



Generation Z - impact on life insurance and pension industry: UK and Poland

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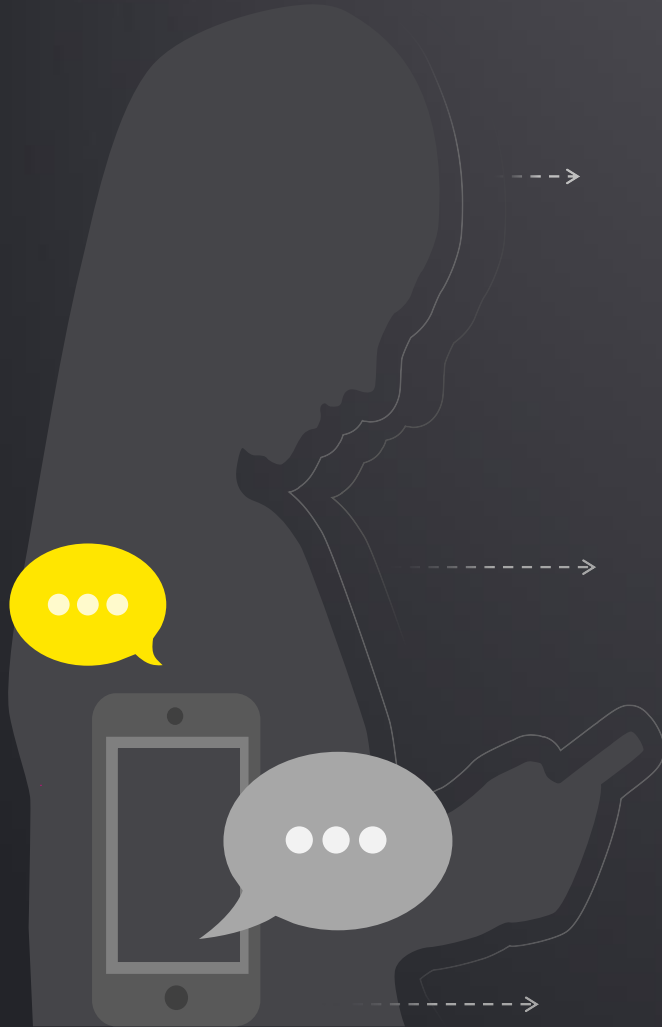
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EY

Building a better
working world

Generation Z. Who are they?



Born into technology (C-generation), Interconnected. No need to ask

Mostly children of Gen X

In Poland: a generation born and brought up in free society and free market, not burdened with history, political limitations or even early years of Polish capitalism

Prefer socializing online than in real life

Skin-color-blind, living and working in diversified and inclusive environment

MILLENNIALS (GEN Y)

- ▶ Born 1981-1996
- ▶ Self-centered
- ▶ Entitled
- ▶ Idealist
- ▶ Creative
- ▶ Dependent

GEN Z

- ▶ Born 1997-2003
- ▶ Self-aware
- ▶ Persistent
- ▶ Realist
- ▶ Innovative
- ▶ Self-reliant

Consumer behaviour of Generation Z

Retail industry already connect to Gen Z over **\$100bn** in purchasing power worldwide (EY retail report)

WHAT'S MORE:



Of Gen Z's parents say their children have some influence on household spending decisions (*JWT Intelligence*)



Say their children are influential in vacation choices (*Forbes*)



Say their children's opinions matter when it comes to buying home furnishings (*Cassandra Report*)

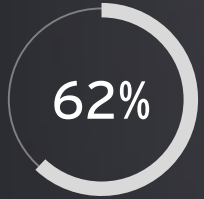


Of Gen Z said they would rather save money than spend it immediately (*Forbes*)



Say they spend part of their free time in activities that are productive and creative instead of just "hanging out." (*High School Careers Study, Millennial Branding*)

Generation Z lifestyle



Would like to start their own companies rather than work for an established business (High School Careers Study, Millennial Branding)



Gen Z expect at least their first business venture to fail but view failure as a learning opportunity (High School Careers Study, Millennial Branding)



They prefer realistic to idealistic, and they like to be engaged by “real people.” (e.g. ordinary people on Youtube are preferred over media generated celebrities and actors) (EY Retail Report)



Less loyalty: drop from **45%** (as compared to Millennials) to **30%** (EY Retail Report)

For the first time in history, we have five generations leveraging multiple technologies simultaneously



Traditionalist

“Write me”



Boomer

“Call me”



Gen X

“Email me”



Millennial

“Text me”



Gen Z



Research suggests that Gen Z are already adapting their aspirations to the realities of the new digital economy



Gen Z will have 10 to 14 jobs in their career ...

by age of 38

The Gig Economy, or the rise of contingent workers, is a major and growing force

“Careers will be a patchwork of temporary projects and assignments, with the help of apps and platforms with perky names” — *Geoff Nunberg*

01. Allowing work to be performed remotely, virtually, in any country

02. Reducing labor cost

03. Increasing government intervention

04. Contingent labor is dramatically changing the reward systems with:



Lack of retirement



Lack of paid time off

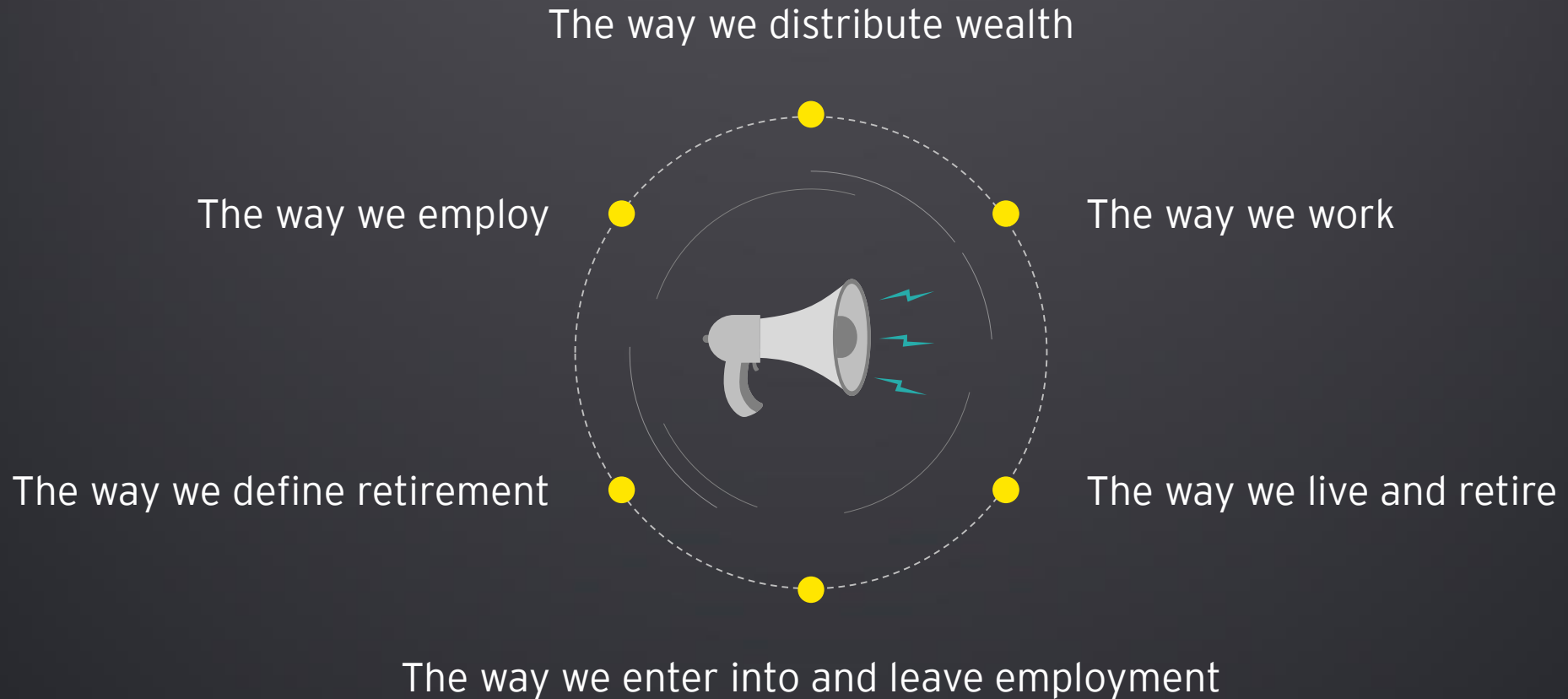


Lack of insured benefits

Gen Z creates and consumes gig work



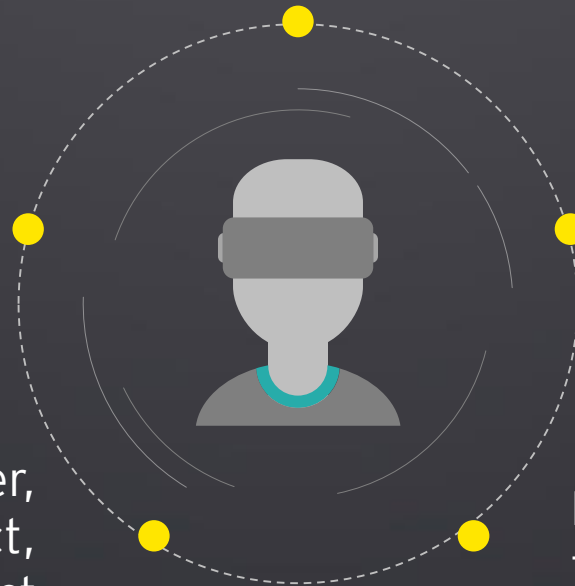
Contingent labor is changing the economics of work



The future of (gig) work

People require new skills to program robots, cooperate with them and address non-routine tasks and issues

By 2025 digital machines will replace 1/3 of job positions



RPA take over routine tasks from people and free up their capacity

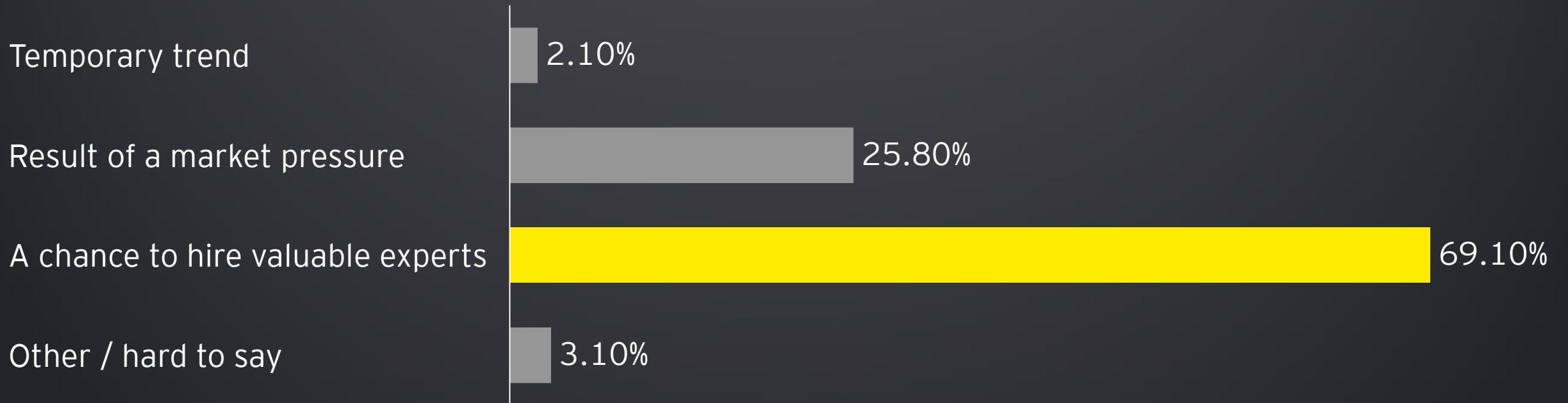
Typical jobs in 2025: professional triber, smart home handy man, 3-D architect, VR architect

Extensive use of RPA in the office functions

EY research on Contingent workforce on employers

18% of the work in Poland is already performed by contingent workforce

“ In your opinion, the contingent workforce is...? ”



The gig economy raises further questions for pensions systems



Awareness: 40% of US giggers worry about healthcare but only **20%** worry about pensions



Participation: Only **17%** of UK self employed have a pension versus 50% of employees

Fragmentation: **62%** of UK gig workers work multiple jobs


“ We encourage the government to think creatively on ways to **improve pension provision** amongst the self-employed ”


- *Taylor Review 2018*


...but it also presents opportunities for older people

Over 60s comprise **20%** of the Australian self-employed, versus 9% of the total population

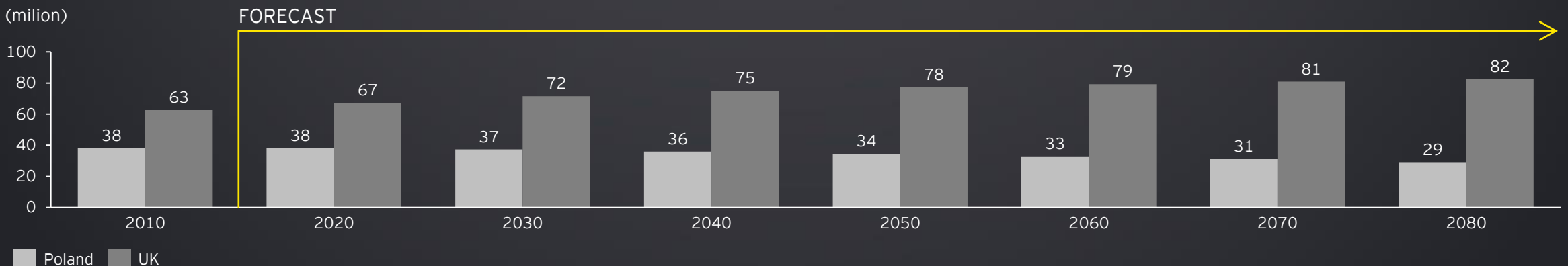
The demographic pressure of a shrinking population will amplify the impact of these changes in Poland

 **The UK population will continue growing** - sustained UK growth results mainly from births outnumbering deaths¹ and immigration exceeding emigration²

 **Polish population will successively shrink** - impact of mortality³ exceeding birth rate and net immigration. Polish society will be one of the fastest aging in Europe - by 2050, the average age in Poland will exceed the average for the EU

 **The main consumer group will be Millennials with the growing role of Generation Z** - along with change of habits and expectations (financially savvy Gen Z)

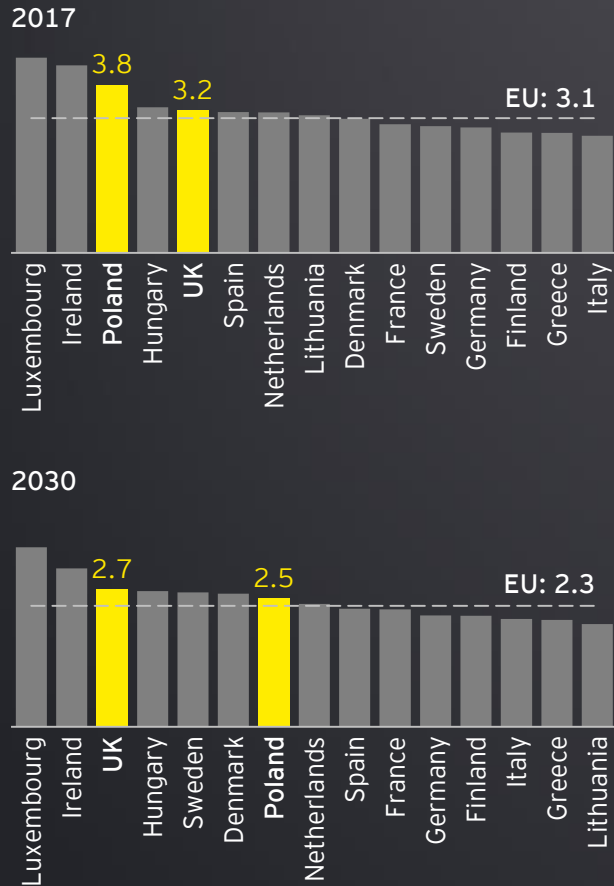
POPULATION PROJECTIONS FOR POLAND AND THE UK



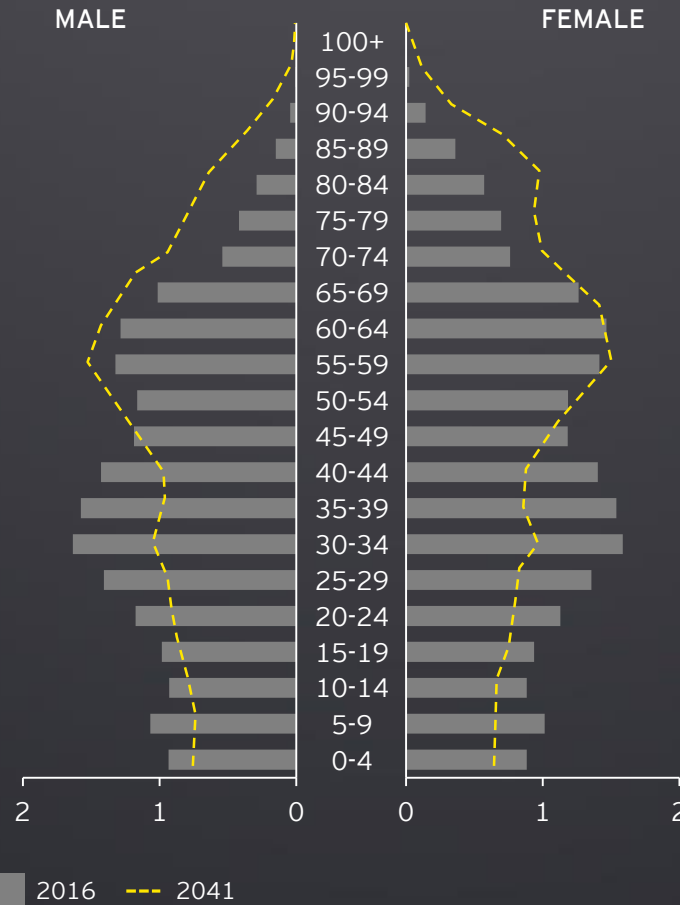
¹ by 148,000 in 2017; ² by 282,000 in 2017; ³ in 2040, the number of deaths may reach 440 thousand
Sources: Eurostat, UK Office for National Statistics, Statistics Poland, EMIS, press scan

The ageing process of the population is progressing in all EU countries, but it will be very fast in Poland

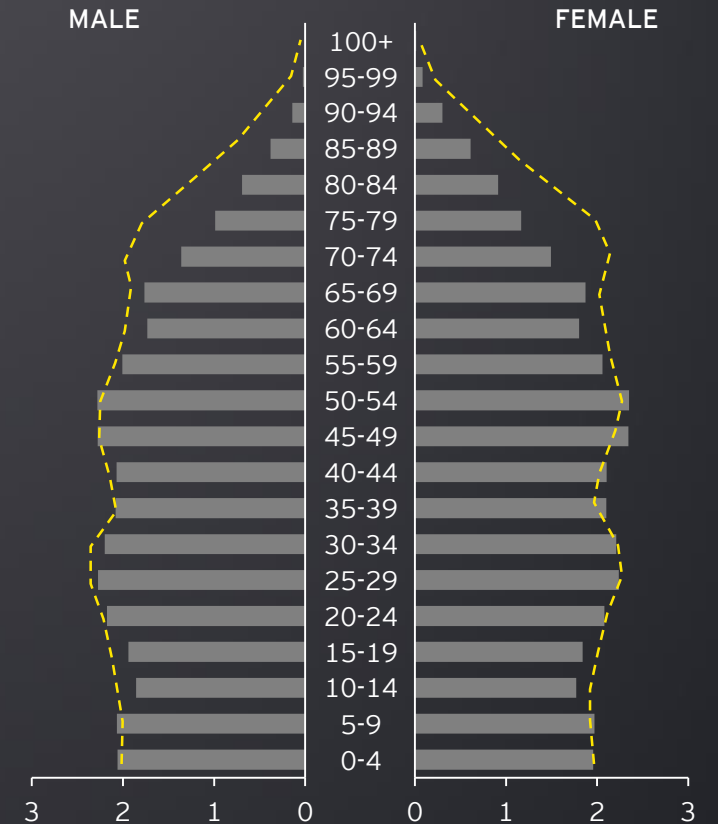
THE RATIO OF THE NUMBER OF PERSONS AGED 20-64 TO THE NUMBER OF PERSONS AGED 65+ IN 2017 AND IN 2030 (FORECAST)



NATIONAL POPULATION PROJECTIONS IN POLAND: (IN MILLIONS)



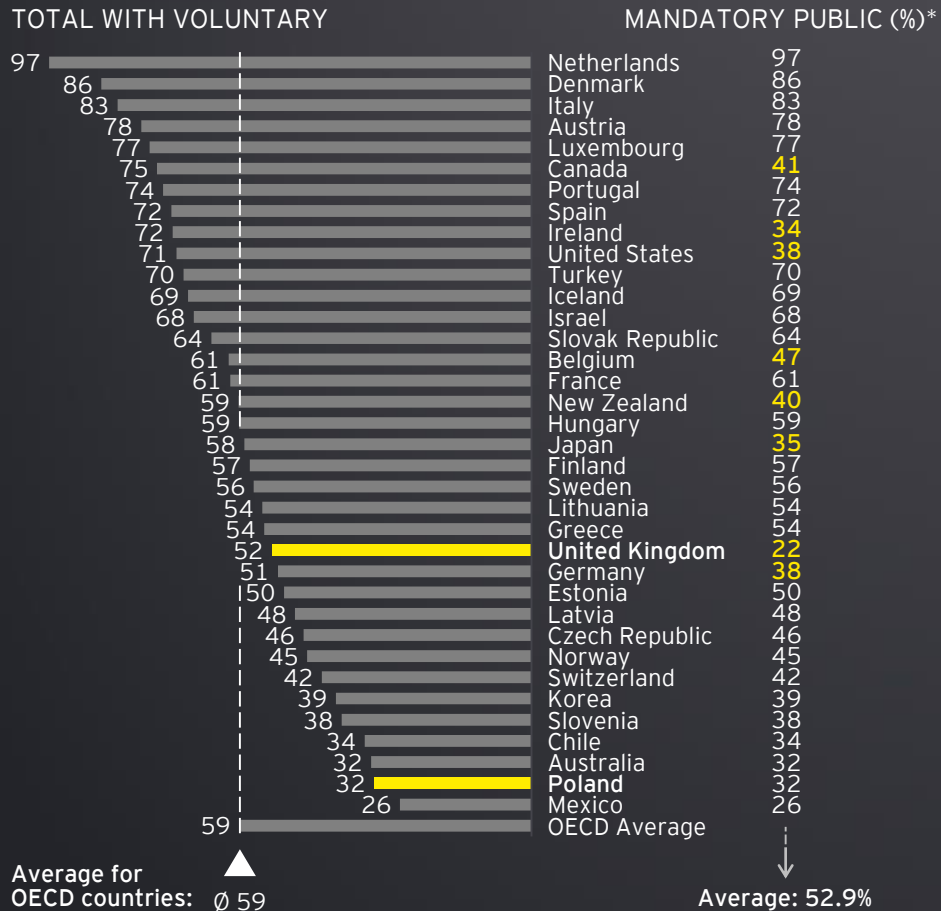
NATIONAL POPULATION PROJECTIONS IN UK: (IN MILLIONS)



Source: UK Office for National Statistics, Statistics Poland, EY analysis

Pension provision in Poland lags behind other OECD countries - and the demographics make it imperative to close the gap rapidly

GROSS PENSION REPLACEMENT RATES FROM MANDATORY PUBLIC, MANDATORY PRIVATE AND VOLUNTARY PRIVATE PENSION SCHEMES IN OECD COUNTRIES (%)

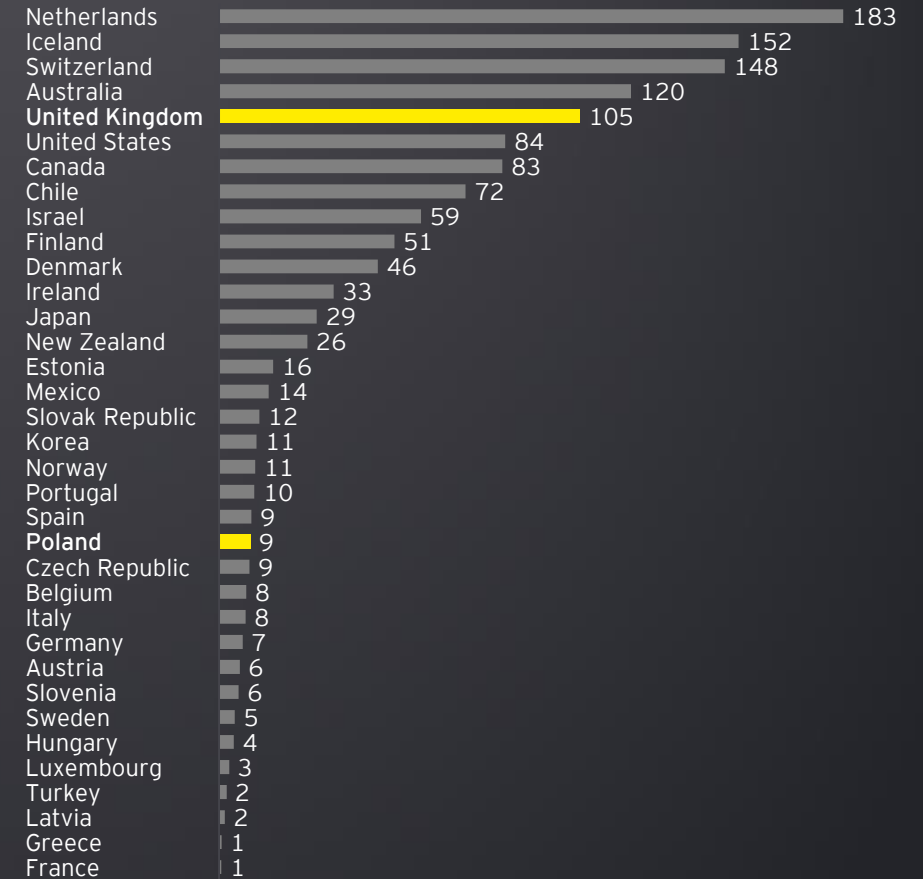


Poland is at the bottom of the list of gross pension replacement rates

In UK pension funds account for 105.5% GDP, in Poland only 9.1%

The voluntary component has the largest impact on the replacement rate (more than 30 percentage points) in the United Kingdom, the United States and Ireland

SHARE OF PENSION FUNDS IN GDP IN OECD COUNTRIES (%)



Total for OECD countries: 56

*Values for countries with highest impact of voluntary and private pension schemes marked in yellow
Source: OECD, EY analysis

An ageing population is disrupting the UK pensions industry



The population in the UK is getting older with **18%** aged 65 and over and **2.4%** aged 85 and over

By **2046**, it is projected that **25%** of the UK population will be 65 and over

In 2016 there were **285** people aged 65 and over for every 1,000 people aged 16 to 64 year

The population over 75 is expected to **double** in the next **30** years



Final salary pensions largely closed to new members

9.2m new savers via auto-enrolment

Contribution rates rising: **5%** now, **8%** next year

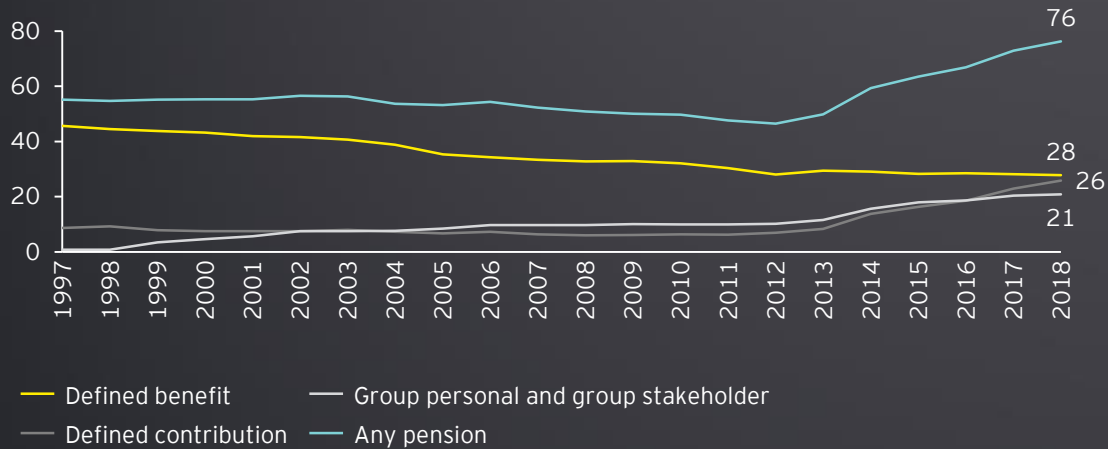
Pensions Freedoms - **£2.3bn** pa (including £100m pa overpaid tax)

DB to DC Transfers - **£10bn** pa

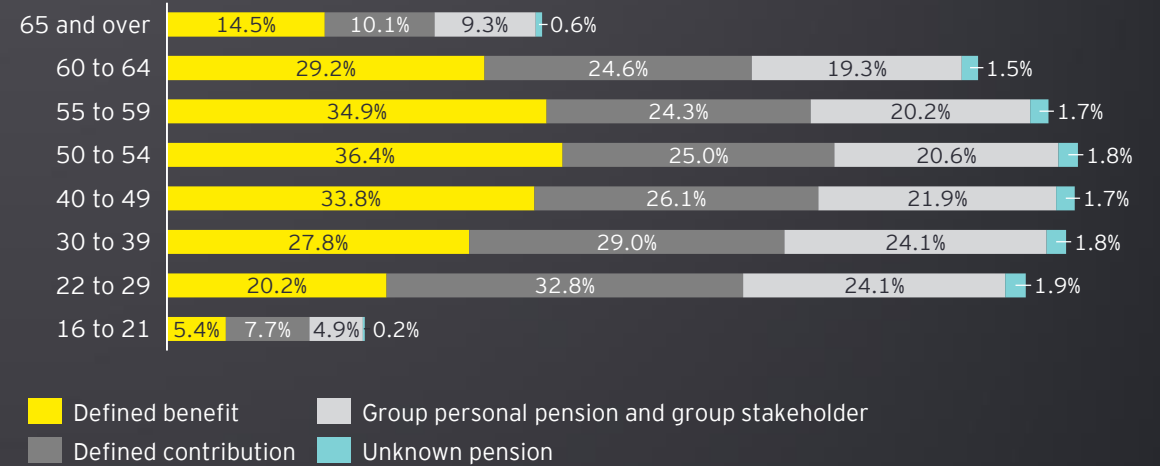
140.000 Lifetime ISAs sold

Auto-enrolment has accelerated participation in UK workplace pensions

SHARE OF EMPLOYEES WITH WORKPLACE PENSIONS: BY TYPE OF PENSION IN THE UK, 1997 TO 2018



SHARE OF EMPLOYEES WITH WORKPLACE PENSIONS: BY AGE BAND AND TYPE OF PENSION IN THE UK, 2017



- ▶ **76%** of UK employees were members of a workplace pension scheme in 2018, up from **47%** in 2012
- ▶ **21.2 mln** people were contributing to pensions as of July 2018, of whom **9.9 mln** have been automatically enrolled
- ▶ Both public and private sectors saw growth in workplace pension participation, and the gap has narrowed to **90%** of public sector employees against **72%** of private sector employees participating

- ▶ Automatic enrolment has been key: in 2018, **35%** or less of employees not eligible for automatic enrolment contributed to a workplace pension compared to **~80%** of eligible employees
- ▶ The dominant pension types at all ages are **defined contribution** whereas older age groups, 40 years and over, are more likely to have **defined benefit**

Source: UK Office for National Statistics: Annual Survey of Hours and Earnings pension tables, UK: 2017 provisional and 2016 revised results

There is more to do: confidence and understanding among UK adults is low

35% of the adult population in UK say they don't have a pension

43% of the population admit they don't know how much they will need

55% of people feel that **£100,000** is enough to retire comfortably

28% of people think they are on track to meet this



80%

Of Millennials don't believe they will meet their predicted pension amount needed to retire comfortably (average prediction **£126,400**)



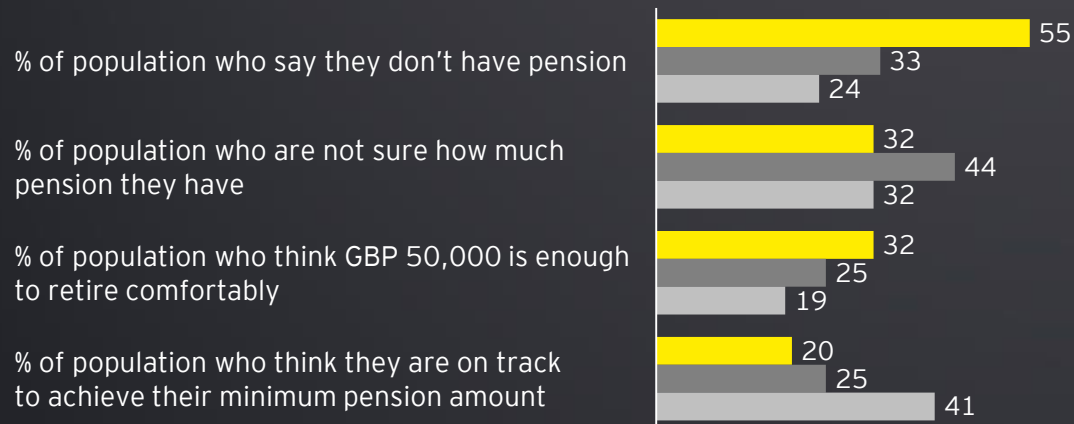
75%

Of Gen X don't believe they will meet their predicted pension amount needed to retire comfortably (average prediction **£188,300**)



59%

Of Baby Boomers don't believe they will meet their predicted pension amount needed to retire comfortably (average prediction **£211,800**)



■ Millennials ■ Gen X ■ Baby Boomers

ENGAGEMENT IN PENSION SAVINGS BY AGE

42.6% Of 18-23 year-olds find pensions too complicated

11.6% Of people close to retirement age state that pensions are too complicated

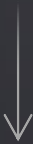
Recent activity on pension funds and insurance market in UK



Industry players are shifting in response to these changes



Growing aging population
Rise in life expectancy



Retirement will require more funding



Reduced investment returns,
increased level of borrowing



Historically low savings rate



Insurers are increasingly looking for ways to engage customers in saving for their future despite short term demands on their earnings



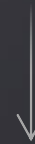
Demographic, regulatory and
technological changes



Increased focus on digitisation
and serving the needs
of retiring customers



Low interest rates
Solvency II capital requirements
Increased longevity risks



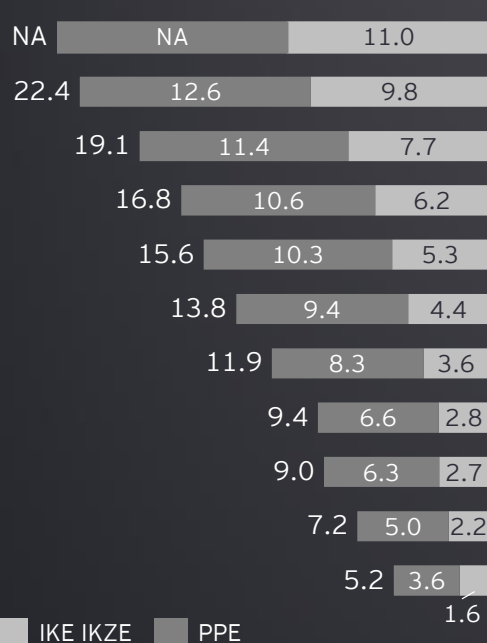
Insurers have difficulties
in generating adequate returns
to meet long-term commitments



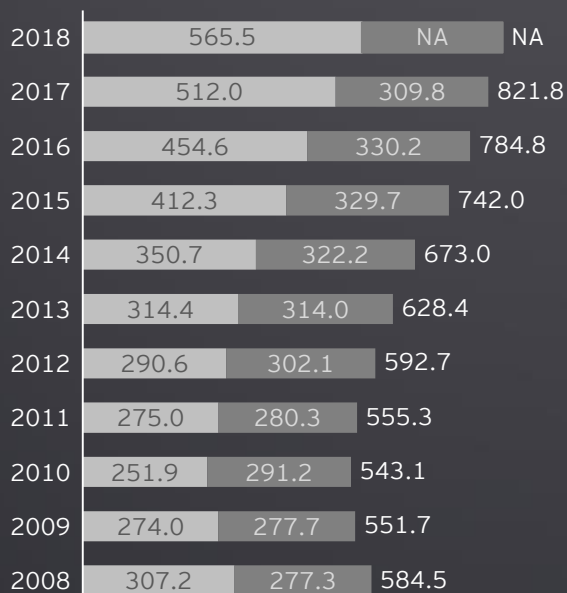
Companies are increasing automation to control operating costs, while focusing only on strategic products and markets - but are broadening their offer to customers through alliances

Participation of Polish employees in III pillar pensions

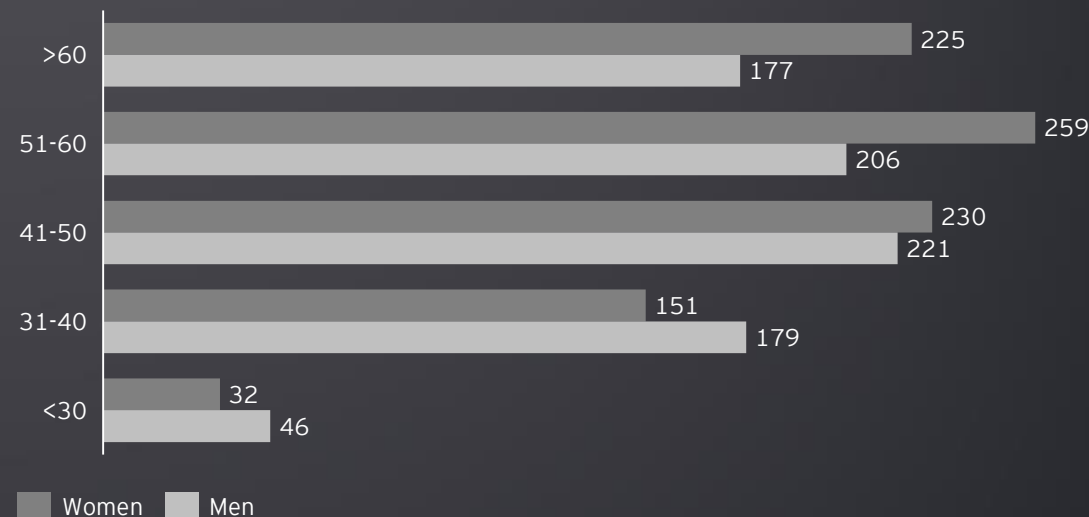
ASSETS OF IKE, IKZE AND PPE AT THE END OF THE PERIOD (PLN BN)



NUMBER OF ACTIVE ACCOUNTS (IN THOUSANDS)



NUMBER OF IKE AND IKZE ACCOUNTS BY GENDER IN 2018 (IN THOUSANDS)



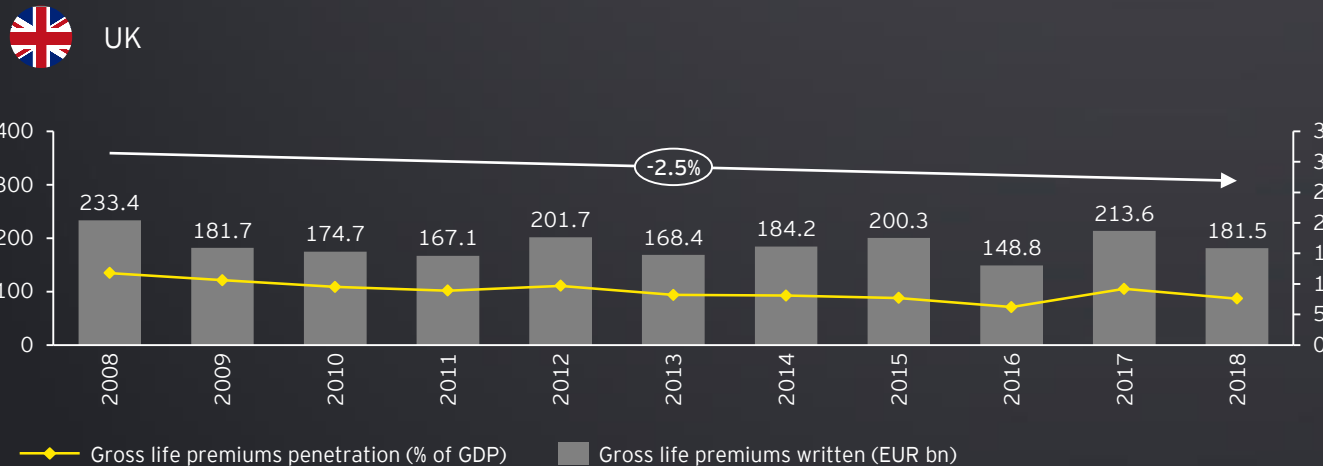
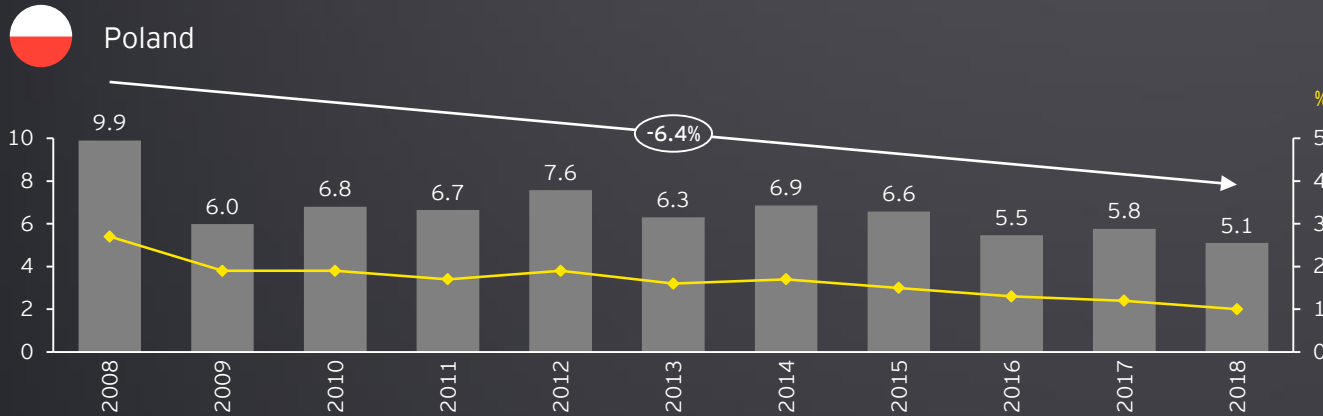
- ▶ At the end of 2018 there were **1491** Employee Pension Programmes (PPE). Since the last year this number has grown by 438 programmes
- ▶ In 2017 employers have paid **PLN 1.2 bn** premiums in PPE, while employees have saved PLN 40.8 mln on PPE and **PLN 1.8 bn** on IKE / IKZE accounts
- ▶ The number of active members* of PPE in voluntary pension saving scheme have reached **78%**

- ▶ In 2018 only **5.5%** of people in working age** hold IKE / IKZE account
- ▶ **1.3%** of people **aged 18-30**** have IKE / IKZE. Since 2012 the number of accounts in this age group **has fallen by 48%**
- ▶ In the age group **under 40**, IKE / IKZE account holders are mainly **men (55% of accounts)** while the gender proportion reverses for the group over 40
- ▶ IKE / IKZE is the most popular among people aged 51-60; **9.5%** of population** owns the account

*Active members are employees for whom the employer has paid the basic contribution in the last quarter
 **Under assumption that one person has either IKE or IKZE (not both)
 Source: PFSA

Life insurance market data

GROSS LIFE PREMIUMS WRITTEN AND LIFE INSURANCE PENETRATION IN POLAND AND UK



In the UK life insurance was the largest segment in the insurance industry accounting for **68.1%** of the gross written premiums (in 2018). In Poland this ratio amounts to only **34.9%**

Group life insurance in UK is recording a positive growth compared to an individual offering. It was mainly driven by demand for work-based pension products

Both in Poland and in UK, gross life insurance penetration is gradually falling from 2.7% in Poland in 2008 to **1.0%** ten years later. In the UK the peak was reached in 2008 (almost 12%) to current **7.6%**

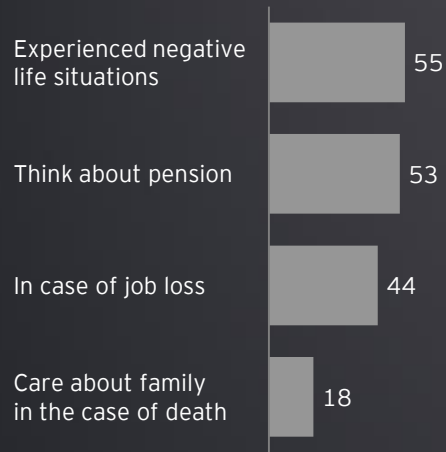
Since the financial crisis in 2008, GWP in life segment has **dropped by 2.5% annually** in the UK and by **6.4% annually** in Poland, respectively

In Europe weak performance in life insurance business was mainly due to **low interest rates**, complex products and economic slowdown. However, margins have improved

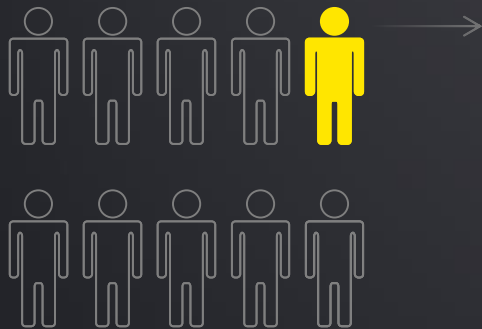
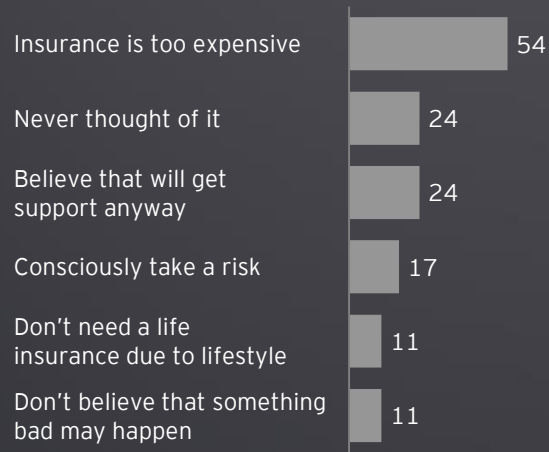
In Poland, decrease in GWP in life insurance is mainly connected with **fast decreasing investment products premiums**

Approach to life insurance in Poland

WHY PEOPLE BUY INSURANCE... (% of answers)



... AND WHY THEY DON'T (% of answers)



EVERY 10TH PERSON IN POLAND:

- 1 Doesn't have any insurance
- 2 Doesn't know if have any insurance
- 3 Doesn't know if ever was entitled for a claim

ENTREPRENEURS ARE THE MOST AWARE INSURANCE CLIENT GROUP

Self-employed and small companies owners are the most aware social group in terms of planning and saving for retirement. They also expect high quality of products and services

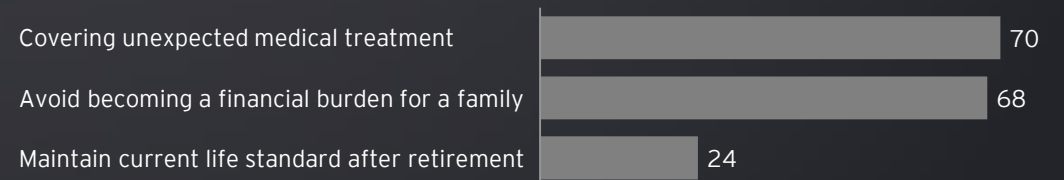
57% of surveyed entrepreneurs have individual life insurance (twice as much as employees) and **23%** have group life insurance

Self-employed also appreciate market experts and insurance agents: **35%** have at least one financial advisor

They are also more interested in additional insurance

Because of the high involvement and awareness, this is the best benchmark and trendsetting group for insurance companies

ENTREPRENEURS HAVE THE FOLLOWING FINANCIAL AIMS (% OF ANSWERS):



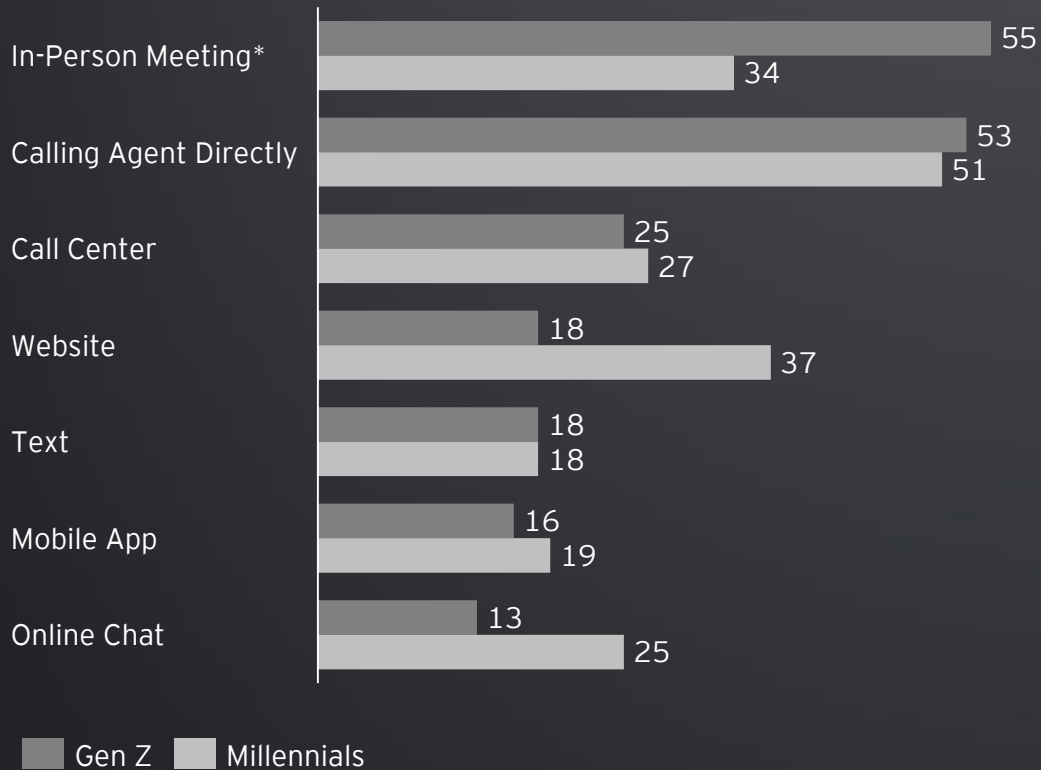
Source: „Poles like risk” Open Life TU Życie S.A. survey conducted by DANAE, May 2018

Source: „Poles and Americans on personal finance”, Pramerica Insight 2017

Generation Z will have strong impact on current business models of life insurance companies

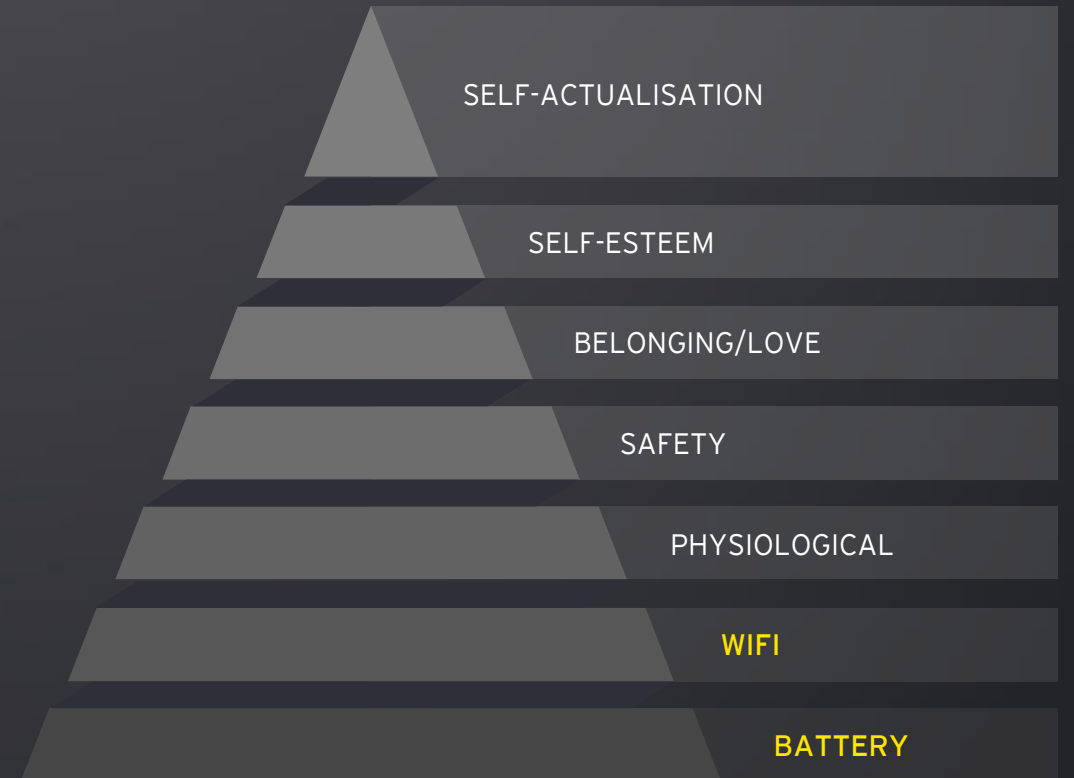
PREFERRED COMMUNICATION CHANNELS WHEN INTERACTING WITH INSURANCE PROVIDERS (% OF ANSWERS)

Both Millennials and Gen Z customers are attracted to insurance companies that provide the customer-centric, multichannel experiences they've become accustomed to in other industries



GENERATION Z VERSION OF MASLOW'S HIERARCHY OF NEEDS

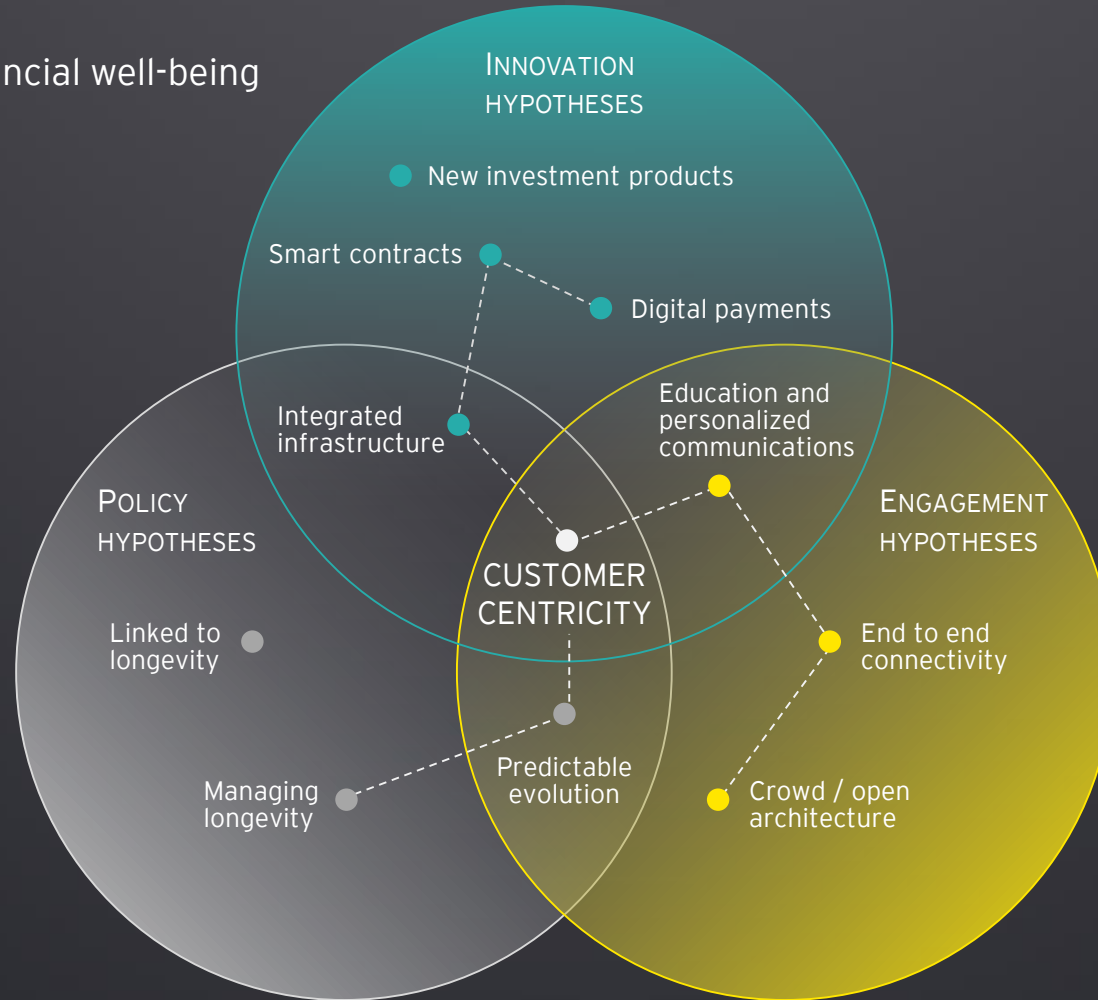
Digital disruption - digital transformation has greatly influenced even the most basic of human needs, the society have become more technology dependent



*For Gen Z in-person meeting means also face-to-face meeting via technology such as Skype, FaceTime etc.
Source: „The future of insurance. Bye-Bye Boomers, Hello Digital Natives” survey from Invest and Applied, 2015

EY Hypotheses: Features of successful life insurance and pension regimes in 2030

Innovation to achieve better financial well-being outcomes



Increased individual engagement

Long-term, coherent retirement policies

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