Helping Your Insurance Company Grow

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AETINS is an Insurance Software Solutions Specialist.

We offer a single end-to-end Insurance Solution that covers all lines of business: Individual Life, Group Life, Investment Linked and General. It spans across functions like illustration, quotation, new business, policy servicing, claims, agency management, commission and benefits, accounting and services. Our business is to help Insurance Companies to strategise and operate by leveraging on Information Technology, a key enabler to achieve transformational growth through Operational Excellence and Innovation.

AETINS has gained valuable business and technological expertise by building extensive knowledge and experiences that we capitalise on in delivering solutions to meet customers' needs, expectations and budget.

- Our mission is to "Innovate Insurance Companies to strategise and operate by leveraging on Information Technology".
- Through our experience and expertise, AETINS has successfully completed many projects of different scales and complexity.
- AETINS recognises that specialisation and mastery in the Insurance and IT industry is imperative.
- Our aspiration is to enable business transformation for Insurance Companies across the globe.

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SAFETY ACCOUNT

A Simplified, Holistic and Perpetual Protection Solution as an Alternate to Insurance Product Selling.

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AETINS MINDSHARE

Abstract : Life Insurance Products are Complex and frigid for most of the common people, hence their unpopularity. We have made insurance complex and are stuck in a paradigm "Insurance is Sold, not Bought". It is high time we think radically different and "Simplify Insurance for People". We should help people realize their protection needs and protect themselves. This "Safety Account" focuses on perpetual protection, rather than complicating with Products and Policies.

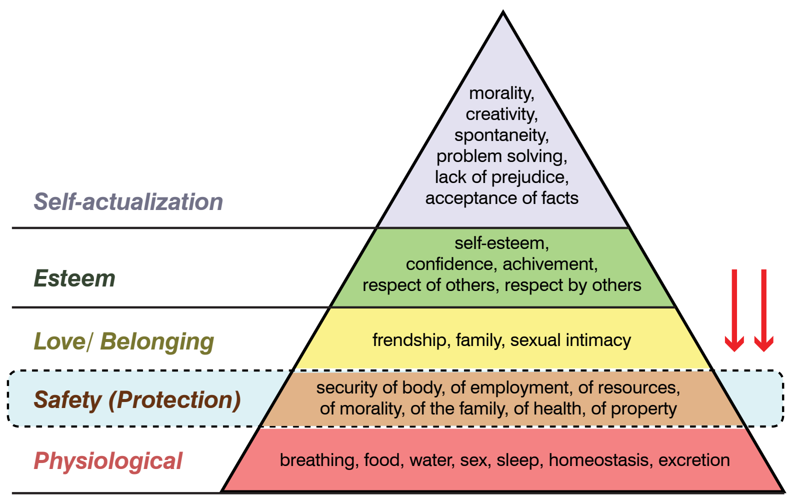
Introduction

If you are involved closely with life insurance industry, you may agree with me on the following.

- When People buy life insurance, they are either convinced or confused. I believe it is more often latter than former.
- Assume they are convinced (more often for tax reasons), when confirming on life insurance purchase, people are anxious and seldom 100% sure that this is the best policy for them. They give the benefit of doubt to the agent.
- After buying policy, along the tenure, many people wonder if it is the right policy they purchased. Is the policy value still relevant in the current context? Some people alter the policy and continue (provided the insurer allows), some drop it off.
- How many whole life policies sold in 1980's are still maintained active today? If they are active, how many appear of value for the customer in the current economic context?
- Our life is changing so fast, our priorities are changing regularly, and our life policies cannot be pre-defined and static. Long term commitment without any flexibility makes little sense.

"Insurance is Sold, not Bought." We are stuck in this paradigm. We have made Insurance so complex that there is no way a common man can understand an insurance product and map it to his needs. It is not easy for him to compare two life insurance products and understand without the help of an agent (financial expert). **People understand their protection needs, but, don't understand Insurance products.**

If you observe the "Maslow's Hierarchy of Human Needs", It is clear that once our physiological needs are met, we all invariably think of Safety and Security on all fronts before we rise to next level. These safety needs have varied focus like Physical and health safety, Safety of Money and Possessions, Safety of Job & income, Emotional Safety, Safety of social image and Financial Safety. Insurance addresses financial safety.



Source: Maslow's Hierarchy of Needs

About Agents: Unfortunately, Agents are tied to insurance company and may not always provide unattached professional advice. Whatever professionalism or ethics or controls we may introduce, agents are target driven and commission gives them bread & butter. Hope you agree that some agents already have a product in mind when they meet their prospect customer. It's just a matter of searching for need or creating the new dream in the customer.

Let us look at the Agency KPI's we measure and reward for. There is heavy focus on First year Premium (FYP). While persistency is measured, it appears more inclined to protect the company's bottom line of recovering the "New Business Strain". Many measure Persistency only for 3 years? As an Industry, we claim that 80% persistency for agency is good. This means that it is fine to "Cheat" 20% of people!! Focus appears more on company profitability than customer value.

Product Life vs Policy Life: Look at the current life insurance product life cycle. Don't you see the irony that Life Insurance products only live for 2-3 years, but, the products are sold for 20 years? I don't understand the meaning of discontinuing a product when customers have trusted the product and committed for long term? Product innovation is only for new consumers OR existing consumers intending to buy a new policy. I have never seen product renovation (policy renovation) to suit the changing needs. Are we treating life insurance product like electronic gadgets or software versions? We only have one life, no versions of it.

Insurance Product Evolution: Let me put my version of story on life insurance product evolution. Long time ago, Life Insurance started with the fundamental concept of "Term Cover". The opposite of term, which is the "Pure Endowment" was identified. As "Pure Endowment" cannot be sold, the fusion of "Term Cover" and "Pure Endowment" came the Normal Endowment. "You don't need to die to get back your money" was an attractive selling statement to start the consumer confusion.

As of pricing, there was a need for level premium. This twisted in selling like "You buy early, it is cheaper" starting the camouflage. Psychologically, People are excited about that small yearly bonus more than their monthly salary. "Bonus" is a good term to hear. Conservative assumed interest rates were used for pricing. There was scope to pay the difference in earning as Bonus. Different dividends and bonus terms came into picture. As long term maturity didn't appeal many, interim survival benefits from cash value were introduced to project quick wins. Riders came into picture to address other risks of life like Disability, Critical Illness and Hospitalization. The Insurance product was born.

Insurance marketing picked up. They started linking the endowment amount to different needs of life, creating the narrow and specific roads (Marriage, Retirement, Child Education etc). Company brands and Product names came in and started the masking. More and more benefits were shown on brochures with subtle rules and restrictions "Terms and Conditions Apply" introduced to assure or improve profitability. Competition forced customer segmentation and resulted in more and more Complex products. Savings were replaced by Investments and Unit Linked Insurance was born. Unique value propositions of products, selling tips helped in confusing consumers in a fair and consistent manner.

All these development reinforced that a common man needs an agent to understand his life and decide.

Industry Problem: n Banking, we seldom talk of penetration. In insurance, we always talk about two problems "Penetration" and "Protection Gap". To address this problem, our thinking always is to increase the capacity and capability of our distribution to penetrate better and remove the protection gap. We have to appreciate that we just can't create enough agents to provide financial advice and protect the world's needy population. It has to be the other way. We have to make people realize their protection needs and help them protect themselves. We have to shift the paradigm and "Make people buy Insurance by simplifying it." We should allow insurance to proliferate.

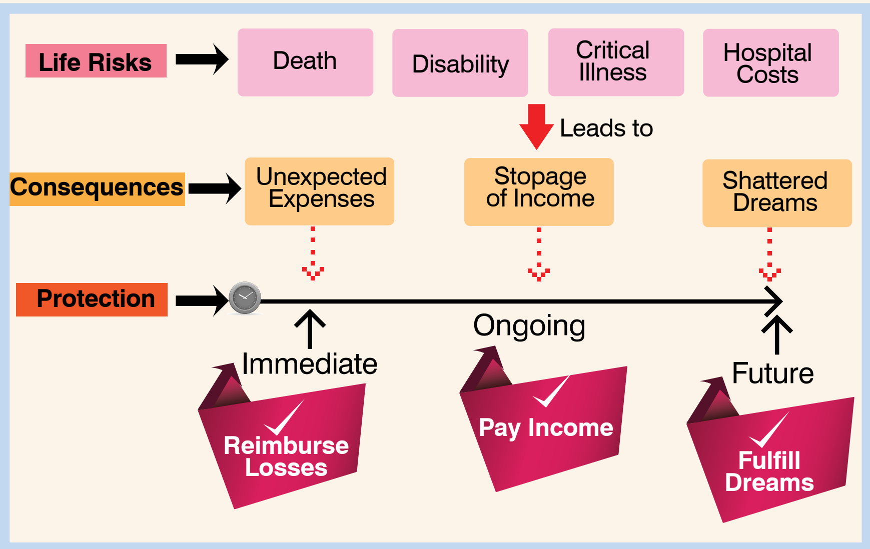
This requires us to ask some fundamental questions - What is this Insurance product? , Who created this concept called Insurance Product? What was the need to create it? Is Life Insurance a product or service? Are we stuck in a "Product Paradigm"? What is the alternative to product? Can we provide Life Insurance as a perpetual service without products?

Concept of Safety Account : This concept of "Safety Account" is an attempt to think different. It is an approach to help people realize and self-manage their protection needs. This moves us out of the "Insurance Product Paradigm" and allows us to look at providing a holistic and perpetual protection solution to people in the form of an "Account". The term "Account"(not Policy) is used to emphasize on simplicity, flexibility, and continued relevance to current needs. Your "Safety Account" should work similar to your Savings account in bank. Opening a "Safety Account" should be as effortless as opening a Savings account. No commitments, no compulsory medicals etc.

To construct this safety account, we need to go back to fundamentals. What are the Life Risks? What are the consequences of these risks? How does life insurance provide protection? The framework below helps us to understand the protection element in Life Insurance products today.

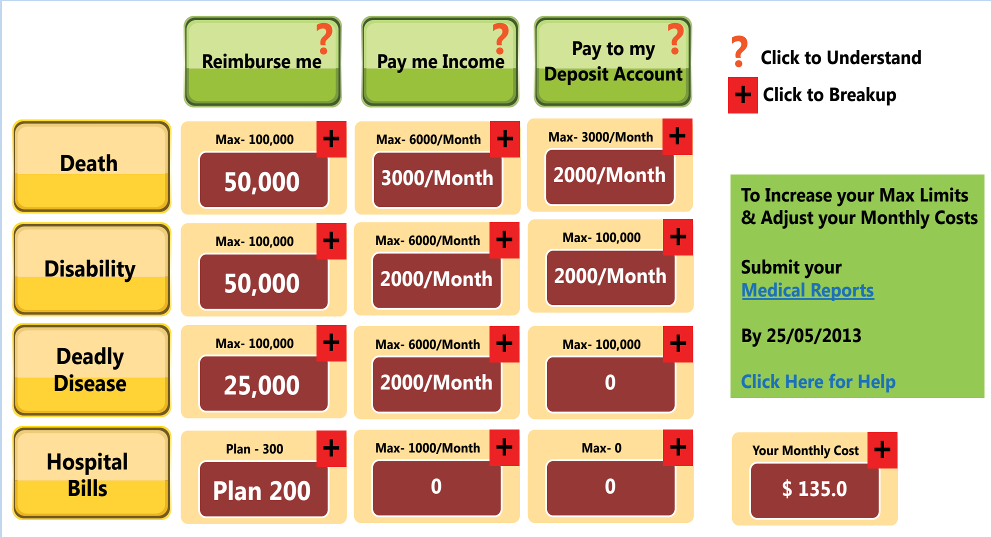
We are exposed to 4 major risks, leading to 3 undesired consequences. Life Insurance protects these consequences by

- Paying as sum assured to cover **"Unexpected Expenses".** (Eg : Payment of Sum Assured upon Death).
- As income benefit to compensate for **"Stoppage of income".** (Eg : Family Income benefit upon death, Disability Income riders, Living benefit riders for critical illness).
- As Waiver of Premium to address **"Fulfill Dreams"**. (Eg : Child Education Plans, Waiver Riders, Payer Benefit Riders).



You can cross check the protection element of life insurance products you come across (by setting aside specific product rules and conditions), it is likely to fall within the framework above.

It is 4 Risks leading to 3 consequences requiring 3 ways of protection. Hence, If we arrange the risks and protections as a 4x3 matrix as below, we get this conceptual "Safety Account".



Assume I am earning $5000/month, spend $3000 and save $2000, I can configure my protection needs as above. Take example of Death - My family should get a lump sum of $50,000 and a regular income of $3000. In further, $2000 should go to my deposit account to help in my child education and spouse retirement. Similarly, it can be interpreted for other risks. I can change amounts within "Max" limits and see my monthly costs change. I can explore and self-manage with minimal advice.

Safety Account - Implementation: To implement this Safety Account, it demands radical shift in Operational, Process and underwriting thinking. In fact, we explore a new concept like "Upperwriting", instead of the conservative "Underwriting" to facilitate this. Below is a quick high level comparison between "Insurance Product" and "Safety Account".

	Insurance Product		Safety Account
1	Narrow Objectives	→	Holistic Life Risk Planning
2	Limit Term, Constrains	→	Flexible, Perpetual
3	Distribution Thinking	→	Self Service
4	Under Writing	→	Upper Writing
5	Focus on Saving & Investment	→	Detached, But Still Protects

1. From specific objectives of a product, we move to holistic life risk planning.
2. Safety account is flexible, perpetual and addresses the needs of "Now".
3. We move from "Distribution Thinking" to "Self Service" or "Over the counter service". Thus remove(or reduce) the commission burden from consumers.
4. **Underwriting to UpperWriting :** We explore a new concept called Upperwriting for Life risk assessment. In my view, the term Underwriting should only be used for non-life insurance, where, the risk amount is tied to market value. Underwriting was coined with Marine insurance, when Lloyd's financial bankers literally wrote their names under the ship's risk amount. How can we compare a depreciating ship to an appreciating life?
   The thinking has to change. Currently, "Life Assessment" is done by agents and "Risk Assessment" is done by Underwriters. Moving forward, Upperwriters should be futuristic to set an "Upper Limit" for each life by assessing the current Age, Income, Family dependency, Inflation, Health conditions etc. Customers should be able to choose and change within the limits freely. Customers should have options to push the limits up by submitting their medical reports regularly. Refer to the "Max" limits in the safety account matrix.
5. Current insurance products are more focused on Savings and Investment. Safety account is detached from savings and investment, but, it still protects them. It appears like Term Insurance, but, it is a lot more than that.
   This Safety Account is not intended for replacing current Insurance products. It complements the current insurance products and current distribution channels to fill in the protection gap. To a great extent it may attempt to complete the market by penetrating better at a low acquisition cost.
   and investment, but, it still protects them. It appears like Term Insurance, but, it is a lot more than that.

Suitability of Safety Account

Safety Account approach is ideally suited for below scenarios

1. In Banks, linked to bank savings account of customer.
2. As micro insurance, distributed through banks.
3. Over the counter Insurance sales and service.
4. Online Insurance purchase and self-management.
5. Employee Group Insurance schemes.
6. Best suited for Takaful due to its surplus distribution.

Viability of Safety Account

Before I conclude, You may be doubtful "Will it work? Will people understand and buy insurance on their own?" My reply is "It may take its time, but, it should surely work." Let's convince ourselves with some check on history.

- **Risk Management :** 20 years back, credit cards were fancy concepts. Today, major part of retail economy is transacted on credit cards. Hope you agree that Credit risk is more risky for moral hazard than life insurance risk.
- **Perpetual Service :** Bank "Savings account" are the same for past 100+ years. No change in core approaches. How ever, the same savings account is supplemented (or renovated) with ATM, Tele Banking, Internet Banking etc. I was never asked to buy a new savings account, because of ATM or Internet banking. The same account was evolved.

Conclusion : This "Safety Account" is an attempt to **"Simplify Insurance for People"**. It takes us back to basics of understanding life risks and attempts to solve the problem in a variant manner. It is a perpetual protection approach and provides flexibility for people to buy financial protection as per changing needs of life.

I trust that, if industry experts and regulators commit on this, "Safety Account" will proliferate and address the "Penetration" and "Protection gap" problem of the world. This concept needs more of marketing and consumer education than selling. This service can be provided by both banks and insurance companies. It is well suited for Internet purchase and self-service. It is ideally suited for micro insurance through banks. Every bank savings(or deposit) account having transactions beyond a certain threshold is a candidate for safety account!