

# Life insurance is alive

## Developments and opportunities in Dutch Life Insurance

- The Dutch life insurance market in perspective
- Opportunities in the Dutch life insurance market
- Opportunities
- Customer Experience Excellence

November 2020

# The Dutch life insurance market

## Life is alive



It is often said that the Dutch life insurance market is dead and in run-off. The current life insurance industry is indeed much smaller than it used to be, however, there are still many opportunities for profitable growth. It is a matter of spotting, understanding and targeting them with transparent products and concepts that fit the current needs.

### The three types life insurance



#### Term life

Term life insurance or mortality insurance guarantees a one-off payment or a series of payments of a stated death benefit during a specified term or until the death of the beneficiary. The death benefit can either increase, stay the same or decrease over time and can meet many different consumer needs.



#### Life insurance

With a traditional life insurance the insured deposits a premium either periodically or at once. If at the end of the term the insured(s) is (are) alive, he/she will receive a guaranteed amount accrued with interest and accrued life premiums. In the Unit-Linked (UL) or hybrid variants the amount is not (fully) guaranteed.



#### Annuity

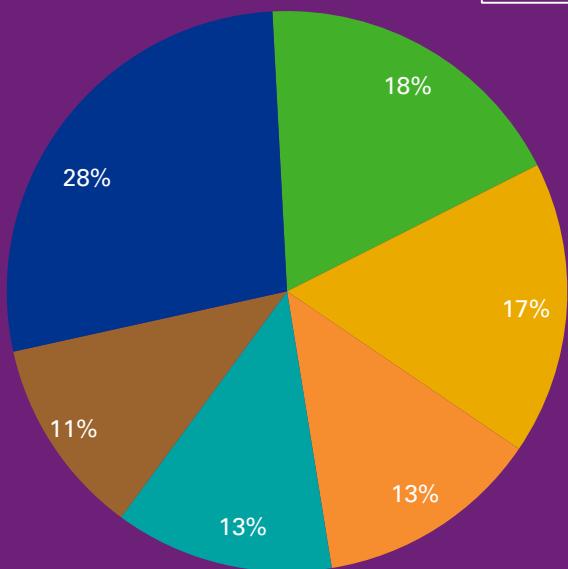
After payment of either a lump sum, installments or a combination of the two, the insured will periodically receive benefit payments. These payments will start either directly or in the future and continue for a period of time or until death. The benefit payments can stay the same or increase over time, can be guaranteed in units or variable and can be individually insured or by an employer.

Combinations of these three types of life insurance can be used to develop new products and concepts.

## Players in the Dutch life insurance market

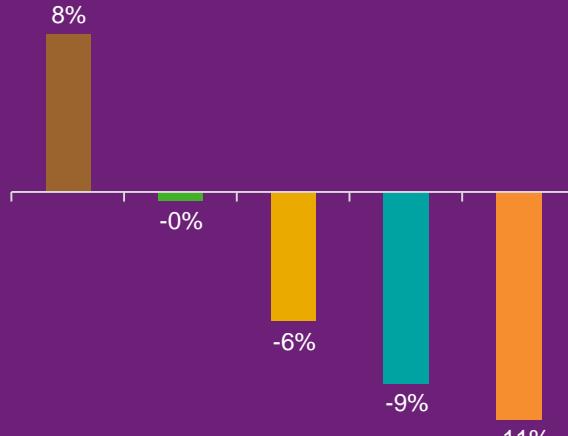
Market share (in GWP) of the Dutch life insurance industry in 2018

Source: DNB



Life insurance GWP changes over 2017-2018

Source: DNB



■ NN  
■ VIVAT  
■ Aegon

■ a.s.r.  
■ Achmea

■ Other

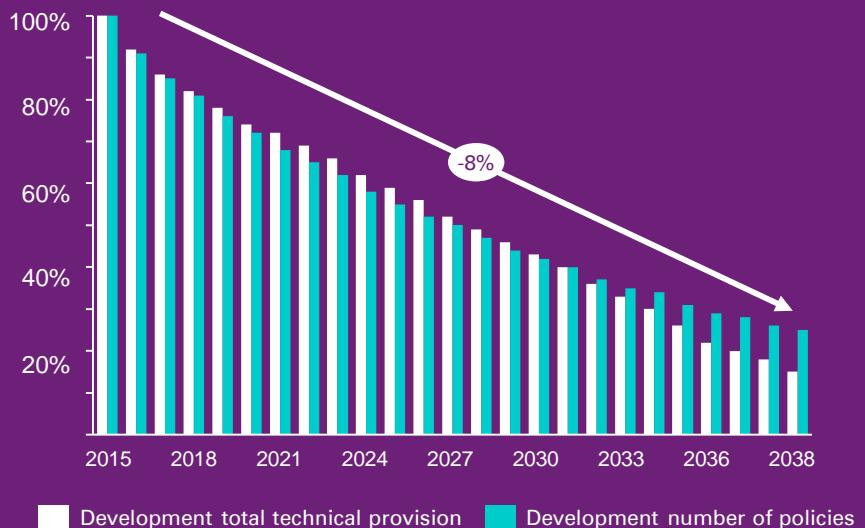
# Developments in the Dutch insurance market

## The Dutch life insurance market has been facing several challenges:

- Increased levels of competition from newly-introduced (tax-sheltered) bank saving products;
- Loss of confidence, reputational damages and risk of (additional) claims following the issues around the mis-selling of Unit-Linked individual life policies;
- The low interest rate environment leading to decreasing investment returns;
- The implementation of Solvency II (effective from January 2016), generally increasing the minimum capital requirements and therefore driving the focus on capital efficiency and effective legacy management;
- Increased regulations (e.g. GDPR, IFRS17 and PSD2), set higher requirements for organizations and daily insurance operations.

## Predicted shrinkage of (3<sup>rd</sup> pillar) individual life insurance policies (2015 = 100%)

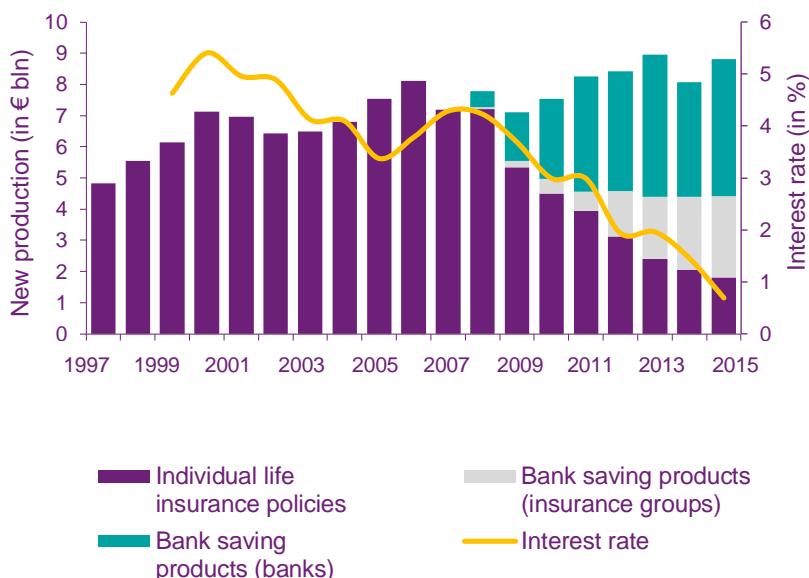
Source: DNB



# New business insurance and bank savings market

## Developments in the insurance and bank savings market

Source: DNB



- After the introduction of bank saving products in 2008, we observe a huge drop in demand for individual life insurance policies;
- Insurance groups attempting to compensate the decrease in demand for annuity products by offering bank saving products through banking subsidiaries are only partially able to make up for this loss;
- Over the years, the overall demand for individual life insurance policies and bank saving products has increased, indicating the overall market for these types of products is still growing;
- As a result of the persistently low interest rates, bank saving products and annuity products offer only minor returns;
- Contrary to bank saving products, life insurance products have the attractive feature that they cover longevity risk;
- In 2015, 75% of the production of individual life insurance policies were annuities.

# Term life

## Current market

- Term life products are often sold in combination with mortgages. Due to changes in the tax deduction possibility of mortgages, there has been a shift from a 30 year high mortality cover to a decreasing cover for a shorter period;
- Premiums for new policies have continually decreased as a result of increasing life expectancy and because of the increasing level of competition between insurers. Due to recent judgements of the Dutch Financial Services Complaints Tribunal (Kifid) and other jurisprudence an increased level of lapses and conversion to lower premiums can be expected, reducing profitability of existing books;
- Term life products are also sold to pay for a funeral. This market has been dominated by specialist funeral insurance companies, but this may change in the future due to recent market developments.

## Customer needs

- If one of the incomes falls away in a two-income household, most families cannot uphold their former way of living anymore. Therefore it is important for families to have an insurance that compensates for this loss of income;
- Not all insured persons want in-kind funeral insurance, but prefer an (indexed) amount to be released at the time of death. Relatives can arrange the funeral with this amount of money themselves;
- A term life insurance in combination with a life insurance could offer a solution for people who are saving for a special purpose (e.g. education for children or amortizing the house). Should the insured pass away, the insurer will pay out the remaining amount;
- There is also an increasing need for term life insurance in combination with a product bought on installment. Should the debtor die before the product has been paid for, the insurance will pay the remaining amount and relatives don't have to take over the debt;
- Critically-ill insureds with a reduced life expectancy sometimes need additional income to pay for, amongst others, healthcare costs, modifying their houses or fulfilling other special wishes.

# Solutions

## Stir up the market

Offer customized products for present-day risks by smart segmenting

### Solutions and cases

- Automate processes for the majority of customers that do not pose significant risk and meet relevant conditions (Straight Through Processing/Acceptance). The moment of application until the point of 'sending' the policy can be automated for and will create a competitive market position with considerably low (operational) costs;



- Customers that do pose higher risk or do not meet relevant conditions, will be offered customized products and apply higher (and profitable) premiums;
- Differentiate products based on risk-profile with either education level, level of income, postal code, insured capital, etc.;
- Meet new and existing demand by proactively offering customized products based on relevant, present-day or future risks that people can identify themselves with (see consumer needs).

### Marketing and distribution

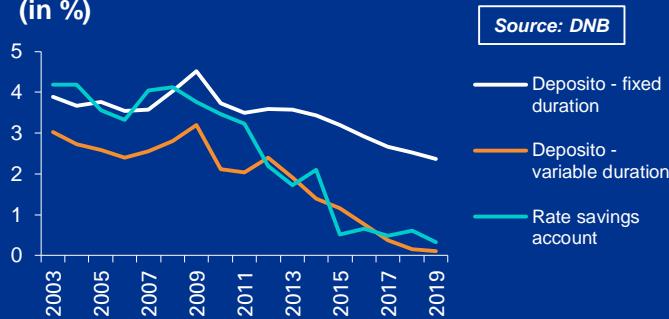
- There are still many mortality related risks that can be covered by a life insurer, to which the current market does hardly respond. Use brainstorm and distribution channel knowledge to identify and develop before actively enter the market and promote these products for identified risks;
- Apply Straight Through Processing (STP) and Straight Through Acceptance (STA) in order to automate as many processes, reduce costs and gain a competitive advantage in the market;
- In marketing and distribution, proactively emphasize the possibility of offering customized, tailor-made products (well priced) to customers who do not pass STA and make this possibility clear in the branding and naming of these products;
- Take advantage of the first-mover position by further differentiation of the term life tariffs.

# Life insurance

## Current market

- Change in tax law has reduced the need to buy life insurance to pay for the house;
- Over the years, we see a shift from defined benefit schemes (DB) towards defined contribution (DC) schemes;
- Low interest rates have been pushing up the cost of insured benefit schemes;
- Unit-Linked life insurance products are hardly sold anymore due to mis-selling in the past;
- The new Act Improved Defined Contribution Scheme will boost the shift from DB to DC plans;
- DNB expects the number of DB schemes to drop further as a result of, amongst others, the introduction of general pension funds;
- Many pension funds are facing difficulties and are looking at alternative options for a solution.

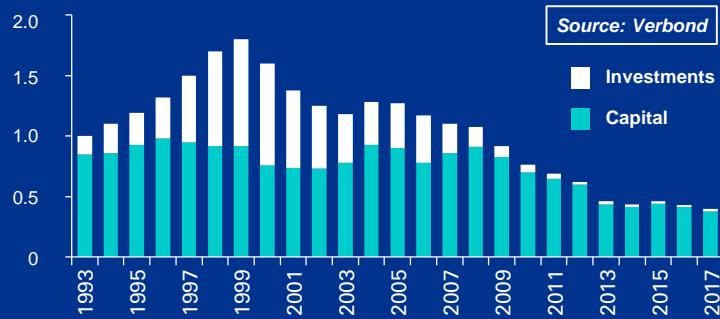
## Rate savings account and deposit interest rates (in %)



## Customer needs

- Consumers aspire to have adequate returns from their Box3 capital in order to save up for certain goals or goods (e.g. children's university costs, sabbatical, early retirement, world trip). The alternative for traditional saving is a Unit-Linked product or hybrid Unit-Linked product with life insurance cover;
- Consumers are looking for honest, simple and transparent products which they understand, with a clear cost structure and openness about mortality and disability covers. Not all has to be guaranteed as long as the provider is honest about the risk/return and consumers have a choice to adapt the product to their specific risk profile.

## Number of individual life insurance policies (in millions)



# Solutions

## Break with the past Reintroduce transparent Unit-Linked products

### Solutions and cases

- Break with the past and reintroduce transparent Unit-Linked products as the solution to regain return on savings amounts;
- Offer a range of products (UL and hybrid UL) that can be used by the insured to accrue capital with a risk/return profile based on the insured's target, horizon and risk profile with life insurance or mortality insurance components;
- By adding a term life premium, it is guaranteed that the specified amount of savings will be achieved or by adding a life insurance component an additional return will be achieved.

### Marketing and distribution

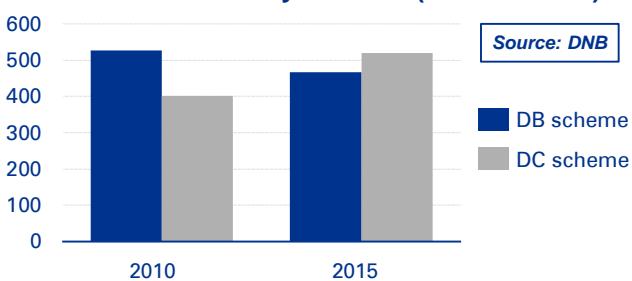
- Make use of knowledge of consumer needs for targeted goals and introduce products that meet those needs;
- Communicate clearly and understandable on the possibilities and the risk/return for potential customers;
- Use brainstorm-sessions and distribution channel knowledge to identify needs and develop concepts before actively entering the market and promote products for identified needs and saving targets;
- Avoid needless complexity;
- Take advantage of the first mover position by getting the unique position of the company that offers fair and transparent products.

# Annuity

## Current market

- As a result of the increased popularity of bank saving products as opposed to annuity plans, a large group of people at the age of 85+ or 90+ will in the nearby future have insufficient or no pension left to cover all costs for elderly care, increasing medical care and possibly even basic needs of living;
- Many consumers are disappointed with the amount of pension accumulated over time and due to the low interest rates they are even more disappointed with the amount of pension they can buy for it;
- To overcome the low interest rate there has been a new possibility since 2018 to obtain a variable (UL-based) direct pension, however not all pension funds and insurers actively promote and/or discuss this option with their customers;
- In the Netherlands, customers are entitled to switch to another provider between accumulation phase and pay out phase.

### Number of active members of group pension schemes administered by insurers (in thousands)



## Customer needs

- The costs for healthcare, residential homes and other costs associated with elderly care keep on increasing and the elderly will need additional income also after the 'bankspaar' term has passed;
- Due to the increase in life expectancy, the above is getting more and more important;
- Consumers need more return on their accrued pension capital, also after retirement than currently offered by traditional annuities and 'bankspaar' products;
- A group of retiring consumers is prepared to take some risk to achieve higher average returns and higher pension income. As of now, 6% of consumers choose for a variable direct pension but it is expected that this percentage will increase to around 19% in 2021 and probably even more afterwards.



## Opportunities in the Dutch market

# Solutions

### Compete with banks

Introduce hybrid plans with a life-long income and variable returns

## Solutions and cases

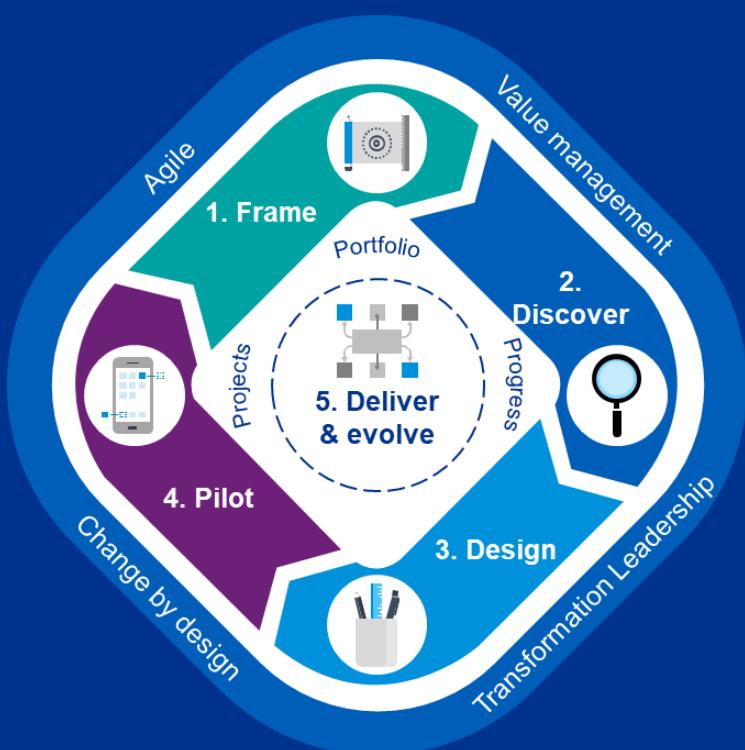
- Offer the possibility of a Unit-Linked immediate annuity plan for 3<sup>rd</sup> pillar that provides payments (annuities) in units with on average better returns than traditional annuity and 'banksparen';
- Offer a hybrid 3<sup>rd</sup> pillar solution of partly a traditional annuity and partly an annuity in units to guarantee a basic income plus an additional variable income;
- Offer a variable DIP with more risky variants to attract consumers which already have a solid basic income and who want to maximize expected return;
- Provide consumers that have the possibility of switching to another provider with a better alternative, e.g. a hybrid product with longevity coverage.

## Marketing and distribution

- Make the market aware of the high risk of 'banksparen' and focus on the future financial needs of elderly;
- Promote the annuity in units for 3<sup>rd</sup> pillar capital to insured who want more average return and a higher pension;
- Use brainstorm-sessions and apply distribution channel knowledge to identify and develop products for the elderly before actively entering the market and promoting products;
- Communicate honestly and transparently about the risk and returns, but also on the possibility to achieve higher returns and higher pension with UL in units and with variable DIP;
- Take advantage of the first-mover position by offering annuities in units;
- Proactively promote the variable DIP to recently or soon-to-be retired consumers and actively retain current customers.

# How to deliver valuable products and services

## Connected Enterprise Transformation



KPMG's Connected Enterprise Transformation (CET) Journey provides the ability to deliver relevant, valuable and differentiated products and services.

CET provides a customer-centric, enterprise-wide approach to digital transformation starting from strategy through design to implementation and ongoing improvement.

### Characteristics CET

- ✓ CX design
- ✓ Iterative
- ✓ Lean
- ✓ Design thinking
- ✓ Agile
- ✓ Suited to digital

## Opportunities in the Dutch market

### Key messages

#### Challenges

- The Dutch life insurance market is declining;
- New production has shifted to banks;
- Hence, the current life industry is much smaller than it could be.

#### Opportunities

- Customer needs indicate room for revived insurance products;
- Insurers seem reluctant to tap into this potential.

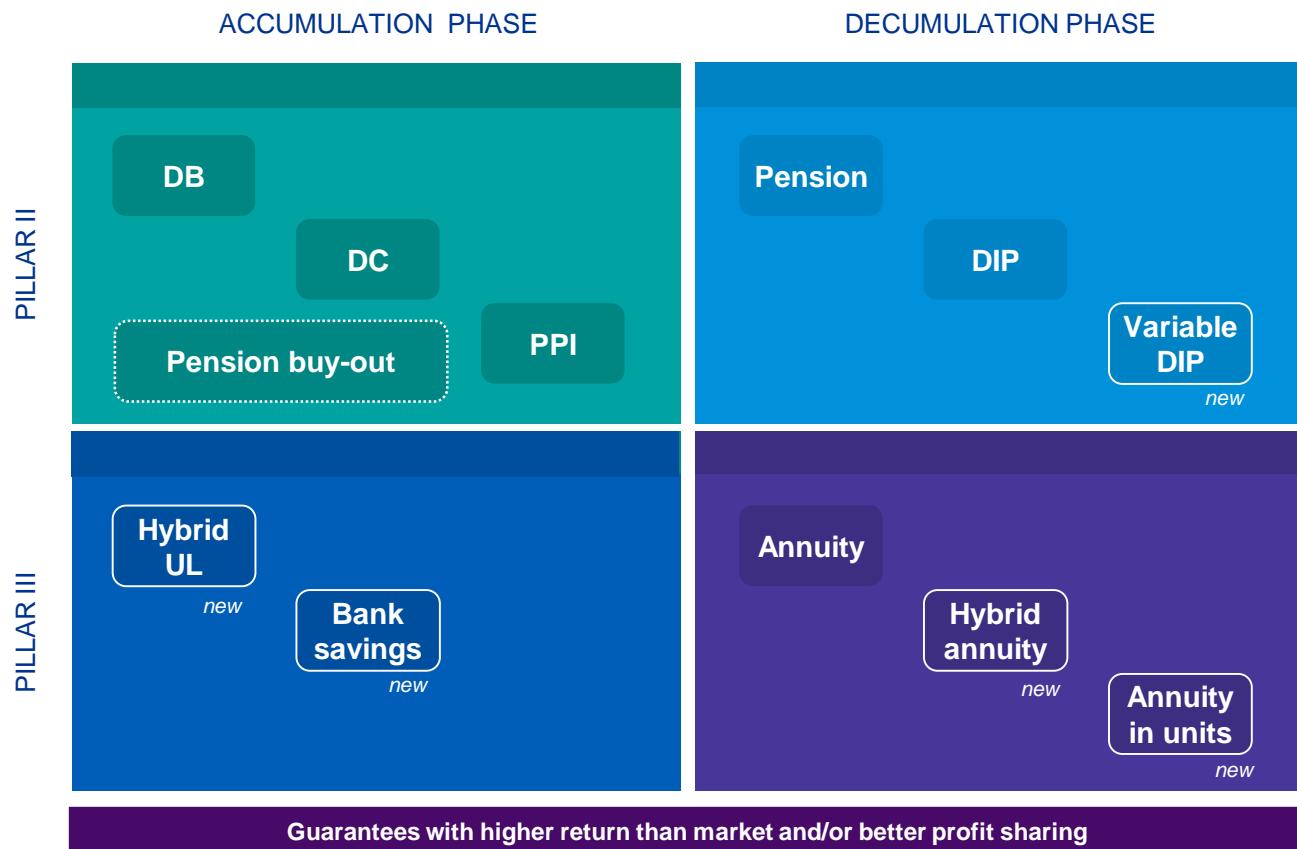
#### Solutions

- Offer customized products for present-day risks by smart segmenting;
- Reintroduce transparent and hybrid Unit-Linked products for life insurance and savings;
- Introduce hybrid plans combining a life-long secured income with variable returns for pay-out phase;

#### Value for you and customer

- Meeting the currently unfulfilled consumer demand;
- Leveraging the first-mover advantage in reviving the life insurance market.

# Value creation through new life insurance products



## Key opportunities

01



### Value creation through new accumulation products

Target group: Consumers between the age of 30 – 50 with an alternative for bank savings

02

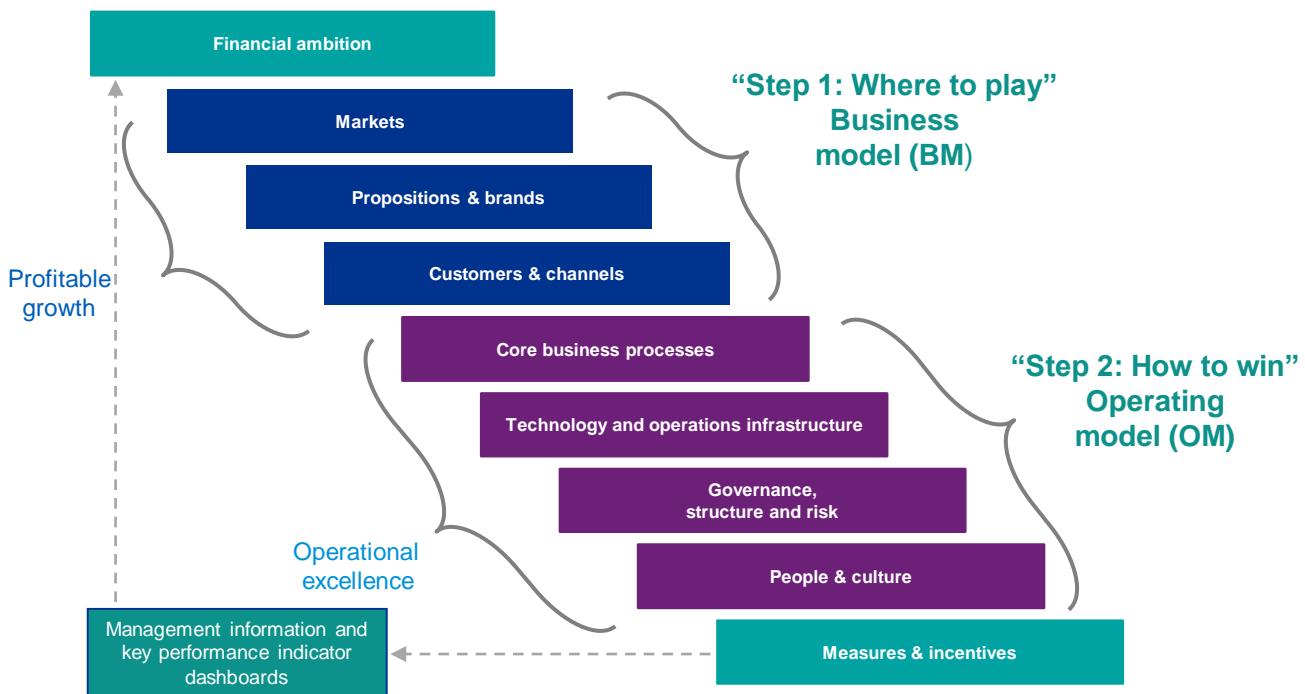


### Value creation through new decumulation products

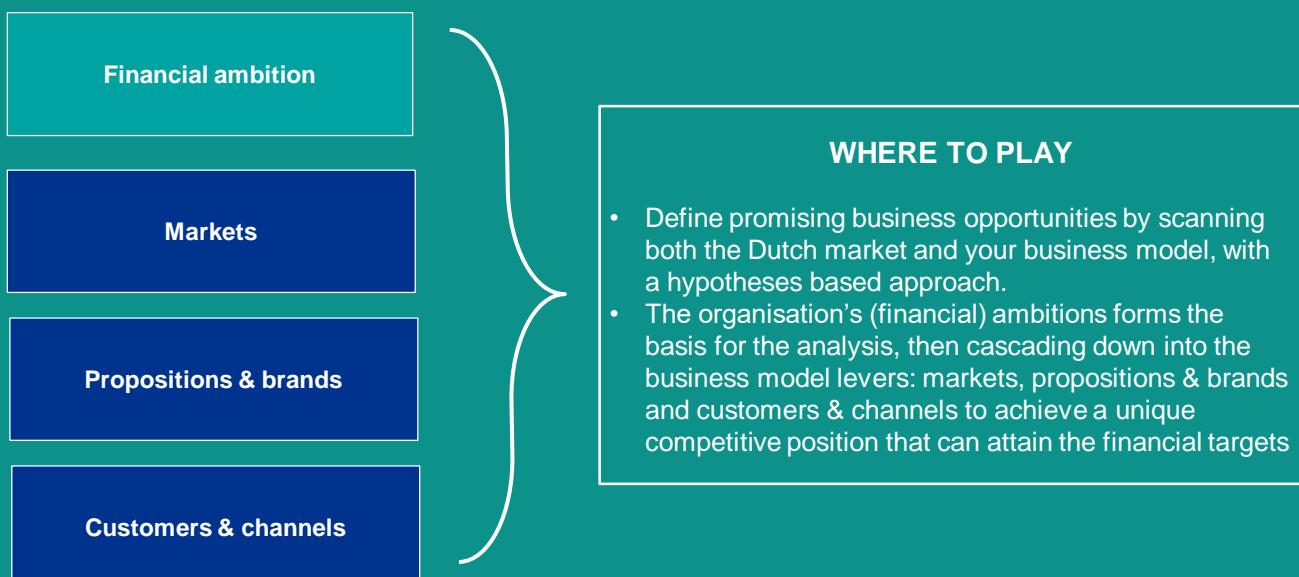
Target group: Consumers of the age 55+ who have build up capital and are considering options for decumulation

# Our approach to new business

Our **9 Levers of Value methodology** offers an integrated approach to identify, analyze and implement new areas of growth.



Focus: Defining the business model for new life insurance products



# We suggest a phased approach

## How to capitalize on growth opportunities



## A more in-depth view of possible next steps

### 1 Market research

- Define financial and strategic outcome
- Collect relevant data
- Research across the three business model components.
- We collect data to determine the "playground" for the new business.

### 2 Workshop session

Through a workshop session, along with data captured from step 1 we define the core value offering and create an outline of the new life insurance product for:

- Its market
- Its proposition and brand
- Its customer and channels
- Its pricing

### 3 Roadmap development

Design a roadmap to align the operating model to the business model requirements and the new product.

- Core business process
- Technology
- Organizational structure

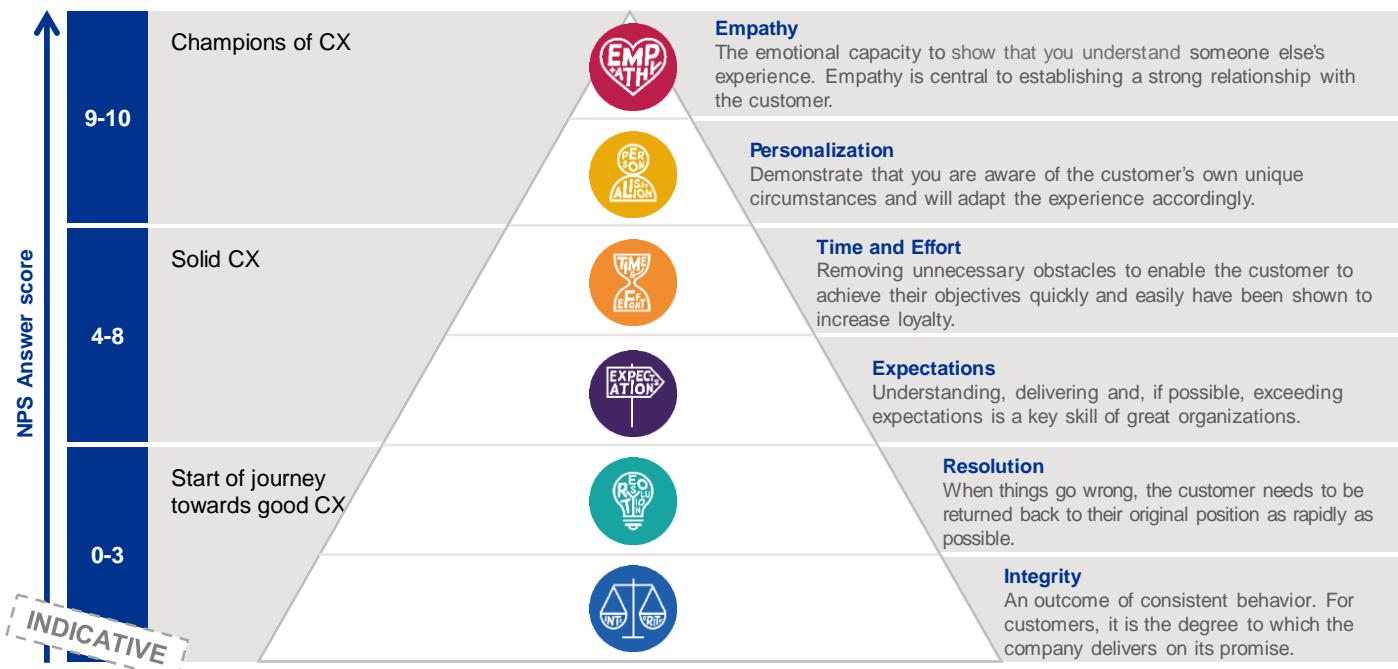
WHAT TO AIM FOR

WHERE TO PLAY

HOW TO WIN

# The Six Pillars of Customer Experience Excellence

**Our proven method to improve customer experience: The Six Pillars of Customer Experience Excellence**



Through ten years of research and more than three million customer evaluations across multiple markets the six fundamental components of every great customer experience have been identified and validated.

With the Six Pillars companies can define concrete measures to improve the NPS. There is a natural sequence to transformation as each pillar builds on the previous; the basic pillars drive detraction, and the most advanced pillars drive promotion.

## KPMG measures Customer Experience Excellence globally

### Global CX research

10 years of ongoing research

3 million B2C and B2B evaluations

24 markets covered

2700 cross sector brand reviews

Customers evaluate organisations through the lens of The Six Pillars



The DNA of every outstanding customer experience and fuel of fast-growth business

### NL coverage

5,052

respondents

214

brands

10

sectors covered

### Sectors

Non-grocery retail	Grocery retail	Restaurants and fast food	Logistics	Financial services
Telecoms	Public sector	Travel and hotels	Entertainment and leisure	Utilities



## Your contacts



**Egbert Kromme**

**Partner**  
**Financial Risk Management**

+31 6 55706800  
[Kromme.Egbert@kpmg.nl](mailto:Kromme.Egbert@kpmg.nl)



**Anouk Zevenbergen**

**Director**  
**Strategy & Operations**

+31 6 13752686  
[Zevenbergen.Anouk@kpmg.nl](mailto:Zevenbergen.Anouk@kpmg.nl)

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