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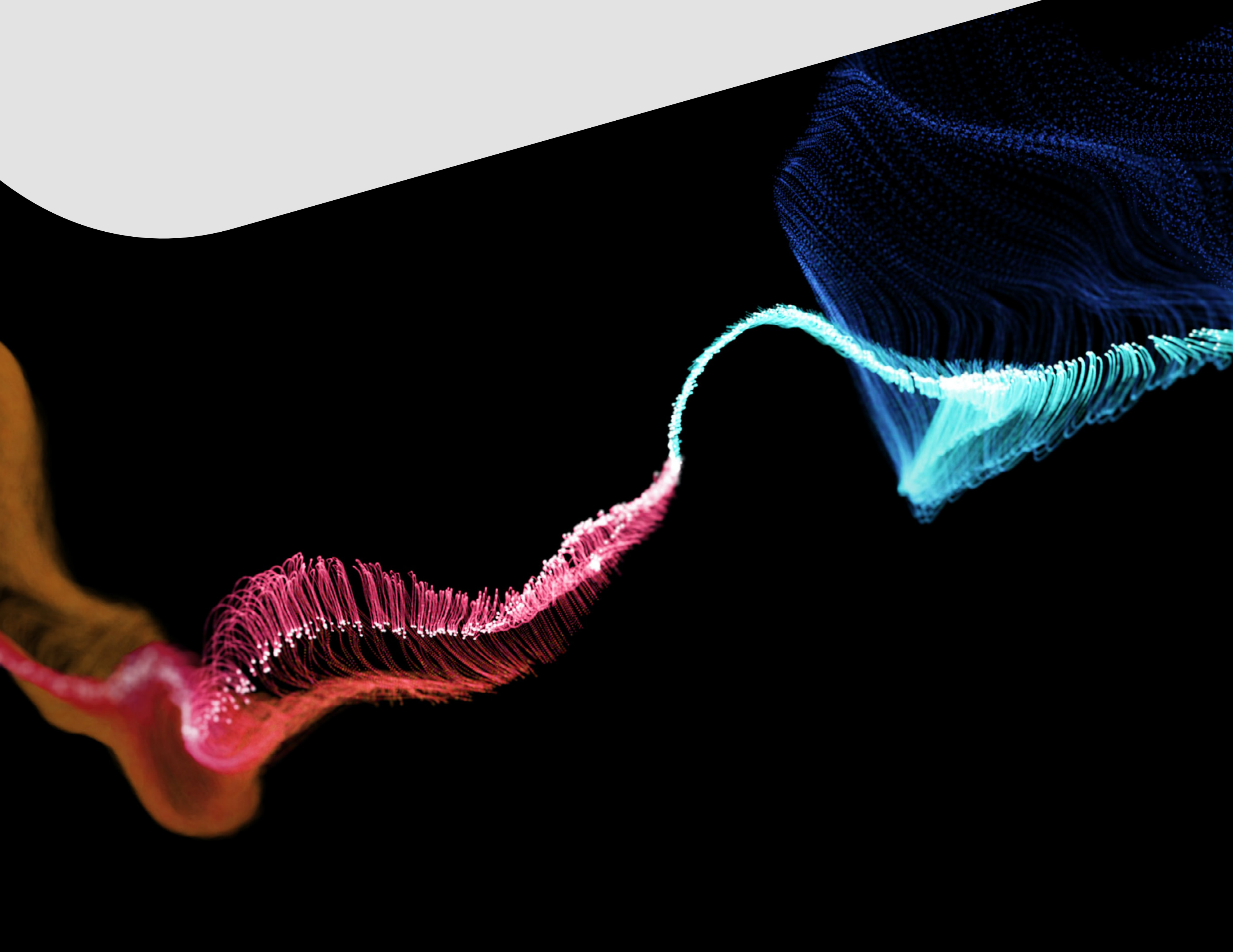
7 TRENDS SHAPING INSURANCE PRODUCTS IN 2024

Thought leaders from Prudential, Lincoln Financial Group, New York Life, and Aflac Group Insurance explore the latest trends influencing product design and how to find a competitive edge in today's crowded insurance market.



INTRODUCTION

The promise of insurance to act as society's safety net has never seemed more complex. Against the backdrop of a presidential election, North American carriers are facing a multitude of of risks: geopolitical and climate threats, medical inflation, nuclear verdicts and demands of multigenerational workforces – all amid a whirlwind of technological change.

Commenting on the uncertain environment, Mike Gamble, *Vice President & Head of Institutional Life*, a division of **New York Life Insurance Company** (a Fortune 100 company founded in 1845, and one of the largest life insurers in the world) says: "Unpredictable change is the new normal for our industry. Success depends on a proactive rather than reactive approach."

Indeed, predictions of a recession and anticipated rates cuts in 2023 did not materialize. In January the FOMC, the Federal Reserve Bank's chief body for monetary policy held steady saying it would continue to "carefully assess incoming data, the evolving outlook and the balance of risk" until inflation was moving sustainably toward 2%". Interest rate cuts are now likely later this year, Reuters reports, but Fed President John Williams sees "no sense of urgency to do that".

This uncertainty coupled with the speed of change presents challenges for product development, Gamble says, "We cannot predict every twist and turn of the market, but building flexibility into our products ensures we are always prepared to adapt. This allows us to continue serving clients effectively, no matter what challenges emerge."

Purpose-driven insurers are developing solutions that prevent risk, mitigate loss severity, boost workforce benefits and close life and non-life protection gaps. However, global consultancy PwC argues that "unfortunately, most carriers today are still opting for incremental change" when what is needed is "radical reinvention".

Investment in advanced technologies can drive profitable growth but only in tandem with customer satisfaction and trust. As PwC sees it, "regardless of business line, insurers must put customers – not products, channels and geography – at the center of everything".

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1. CUSTOMER-CENTRICITY, A CORE DIFFERENTIATOR AND CATALYST FOR GROWTH

Purposeful customer-centricity is a top priority for insurers in 2024 but PwC warns that this "is not just about making customers happy, it is a catalyst for growth and ultimately the reinvention of insurance as a business".

At New York Life, a mutual company "hyper-focused on financial strength," Gamble believes in balancing customer needs and adaptability in a rapidly evolving market. "To achieve this balance and deliver personalization, we must build flexibility directly into our products. This allows us to respond with immediacy to market shifts rather than repeatedly returning to the drawing board for new product development and launches," he says.

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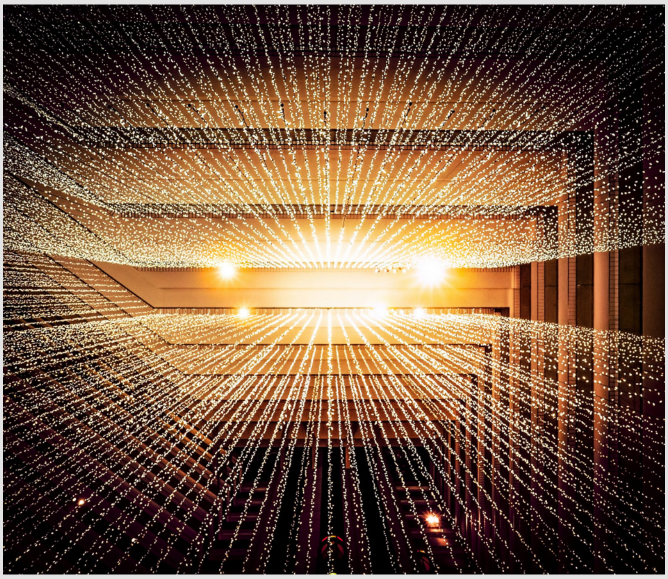
Michael Estep, *President Group Insurance*, **Prudential**, says its product development strategy is end-to-end: "Products used to be a certificate and a set of benefits. Today they are a broad set of solutions, which encapsulates that experience from enrolment to claim," he says.

For Estep, the advent of API's and generative AI (GenAI) has brought the industry to a tipping point: "Carriers are starting to elevate the experience to a point to where it's really benefiting the employee and the user of the benefits."

The need for speed, and not just in claims payments, is a core differentiator for **Aflac**, the world's largest provider of supplemental insurance. Jenny Merrithew, the group's *Vice*



President of Life, Absence and Disability Product, says the insurance product, namely financial protection in the event of illness or injury, is table stakes. "What matters now is how fast, seamless and simple it. It's not just about the product, it is about the experience," she says. Aflac's supplemental health solutions, for example, "offer quick reimbursement for wellness claims, often within one business day".

Customer education should be core to a customer-centric product strategy. "It's making sure consumers are aware of everything that's available to them, and enabling them to understand their return on investment," Merrithew says. Even if a worker is not covered by an Aflac solution but is eligible for benefits via a state plan, they can be alerted when submitting their absence claim either digitally or telephonically. "We embed that directly into our intake process," she explains.

Heather Deichler, *Senior Vice President, Group Protection Product & Underwriting at* **Lincoln Financial Group** says education must go beyond the solution. "It's very important to help people understand not just why they need coverage but what's the appropriate amount."

2. DISMANTLING SILOS, TECHNOLOGY AND SKILLSETS

According to PwC, carriers today require modern, "cloud-based systems and applications that enable an organization to quickly and economically configure for innovation and scale". But many insurers, it continues, "are doing this only in pockets, resulting in disconnected silos rather than truly tech-enabled businesses".

When underwriters and digital or IT resources work in a siloed manner, gaps can arise especially when developing specialty, non-admitted or niche products. One of the challenges is that the challenge is the dearth of strategic IT skillsets. In fact, the shortage of technology staff is the industry's greatest need, according to Jacobson Group's latest labor market study, but product management is where there is highest demand for experienced workers.

Data, automation, application program interfaces (APIs) and advancements in AI can free staff from time-consuming and repetitive tasks. Not only does this help to ease staffing bottlenecks, carriers can benefit from operational efficiencies, lower costs and intuitive simplified experiences for customers and employees. Prudential's Estep says in 2024 "carriers will continue to double down on leveraging technology as an enabler to really focus on and elevate the employee experience".

On the P&C front, insurers are expected to continue to develop niche market products that heavily leverage AI in order to fuel digital underwriting and straight-through processing.

3. WORKFORCE BENEFITS AND THE WOW FACTOR

Morgan Stanley's 2023 State of the Workplace Study finds that nearly 69% of employees are examining their financial benefits. At the same time, 88% of HR managers see employees demanding benefits they don't yet offer. As multigenerational workforces add additional layers of complexity in 2024, there is expected to be a continued focus on improving and expanding benefits. These could include everything from menopause to fertility, family planning and trans care benefits, as well as financial wellness programs and health plans.

Driven by the increased utilization of technology platforms such as benefit administrators or HR systems, Estep says: "The breadth of products being offered through employers is increasing year over year."

When enrolling there can be a choice of between five to 15 different categories of product, and "for many people, this can be an overwhelming exercise", says Deichler of Lincoln Financial. Thus ecosystems with informed agents, a solid set of questions, really smart algorithms, and data-driven point-of-decision tools can really help employees make sense of the myriad of products on offer.

In the U.S., there is currently no federal law requiring paid family and medical leave for the private sector but some states have their own programs and requirements, and momentum is growing. Thirteen states and the District of Columbia, according to the U.S. Department of Labour, have laws that create paid family and medical leave programs for eligible workers.

From both a societal and U.S. perspective, Merrithew of Aflac sees continued "proliferation of paid leave", be that paid family or medical leave, statutorily required or voluntarily offered by some of the larger employers. One priority, and challenge, will be developing products that close the gap between the have's and the have not's in allowing workers to take the time away they need without fear they will not be able to pay bills. Though not required, she also expects growing adoption of the NCOIL paid family leave model to enable employers to purchase insurance and provide protection for their workers. "This will be most impactful to perhaps some of the smaller employers who otherwise may not be able to offer this benefit," she says.

At Prudential, Estep says APIs and GenAI is helping to drive better engagement, communication, and education at the point of enrollment, with real benefits for employees. Additionally investments in AI to empower claims managers means they can "more effectively manage their book of claims, which is elevating the customer experience", he says.

4. HEALTH, WELLNESS AND A HUMAN TOUCH FOR LIFE

Advancements in health data analytics and wearable technology are creating new opportunities for more personalized products with incentives for proactive health management and savings. There is also increasing availability of consumer data. This presents many opportunities for life and annuity insurers as younger, digital-savvy consumers become more aware of the benefits of protection products. Direct-to-consumer (D2C) InsurTech's like Ethos, which uses predictive technology to quote rates via its app in minutes, are rising to meet this demand.

At New York Life, data and AI is playing vital a role today in shaping customer relationships and targeting audiences, but Gamble expresses reservations about the widespread adoption of D2C models. "Data tends to overgeneralize people by not understanding their unique needs," he says. He also stresses the importance of personalized service in life insurance, cautioning against oversimplification that could diminish the value for customers. "If a policy can be bought with the click of a button," he says, "the ease of entry comes with the ease of exit, potentially undermining the long-term benefits of a tailored insurance plan," he says. For Gamble, the ideal customer experience in life insurance hinges on personalized one-on-one interaction."

In 2024, life insurers will continue to modernize and find ways to penetrate the market better. There is a clear opportunity for greater engagement with the policyholder and family about the value of a life policy, which could include a discussion about funeral plans and legacy, or leaning into health and wellness during life.

The high cost of healthcare is a burden for over half of the U.S. families, according to a poll from KFF, and insurers will be watching the election outcome closely. If Trump wins, 3 million people could lose access to government backed subsidies that lower the cost of premiums and expire in 2025, NBC reports.

In the workplace, employers have tried to address the impacts of medical inflation through High Deductible Health Plans (HDHP). However, these plans, which offer lower premiums but higher deductibles than traditional plans, can have the unintended consequences of putting pressure on employee

finances. For this reason, Gamble expects to see continued growth of supplemental health insurance in 2024. To address this challenge, New York Life recently launched a new portfolio of voluntary benefits including accident, critical illness, and hospital indemnity insurance. This decision was supported by a company survey, which found that a majority of adults have delayed medical treatment with concerns around their ability to pay for medical expenses being the top reason.

Dental, vision and hearing are not covered by typical medical insurance in the U.S., a need Lincoln Financial is looking to address with their standalone dental and vision offerings. Only five U.S. states, for example, require health insurance coverage for adults needing hearing aids. The group is also offering personalized health and wellbeing such employee assistance programs, which provide mental health counseling, and work-life support services to assist in finding care for an elderly parent or recommendations for a babysitter or daycare.

While incumbents improve their product offerings, InsurTechs like unicorn Surest are also emerging as challengers - the group's no deductible and no co-insurance health plans include price transparency for comparable services and providers.

5. BALANCING REGULATORY RIGOR WITH THE NEED FOR SPEED

Balancing the rewards of technology innovation with regulatory expectations is an on-going challenge for the insurance industry. Regulatory sandboxes, which enable companies to trial new products or features in a limited market with real consumers, are not a new concept. However, Gamble is seeing increased levels of partnership between carriers and state regulators. They are looking for solutions for their constituents that don't yet exist. More personalized financial, medical and wellness solutions could benefit from these collaborative approaches, he says.

Insurers will be watching governor's elections particularly closely given their influence on state-level insurance policy. In 2024, Colorado will become the first state to adopt regulations specifically aimed at insurance algorithms. Other regulators, including from California, Connecticut, New York, and Washington, D.C, have warned too that models must be demonstrably unbiased.

Meanwhile, Deloitte's 2024 insurance regulatory outlook says regulatory bodies and stakeholders will continue to seek more commitment and information disclosure on sustainability, climate and equity (SC&E) from insurers. Many insurers and brokers have implemented strong environmental, social and governance (ESG) controls that play a role in determining what industries they will and will not en-gage in, entities that they will do business with, and often this is incorporated into un-derwriting decisions and rating algorithms.

Continued commitment to diversity, equality and inclusion (DEI) could prove to be a differentiator in 2024 but Deloitte says carriers should go beyond internal financial in-clusion initiatives and consider increasing coverage reach and affordability for un-served and underserved segments.

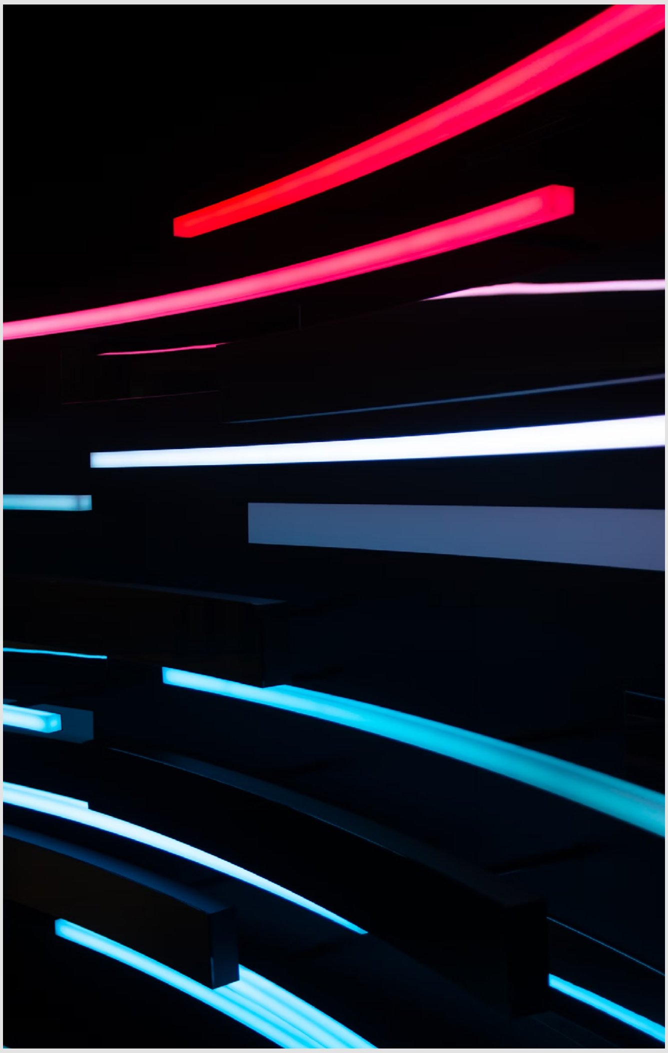
While the simplicity and ease of data exchange holds immense possibility for product personalization and promotion, data privacy and protection laws and consumer rights remain top of mind.

The Consumer Federation of America is calling for insurance companies to play a more constructive role in making insurance affordable, and to withdraw from insuring fossil fuel projects.

6. ECOSYSTEMS AND ELEVATED EXPECTATIONS

Digital ecosystems in the cloud are making it easier for insurers to link their offerings to other service providers, and bringing opportunities for further differentiation and innovation. As open insurance models that engage partners continue to evolve, they will be characterized by end-to-end processes, flexibility and agility, with growing opportunities for health and property lines.

Though hardly new, Deloitte is bullish about the prospects for embedded insurance, forecasting gross premiums of $722 billion by 2030, with North America and China accounting for around two-thirds of the global market. However, what's changing rapidly, says its 2024 industry outlook, "is the volume of insurance premiums for major lines likely to be built into other types of third-party transactions". This trend could bypass traditional sellers of insurance, upend direct-to-consumer sales, and could even exclude legacy carriers altogether. In particular, auto insurers should be "actively seeking alliances" or preparing for competition.



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Brokers remain key partners for distribution at Lincoln Financial, but Deichler says the group is remaining open to new partnerships as ecosystems evolve. These could be with request for proposal (RFP) aggregators, GAs, or benefits technology partners, which she sees "increasingly working with payroll companies directly to put the products on the platform".

Aflac views embedded solutions as "value adds" integrated into the main product with a strong relationship to the underlying insurance. Merrithew says: "It is about anticipating what an employer; a customer or employee may need but may not be able to invest in or consider, but that can add tremendous value to the product."

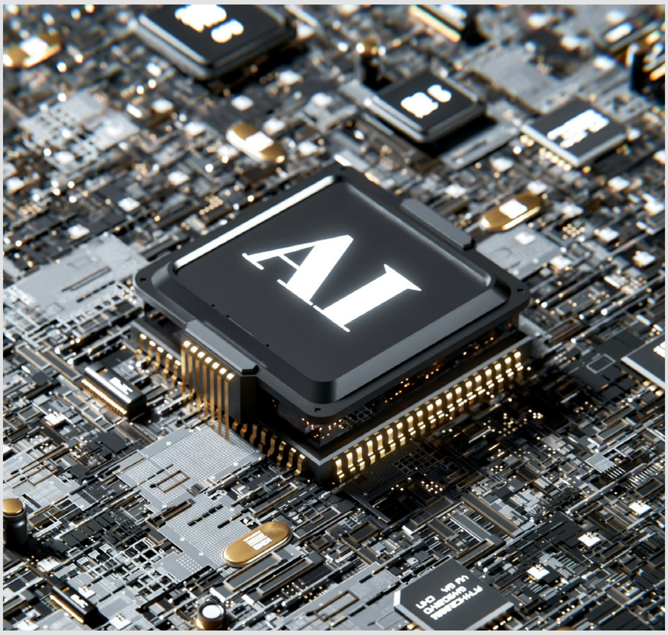
Embedded into Lincoln Financial product solutions are medical and safety related services, which, Deichler explains, helped residents and travellers safely evacuate from Hawaii during the 2023 wind-driven wildfires.

While on-demand insurance for specific events or periods is already firmly embedded in the travel industry, Deloitte sees the net being expanded to property, liability and small business insurance.

7. INSURTECHS AND ADVANCING AI

InsurTech, a market valued at $6.5 billion in 2022, and forecast to reach $82.3 billion by 2032 will continue to bring more affordable, accessible and innovative products and services to both consumers and businesses.

InsurTech innovation has given rise to usage-based insurance (UBI) platforms, harnessing telematics and IoT (Internet of Things) devices to collect real-time behavioural and sensor data. To date, auto, property and health have benefited most, but as data becomes more granular, Deloitte sees more sophisticated use cases for personalized pricing and incentives.



"IT (GENAI) GIVES US ACCESS TO LARGE PORTIONS OF DATA TO INTERPRET TRENDS AND INSIGHTS THAT WERE NOT AVAILABLE JUST A FEW SHORT YEARS AGO"

- Mike Estep, President Group Insurance, Prudential

Parametric insurance, a market projected to reach £23.34 billion by 2031, is another important addition to the product landscape, paying out defined cover based the likelihood of measurable trigger events – such as earthquake magnitudes and hurricane wind speeds. Deloitte expects 2024 to bring "new areas covered by parametric policies to include cyber exposures and operational downtimes due to cloud outages".

Requiring data standardization and robust modelling approaches, cyber has proved another candidate for InsurTech innovation – At-Bay and Coalition are two companies focused on cyber that have made the Forbes Top 50 Fintech 2024.

On the climate front, Future Proof has an algorithmic underwriting platform that aligns incentives with climate adaption. Climate adaption can result in benefit-cost ratios ranging from 2.1 to 10.1, according to the Global Center of Adaption.

InsurTechs are also responding to the growing prevalence of nuclear verdicts, which have increased by 27.5% from 2010 to 2019, according to a study by the US Chamber of Commerce Institute for Legal Reform. Charlee AI's claim is to predict litigation 90-120 days in advance with approximately 85% accuracy.

Equally, however, forward-thinking carriers are stepping up their innovation efforts in-house, in partnership or through merger and acquisition to ensure their products are fit for the times.

Much-hyped GenAI holds much potential. Prudential's Estep says: "It gives us access to large portions of data to interpret trends and insights that were not available just a few short years ago."

This data is helping Prudential to refine benefit recommendations for employers and their employees at the point of enrollment, but also on the backend managing claims. A partnership with Evolution IQ, for example, is using data that helps claim managers better manage short and long-term disability claims, expediting the claims process and transforming the focus on recovery.

Though AI's power to transform industries is a key focus in 2024, it also poses a risk for developers and implementers. Munich Re has stepped up to solve this with its InsureAI product.

CONCLUSION

In 2024, digital transformation is accelerating across every line of business. As non-P&C lines play catch up, the insurance industry is facing ever-shifting market dynamics, accelerating technological innovation and customers with diverse needs. To stay competitive commentators agree that carriers must build products that are flexible and adaptable to market demands but have customer-centricity at the core. This means different things for different lines.

For P&C carriers, a continued focus is expected on niche products, for example those that address the challenges of climate-change or the gig economy.

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In the group space, Estep sees continued investments in "infrastructure, consumer- facing and technology capabilities that elevate the experience and provide simplicity throughout the value chain". Decision-making tools at people's fingertips, strong integration of processes, and a continued drive to lower costs across the business, is Deichler's take.

For Gamble, the human touch will remain at the heart of life insurance.

For all, however, customer-centricity will be the cornerstone of profitable growth and defined by personalized experiences. But companies must go the extra mile to shift

negative perceptions and exceed expectations. If people can use their plans and programs without ever having to use insurance and we make it simple, easy and delightful that will enable us to gain the trust, respect and accolades the industry deserves, says Merrithew.

Transparency will be vital, especially as the industry pivots to become what Deloitte refers to as a "sustainability ambassador", an influencer of purpose-driven decisions with strategies across industries that create better workplaces, markets and societies.

Though institutional challenges remain, Merrithew says: "As an industry, we're doing it faster and better now than we ever have, but at the same time, this is the slowest it will ever be".

In short, to remain competitive carriers must embrace change, and that change will be continuous.