

## **Innovations in Insurance**

By Kevin Pledge

*Editor's note: Our March article in the "Process of Innovation" series discussed the development of promising ideas. This article provides the perspective of an InsurTech CEO on the innovative process.*

---

This article is adapted from the presentation I gave at the 2019 SOA Annual Meeting & Exhibit and includes the polling results from that session. I have also tried to capture some of the comments, unfortunately a write up such as this can never replace actually being at the session.

### CONTEXT

My area of work is selling life insurance online—immediate issue, fully underwritten, competitively priced to target the middle market. This context is important for two reasons:

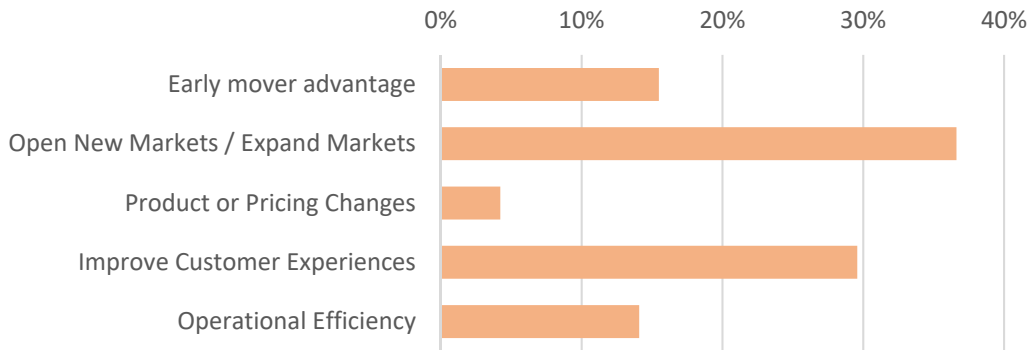
1. There is a saying, "When you are a hammer—everything looks like a nail." I haven't given much consideration as to whether my comments apply to other areas of actuarial practice, so take them with a grain of salt and if you wish to add a comment, please bear this mind.
2. I have seen online insurance given as an example of innovation derived by reversing the paradigm that insurance is bought not sold. In reality it is more complicated than this. The basis of my presentation comes from my belief that innovation comes from multiple steps of how or what you do, rather than a flash of genius.

The presentation was based around four themes:

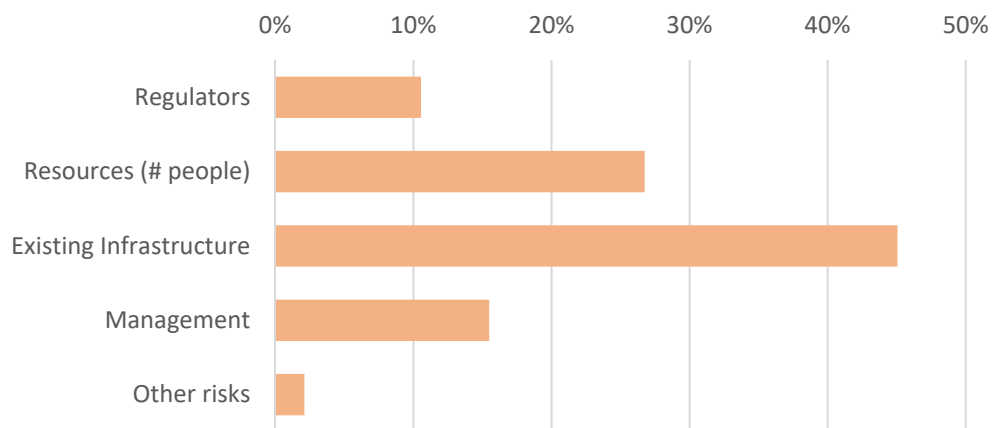
1. Customer focus
2. Value of partnerships
3. Experimentation
4. Obstacles to innovation

Let's start with why innovate and the barriers to innovation—these were two polling questions we used in the presentation:

Why Innovate?



What is the biggest barrier to innovation in your organization?



While the audience involved in the polling is somewhat self-selecting, the results are typical of what I have seen elsewhere.

The most significant driver of innovation from the first poll is the customer—either reaching new customers or improving the experience for existing customers. InsurTech companies are often believed to be more customer focused; I’m not sure that is true. InsurTechs often approach a problem from the perspective of the customer and are not bothered by legacy infrastructure of traditional views. But insurance companies are also capable of taking a customer-centric view; some of the issues resisting change may be due to regulations or broader knowledge of their business.

#### OBSERVATIONS

I don’t believe you can buy innovation or summon it on demand, but you can build it. The biggest factor contributing to

innovation is collaboration. Companies that innovate do so in small steps with diversified teams that work together. They are also not afraid to work with external partners if they don't have the skills in house.

More and more, insurance companies are looking to InsurTech companies for innovation. If you list the pros and cons of working with an InsurTech company, it may look something like this:

<u>Pros</u>	<u>Cons</u>
Focus	Untested
No existing baggage	Small
Specific expertise	

If "untested" and "small" are in your list of cons for a company you are considering, then you probably don't want to innovate. Innovation comes from taking risks and trying something new. Maybe playing it a bit safer and being a fast follower is a better strategy for you.

It has been my observation that innovation comes about in small steps, typically thought of as experiments. Our work with online distribution has not come about from one great epiphany, but rather a series of small steps such as changes in wording, small product tweaks, reordering of the process, etc.

However, that's my perspective. I have come to realize that from the perspective of the insurance company we, the InsurTech, may be the experiment—one experiment of many. As such, insurance companies generally want a collaboration to include sharing the risks associated with innovation.

The other partner that shares risk is obviously the reinsurer. Reinsurers can bring experience from other lines of business, other countries and even other industries. As such they are an essential partner in the introduction of any new innovative program and should be involved early in the process.

This discussion leads me to three related observations:

1. True innovation implicitly involves taking risks
2. True partnerships include risk sharing
3. Right partners matter

## CONCLUSION

It would be nice if we could sum up innovation with a simple statement or two, but it isn't that simple. However, feedback and questions from the session kept going back to the original four themes:

1. Innovation is often driven by customers.
2. Partnerships and collaboration are critical for innovation and this is often achieved through:
3. Experimentation, which may be large or small.
4. Risk of change and reluctance to have skin in the game are critical obstacles to innovation.

Kevin Pledge, FSA, FIA, is the founder and CEO of Acceptiv. He can be contacted at [kevinpledge@acceptiv.com](mailto:kevinpledge@acceptiv.com).