



# Waiting for Godot?



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■ An entire industry is caught by the digitization fever. There is a wild spread of seminars and conferences about digitization, hundred new digitization experts, lots of new startups, at least the term InsurTech is «en vogue» and to talk about digitization is hip and mainstream. Nevertheless, up to now, this is all pretty much about «talking» and less of «doing». The industry needs a little less conversation and a little more action. Please!

Insurance business is changing and this transformation is no ordinary evolution because it already becomes apparent that the magnitude of change is bigger and the speed, at which the change will move through the industry, will be significantly higher than ever before. It will be a fundamental change – a revolution – through which insurance business will reach the next

level at last. The basic idea of and the need for insurance will last, but this may not hold true for each and every insurance company and the current best practice.

The following lines focus on the state of the union of life insurers and discusses some options for action to find the right way through this all-or-none transformation.

## What's the state of the union?

Safety and peace of mind are some of the essential needs of almost every human being. Life insurance companies have delivered that for decades.

Especially private retirement provisions are getting more and more important – not least because of increasing lifespan and state pensions that tend to decrease. In fact, today best agers treasure up their

wealth on savings accounts and earning almost zero interest. Potential tax incentives and unique selling propositions add pros to the account of the life insurance industry. All in all a perfect environment, isn't it?

Well, the status quo offers some "issues" that make life a little bit hard and that may sound the bell for an end of paradise. Just think about increasing competition, more critical customers, stricter regulations, potential competitors from outside the industry and the capital market environment that reveals that business in force is less profitable as calculated earlier. Indeed, life insurance industry is in an upheaval and in a life crisis. The industry has to deal with several challenges on several levels.

On macro level, the advancing individualism of customers and the low interest rate environment in combination with higher regulations fuel the need for innovation and for processes, products and services that are more flexible. Customers are accustomed to a digital experience offered by companies like Apple and others, and they expect the same level of customer experience from an insurer.

On company level, topics such as capital efficiency, a powerful step-in of risk management, de-risking of products, complex processes and expensive administration represent a huge obstacle for innovation. Given administration systems, processes and organization of most of the existing insurance companies make digitization and individualization difficult to achieve.

On micro level, the complexity of modern products and their extensive and incomprehensible documentation complicate sales process. This is a further circumstance that does not accelerate new business at all.

### Insurer are searching for the global masterplan

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The history of life insurance business is characterized by different, replacing cultural epochs: sales, product and risk culture. For each era it is typical that it has a one-dimensional perspective. Unfortunately, one-dimensionality does not create satisfactory solutions nowadays. Single measures in different areas, such as a

new product feature or a fancy app, simply fall short – especially, when these measures are not matched.

The present situation requires a holistic approach and the method of trial and error. This balancing act is totally new to insurers. There is no global masterplan that can be imposed as a blue print on all companies. The starting point for a company should always be a holistic and individually derived new business strategy.

### A tiny, cute plant called InsurTech

Let's face it, the InsurTech movement is nothing more than a little plant yet. InsurTech is still in its infancy and this tiny, cute plant will grow large. In fact, the first half-year of 2017 is shaped by accelerated activities in the insurance technology area.

There is no "jack of all trades device". However, technology will help to solve most of the present issues if it is used now and in the right way. Dear insurers, the tech movement is your friend!

Let's have a look at some examples.

### Forget about paper: 100% digital policies

The interface to the customer is a weak and challenging spot all at once. Online platforms and portals demonstrate it to us: it all works without paper. Banks offer a convenient and foolproof access to saving accounts and the portfolio of financial assets. It is not a business secret that customers are used to it now and that they require it from insurers as well.

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The idea of a paperless overview on all insurance policies at hand is so good and charming. To have real time information on my insurance account is great and to change contract or personal details whenever I like to is priceless. The customer wants to be enabled through his own and individual portal. Via this gateway, an insurer may pool the entire communication with the customer and



he allows the customer to choose the mode: communication by written messages, a chat bot or a video chat. No paper and no idle time.

### Upgrade your underwriting: from static to dynamic statistics and alternative data

Usually, the health status of a retail client for risk products is checked during the offer process as part of the underwriting (e.g. via health questionnaire). On the basis of this snapshot the price for the risk coverage is derived and fixed for the whole term. A healthy life style of a client afterwards is not rewarded, like a bad life style is not penalized. In an economy of an advanced individualism this is for many customers a little bit dissatisfying. Thanks to fitness trackers this may change.

By the help of these little electronic devices the health status can be monitored during the duration of the policy (e.g. via daily activity level). Based on behavioral economics, the client takes an active role in managing his wellness and health. He is encouraged to develop healthy long-term habits. A client that is supporting his health is rewarded, e.g. via reduced premiums or other rewards. These so called life style or wellness programs are already present in life and health insurance. A popular example is the Vitality program introduced by Discovery in South Africa several years ago.

Individualization of life insurance coverage is not totally new. Just think about the differentiation between smoker and non-smoker, the usage of the body mass index or information about the current job in case of disability insurance. Once a life insurance company offers in a market



a new differentiation successfully, it will put pressure on the rest to follow, if they want to prevent adverse selection.

Furthermore, alternative and additional data, like for example geospatial information provided by consumer credit providers, may enhance and innovate underwriting as well.

#### **Accelerate your product development: faster time to market and modular, individual products**

InsurTech may also originate when a life insurer and a FinTech work together in the area of saving products. An investment-linked life insurance product offers to its retail clients usually a broad universe of investments funds or other financial assets. This means on insurer side some administration issues (e.g. ordering and depositing of fund units, etc.). In addition, some older administration systems may not be able to manage several funds in parallel or do not allow any algorithmic based investment scheme. An upgrade of the system may take some time. Furthermore, classic funds are said to be costly and in the end, who cares about the individual portfolio of each retail client?

For the latter reasons, the so-called Robo-Advisor emerged in the area of financial services and wealth management. A Robo-Advisor is a FinTech that simplifies and optimizes wealth management. Thanks to maximum efficiency and automation it offers for retail clients an individual and digital wealth management for a low minimum investment. Based on the risk appetite of the retail client, the Robo-Advisor manages the portfolio on a daily bases.

So, why don't we combine an investment-linked life insurance product and the service of such a Robo-Advisor?

This is just one example of an automation and flexibilization of product development that allows a much shorter time to market. Such a cooperation and automation allows for totally new, flexible and individual products and related services. It brings in modular product concepts, which are already common in other, more

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technologized, sectors like the automobile industry. Modular product concepts enable an efficient development and administration as well as an individualization of a product offer. Product development will be more interactive and more customer centric than ever before. And this is good news!

#### **Put the puzzle pieces together: the financial cockpit**

The core question is about what customers really would ask for if they would know what they need. Or, to put it different, what would be most useful and helpful for a customer?

The average customer is lacking of two important things: (a) he has no deep knowledge in financial products (incl.

insurance products) and (b) he has no (real-time) overview on his financial assets. However, this is essential! How could a customer develop his financial strategy without knowing about his present situation? How could he execute his strategy without knowing what product are available and how these products work?

If we give to these customers a foolproof self-service portal with an individual and modular product offer, he is in the position to manage his personal finances – on his own or by the help of any financial advisor (human or robot). This is the birth of the “financial cockpit”.

The value chain is transforming. In the past and still up to now, the sales forces (partially controlled by the insurance companies) have the valuable contact to the retail clients. This will change. The power moves back to the retail clients and probably directly to such independent platforms. Existing sales forces and insurance companies have to connect to these platforms in order to remain part of the business chain or they develop such a portal on their own.

#### **In the end, it is all about cooperation**

Life insurance business is in a transition process and this transformation is no ordinary evolution. It will be a fundamental change, a revolution.

It is time for companies to reconsider the existing business model and the way in which they do business today. Important elements of a new business strategy are the enhancement of the business model and to enter into cooperation.

InsurTech is a big opportunity. Technology can help a life insurer to a breakthrough in the seemingly hopeless world of regulation, low interest rates and stagnating new business. Technology is capable of creating a “win-win-win”-situation because retail clients will benefit, too. Clients will be served quicker, more flexibly and more transparent – or to put it briefly: simply better than today!

An InsurTech startup is not afraid of leaving beaten paths. Revolution is part of its DNA. The need for change and continuous improvement is the impulse for its acting. InsurTech startups proof that it is neither necessary nor sufficient to be a large company in order to innovate or to be disruptive. This attitude will help a life insurance company to reach the next level.

It is hard to believe that an entire insurance industry or the idea behind will be disrupted but some companies and current best practice will be. For sure!

The revolution has already started. InsurTech will change life insurance business more than regulation can ever do and finally, this time, Godot will arrive. ■