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Speech at the 2018 ReFocus Conference

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March 5, 2018

As Prepared for Delivery

It is my pleasure to welcome you to Las Vegas. This is my sixth Refocus conference. When this conference started over a decade ago, we had a couple hundred attendees. Every year, attendance has increased. It's great to see that has happened once again this year.

We are here in Las Vegas to talk about the future of our industry, and how we as an industry can prepare and manage risk. What better place to have that discussion than here in a casino. Indeed, some of our most sophisticated ideas about risk began with the invention of old fashioned games, like poker.

You can play poker not far from here in this building. You will play with modern cards like this one. Note how the queen and all face cards are double sided...It has not always been that way. Take a look at this image.

These are what old playing cards used to look like 150 years ago. Notice that the face card is not repeated. Poker sharks learned early on that they could assess a player's hand by watching whether their opponents turned any of their cards upright. The cards were also square – no rounded corners like today. Poker sharks would turn the corners slightly so they could identify the cards later on.

In a game where you wager and make calculations, everything matters – even the shape and design of the cards.

I learned this story from a book sent to me by Klaus Miller who is on the Executive Board of Hannover Re in Germany. The book tells the story of risk, and how thinkers revealed how to put the future at the service of the present.

By showing the world how to understand risk, measure it, and weigh its consequences, these thinkers converted risk-taking into one of the primary catalysts that drives modern society.

Bringing risk under control is one of the central ideas that distinguishes modern times from the distant past.

In this room are men and women with vision. And when you assess and understand the future, you have a better idea how to operate in the present.

As you travel away from the Las Vegas strip, the casinos give way to wide open land. Just 30 minutes from here is a stretch of dry desert. The desert is full of typical shrubbery and a backdrop of Nevada's famous red mountains. It's quiet, with little activity... the exact opposite of the Vegas strip. And if you were to travel to this desert today, you'd see something else in the middle of this vast open land...a giant white tube.

It's the site of Hyperloop One – a company testing Elon Musk's big idea to transport people and cargo in pods through an air tube at near-supersonic speeds. As you know, Elon Musk is the CEO of SpaceX and Tesla.

Musk mentioned his idea for a hyperloop five years ago. You may remember this. It sparked a frenzy among innovators and startups. He described his idea as “a cross between a Concorde, a railgun, and an air hockey table” and he called on tech companies to make it happen.

Five years ago, it seemed like a distant dream. Now, Hyperloop One thinks it can launch its first commercial system in 2021...just three years from now.

There in the middle of the quiet desert they are achieving new possibilities.

And just two weeks ago, this headline ran in the Washington Post: “D.C. has given Elon Musk a permit to do a little digging for the Hyperloop.” That hyperloop would get you from D.C. to New York City...in 30 minutes.

We truly are living in the galactic future many of us dreamed about as kids. Innovation is moving at lightning speed...713 miles per hour in a pod, to be exact. Coincidentally, that is the number of people here at this conference. Guess what? We've just broken the sound barrier in attendance.

Over the next couple of days here at Refocus, you are certain to hear the word “innovation.” A panel this afternoon will consider how medical technology – “innovation” – is impacting longevity. Tomorrow, you will hear about distribution disruption ...as a result of “innovation.” It's a buzzword. We hear it everywhere.

“Innovation” is critical. But I offer you a new phrase: “anticipating revolutionary change.” That's what tomorrow's most successful companies are doing right now.

Consider the top selling gadgets just 8 to 10 years ago. The iPod touch. The Kindle. The iPad. These are all fascinating technology devices.

You tell them to do something, and they respond. The iPod touch....load your music and then tell it what song you want to play. The Kindle...load your book, and tell it when you want to turn a page. The iPad...add your apps and search on Safari.

But consider the top selling gadgets in 2017. The Amazon Echo. The Nest. The Fitbit. The Apple Watch.

These are all devices that are taking in information about you without you telling these devices to do so. They anticipate your lifestyle and your desires. They know what you want before you do. The Nest thermostat learns your daily routine and adjusts your home's temperature accordingly. The Fitbit tracks your sleep patterns and your heartrate, and suggests when you should go to bed or get up to walk. The Amazon Echo improves every time you say a command.

These are the tools of the future. And it's revolutionizing the way we live by mimicking our habits, our beliefs, and our expectations.

Disruption is the new normal. Digital disruption is changing the ground rules for business. New technology is changing customer expectations. New competition is changing the way we think about competitors.

A few years ago, Marriott probably would have said Hilton was its biggest competitor. They had no category for AirBNB, which was founded in 2008 and now offers more rooms worldwide than any hotel chain. But AirBNB revolutionized the way we think about where we stay when we travel.

The world of disruption moves at warp speed. It may be difficult to believe disruption could affect our industry.

After all, less than 1% of U.S. companies that were in business 100 years ago still exist, but 70 percent of ACLI member companies have been serving customers for more than a century. Can a century old company adapt in this new world?

Our stability is the result of helping customers anticipate life's greatest challenges – our products protect families over the long term. Reinsurers anticipate customer needs and cover the largest and most complex risks in the insurance system.

We truly are “an institution of longevity.” But we are not immune to change or disruption. Is our institution equipped to move at warp speed? Will we be unsettled and disoriented by disruptive technology? Or, are we expecting it...eager for it...finding new ways to bring time-tested products to more people? Are we compatible with this new age of technology?

I would suggest that we can and will be more relevant today than ever before. There are some trends we as an industry must address right now to anticipate revolutionary change in the future.

The first trend is our increasingly connected global population.

Consider the continent of Africa. Africa is one of the great leaders bringing access to insurance. In just a few weeks, I will deliver a speech in Casablanca, Morocco to 1000 delegates from 25 countries across the continent of Africa. Listen to these topics that are on the agenda: blockchain... insurtech...artificial intelligence. Let me tell you why the content of this conference is incredible.

20 years ago, only 1% of the people in Africa had a mobile phone. Today, 80% of the population have a mobile phone. From 2006 to 2016, cell phone service subscriptions quadrupled.

This has revolutionized the entire continent. It's opening doors and changing the way they do business. Suddenly, the people of Africa – from rural villages in Nigeria, to the Massai warrior, to

the business centers of Cape Town – can communicate. People in rural Africa do not have to be disconnected from a dignified life simply because of where they live. And now their most respected insurance delegates are gathering to talk about artificial intelligence and insurtech.

Africa is a continent whose voice is rising. They embrace the idea of innovation and technology...and they are preparing for a new frontier. Why? Because they must.

Technology gives them an opportunity to leapfrog forward.

Their economies are expanding rapidly, and people are acquiring more wealth to protect. They are beginning to build their infrastructure...at the same time we are trying to figure out what to do with our aging infrastructure.

The African insurance industry has discovered it can use technology to get previously uninsured individuals to choose insurance to protect their wealth.

And they are creative in how they are doing it. A Swedish InsurTech startup is offering accident and life microinsurance to low-income consumers in Africa. These are individuals who don't have bank accounts, and otherwise might not have a way to easily pay for something like life insurance. But they do have access to pre-paid mobile plans. And this company allows them to deduct premiums from their pre-paid mobile phone credits.

The G20, an international forum for the governments of 20 major economies, is focusing on Africa. The G20's "Compact with Africa" initiative will increase the visibility of the continent of Africa in the worldwide private sector.

An increasingly connected global society means greater opportunity for our industry. Insurers have taken note of the way technology can expand access to insurance.

In the area of property and casualty, some insurers are exploring the use of drones for claims processing. They use this technology to accelerate surveys of disaster areas.

Take a look at this video of a drone surveying typhoon damage in the Philippines.

A family who has lost their home to disaster can have their claims handled faster, and now it does not matter if the terrain is rough or the roads aren't navigable. The customers receive payment faster, so they can get back to their pre-disaster lives. It also improves safety for claims adjusters. Employees can use a camera drone to reach areas that would otherwise be too dangerous to go on foot.

This gives you the sense of the possibilities. The FAA projects the number of commercial drones will increase from just under 50,000 in 2016 to 500,000 just three years from now. Technology can revolutionize the claims process. It can revolutionize search and rescue operations – saving lives. Take a look at this ambulance drone.

That's who is designing it. Graduate students and millennials. This is their world. And to what effect? A medical response time moves from 10 minutes to 1 minute. A survival rate moves from 8% to 80%. What does that do to mortality tables? And that's just one component of technology affecting this industry.

Technology as a whole and globalization are making the insurance market more competitive, but it's bringing our world closer together and making insurers and reinsurers more relevant.

The second trend we must address is a shift toward a customized consumer experience.

This is already the reality in other industries. Other industries are using customer habits to create greater customization. The entertainment industry...like Netflix. Retail and e-commerce...like Amazon.

Now, it's true that our challenge is a little bit different. Amazon interacts with the customer at every transaction. Life insurers and reinsurers typically don't have that many interactions with the customer or client.

But guess what? Customer expectations are not set by comparing one life insurance company to another.

Today, customer expectations are set by comparing our companies to other companies outside our sector. We're competing with an "Amazon Prime" mentality.

A couple years ago, I had a conversation with Peter Diamandis, the creator of the X Prize. I asked him, "does the life insurance industry have disruptors?" He said, "Get ready. Customers will self-select" in disruptive ways.

Isn't that a part of our DNA? Over 300 years ago, Edward Lloyd's coffee shop....Lloyds of London...became a catalyst to pool resources for marines. They self-selected fellow merchants and revolutionized the way we think about pooling risk.

Peter Diamandis also told me that he doesn't think his 7 year old twin boys will ever have to learn to drive a car.

We must be ready to integrate into our customers' lives, because they expect a customized experience. They also need us now more than ever.

That leads me to the third and final trend we must address, which is longevity. That is the central theme of this conference. Human life expectancy is expanding right before our eyes. We know half the people age 65 in America today will live to be 85. Yet, in 2016 36% of families had no dedicated retirement savings at all.

Our public sector safety net is not equipped to handle the stress of a large aging population. Here's a fact: In about 10 years, the government is slated to notify Social Security recipients of a 21 to 27 percent reduction across the board in benefits. The American Dream of retiring comfortably may not be possible for many.

How many of you with your guaranteed annuities could just tell recipients they now have a 21% reduction in benefits?

Do you know the fire storm this will create for Congress?

Do you know how much this positions you to be a solution?

Do you know what this does for our industry in the public policy arena?

This isn't just an American challenge.

In addition to serving as the President and CEO of ACLI, I also serve as the President of the Global Federation of Insurance Associations. The Global Federation represents 41 member associations that account for 87 percent of total worldwide insurance premiums. As President, I often advocate on behalf of our industry in the global community. We coordinate regularly with the G-20.

World leaders regularly tell me that longevity is one of their major challenges for the future. In Japan, by 2050 there will be one centenarian for every one-year-old. This is unprecedented. Sales of adult diapers today in Japan outpace sales of baby diapers. Recently, I asked Japanese leaders if it was accurate that in 2050 Japan will have 22 million fewer citizens. They said, no...it's more like 27 million.

In our own public policy arena, our social security system used to have 12 workers for every retiree. It's now 3 to 1 and is quickly headed to 2 to 1 and, by some estimates, may even reach 1 to 1 by the end of the 21st century.

People around the globe need access to insurance now more than ever before. But this means our industry needs to be prepared to respond with new business models and technology solutions.

Our industry faces some unique challenges. Our regulatory system was built for another era. It poses challenges for us and for them. It's also a challenge for our companies who compete internationally. How do we work together with regulators to build a regulatory system equipped for today? How do we adapt as technology continues to change our world...rapidly?

Another challenge is the ongoing national dialogue set off by the Department of Labor's fiduciary rule. Now in New York State we see that a "best-interest standard" could apply to life insurance products.

We know that families – who want the financial protections and peace of mind provided by life insurance – benefit when consumer protections are tailored appropriately to the life insurance market. It's an ongoing challenge and we are at the front lines addressing it.

Another challenge is speed of disruption in related industries. Medical advances are happening so quickly. That makes it harder to underwrite a long-term product. Some companies are looking at designing life insurance products that change over the life of a policy.

That's one idea, and we can think of more.

I believe there are ways of doing insurance that haven't been done before. How do we build platforms that are less costly, reaching different demographics?

Earlier, I mentioned Elon Musk and the hyperloop.

Last month, I had the opportunity to test drive a Tesla. Have you heard of this phenomenon called the "Tesla Grin"? It's the big grin that first-time Tesla drivers get on their faces when they sense the instant torque and the silent drive.

I had the Tesla Grin.

But it wasn't just the sleek design, or even the speed of the Tesla that impressed me. The inside of the Tesla is very simple. There are no knobs, because everything is a touch screen and based on software downloads. Tesla can push software updates to your car just like Apple pushes

updates to your iPhone. That means the car is constantly improving, without having to go through the hassle of trading in for a newer model.

That's pretty incredible on its own. But the Tesla Representative told me something else. There are features within the Tesla that are actually dormant. Tesla does this intentionally. The reason the features aren't activated is because the technology to use them is not perfected. But as technology improves, Tesla is ready.

As an innovative disruptor, Tesla isn't just creating a car for today. They are creating a car for tomorrow. They continually try to anticipate what the next disruption will be – and indeed, they often are the disruptor. They build components that the consumer doesn't even know exist – so they can remain relevant 5 or 10 years down the road.

They are preparing for a revolution in the transportation industry.

We can prepare for a revolution in the insurance industry.

But we must ask ourselves...Is our industry built to be updated continually, and adapt as new opportunities come online?

We know the numbers around life expectancy and longevity. But as this conference theme suggests, we need to move beyond the numbers. We have the opportunity to answer one of the greatest global challenges – the extension of human life.

Even the Tesla has a "life expectancy" limit, because right now the battery bank has a shelf life of 10 years. That's a big limitation for them. But, of course, they'll change that. This is a priority for their R&D team.

What about the human body? What is its real shelf life? Is a 150-year life span real science, or is it science fiction?

Think of how many parts of the human body can be changed. Eyes. Shoulders. The heart. Hips. Kidneys. Knees. And there are more. When you look at this image, you start to understand how a 150-year life span might be possible...because that 150-year-old person may not have all of his or her original parts. This is the future. Are we ready?

What role do we have when public policy really becomes a firestorm?

I wonder what a life insurance CEO is thinking about when it comes to the extension of human life?

What would an insurance CEO tell a reinsurance CEO about a reinsurer's role in all of this?

In a few moments, we'll ask them. We have a panel of CEOs ready to talk about "The Future of Longevity."

I want to express my appreciation to Barry Stowe, CEO of Jackson National; Phil Waldeck, CEO of Prudential Financial; and Carolyn Johnson, CEO of Annuities and Individual Life for Voya Financial for participating in this discussion.

We'll discuss some important issues. What are we doing about our connected global population and trends in longevity?

How are we preparing our industry for a world that expects companies to integrate into people's lives? What can we do to raise our impact?

The table is set for life insurers and reinsurers. There are generations of people who are counting on us.

Our industry's story is strong. It's reliable. It's one that has stood the test of time. But in a world where the hyperloop is a very real possibility, we can be confident of this: our industry will change. And I want us to be the ones who lead the change.

Thank you.