What lies in the stars?

The only sure bet for life and pensions providers is that their ability to cope with uncertainty is going to be key to their survival, argues Tom Murray

Homo sapiens have been attempting to divine the future since mankind first gathered into tribes and started to collaborate in order to protect themselves against a hostile environment. From probing the heavens for enlightenment from celestial movements to examining the entrails of ritually slaughtered animals, humans have long sought external guidance to predict events so that they could prepare themselves for whatever was coming.

Unfailingly, this has been a haphazard approach with the occasional success generally due to the law of averages. When the guidance was incorrect, as often happened, the survivors were so busy trying to rebuild their lives and their society, they didn't have time for retrospective tribunals to examine why the predictions had got it so badly wrong. And so, they kept paying attention to those who claimed they could foresee the future, because the one thing that these futurologists gave is hope – that optimistic state of mind that enables humans to keep going in the expectation that they may avoid the disasters that have befallen previously.

Actuarial science

The emergence of actuarial science gave a statistical basis to the business of predicting the future, at least in terms of the society it was examining, if not the individuals. The ability to apply mathematical logic to the estimation of future contingent events supplied a degree of certainty to predictions that could be used to protect humans against the insecurity of the unknown future.

Protection products, based on this pooled-risk approach, help to give individuals the hope that they are safeguarded against possible untoward future events. This type of product is generally more popular when the future is looking grim and is less in vogue during the boom times, when people have a tendency towards optimism about the future and believe they can individually amass enough wealth to carry them through any far distant crisis. So, when the world economy is in an upswing, particularly during a long boom phase, people tend to flock towards investments in order to build their wealth. Conversely, when the economy is stagnant or failing, the general tendency is to look towards protection products, as people focus on preserving their lifestyles and wealth.

Head in the sand

In general, most people have a natural reluctance to think about the possibility of bad times ahead and this has always been one of the difficulties involved in selling protection products. The old saw – that insurance is sold, not bought – remains in use because, like all clichés, it has a strong element of underlying truth. Few people ever want to spend time considering what could go wrong and tend to push it to the back of their minds unless their personal situation forces them to consider it.

The dramatic events of the last few months, as a global pandemic swept the entire planet, has resulted in unprecedented changes in the lifestyles of individuals that were heretofore unimaginable. Driven by the rapid increase in uncertainty about the future, people are now considering for themselves how best to get protection in a world in which many of the cast-iron certainties of just four months ago have been swept away.

Educated guesswork

The difficulty is that the situation is so unprecedented that there is a lack of underlying data to predict the scale of the changes the future will bring. There are no shortage of soothsayers declaiming what the 'new normal' will be with the certitude of an oracle, but with such a scarcity of data to analyse at this point, one has to assume that they have reverted to examining entrails again in order to come up with such definite views. In reality, the scarcity of hard data is making it very difficult to be sure how society will ultimately emerge from this crisis and what the precise needs of the population will be in terms of financial services.

Clearly, life and pension providers will have to operate in this uncertain environment for the foreseeable future. Life and pension companies will, as always, follow the science, but the ability of science to be definitive about the future is not going to be great until enough information is gathered and analysed. This means that many of the ideas and predictions that are floating around at the moment will either change or be greatly finessed as more data becomes available. And therefore, there is going to be a need for great flexibility in the industry, as the amount of data increases and forecasts change based on that new data.

That situation has always been true to some extent; as lifestyles evolve, it takes some time to be able to calculate the overall effect with any degree of precision. But the changes to society wrought by the COVID-19 pandemic are unprecedented in modern history, both in scale and rapidity, and therefore, it is going to take quite some time to get sufficient data to base forecasts upon.

Uncertainty is the only certainty

Undoubtedly, changes in how society operates will lead to changes in the demands for financial products from the general public. The changes in the nature of work and the level of threats to job security – for example the increased levels of unemployment and the increase in the gig economy – will drive the demand for new forms of income protection. And there are bound to be changes in cover types and costs for life protection and critical illness products as the mid-to-long term health effects of the virus become better understood, along with likelihood and severity of future outbreaks.

Similarly, new types of investment products will be required because of the overall volatility in the financial markets and people's needs to be able to access their savings more flexibly in a more turbulent work world. The opportunities for long-term investment will be there but different from before and the overlap between the pandemic and other crises such as climate change are yet to be fully understood, with consequent uncertainty as to the effect this will have on the traditional investment environment.

The only thing we can be sure of is that, in an uncertain world, protection providers will need to be able to respond quickly to changes in demand. The types of products required, the types of services needed, the revolutions that will occur in distribution channels driven by the need for social distancing – all of these will ensure an unpredictable marketplace. Key to surviving in this environment will be the ability to be flexible, to adapt and react rapidly. Speed to market with new products and services will therefore become central to success, as more data becomes available over time leading to changes in how the actuarial profession calculate the risk levels associated with the various products.

This is a new arena for the life and pensions industry. Hitherto, rapid response is something that's rarely been required of an industry recognised for its more deliberate approach. But in a new environment in which so much change is happening, the key to survival will be the agility of the organisation as a whole to cope with a much higher level of uncertainty and by being able to respond when the market changes in order to provide the new types of products and services that will be demanded in the post-lockdown environment.

Only the flexible survive

For life and pension providers, the ability to operate in this environment will be based on their ability to adapt their products and services, without the huge time and effort-consuming processes of the past. The capability to trial new products, to assess their suitability, to adapt them accordingly, and to provide new services online in a market of altered consumer patterns will be core to the performance of the firm. Speed to market for new products, long espoused to by the industry, will be ever more important as will the need for a new approach to service delivery.

Indeed, even the operation of firms will be likely to have to undergo major upheaval, as monolithic offices and call centres become relics of the past. Companies will not only have to adapt to a virtualised consumer-base, but to a distributed workforce who are based either in their own homes while endeavouring to service the customers or maybe from a large network of small satellite offices networked to a pared-back central head-office hub.

Adopting adaptability

The only sure bet for firms is that their ability to cope with uncertainty is going to be key to their survival. Putting too much focus on trying to establish what the future will be is a complete waste of effort. What life and pension providers should be focusing on is their infrastructure and culture, ensuring that both have adaptability at their cores.

Platforms that enable providers to reach new customers, to allow collaboration over the internet by a distributed workforce, to form alliances with new players in the industry and to provide complex solutions comprising of services from multiple suppliers – this is what is going to give firms the ability to evolve their offerings in the new world. Rather than taking a big bet on what consumers will demand based on a definitive view of the needs of the society that will emerge from the pandemic lockdowns, their bet should be on increasing their ability to respond to the needs of a rapidly evolving marketplace.

Of course, it will not be just the infrastructure that will need to be optimised for this volatile marketplace – the organisations themselves will have to evolve as well. Rather than lean on the solid dependencies of the past, the organisation will have to change in order to excel at meeting the challenges that will emerge. Empowering the staff to devise new solutions to meet the needs of the market will involve an opening up of the systems of command and control and inspiring a new culture of adaption and flexibility.

These are the areas that should be the focus of life and pension organisations going forward. Any hope of a return to the past should be stifled if the organisation is going to meet the emerging challenges and succeed.

Known unknowns

Cloud-based platforms, which both empower the workforce and give flexibility in dealing with the customer base, are going to be the core of any organisation operating in the post-COVID-19 world. A workforce more embedded in the communities they live in will be more alive to the needs of consumers and will become a valuable asset for any company who can tap into that valuable source of information.

If one were to chart the movement of the stars or examine the entrails of ritualistically slaughtered animals, it wouldn't be the exact state of the future that could be divined. They would instead show that the ability to adapt to ever-changing circumstances would be the path most likely to have an organisation in a position to survive. And that's where everyone's focus should be.

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