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Letter From the Editor: Innovation's Tipping Point—When Clients Are Satisfied With "Good Enough"

By Ronald Poon-Affat

Over the past two decades, innovation has become rife with examples of both runaway successes and heed-worthy cautionary tales. One of most intriguing of these tales was told in a book I can highly recommend: *Bad Blood: The Theranos Story, From Boom to Bust*, by Pulitzer Prize-winning reporter John Carreyrou. This gripping page turner, which won the 2018 Financial Times and McKinsey Business Book of the Year Award, traces the swift rise and even swifter fall of Theranos, the high-flying blood test startup founded in 2003 by 19-year old Stanford dropout Elizabeth Holmes.

Theranos had promised to be able to run hundreds of common blood tests with just a few drops of blood. On the strength of this promise, it swiftly raised more than $700 million in investment capital and by 2014 had a valuation of $9 billion. Much of this was due to Holmes' ability not just to communicate the excitement of her vision, but also to play upon the weaknesses of human psychology. She successfully created a Pied Piper effect among sophisticated investors who really should have known better. Many excitedly invested in her vision without undertaking any due diligence, and even moved to discredit any who dared blow a whistle.

However, once the *Wall Street Journal* reported that Theranos had vastly overstated its claims and capabilities, and that its practices could be putting lives at risk, the company crashed quickly.

Maybe one day a scientist will deliver on Holmes' disruptive vision of simplified blood tests. But right now, the main challenge of any simplified medical tests is that doctors and patients will not be likely to try an innovative technology such as Theranos' until it can be proven without a doubt to be least as good as current blood-draw practices.

WHEN DISRUPTION OCCURS

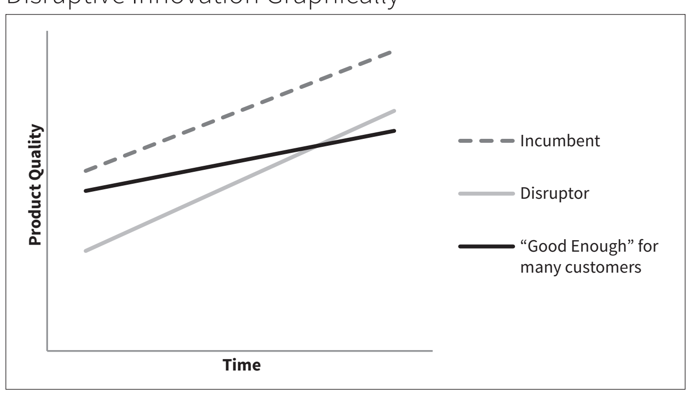
I had a "eureka" moment when I read Louis Rossouw's article in the July 2017 issue of *Reinsurance News*. In his article "Disruptive Innovation–Coming to Insurance Near You," Rossouw, head of research and analytics for Gen Re's Cape Town, South Africa office, suggested that a nimble entrant into an incumbent business typically succeeds by offering a cheaper or even inferior product and/or service that targets a mature, developed segment.

Rossouw argued that as time goes by, the new product or service may improve its quality while keeping costs low. Once it becomes a "good enough" offering that is both cheaper and more convenient, it becomes disruptive and begins to lure customers from incumbents.

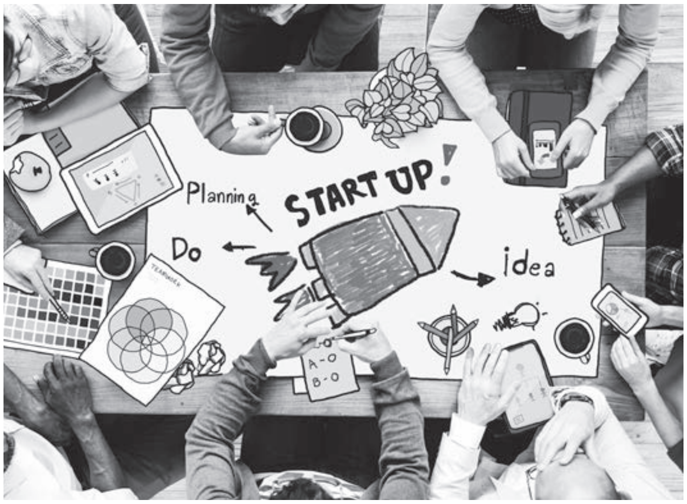
To me, this is the tipping point—the point at which a series of small changes or incidents becomes significant enough to cause a larger, more important change. This is when true market disruption occurs.

To illustrate this point, Rossouw put forth the graph in Figure 1 (bound to be a hit with actuaries). The graph illustrates a model of disruptive innovation that was first developed by Clayton M. Christensen and two of his colleagues in a 2015 *Harvard Business Review* article. The graph illustrates the notion that a disruptor launches an inferior product appealing to segments of the market overlooked by the incumbent. As the inferior product improves to a "good enough" point for customers to start using it, the incumbent provider faces potentially losing significant market share to the disruptor.

Figure 1
Disruptive Innovation Graphically



Think back to early first encounters with disruptors which are now incumbents themselves: logging onto *Amazon.com* back when it only sold books; setting up your first digital running watch; booking an Uber (oh, those long delays), clicking into



Netflix's early and tiny selection of old movies; or reserving an Airbnb (I still have not been able to book a place I like). I'm sure you can think of even more examples. But, as the 1960s Virginia Slims ad quipped, "We've come a long way, baby." All of these disruptive products and services provided an alternative that might have been a good bit less than optimal, but people were happy to settle for an inferior product that gave some of what was wanted. Over time, and with the goodwill of patient and curious early adopters, these quirky products and services developed to the extent that they became incumbents themselves.

THINKING OUT OF THE BOX

Conventional wisdom holds that 9 of 10 new startups fail, and for InsurTechs, statistics are even more depressing. To date, InsurTechs have not successfully disrupted traditional insurance markets. Could they be offering the wrong products? A more interesting question might be: what kinds of products should InsurTechs sell? Conventional wisdom also holds that the products that do well are the products customers want.

I was very encouraged to read about an entirely new product aimed at adventure lovers. The product, short-duration event-based life insurance, will insure these individuals' lives when they need it the most.

It is now possible to purchase such policies. The cover's duration, which is priced affordably, ranges from 24 hours to 30 days, and enables people to pursue their passions while alleviating the fear that exists during times when they are inherently more at risk. Think about what jitters you might have while trekking up Mount Kilimanjaro or running your first marathon; as most policies exclude coverage for extreme sports, part of planning for these adventures could include signing up for this "just in time" insurance product.

I have heard several life actuaries voice concerns about 24-hour insurance products: they fear anti-selection and a shift of the paradigm, from what is inherently a deterministic risk (mortality) to a stochastic one. However, the possibility of buying short term insurance might mitigate any concerns about the insurance company's long-term viability.

CONCLUSION: INSANITY IS REPEATING THE SAME MISTAKES AND EXPECTING DIFFERENT RESULTS

Insurtechs have also not been able to make a real dent in the traditional insurance market. That being said, one standout success story is a product that allows clients to nominate a charity to which the insurer will donate if underwriting profits are favorable. The link between purchasing insurance and contributing to a social good is designed to create a "feel-good" experience.

Products such as the "just in time" cover and/or links to charity might seem inferior to a sophisticated Universal Life product that includes longterm care and critical illness riders. However, if the product meets a customer need, it might just be good enough to achieve disruption. ■

The views expressed are solely his own and do not reflect the views of either his employer or the Society of Actuaries.

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