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Insurance Is Where "Average" Will No Longer Go To Thrive

A look at what went wrong in our trillion-dollar industry and what is being done

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Saying "Insurers are risk averse" is as true as saying "Driving is safe." But driving isn't safe. It can only be safer. The truth is, everyone takes risks, even by not taking risks.

So, let's get one thing out of the way—insurers do innovate.

Recall these sparks of innovation: In 1963, State Farm supported the introduction of ZIP codes by the postal service and encouraged employees to add ZIP codes to mailings. In the mid-1990s, Progressive began to work on the concept of Pay as You Drive, which is now known to most as Snapshot. At least 11 insurers take part in the Automated Driving Insurance Group (ADIG), which was launched in 2015, and is on a mission to tackle the changes needed to make sure driverless cars are safe and comply with regulations. Also, there are several blockchain initiatives such as B3i and R3 that are seeing to it that insurance professionals collaborate in the research and design of blockchain applications that can streamline insurance processes in claims handling and data management. Last, a favorite of mine, is the amount of auto insurance brands that have launched a unique ridesharing coverage in the last two years to support on-demand drivers.

If insurers do innovate, so what's the problem? Two problems, really. They don't innovate quickly, and have not been effective communicators. While insurers spend a lot of money selling insurance, they don't do a good job explaining insurance. These two pain points—lack of agility and lack of relevance in voice and branding—has created a void that has attracted new entrants—some fueled by venture capital (VC) funding. And nothing fuels a discussion on disruption like money does, especially when it is not your money.

Billions of investment dollars later and things are changing:

RISING AD BUDGETS

When it comes to marketing, big ad budgets remain the sole competitive advantage of top insurers. Whether it's Progressive recruiting Susan Lucci, GEICO bringing on Boyz II Men, or Esurance deploying "DIY Ditties" with the Scott Brothers. With big budgets off limits, new entrants turn to untargeted territories (NYC-based renters and homeowners' insurance provider Lemonade targets the uninsured), modern media (UK-based digital broker Bought By Many leveraged the power of group buying via social media to attract clients), and affinity partnerships (small business insurance broker Next recently announced a collaboration with American Express, which it hopes will help it attract more small business insurance seekers). Some tactics are more successful than others, however, new entrants can take comfort in the fact that the top 10 P&C insurers in the U.S. by direct premiums written (DPW) in 2016 only control ~50 percent of the market.

USAGE-BASED INSURANCE

Whether insurance is a commodity or not, customers' purchase intentions is a reflection of whether they think they are paying a fair price—different than the lowest price. Turns out, that one of the arguments (and there are many) for keeping humans in the insurance buying equation is because they can upsell coverage, as opposed to customers purchasing via online aggregators that sort by price. This notion of fair pricing—tricky as it may be—is the by-product of usage-based insurance players deployed by both incumbents (Examples: Amica Mutual, Progressive) and startups (Examples: Cuvva, Root, Trov).

INNOVATION IN PAYMENTS

Pay-per-use pricing, when use is measured by miles, seconds or even the level of activity (think of Vitality) is not for everyone. Another trend gaining traction is the availability of policies with monthly payments. It allows insurers such as Friday and Wilov to attract those afraid of commitment.

DIGITAL CHANNELS AND DISINTERMEDIATION

In the last five years, 244 insurance brands were formed with the promise of a better distribution model, whether via web, mobile, mobile-only, or a combination of these channels. This trend is being deployed by incumbents and new organizations alike as evident by the table below.

In general, digital strategy is best described as a series of attempts to hit different demographics via different platforms via different/more relevant products.

Disintermediation will follow. After all, the purchase of simple insurance products that are easy to grasp and unprofitable to write, FAQs, and simple policy changes shouldn't require a trusted advisor. And in many cases, these actions have been automated (more on that later). To digress a bit, digital pundits with a love for people will rationalize the use of independent agents with it's a relationship-business followed by advocacy. And yet, insurance = contract = law, and law is a precise endeavor. Which is precisely why, when education and transparency go up, advocacy goes down and so will the need for insurance agents.

PREVENT AND PROTECT

Advances in IoT and access to more comprehensive data sources are allowing insurers to move to a prevention-based model. These strategies are prevalent in auto (telematics), home (connected home devices), work comp (workers' safety), as well as manufacturing facilities (IIoT).

FRAUD DETECTION

According to ThreatMetrix $1 in $3 dollars in the U.S. is spent online; contributing to the rise in cyber fraud. Next-generation data companies such as Carpe Data, which taps into social data to detect fraudulent claims, or ThreatMetrix, which allows insurers to integrate real-time digital identity intelligence, or Tractable, which offers AI software that can review and assess images of damaged vehicles, all play a part in the ongoing trend of using of advanced analytics and tools to improve information security and predict, detect and analyze fraud.

AUTOMATION

There are several use-cases where incumbents or new entrants simplify and improve the service process from FNOL, to claims handling (see Tractable above), to policy endorsements, and even inventory tracking. It's a win-win.

In sum, there's a lot of talk about technology. Innovation is not technology. Innovation is a combination of underwriting, claims, marketing, operations and R&D, where the customer is confident the seller owns the process. Take for example Dollar Shave Club (DSC), which was acquired by Unilever for $1B last year. The 5-year-old startup did not manufacture its razors, which according to most were average quality to begin with. Just like the DSC, it will take a combo of fair price, awesome marketing, and a good product-to-market fit to change history.

On a positive note, you don't have to own the risk to win the game. ■

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