InsurTech 101 ... and How it has Already Changed Your World

By Jing Lang

A year ago, I left my job as an actuary at a well-respected reinsurer to join an InsurTech as a product manager. Drastic change, you say? I thought so, too. I secretly wondered if I effectively flushed my actuarial career down the drain. But seeing how technology has already revolutionized the way we live, I decided to embrace it.

Today, I use renter insurance from Lemonade, which I signed up for in less than five minutes on my phone. I schedule Uber when I need to book a car to the airport, and I use Airbnb when I travel for work and pleasure. While not all of these examples of technology are insurance related, these advances have all increased connectivity and provided better, faster or easier solutions than previous alternatives.

WHAT IS INSURTECH?

"InsurTech" is a portmanteau word from "insurance technology." It refers to the integral role of technology in the insurance ecosystem. FinTech (financial technology), sometimes used interchangeably with InsurTech, encompasses a broader scope of financial services. According to some research, the global InsurTech market is valued at US$532.7 million in 2018 and is expected to reach $1.1 billion by 2023.[1]

InsurTech can include:

- Insurance companies that adopted technology as an integral part of their business operations. For example, Lemonade is a property and casualty insurer that offers renter and home insurance policies. Oscar Health delivers health insurance centered around the patient.
- Tech companies or specific technologies that provide a digital solution to a distinct problem in the insurance ecosystem. For example, Insured Connect offers platform technology that connects carriers, distributors, and policyowners in a single ecosystem and GloveBox provides a single portal for policyowners to manage all their insurance policies (home, auto, life) regardless of carrier.

HOW DOES INSURTECH DIFFER FROM TRADITIONAL INSURANCE COMPANIES?

InsurTech and traditional insurance companies should not be mutually exclusive. If each is at one end of the spectrum, the slider in between is the degree of technology used in its operations. Artificial intelligence, machine learning, wearable devices, online claims processing, and vehicle telematics are just a few aspects of InsurTech.

Traditional insurers—those with a long history and well-established brands—have likely survived waves of industry consolidations. For them, this also means they are working with generations of legacy systems, multiple third-party administrators, and layers of manual adjustments. To fully modernize, it will most likely take too long or cost too much, or both. The easiest thing for them to do is to maintain the status quo.

But to stay relevant and competitive, more and more traditional insurers will need to streamline or automate their back-end services and processes, to raise their game to improve customer experience on the front end. With time, more traditional players will need to think like InsurTech. Its disruption can improve not only customer experience, but the bottom line as well.

WHY IS IT HARDER TO INNOVATE IN THE INSURANCE ECOSYSTEM?

First, insurance is a highly regulated industry, which is important for protecting the public interest. Reinventing or flaunting rules and regulations the way some disruptive technologies have done is not easy in the insurance ecosystem, nor is it desirable. Second, technological innovation requires the ability to act quickly, set trends or adopt them early, and quickly abandon elements that are not working. The insurance industry is slow, so innovation can take too long in the eyes of entrepreneurs and investors. Lastly, a limited overlap between skill set and experience means many serial entrepreneurs who have done well in other industries simply do not know enough about insurance to succeed in this complex industry.

HOW CAN TRADITIONAL INSURERS CATCH UP?

Simple, but not easy. For traditional insurers to catch up and adopt InsurTech, first, they must identify what they want to improve, the more specific the better. Second, they should look at the available solutions on the market and determine the most appropriate one for them. It's best to hire someone who already knows the field. Third, make the investment in InsurTech. This means not just money, but time and people. Develop a plan and adopt InsurTech in stages.

HOW TO KEEP TABS ON THIS INDUSTRY?

Pay attention: you probably know more InsurTech than you think. It's important to be inquisitive, to figure out what problem each InsurTech is attempting to address. As long as the InsurTech is solving its customers' needs and is able to do so profitably and exceeding expectation, the company will flourish, and the entire insurance ecosystem will benefit.

Stay tuned: the SOA is expected to publish a white paper covering the InsurTech landscape in the U.S. and discuss how actuaries will be impacted. ■

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ENDNOTES

1 Business Wire. Dec. 5, 2018. "Global $1.11 Billion InsurTech Market Forecast to 2023—ResearchAndMarkets.com." *https://www.businesswire.com/news/home/20181205005824/en/Global-1.11-Billion-InsurTech-Market-Forecast-2023*