THE INSURANCE INSTITUTE OF DUBLIN

"LIFE INSURANCE IN THE 1990s - AN IRISH LIFE PERSPECTIVE"

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I want to talk about life insurance from the perspective of Irish Life and the view I have had for 25 years as an executive and for the last 10 years as Managing Director.

Life insurance can be looked at from a number of different angles. The emphasis which we place on any part of the business is going to be affected by the particular lens through which we are looking. I found it useful to look at the business from a number of different angles and then to try to draw together some lessons taken from each.

I propose to look at the business from the point of view of product, distribution, and the customer. These seem to me to embody the classic "driving forces" of businesses - product, distribution and marketing - the latter being represented by the customer. While I intend to devote most of my comments to the Irish market, I do also want to generalise from an international perspective.

1. PRODUCTS

Let me start with products. In looking at products we have first of all to decide what range of products we intend to take up. Our industry is a sub-set of the financial services industry. Should we be looking at the total range of financial services or just that range that life insurance in Ireland happens to cover?
I believe we have to look at the broader range for two reasons -

(a) The borders between life insurance and other forms of financial service are more to do with regulation than anything else. We can see this as we look at other markets where regulation often defines life insurance more restrictively than we are accustomed to

(b) There is constant danger of confining ourselves to our present range of products. We are all too aware of the classic example of the railroad companies which were ultimately made obsolete because they didn't see themselves as being in the wider transportation business.

I propose to limit this examination of product to personal financial services - i.e. the personal needs of individuals. This encompasses aspects of pensions which are essentially designed to cater for individuals rather than group financial needs.

We can divide the product market into four -

1.1 Savings (of which pensions is an important special sub-set)
1.2 Loans
1.3 Risk
1.4 Money transmission

1.1 SAVINGS

Over the last 30 years, the life insurance industry has become a more and more important player in the savings industry in Ireland. Prior to this period we offered contractual savings i.e. savings which tied up money for very long periods. During the last 30 years we have seen a coincidence of things which have made us much more important in the savings market. A combination of taxation, inflation and a general move towards high risk investment in equities and property led people to shift a higher proportion of their savings towards the longer term instruments in which we specialise.

In the last five years, we have seen a reversal of these trends. From an advantageous tax position, we have become tax disadvantaged. Inflation has returned to the levels of 30 years ago. Equities and property, in the period 1987 to 1992, gave very poor returns.

Are we seeing a permanent shift back to 30 years ago ? I think to some extent we are and we have to look at what we can do well.

For regular premium savings, we still have a major contribution to make. Over long periods, equities and property give higher returns, provided the taxation system is equitable. We can provide contractual savings products which, provided people stick to them, will give better value. We have to make the 'sticking' a part of the product.

The lump sum market can also continue to be important. There is, essentially, a very high opportunistic element in this depending on the situation of stock markets, interest rates and so on. We are well placed to take advantage of such opportunities. Pensions, of course, have retained taxation advantages which have been there for many years. The significant thing from a product point of view is that pensions breaking up into various components - risk, investment, administration and so on. This makes it much more important to focus on what we can provide better than anyone else.

1.2 LENDING

The ending of taxation advantages has reduced the importance of life insurance in the repayment of loans. Life insurance is still important - both to cover the risks involved and as a means of accumulating money to repay the loan. I think, however, we have to regard the lending business as being one which may give some life insurance opportunities rather than one which is integral to what we are doing at present.

1.3 RISK

Risk is obviously the historic preserve of the insurance business and the one in which we are uniquely involved. In our market, we make a strong distinction between life and non-life risks. I suspect that this distinction is becoming less important as life insurance companies become involved with critical illness, sickness cover and so on and non-life companies become involved in areas like personal accident.

There has been a very significant increase in interest by life insurance companies in risk business over the last few years. We had regarded the risk business as being short of opportunities for innovation and much more difficult than the savings business. In fact there are large areas such as critical illness, long term care and so on which offer huge scope provided we can get our ratings right. It will be very interesting to see how close the life and non-life industries come together as they begin to concentrate on very similar markets.

1.4 MONEY TRANSMISSION

It is not clear what our industry has to offer in this particular market. Nevertheless, we need to keep an eye on it since being in this market may give banks and building societies considerable advantage. It is also possible that, as it changes very rapidly and technology improves there may be opportunities for cheap methods of entry.

To summarise from a product point of view, it seems to me that the life insurance industry should concentrate on the following -

- **(a) Long term savings**
- **(b) Risk Products**
- **(c) Being a fast developer and innovator**
- **(d) Bringing in new ideas.**

At one point, it seemed that the era of product development had passed. I think the impact of critical illness and of guaranteed products in the single premium market has proven that this is not so. The life insurance industry has a special skill in these areas which it should not easily throw away.

Product problems centre around value for money since costs, particularly in the short term are high. Client understanding is also important because our products are often complicated and poorly explained at point of sale. Administration can present difficulties as we have not always been quick and effective in providing information to our customers as they need it.

If we can concentrate on our virtues and overcome our problems, development possibilities are considerable from a product lens.

2. DISTRIBUTION

Probably the major change in looking at our industry over the last ten years has been the distribution area. Until quite recently, it seemed in the Irish market, brokerage was the main growth area of distribution. This was a great advantage to new "manufacturing" entrants to the life insurance market as it is comparatively cheap to access the brokerage market - it does not demand setting up distribution of ones own.

More recently, while specialist brokers have continued to do well, there has been some contraction in the main line broker market. At the same time, we have had much greater interest in the regular premium life insurance markets from banks and building societies.

Several companies in the Irish market have set up direct sales forces over the last few years. More recently, the growth in direct sales forces has been amongst those who have some special attribute. These would include the banks, and Irish Life where the home service business gives particular advantage. It is evidently very difficult to set up a direct sales force without some special advantage. I cannot see much growth in non-specialised direct sales forces both because the economics are doubtful and because the very high turnover rates make it very difficult to provide any form of long term customer service.

Recent activity has been focussed on the entry of the banks into the market through their own manufacturing companies. It is worth noting, however that the banks have actually lost some single premium share - when they were acting as brokers, there were periods in the past when they had higher market shares as distributors than they do at present. They have, undoubtedly, gained in the annual premium market where they have been able to distribute reasonably simple products effectively.

It seems to me that the future for direct sales forces and insurance brokers lies in becoming more and more able to provide specialist financial advice on the wide range of products mentioned. If they are able to do this, they can deliver service to the public which should be better than the bank assurance companies (whose strength is being universal providers of a very wide range of financial services products).

Brokers, direct sales forces and banks all need to add more value in the eyes of the public to its distribution product. If they do not, I suspect they may be overtaken by forms of direct marketing.

A very interesting example of this is the mutual fund industry in the U.S. which has taken a great deal of market share from both banks and life insurance companies by effective distribution of a wide range of products. It may well be that the future for distribution lies either in being specialised or in being able to use cheap systems for direct distribution which will threaten both unspecialised direct sales forces and bank branch systems.

In any event, having access to distribution will remain a key for our industry.

3. CLIENTS

As I said at the outset it is possible to view this section as either being client based or marketing based. It all comes down to what the need of the client is.

There is no doubt that, as people become better off, they think more about arranging their finances by saving, borrowing and protecting themselves more and more against risks. Moreover, the demographics of an ageing population suggests that, implicitly, we should be in a growth market.

The need is there. The question comes down as to who is going to supply it.

In general the insurance industry has a reasonably strong position. It is a specialist in the risk market, where it has no direct competition. The savings market is somewhat more difficult. The life insurance industry has historically provided a good service in long term saving to its clients. Over the last 15 years, it moved into medium term savings without a fixed term. In this area, particularly as inflation dropped and with it, absolute investment returns, the service to our clients was not good. This was exacerbated by changes in taxation.
We are being forced back, therefore, to the product areas which I described earlier - i.e. long term savings, regular savings contracts and special single premium products.

Does the public need long term savings ? I believe it does, albeit at somewhat lower levels than we have seen over the last ten or fifteen years.

I do believe, also, that we can get both our distribution and manufacturing costs down to levels where we may be able to compete not just in the long term but also in the medium term savings markets. This is one of the major challenges for us in the years ahead.

There is no doubt that there is going to be considerable competition for the hearts and minds of our customers over the next few years. If we are going to win this battle, we must get ahead of customer demands rather than being behind them as we have in the last few years. This means better communications, better value for money, more openness. If we take the lead in these matters we will be answering a real need. We must be confident that the product we are selling is right and good for our customers

4. INTERNATIONAL

Some of the things I have seen internationally support my earlier points.
Let me look briefly at a few overseas markets.

4.1 THE UNITED STATES

Over the last 20 years, the traditional life insurance industry in the U.S. has declined largely because its costs were too high and as it lowered its costs it was not able to maintain the levels of distribution. More recently, two trends have become important -

(a) Increased product development

This has been particularly so because of the low inflation and interest rates which have characterised the U.S. market for the last 3-4 years. There are very interesting developments coming in the unit linked area for example.

(b) Much more focus on the customer and on multiple sales to the customer.

As I said, the example of the success of the mutual fund industry in the U.S. is a real challenge to all of us.

4.2 U.K.

The U.K. market has gone through an extraordinary period over the last ten years.
It has experienced very rapid growth due to a combination of government withdrawal from many areas of provision, leaving gaps for the industry to fill. At the same time, we have had periods of commissions almost out of control. More recently, the Financial Services Act has greatly strengthened the hand of the consumer, albeit in a very crude way. The industry has got a bad name as a result because it is forever running behind the new regulations coming in. If ever there was a lesson for us to anticipate customer demands rather than fall behind it is in the U.K. Equally, we can see what happens if commissions get out of control. There is a surge of short term sales which are poor value to the consumer and ultimately lead to problems.

4.3 FRANCE

One of the most interesting things I see in the French market is that there is more distinction between savings and risk products than there is between life insurance and non life insurance. Customers tend to buy savings products from banks and risk products from insurance companies. Insurance companies tend to transcend the gap between life and non life. The French have been far more successful than we have at selling life and non life products on the same customer bases.

A broader international message is that insurance is potentially an international business in a way in which retail banking is not. It is possible to break into overseas insurance markets by tackling niche product and customer areas and achieving high market share within these very narrow groupings. This is in contrast to retail banking where the need to be a universal provider means that you have to be substantial. Retail banking does not offer a very easy entry into other markets. (U.S. may be an exceptional case because regulation has forced the retail banks in the U.S. to be small).

In insurance, you do not have to be big to be successful internationally. You can specialise in end markets, you can specialise in products, you can specialise in client service or particular distribution. This does mean that the Irish Financial Services Centre has some real opportunities within the life insurance and possibly non-life insurance areas.

5. SUMMARY

I believe the key to the future success of our industry lies in the following -

a. Good product development

b. Distribution Advantage, some of which needs to be controlled

c. A well informed client bank with confidence in the product and the specialist advice service which they are getting from the industry

I believe that our industry will survive and grow if it -

d. Treats its customers right

e. Innovates and -

f. Controls what it is doing.

For Irish Life in Ireland, these are the values which will count in the years ahead, allied to international growth using the same values. The one nigger in the woodpile which I worry about all the time is the sort of random government intervention in taxation which we have seen in Ireland over the last two or three years. If we can cope with this, there is a good future.

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