



SOCIETY OF ACTUARIES

Article from:

Forecasting & Futurism

July 2010 – Issue 2

Future Opportunities in the Life Insurance Industry—Views of a Delphi Study

By Ben Wolzenksi

The following article contains numerous excerpts or paraphrases from the February 2009 SOA study, “Blue Ocean Strategies in Technology for Business Acquisition by the Life Insurance Industry,” the full text of which is available on the SOA website under Research of the Forecasting & Futurism Section.

INTRODUCTION

In 2007, members of the Forecasting & Futurism Section were joined by members of the Technology Section and the Marketing & Distribution Sections to conduct a Delphi study (see sidebar, “What’s a Delphi Study?”) about possible developments in the life insurance industry. We named it “Blue Ocean Strategies in Technology for Business Acquisition by the Life Insurance Industry.” Our goal was to have a panel of experts—actuaries and other financial professionals from across the country—identify and debate possible new approaches to acquiring business by life insurers. Panelists were asked to answer questions about possible “Blue Ocean Strategies” (see sidebar, “What’s a Blue Ocean Strategy?”). Three rounds of surveys were performed over a period of 14 months, leading to what our report calls “a creative compendium of insightful ideas on the subject.”

What’s a Delphi Study?

According to Wikipedia:

“The Delphi method is a systematic, interactive forecasting method which relies on a panel of independent experts. The carefully selected experts answer questionnaires in two or more rounds. After each round, a facilitator provides an anonymous summary of the experts’ forecasts from the previous round as well as the reasons they provided for their judgments. Thus, participants are encouraged to revise their earlier answers in light of the replies of other members of the group ... the process is stopped after a predefined stop criterion (e.g., num-

ber of rounds, achievement of consensus, stability of results) and the mean or median scores of the final rounds determine the results.”

By its very definition, a Blue Ocean Strategy is not likely to generate anything even approaching a mean or median score, which makes this a somewhat unusual topic to be subjected to a Delphi Study. In this study panelists retained very different views about which scenarios will play out, and much can be learned from the reasons given for those differing views.

What’s a Blue Ocean Strategy?

A Blue Ocean Strategy has come to mean a strategy that defines and capitalizes on a vast open area of previously undiscovered and unoccupied territory. The concept is explored in the book, *Blue Ocean Strategy*, by W. Chan Kim and Renée Mauborgne, which was based on a decade-long study of 150 strategic moves spanning more than 30 industries over 100 years (1880-2000). Further details are available at the official website, www.blueoceanstrategy.com. Some examples of companies in the book:

- Cirque de Soleil: Blending of opera and ballet with circus format while eliminating star performer and animals;
- Netjets: fractional jet ownership;
- Curves: redefining market boundaries between health clubs and home exercise programs for women.

ROUND ONE—THE MIXING BOWL FOR THE PROJECT

The Round One Survey gave panelists background information on the Delphi Method and the Blue Ocean Strategy concept, then asked a series of 10 questions (see sidebar, “Illustrative Round One Questions” about “possible current and future technologies and new strategies in business acquisition for the life insurance industry enabled by these technologies.”) Responses were received from 39



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of the 46 selected panelists. The open-ended nature of the questions produced a substantial volume and great variety of responses that covered over 70 pages. Given the great diversity of responses, the working group felt that the best approach to Round Two would be to synthesize the results into a finite number of “strategies.” Ten was selected as a reasonable number of strategies, and the working group then constructed 10 “Blue Ocean Strategies” incorporating as much as possible from responses of all of the panelists.

Illustrative Round One Questions

- *Question No. 1.* What possible current or future technology could enable the life insurance industry to adopt a Blue Ocean Strategy *in how it markets its products* and what is the resulting Blue Ocean Strategy? Feel free to consider marketing methods currently employed by the insurance industry, that are currently employed by any other industry, or that, in your opinion, could and should be employed. Consider any existing or potential media.
- *Question No. 6.* What possible current or future technology could enable the life insurance industry to adopt a Blue Ocean Strategy *in how it processes applications for its products* and what is the resulting Blue Ocean Strategy?”
- *Question No. 10.* What emerging technologies do you see on the horizon with the potential to impact our daily lives? How could these impact the design, marketing, sales and/or processing of insurance?

ROUND TWO—THE INGREDIENTS INTO THE OVEN

The Round Two Survey strategies were presented to the participating panelists as follows: “This Round Two survey contains ten (10) strategies that represent a composite of many of the ideas contained in the Round One responses, and a series of questions about those strategies. Please complete any or all of the questions for which you have ideas; you do not need to respond to every question.” The strategies were constructed from participants’ responses made

with the Round One instruction to “assume the technologies and strategies **could occur in the next 10 years.**”

Following are three of the composite strategies, along with, in each case, one of the questions about the strategy that the panelists were asked. How would you answer each question? Panelists’ responses are shown at the end of this article.

STRATEGY NO. 1: EARTH FRIENDLY INSURANCE COMPANY—PAPERLESS PROCESSING

Earth Friendly Insurance Company plans to adopt a Blue Ocean Strategy called: “Paperless processing: do it all online!” Part 1 of this strategy is to use technologies and processes that do away with paper applications, which may include the prepopulation of some information about the applicant from internal or external sources. Information will be obtained through the Internet or all-in-one communication devices either directly from the applicant or a field agent. Policy approval and an option to print coverage verification will be directed back by similar routes. Earth Friendly also foresees a Part 2 of this strategy: the use of a “Touch the Screen” system in which the applicant would touch the computer/lap top screen and the finger print would automatically pull all medical files and other life style data. One slight prick of blood, similar to that used by diabetics for blood sugar testing, would provide immediate analysis of all physical conditions, which would be fed through the computer at the same time as the one-touch activity. One company has already adopted a version of Part 1 of this strategy, issuing up to \$250,000 of term life coverage to individuals age 18 to 60 “generally within minutes” based on “just a few health questions” answered online. An immediate decision is provided and, if approved, the applicant can print their in-force policy online.

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model as well as for each insurance category, which could be a broad spectrum (life, health, annuities, long-term care, auto and home) or some subset. Only products with relatively simple and transparent pricing would be offered. Consumers would mix and match discrete, simple products to address comparatively complex needs. Due to state insurance department restrictions, “Your Way” expects to issue multiple policies through different operating units to provide the overall coverage designed by the consumer. Online underwriting mechanisms and databases would be used to narrow the price range, define the price subject to certain conditions, or determine the price precisely. Response activity would be used to systematically refine the process model and coverage building blocks available to consumers.

Reader Response Opportunity—Strategy No. 1

Do you think “Part 2” of the strategy will become feasible in the next 10 years?

- A. Yes, achievable
- B. Probably achievable
- C. No, not achievable
- D. No opinion

See how the expert panel responded at the end of this article.

Reader Response Opportunity—Strategy No. 5

Is this a “Blue Ocean Strategy” or simply a window of opportunity for the early players?

- A. Blue Ocean Strategy
- B. Window of opportunity
- C. Not a Blue Ocean Strategy
- D. Neither
- E. No opinion

See how the expert panel responded at the end of this article.

STRATEGY NO. 5: YOUR WAY INSURANCE CO.—PROSPECTS CUSTOM-DESIGN COVERAGE ONLINE

A think tank at Your Way Insurance Company has recommended a “Blue Ocean” strategy in which individuals would custom-design their insurance coverage online. The entry point would be an online process driven model that enables consumers to design their insurance coverage by answering a series of questions. The model would have “click to call” expert advice available on how to use the

STRATEGY NO. 7: JUST WHAT YOU WANT INSURANCE COMPANY—MICROPOLICIES

Just What You Want Insurance Company believes that there may be an emerging opportunity for a Blue Ocean Strategy around offering micropolicies. These products cover narrow risks, at targeted periods, for specific consumers, at highly specialized prices. Sophisticated—often diverse—technologies are often required to enable distribution, segment markets, price risk and issue coverage. Although these policies have the potential to replace

broader blanket coverages, the greater potential is to open markets for risks otherwise uninsurable. For example, life insurance for a bungee jumper could be sold to cover the specific event.

Reader Response Opportunity—Strategy No. 7

Which of the following risks could be insured through a micro-policy? **(multiple answers permitted)**

- A. Animals (race horses, pets)
- B. Foreign travel activities in hazardous countries (vacation, humanitarian aid, journalists, etc.)
- C. Hazardous sports (bungee jumping, rock climbing, private plane piloting, space travel, etc.)
- D. Lifestyle choices (public speaking, extramarital affair, political campaign)
- E. Specific diseases, medical conditions or procedures (HIV positive, heart surgery, LASIK, experimental surgery, etc.)
- F. Very specific event/risk (travel delay for executives, hostage, key witness, roadside bomb, specific body part for famous person, complications from surgery)

See how the expert panel responded at the end of this article.

ROUND THREE—THE ICING ON THE CAKE

In Round Three, panelists were provided with a summary of the Round Two responses, and asked if they had any additional input. Responses to Round Three were not extensive; the great majority of panelists did not indicate any further thoughts beyond their prior responses. This is one of the indicators that a Delphi Study is complete: the panelists are not changing their stances.

SUMMARY

Our goal was to collect new ideas; many of our Round One questions were open-ended to encourage creative responses. This worked well. In November of 2007, we received over 70 pages of summarized Round One responses from the SOA research staff. This was not a study where we could easily categorize the responses and apply meaningful statistical metrics to summarize them.

Our objective and expectation was not complete agreement among the respondents, but rather to surface new ideas; to vet them among a group of insurance, technology, and marketing and distribution professionals across the country; to distill them to a set of strategies deemed by some to have potential; and to elicit perceived obstacles and shortcomings of the strategies. In these respects, the project was successful.

The working group and SOA research staff members contributed more time than we originally planned because we found the interactions stimulating and thought provoking. The panel members gave a notable collective effort. They responded with enthusiasm to the questions as written—and to rewritings they occasionally added themselves. The anonymity condition seemed to remove inhibitions and open the tap for an outpouring—no, a deluge—of creative ideas.

Note: See how the expert panel responded on page 18. ▼

ALTHOUGH THESE POLICIES HAVE THE POTENTIAL TO REPLACE BROADER BLANKET COVERAGES, THE GREATER POTENTIAL IS TO OPEN MARKETS FOR RISKS OTHERWISE UNINSURABLE. FOR EXAMPLE, LIFE INSURANCE FOR A BUNGEE JUMPER COULD BE SOLD TO COVER THE SPECIFIC EVENT.

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EXPERT PANEL RESPONSES

Reader Response Opportunity—Strategy No. 1

Do you think Part 2 of the strategy will become feasible in the next 10 years?

- **Expert Panel Response**

- A. Yes, achievable – 15 (54%)
 - B. Probably achievable – 6 (21%)
 - C. No, not achievable – 5 (18%)
 - D. no opinion – 2 (7%)
-

Reader Response Opportunity—Strategy No. 5

Is this a Blue Ocean Strategy or simply a window of opportunity for the early players?

- **Expert Panel Response**

- A. Blue Ocean Strategy – 9 (32%)
 - B. Window of opportunity – 7 (25%)
 - C. Not a Blue Ocean Strategy – 3 (11%)
 - D. Not feasible, so neither – 1 (4%)
 - E. No answer – 5 (18%)
 - F. Wrote an expanded strategy to be Blue Ocean – 1 (4%)
 - G. Other comments – 2 (7%)
-

Reader Response Opportunity—Strategy No. 7

Which of the following risks could be insured through a micropolicy? **(multiple answers permitted)**

- **Expert Panel Response**

- A. Animals (race horses, pets) – 2 (7%)
- B. Foreign travel activities in hazardous countries (vacation, humanitarian aid, journalists, etc.) – 3 (11%)
- C. Hazardous sports (bungee jumping, rock climbing, private plane piloting, space travel etc.) – 8 (29%)
- D. Lifestyle choices (public speaking, extramarital affair, political campaign) – 3 (11%)
- E. Specific diseases, medical conditions or procedures (HIV positive, heart surgery, LASIK, experimental surgery, etc.) – 7 (25%)
- F. Specific event/risk (executive travel delay, hostage, key witness, roadside bomb, body part for famous person, complications from surgery) – 6 (21%)