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Insurance Marketing Through AI: Real-World Examples

By Mike Prendes

As professionals, actuaries often hear of the enormous interest by both investors and company executives in the opportunity to leverage artificial intelligence, powered by statistical predictive modeling and machine learning, to transform the way that companies do business, both inside and outside of the financial services sector. As a part of our focus on Marketing Analytics, the SOA Marketing and Distribution Section shall provide insight into this exciting and emerging space for actuarial and insurance professionals.

This "interest" is not just hearsay. Last year, 1,356 AI-related startups in the U.S. raised a record $18.5 billion, according to the National Venture Capital Association.[1] A recent study by Research and Markets placed the total value globally of the Big Data Analytics market at $37.34 billion,[2] with North America accounting for 35 percent of the share of the overall market. While the buzzwords of this sector may be fluid over time, the focus does not appear to have changed: **companies are looking to optimize their business model by leveraging more information about their target customers.**

As the concepts and capabilities of this practice morph over time, it is paramount for professionals in the insurance sector, and actuaries in particular, to understand how artificial intelligence may be applied in their own business. Below, we'll discuss several such emerging examples within the financial services sector.

SERVICE RECOMMENDATIONS FOR HEALTH CARE

Common users of Netflix, Hulu, or Amazon reading this article may likely be familiar with these companies providing recommendations for new content or items to purchase. It is fairly common for these platforms within retail and media to use one's consumption history, other sources of information about the user, and models based on similar behavior of other users to provide such recommendations. The end goal is to drive more engagement and use of the platform, or higher sales of a product, leading to more revenue per user.

But, how would this fit in the insurance world, and what would be the proper objectives for our industry? One such example comes in improving health plan costs and performance.

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In 2017, U.S. technology company Accolade released its intelligence platform, Maya, for the group health insurance sector. According to their website,[3] Maya leverages a combination of artificial intelligence capabilities, including natural language processing and machine learning, to connect data across a broad range of medical data and customer interactions. The Maya engine then uses this information to develop insights and actionable recommendations for individual members within a group health plan.

An objective in this instance is to improve care through making these insights and recommendations available to clinicians and the member, such as escalating a high-risk member to a nurse care manager to prevent an adverse medical event. Not only can these types of capabilities create improved cost savings but also a much stronger experience for the health care user from improved quality of care. As per Accolade's website, in one case study for a large university health plan, the platform demonstrated an 11 percent reduction in hospital days leading to substantial savings in annual costs for the plan. The platform also reported 97 percent user satisfaction for the group.

CHATBOTS—FROM CUSTOMER SERVICE TO DIRECT MARKETING

However, focusing beyond customer satisfaction and service decision making of consumers, AI technologies also look to impact how consumers interact with companies at various points of the user journey. How might this look in the area of insurance?

For those familiar with online banking, it is no secret that AI is already having an impact on the customer experience through the proliferation of chatbots used for initial customer interactions. Defined better as a computer program designed to simulate conversation with human users using natural language processing, a chatbot enables scale and has primarily seen use in addressing upfront customer service questions related to questions around transactional items. Today, several banking institutions are using such bots to field simpler user questions such as how to view an account, transfer funds, or pay bills.

In the insurance sector, chatbots such as GEICO's Kate and Allstate's ABIE, have been introduced over recent years to assist users with varied aspects of customer service. Geico's Kate, as per GEICO's[4] website, helps customers obtain important but commonly requested information such as insurance cards. Allstate's ABIE, originally an internal tool used by Allstate agents to assist in the quoting and issuance of business insurance, is now available externally for small business owners to use for questions related to their business insurance needs.[5]

In addition to the customer service use-case, however, we are also seeing more direct involvement of such technologies in the way of the insurance sales cycle itself. In the past, online sales have largely been driven by a mix of self-service applications and live, human customer support. However, in 2017 Next Insurance, an InsurTech carrier focused in the business insurance space, launched its own chatbot to market small business insurance to targeted groups such as physical trainers and photographers. The bot, developed through a partnership with developer SmallTalk,[6] used Facebook messenger to communicate with prospective buyers and possessed functionality for quoting and purchasing of coverages.

In 2018, an InsurTech known as LeO launched its chatbot designed to serve as a virtual assistant for independent insurance brokerages. LeO's platform used natural language processing algorithms specifically designed for the insurance industry and included functionality for scheduling calls and meetings, collecting sales leads, and answering customer questions.

CUSTOMER PERCEPTION OF AI AND THE FUTURE WITHIN INSURANCE

A common question in all of these developments is how consumers feel about purchasing financial products, like insurance, through AI. After all, it is one thing to rent a movie or pick a brand of paper towels, it is completely another thing to determine how much life insurance one needs, or whether to refinance one's student loans.

An experimental study in 2019[7] of outbound sales calls by an Asian financial services company, conducted by researchers at Temple's Fox School of Business, Sichuan University, and Fudan University, indicated that disclosing the identity of the caller as being a chatbot reduced the purchase rate by 79.7 percent. Interestingly enough, the study also indicated that the chatbots, when not disclosed at the start of the call, performed well with a purchase rate nearly five times higher than "below average" human salespeople and nearly as high as "proficient" salespeople, defined as the top 20 percent of sales personnel. These results indicate both opportunity and challenge for the expansion of chatbots—customer perception of the chatbot often is at odds with the effectiveness of the technology in practice.

This is a viewpoint seemingly echoed by the industry as well. As from a 2018 survey by Accenture,[8] 70 percent of insurance executives will seek to gain customer trust and confidence by being transparent in their AI-based decisions and actions.

Between these use-cases already in practice today, and the continued investment across the sector, many experts agree we shall observe more utilization of AI within the marketing and user experience of the insurance business models. However, the use-cases that materialize within the insurance sector may not be what everyone expects from other spaces such as retail. With the need to foster "trust" in the end consumer, as well as the complexity of regulation and product design, we may see AI used to enhance the activities of skilled staff and allow such teams to prioritize their focus and activities, rather than replace human professionals. Perhaps rather than picturing C3PO from Star Wars as your insurance agent, the correct analogy may be Iron Man from The Avengers—AI platforms would seek to empower the trained marketing professional to do their work better instead of replacing the business model altogether. ■

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ENDNOTES

1 *https://venturebeat.com/2020/01/14/ai-startups-raised-18-5-billion-in-2019-setting-new-funding-record/*

2 *https://karmaimpact.com/investors-poured-record-18-5-bln-into-ai-firms-as-tech-transforms-society/*

3 *https://d10j0m6hqftivr.cloudfront.net/Accolade-Maya-One-Sheet-May2018-.pdf*

4 *https://www.geico.com/web-and-mobile/mobile-apps/virtual-assistant/*

5 *https://www.allstatenewsroom.com/news/just-ask-abie-allstate-business-insurance-shares-an-innovative-tool-to-help-small-business-owners-consumers-with-top-of-mind-questions/*

6 *https://www.nextinsurance.com/blog/first-ever-chatbot-small-business-insurance-said-insurance-cant-easy/*

7 *https://pubsonline.informs.org/doi/pdf/10.1287/mksc.2019.1192*

8 *https://www.accenture.com/us-en/insights/insurance/insurance-technology-vision-2018*

Marketing and Distribution: Who Sells and Distributes

By Nick Ortner and Brendan Costello, edited by Mike Prendes

Like actuarial science, insurance sales distribution can occasionally be a complicated collection of misunderstood acronyms and arcane jargon. This situation may be exacerbated by the evolving and sometimes idiosyncratic nature of distribution and the various insurance marketing organizations, where no established standards for categorizing such organizations exists, descriptions may fall in and out of favor and be used interchangeably, and distribution models may include multiple layers and roles.

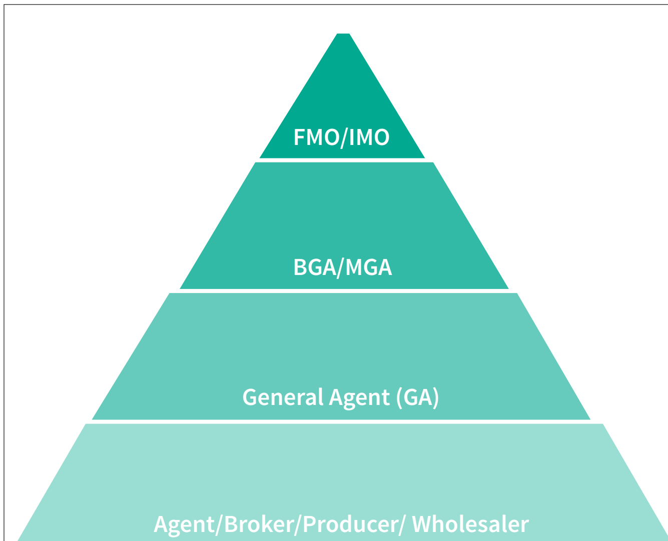
This article is the first in a series of entries supporting the theme "Understanding Distribution" that we expect to make into the SOA Marketing and Distribution Section glossary, where we will attempt to provide a framework for the distribution landscape and, at the same time, define and clarify some of the terms that may be the most misunderstood or confusing. While such definitions may vary slightly across practice areas, we attempt to offer definitions that may generally hold and point you in the right direction. We view this glossary as a work in progress and welcome feedback on key items we may have missed or defined incompletely.

Over the course of the next several newsletters, we anticipate describing terms frequently used to describe who sells and distributes insurance products, how those sellers and distributors are compensated and supported, and what the relevant regulatory elements may include. We focus here on the distribution hierarchy and the levels of those who sell and distribute, which may include the customer-facing sales expert and the management and framework supporting that expert.

DISTRIBUTION HIERARCHY

Among the common terms defined below related to who sells and distributes insurance products are several different insurance marketing organizations. While no firm standards really exist to categorize these organizations, Figure 1 may illustrate the typical hierarchy for such organizations, and we present this as a baseline for the glossary of common terms that follow.

Figure 1
Baseline for Glossary of Distribution Hierarchy Terms



Sales and distribution includes the customer-facing expert and the supporting management and framework.

GLOSSARY OF DISTRIBUTION HIERARCHY TERMS

Field Marketing Organization (FMO)/Independent Marketing Organization (IMO)

Distribution management organizations tend to provide services and support similar to what carriers provide to captive agents. These organizations are typically at the top of the distribution hierarchy and tend to be licensed to sell products in most or all states. Such organizations may train and support hundreds or thousands of agents and work with multiple insurers across the country. Use of "FMO" and "IMO" tends to be interchangeable, with FMOs often used for health insurance, while IMO may be typically used for life insurance.

General Agent (GA), Brokerage General Agent (BGA), and Managing General Agent (MGA)

A GA represents one or many carriers and markets those carriers' products to customer-facing or "retail" distributors. GAs will typically have specific expertise in a certain product line or target market and a network of strong relationships with retail distributors. The GA may also provide carriers otherwise unavailable access to end buyers, along with operational oversight of such placements.

A BGA is a special GA who markets to brokerages, rather than agents. A BGA is often larger than a GA, and GAs may be affiliated through a larger BGA entity. Both types of entities are normally independent of the agent or broker.

GAs and BGAs may provide exposure and supporting expertise to retail agents and brokers to market products and open communication channels with carriers. BGAs and GAs may also support agents by providing administrative and customer support, licensing and appointing agents/brokers on behalf of a carrier, and creating selling agreements with those insurers.

Another special type of GA is an MGA, who is vested with underwriting authority by the carrier and may share in the risk of the product. Such arrangements help align the carrier's and MGA's incentives to write sustainably profitable business, while the MGA's autonomy in underwriting may increase its attraction for partnering agents or brokers.

Agent/Producer vs Broker

Agents and brokers act as intermediaries between an insurance buyer and the insurance company. The terms "agency" and "brokerage" may also be extended to business entities (proprietorships, LLCs, or corporations) made up of one or many agents or brokers. Both agents and brokers have an obligation to help the buyer obtain suitable coverage for their needs and each must have and maintain a state license to distribute the type of insurance sold. As licensed distributors, both must operate in a manner consistent with regulations enforced by insurance departments. As noted earlier, customer-facing agents and brokers may commonly also be referred to as "retail agents/brokers."

The term "agent" means a salesperson who represents the insurance company. In some states, the term "producer" may be used interchangeably. An agent/producer may have the authority to bind a prospective client to a policy whereas a broker cannot.

On the other hand, a "broker" is a salesperson that represents the insurance buyer in selecting an insurance product. Once a broker identifies a product for a buyer, an agent/producer completes the transaction on behalf of the carrier.

Independent vs Career/Captive Agents

The term "independent agent" describes an agent who is authorized, or "appointed," to sell products from different insurance carriers. Many companies distribute products primarily through independent agents. An independent agency will function like any other small business and be responsible for its own overhead costs and other expenses.

Some large insurance companies may have "career agents" or "captive agents" who are required to exclusively sell that company's products. A key tradeoff for this restriction is that career or captive agents tend to receive substantially greater support from their carrier in the form of shared support staff, office space, advertising, marketing materials, training, and other support.

Wholesaler vs Retail Distributors

Like wholesaling in other industries, the role of the insurance wholesaler is to place risks sourced by retail agents or brokers and serve as an intermediary between those individuals and either one or several insurance carriers.

Wholesalers may have specialized expertise in specific and unique coverages or relationship influence with carriers to place such risks more easily. This expertise and influence can be especially important for certain markets, such as coverages for very small employers or situations in which coverage is customized to a specific buyer.

GLOSSARY OF OTHER COMMON TERMS

Call Center

Centralized office or group of remote personnel who are trained to transmit or receive typically high volumes of inquiries by telephone. In the context of insurance distribution and sales, call center personnel are licensed to sell products and trained to service those products. Call centers tend to be independent of carriers, selling and supporting the products of multiple insurers. Call centers are increasingly used to engage clients and sell directly to customers.

Channel Conflict

The tension that may develop or exist between a carrier's distribution channels (e.g., brokers, captive/career agents, and direct to consumer). Each channel may seek more favorable or equitable treatment from the insurer in areas such as compensation; access to products or services; or marketing, administrative, and other investments that may support distribution.

Direct-to-Consumer (also referred to as DTC or D2C)

Distribution method that carriers use to interact directly with clients, bypassing or minimizing the involvement of an agent/broker and reducing insurer expenses. This method may be used most often for simple products that consumers may understand (e.g., term life or dental coverage) without requiring explanation by an expert, allowing facilitation of the sales process through web-based platforms. Call center sales, direct mail, or other media advertising may also be utilized for direct-to-consumer campaigns.

In closing, we look forward to your feedback on this and upcoming installments as we construct an SOA Marketing and Distribution glossary that hopefully serves to help uncomplicate and clarify some of the acronyms and terms you may regularly encounter. ■

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SECTION COMMUNITY

Watch our latest video to learn how the marketing and distribution of insurance products is and will be impacted by the COVID-19 pandemic. Participants Brendan Costello, Bruce Fuller, Jing Lang, Manisha Dias, Nick Ortner, Mike Prendes and David Schraub describe the transformation of insurance product sales in light of the pandemic.

Check out our new section council video, featuring news on the 2020 themes driving our strategy.

PROFESSIONAL DEVELOPMENT

Listen to our latest podcast, "Understanding Product Management and Applications for Insurance Companies," jointly produced by the Marketing and Distribution, and Product Development Sections. In this podcast, Mike Prendes, FSA, MAAA, and Todd Birzer discuss cross-industry perspectives on the definition of product management and what it entails, as well as keys to a consumer-centric approach for the product managers of today.

Get access to more info at ***SOA.org/sections/marketing-distribution***