NextWave Financial well-being: the insurance industry’s role in meeting a societal imperative
Financial well-being: everybody wants it, but few know how to achieve it

The macroeconomic news has been largely positive for several years running, especially in the US. Record-low unemployment. Recent wage growth. Nearly a decade of steady — if slow — growth. So why do so many people feel uncertain about their financial lives?

The macroeconomic numbers may look relatively strong, but those related to individual financial well-being look less promising. Consumers – our fellow citizens – are neither confident nor optimistic.

- 78% live paycheck to paycheck.¹
- 56% have saved less than US$10,000 for retirement.²
- 40% can’t cover a US$400 emergency.³
- 43% of student loan borrowers are not making payments.⁴

People don’t have enough money to retire, and they know it. As a result, they feel stressed, even depressed.

- More than 67% say finances are the most common cause of stress.⁵
- 35% are at significant risk of financial distress.⁶

None of this is surprising because, in money and personal finance matters, the rational and the emotional overlap.

Defining financial well-being

Financial well-being has become a hot topic across the industry. But it appears to mean different things to different industry stakeholders. The US Consumer Financial Protection Bureau (CFPB) has a useful definition:

- Control over day-to-day finances
- Capacity to absorb a financial shock
- On track to meet financial goals
- Financial freedom to enjoy life

² “1 in 3 Americans Have $0 Saved for Retirement,” GoBankingRates.com, 14 March 2016.
⁵ “Personal Finances Are a Top Source of Stress for Americans,” TheStreet.com, 28 November 2018.
Why financial stress matters: the link to physical and mental health

Financial stress may be the most damaging type of stress. According to the American Psychological Association, more than 60% of Americans suffer from financial stress, which has been linked to migraine headaches, cardiovascular disease, insomnia and other health problems. A National Institutes of Health study showed that people with more debt face greater risk of depression and high blood pressure.

That’s a potential vicious circle; health events can cause financial problems that can further deteriorate our sense of financial well-being (through huge health care expenses, for example). Some financial services providers aim to provide solutions that improve health (think of health and life insurers trying to promote healthy behaviors through the use of fitness trackers). Even those that don’t should be aware of and concerned about the potential risk of physical illness harming financial well-being.

It’s not that people don’t care about their financial well-being. Many simply don’t know what to do or lack the time to commit to financial planning.

EY research and analysis of other industry studies indicate that 20% of this failure to plan results from lack of knowledge and 80% is from behavioral causes.

In other words, people generally know they need a plan – to provide clarity and reduce stress – but they don’t take the necessary action.

Percentage of Americans suffering from financial stress:

60%

Source: American Psychological Association

Personal perspectives on financial well-being

Nikhil (Nik) Roberts
Age and cohort: 26, Gen Z
Occupation: Freelance graphic designer

Attitude and behaviors:

“I love my work and lifestyle, but I need to stop owing people money.”

“When I’m looking for solutions, I start with the app store.”

“Travel is my passion – and my credit card debt shows it.”

- Nik works hard when he has projects and takes breaks when he doesn’t. He is not interested in settling down but has a nagging suspicion that he is not “acting his age” when it comes to finances.

- Recently a friend told him about a new app that helps him understand where he spends his money and prompts him to make small, regular credit card payments. Nik got the app and watched videos regarding college debts. He is regularly prompted to schedule a conversation with a credit counselor affiliated with the app.

- While Nik knows debt will be part of his life for the foreseeable future, he has no interest in spending money on “boring stuff” like investments or insurance, as he regularly runs out of money. But he knows one day he will.
What employers can do

Employers are certainly taking notice. Even as the gig economy grows, more large companies and employers are getting involved and trying to help their workers. According to EY research and analysis:

- 80% of employers believe that financial well-being is an important driver of workforce productivity.
- 30% of employers are offering some sort of financial well-being program to their employees today.
- 29% have plans to offer one in the future, and another 21% would like to offer such programs.

Cost of lost employee productivity related to financial stress:

US$250 billion

Source: Mercer

Personal perspectives on financial well-being

**April McLaughlin**

**Age and cohort:**
32, Millennial

**Occupation:**
Financial reporting specialist for a regional logistics company

Graduating into a recession was rough. The worst is behind me, but I still have work to do!

I feel good about taking the steps I have, because who knows what life will bring?

When I need something, I look for digital tools from a big brand I trust, with the option to talk to someone when I need to.

- April is of “that” generation. Right after graduation, she was forced to temp before hitting her stride with a corporate career. A few years on the payroll with benefits has really helped her stabilize. Other than student loans and a mortgage for her new condo, April doesn’t have any debt. She contributes to her 401(k), but less than the max and knows she should be doing more.
- Through her employer and 401(k) provider, April completed a survey and learned she had a B+ financial wellness score. Her results scorecard suggested she begin setting and saving for her life goals. After a phone consultation with her provider, she decided to open a brokerage account and to put money away for the future. She occasionally watches videos from her provider about the financial topics she cares about. They help her get comfortable thinking about future financial decisions.
It’s clear that the financial services industry — and insurers in particular — have a role to play. It’s just as clear that previous efforts haven’t paid off fully, which means a new approach is necessary. Financial education has been around for years but hasn’t fundamentally changed behaviors. As important as financial literacy is, it’s not enough by itself to increase the general sense of financial well-being or move large numbers of consumers closer to their goals. It’s clear that insurers — as well as retirement firms and wealth managers — should focus on a more integrated and holistic approach that addresses the components of financial well-being and that has a chance at changing behaviors.

In this context, it is interesting to observe where FinTechs and InsurTechs are placing their bets. Many are focused on delivering digital tools that educate customers and help them take charge of particular challenges, such as asset allocation or saving for an emergency fund.

The question is, how do traditional players who are capable of providing solutions for many elements of financial well-being through their savings, investments and protection products develop an approach that takes a comprehensive view and actually helps change consumer behavior?

Certainly, insurers are aware of the need to take action. At EY’s 2018 Insurance Executive Forum, 94% of attendees rated “creating a financial well-being strategy” as very important or important for their organizations. More than half (54%) of attendees think the retirement channel is the most important channel for such a strategy, far outpacing retail/agent (21%) and digital/online channels (18%).

To overcome consumers’ lack of knowledge and skills to develop a good personal financial well-being plan, 41% of attendees cited more financial education as an important step. The other choices were revealing:

- 24% pointed to a better financial wellness app, tool or calculator.
- 18% said they haven’t figured it out yet.
- 15% cited an industry financial wellness score, similar to a credit score.
- 1% said more marketing.

All of these steps would be useful, when designed strategically and executed effectively in customer-centric fashion. Indeed, financial well-being will be delivered in all channels and supported at every touchpoint. In the future, it can — and should — become the driver behind nearly everything consumers do.

### Personal perspectives on financial well-being

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**Age and cohort:** 37, Millennial

**Occupation:** Regional manager for a utility company, working outdoors and overseeing 200 people across 55 crews

**Attitude and behaviors:**

- When it comes to money, I’m a responsible adult. Who would have thought?
- Things have gone well with my career and family, but what if something happens to me?
- If I have questions, I ask at the bank on the corner and the people in my community.

- Jason is married to Jenny and is a proud father of two. The kids came quickly after each other, and Jason and his wife bought a house and a new SUV at about the same time. Jason has a two-year technical degree and has been promoted through the ranks at his company, now a part of middle management. He knows he is lucky his company provides a pension, but he still worries about something happening to him.
- While watching his 8-year-old compete in soccer, he chatted with Dawn, a soccer mom and insurance agent. Some of the things she said made sense, so he made an appointment to meet with her at the local insurance office. Dawn used an iPad application to interview Jason and Jenny and after some time to think, they decided to buy life insurance through their employer, as well as disability insurance from Dawn.
- Jason and Jenny feel good about being able to talk things through with Dawn, and plan to stay connected when they're ready to begin planning for their kids' education.
Most pressing questions regarding financial well-being – in the eyes of consumers and insurers

1. How do consumers feel about financial wellness?
2. How are insurance, retirement and wealth management firms and banks converging to meet consumers’ comprehensive needs?
3. Why are employers looking to further their employees’ financial wellness?
4. Why are financial services firms focusing more on financial well-being now?
5. How do financial services firms use financial wellness to increase trust with customers?

Source: Interactive Think Tank session involving EY insurance leaders

“The question is, how do traditional players develop an approach and products that actually change customer behavior?”
Recommended actions: what insurers should do now

With broad product offerings and large amounts of high-value data, insurance companies are well positioned to help consumers achieve financial well-being. The question is, what strategic and tactical steps can they take today to begin engaging consumers more directly and broadly in terms of financial well-being?

Insurers should look for solutions that first address consumer feelings about wellness, then look for ways to offer comprehensive and integrated solutions. Patchworks of standalone product offerings are no longer sufficient to meet the needs of consumers. It’s clear that bundled solutions will be a bigger part of the future, but insurers must recognize the limits of bundling and where their offerings overlap with and/or complement those of other types of financial services providers.

- Develop a proprietary, multi-factor analytical model that determines financial well-being from the customer point of view, especially to the moments that matter in their lives. It’s not enough for insurers to understand what customers want – they must also know when and how they want it. Predictive analytics and behavioral insights are necessary if insurers are to be ready to help consumers make good decisions and purchases at the right time.

- Understand customers’ financial stressors and review existing portfolios and the new product pipeline for those that can specifically address these issues. Offerings that deliver “quick wins” (both for consumers and insurers) can advance the dialogue on financial well-being.

Personal perspectives on financial well-being

- Recently divorced, Ava earns very good money as a consultant. She has been through several generations of a financial plan, is largely debt free and is socking away money. She has always worked with a financial advisor from a big-brand brokerage firm. She likes that (almost) all her financial matters are with one firm, and she has easy access through her laptop to all the information she needs.

- Recently, her advisor sent her a link to a “retirement income calculator,” after Ava had wondered aloud how she might live if the consulting business dried up or if she wanted to act on her lifelong dream: opening a flower shop. Ava played with the calculator and now understands that fixed-income investments, and perhaps even an annuity, are part of her future.

- Ava is not ready to make a decision, but she will speak about this with her advisor. After all, the calculator presented some scenarios showing she could outlive her money, suggesting that her current portfolio may not be the best strategy.

Attitude and behaviors:

- “I have successfully managed big life transitions, and I will make the next one too!”

- “I do very well, thank you, but learned early on from my parents to be quite diligent about money.”

- “When I need help or guidance, I want to talk to a financial advisor who gets me, preferably a female and ideally at a well-known firm.”

Ava Catarino

Age and cohort: 53, Gen X
Occupation: Management consultant, former college professor
Recommended actions (continued)

- Adopt “evolutionary” and “revolutionary” in designing new products and experiences – that is, evolve existing products through simplification and basic enhancements and innovate boldly with new product types (e.g., portable group policies) and embrace digital transformation to offer entirely new experiences.

- Develop digital tools based on artificial intelligence and other advanced technologies but surround them with a human element, such as real-time access to financial advisors or customer service agents via phone or live chat. This way, firms can have the right conversations with consumers in the right way at the right time.

- Develop a platform strategy, recognizing that platforms designed to promote financial well-being may need to incorporate multiple external parties, including other financial services providers. Scalable platforms should reduce the cost to serve, support evolving technology sophistication and enhance customer experiences.

- Develop an integrated brand and marketing strategy to effectively communicate and drive demand. Consumers must come to understand that insurers want to help them live richer, less stressful lives, rather than simply selling policies to protect against losses and other unfortunate events.

- Design and build the necessary technology architecture, which likely requires digitizing legacy systems so next-generation tools and apps can be deployed. Most insurers today face serious legacy system constraints in at least some channels or lines of business. These constraints must be removed if insurers are to meet customer expectations for seamless and personalized experiences across channels.

- Orient all touchpoints around trust and transparency. It’s not enough to simply secure channels, assets and data and be compliant. To build trust, insurers must also share information transparently (like digital leaders in other sectors) and deliver high-quality, personalized experiences. These are prerequisites for engaging consumers in higher-value relationships keyed to financial well-being.

All of these factors represent huge market opportunity. Indeed, financial well-being has become something of a competitive “hot spot.” Lots of firms are offering solutions and approaching these issues from their own unique angles. It’s truly a great opportunity for financial services firms to win back the trust and credibility we have lost as an industry.

Why? Perhaps consumers see us as part of the problem. They see us fighting each other, competing for assets and market share, rather than serving their needs. They see us adding fees, but not value; pushing products, rather than delivering what they are looking for. And we believe that what consumers – people – in the US and around the world are looking for is financial well-being.
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