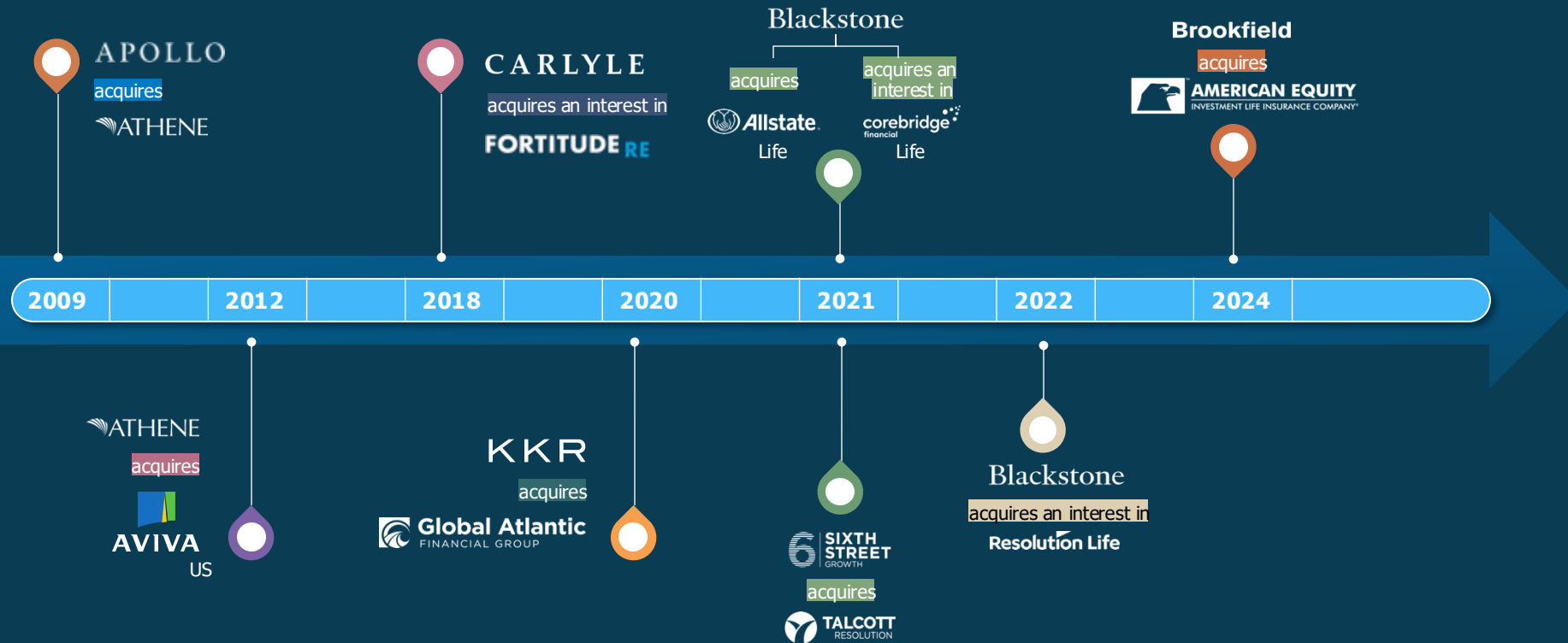


# There is a convergence between insurance and asset management



Source: McKinsey Research

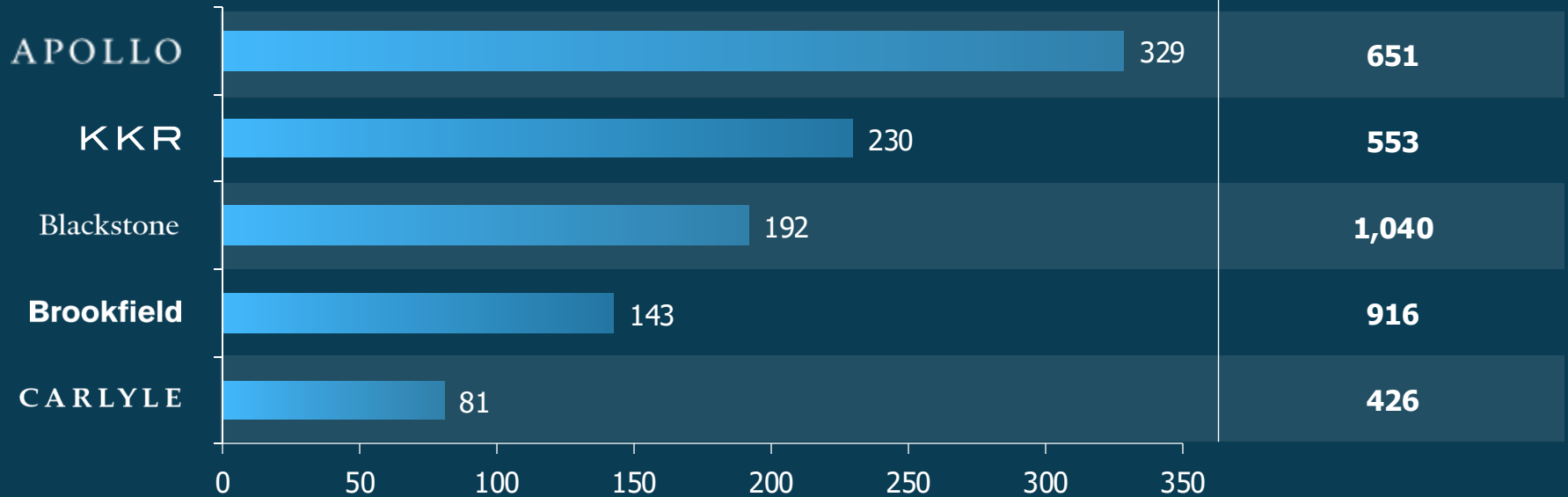
# PE firms have been expanding their presence in insurance



# PE firms have accumulated sizable insurance AUM

## Insurance AUM

## Total AUM (\$bn)



Source: McKinsey Research, company websites | As of 2023

# The life insurance and annuity industry is continuing a broad optimization of business portfolios and capabilities

**The industry is primarily organized across three business models:**

*Select examples*

## Public Life Companies

- Motivated by short- to medium-term shareholder returns and have the least “patient capital”
- Divesting capital-intensive businesses and legacy blocks in favor of growing less capital-intensive businesses such as group benefits and asset management to earn higher P/E multiples

## Alternative Asset Managers / Private Equity

- Increasing presence in the sector and now constitute 12% of combined U.S. life and annuity assets
- Sourcing insurance liabilities as permanent capital to drive AUM growth for their asset management businesses

## Mutual Life Companies

- Motivated by providing stable value to policy owners and have “patient” capital
- Steadily gaining market share by maintaining focus on agency distribution and retail life insurance and annuities

**Management teams are all generally focused on these key areas across business models:**

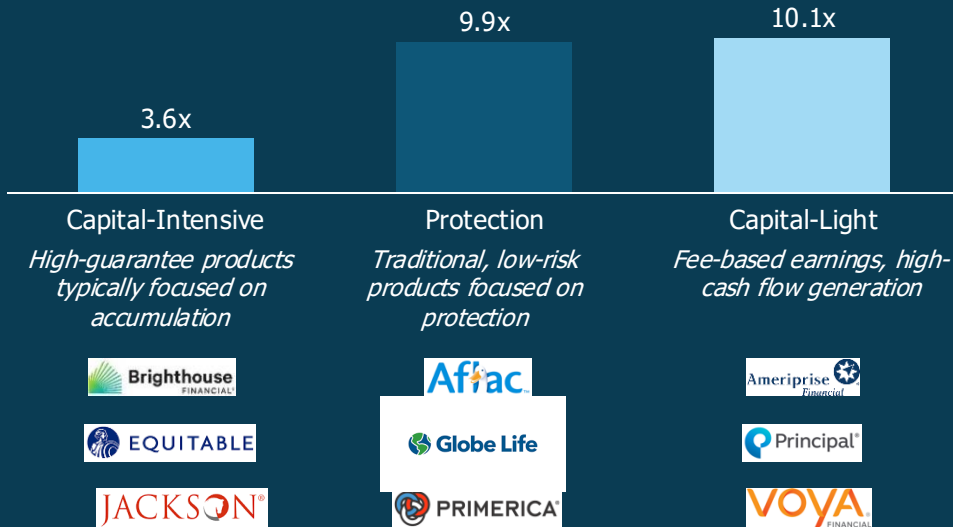
Optimization of capital management levers to support efficiency and future growth

Modernization of core processes, operations, and technologies to meet evolving client and agent expectations

# Capital markets are rewarding capital-light public insurers with higher P/E multiples

- After the 2008 financial crisis, equity investors started rewarding capital-light insurers with short-duration, less complex businesses, and protection-oriented insurers with stable, predictable margins
- This has led to several public companies rationalizing their business portfolios and divesting capital-intensive businesses

**Life Insurance Valuations**  
2024 Price / Earnings Multiples<sup>1</sup>



## Divestitures and Block Transactions

- Public companies have divested material insurance businesses and liabilities
- The sale of in-force liabilities to alternative managers account for the majority of M&A deals in recent years

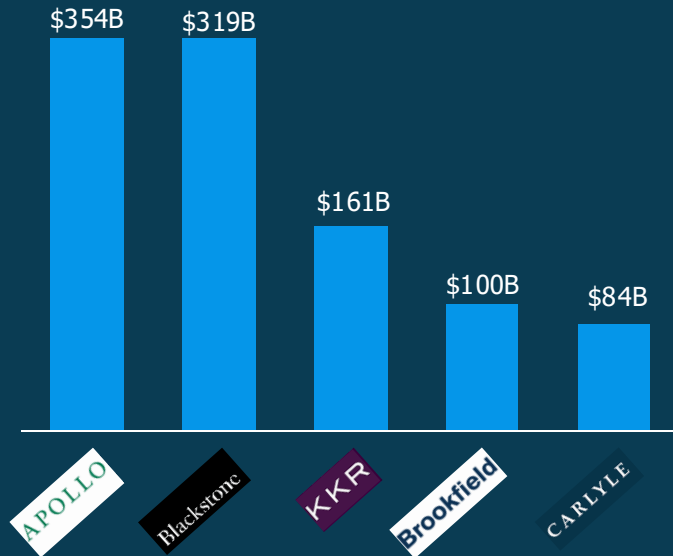
Select examples:



1. Public company categorizations: Capital-intensive – Brighthouse, Corebridge, Equitable, Jackson, Lincoln, MetLife, Prudential; Protection – Aflac, CNO, Globe Life, Primerica, Unum; Capital-light – Ameriprise, Principal, Voya

# Alternative asset managers continue to increase their industry presence through multiple sourcing strategies (1/2)

## Select Alternative Asset Manager Insurance AUM



## Sourcing Strategy Examples:

### 1. Block transactions

- Alternative asset managers entered the industry by purchasing closed blocks of life and annuities and continue to do so
- Purchases of large in-force blocks from public insurers have allowed alternative asset managers to grow quickly and establish significant scale

### 2. Direct / primary sale of insurance products

- Alternative managers have established capabilities to directly manufacture and sell insurance products, primarily in retail and institutional annuities markets
  - Apollo / Athene was the largest annuity provider in the U.S. in 2023
  - KKR / Global Atlantic was the 5<sup>th</sup> largest fixed rate annuity provider in 2023

# Alternative asset managers continue to increase their industry presence through multiple sourcing strategies (2/2)

## Sourcing Strategy Examples (cont'd):

### 3. Ongoing partnerships with traditional insurers

#### 3a. Flow reinsurance

- In flow reinsurance, insurers transfer a portion of the economics and related capital requirements to a reinsurer
- This enables insurers to (i) continue to sell large volumes of annuities and retain a slice of the economics without straining their capital position, and (ii) access attractive pricing, reflecting reinsurers' differentiated investment capabilities
- For reinsurers, flow reinsurance offers another avenue to source insurance liabilities on an ongoing basis

*Select examples:*



#### 3b. Investment management agreements

- Insurers and alternative asset managers are entering into strategic partnerships where insurers are outsourcing a portion of their general account investment management to alternative asset managers
- In certain instances, this is accompanied by one of the parties taking an equity stake in the other



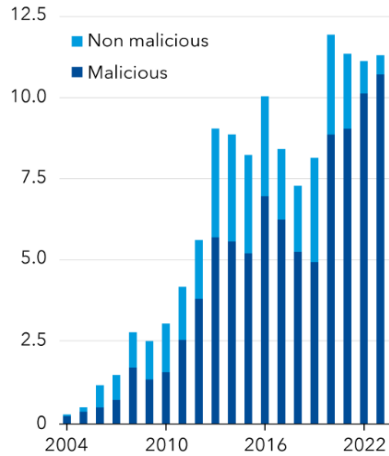
# Cyber



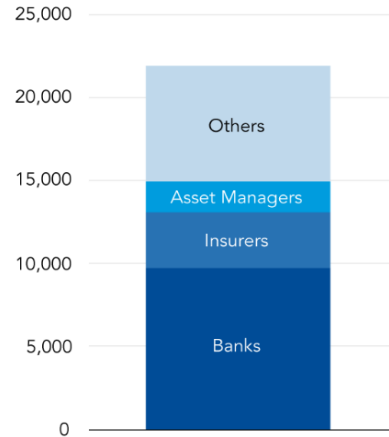
# Cybersecurity Threat Landscape: Industry Trends

## Cyber-attacks have increased<sup>1</sup>

**Cyber incidents**  
(thousands)



**Financial sector cyber incidents**  
(number, 2004-23)



Cyber-attacks are on the rise impacting all businesses and industries. The Financial Services Industry (FSI) is uniquely exposed to cyber risk given the large amounts of sensitive data and financial transactions handled.

# Survey Question #4

What is the top attack method in the insurance industry?

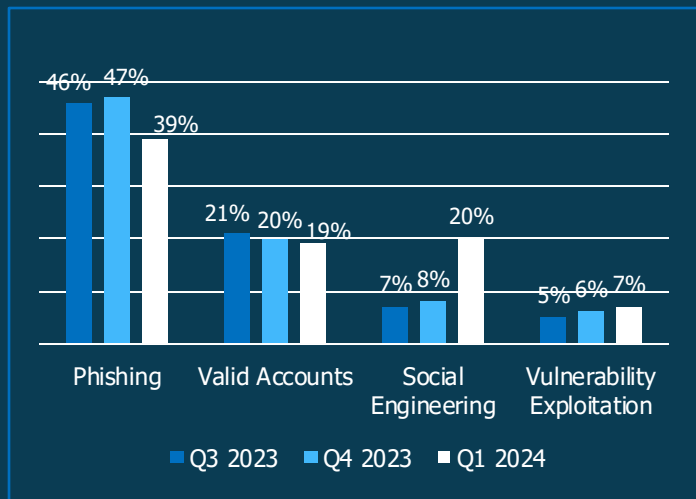
- a) Social Engineering
- b) Valid Accounts
- c) Vulnerability Exploration
- d) Phishing
- e) Cryptojacking

Answer: D – Phishing

# Cybersecurity Threat Landscape: Industry Trends (Cont'd)

The industry has seen increased attacks from various criminal groups and methods such as credential stuffing, social engineering and phishing/smishing.

## Top 4 Attack Methods<sup>1</sup>

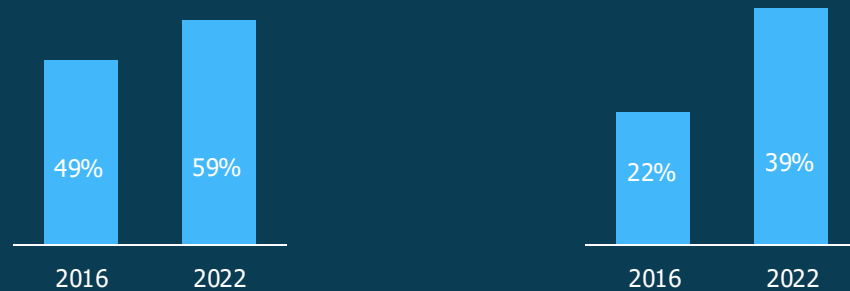


## Key Industry Trends in the Threat Landscape:

- FSI continues to be one of the top industries targeted for Cyber crime<sup>2</sup>.
- FSI is being targeted by criminal groups such as Scattered Spider, known for their successful attacks on Caesars & MGM casinos.
- Threat actors automate malware delivery using legitimate AI software tools, public infrastructure & phishing emails.
- Third-party service providers continue to be a target, having broader & widespread impact to companies across sectors.

# Third-party service providers remain a significant cyber-security risk to life insurers

- Life insurers continue to expand their list of third-party vendors as they continue to obtain efficiencies and expertise from companies in various sectors (e.g., treasury, asset management, etc.)
- Companies have been unable to keep pace with the evaluation of these risks to provide adequate protection for their respective companies



Organizations that have experienced a third-party-related data breach

Organizations prepared to mitigate third-part risks