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Digital Distribution: An interview with Tony Laudato, VP, Partnership Solutions for Hannover Re US

By Sevilla Dees

Tony Laudato, FSA, MAAA, is vice president—Marketing for Hannover Life Reassurance Company of America.

Tony joined the Hannover Re Group in July 2012 and is currently leading the Partnership Solutions Group that supports insurance carriers' products, web, mobile and digital strategies that are focused on the demands of today's consumers and reaching new markets. In addition to working with carriers, the specialized team works with emerging, high-tech distribution companies and InsurTech players, vetting their technology and helping them gain access to insurers that want to modernize the life insurance sales process, products, risk assessment, client engagement and back-end analytics.

With almost 25 years in the insurance industry, Tony has a varied background in product development, pricing, risk management, distribution, consulting, and strategic planning.

Prior to joining Hannover Re Group, Tony served Chief Actuary for The Newport Group and Chief Product and Innovation Officer for Transamerica's Clark Consulting business. His additional industry experience includes roles such as lead pricing actuary for Lincoln Financial Group's MoneyGuard (Life/LTC/Annuity Hybrid) product and Chief Actuary of Lincoln Financial's Executive Benefits business.

Tony graduated from the University of Hartford with a Bachelor of Science in Applied Mathematics and later taught Applied Risk Theory as part of the university's actuarial science program. He is a fellow of the Society of Actuaries (FSA) as well as a member of the American Academy of Actuaries (MAAA).

SD: Digital distribution is gaining traction in the U.S. life market. What are some examples of digital distribution in practice and how would you characterize them?

TL: "Digital distribution" is often conceived of too narrowly—something akin to "we'll market via social media," with little thought behind it.

But in reality the use of digital has multiple applications right through the whole sales process. This can be broken down into what I would characterize as three main areas.

Firstly, there is the question of funnelling new customers into the sales process—getting people aware, interested and to the door. The insurance industry has a real opportunity here to supplement its traditional reliance on agents and intermediaries with direct-to-customer marketing—whether that's through paid online ads, targeted social media outreach, or any other manner of digital and online engagement.

However rather than this being a one-off initiative, long-term success depends on making a virtuous cycle out of it. Any company that moves into digital sales and marketing in this way will find themselves with an influx of new data—this data then needs to be stored, analyzed and used in a sophisticated way to inform future marketing, in terms of who to target, how and when. This is an ongoing process and firms will need to put some effort in to create this ability over time.

Secondly there's the sales process itself—the insurance industry is still fairly archaic in that this can often involve reams of paperwork stuffed to the brim with incomprehensible or irrelevant detail (from the customer's point of view). Embracing digital distribution here means giving new customers the ability to sign up to a policy in around five minutes maximum, via a

simple, slick and intuitive mobile app that doesn't overload the user with information.

Making this process flexible is crucial—modern consumers frequently switch between devices. It needs to be a multi-channel affair, with the ability for the customer to hop between texts, app, desktop and so on. A single solution designed for one channel (which could become outmoded in time) isn't enough.

Thirdly—and most often overlooked—is the role digital can play in engaging, retaining and upselling to existing customers, so those who are already through the door. One example of this is what we call "'Reciprocal Intelligence," whereby instead of the data flow being entirely one way (from customer to company), the insurer gives something back.

For instance, if a consumer is using wearable apps to monitor their fitness levels for a policy, the insurer should provide information back to them about how they're doing—e.g., if their average resting heart rate has improved, or about the level of subsequent health risk that comes with certain lifestyles.

The possibilities for better and more regular engagement with customers via digital are wide ranging.

SD: What would you say are some common misconceptions of digital distribution?

TL: The main misconception is that it's all about *replacing* traditional marketing and sales approaches in insurance, with regard to the same audience of potential customers. In reality, it's an opportunity to *supplement* the more traditional approaches and start to tap into an entirely new set of customers.

The more traditional, agency-based model still works well at engaging and selling to the type of customer it has always favored—wealthier, asset-rich households. However, this pool of revenue is aging and dwindling, and younger, less financially secure generations are far less inclined to purchase insurance through traditional channels. It is in tapping this relatively untapped pool of customers—and thus growing the overall pool of potential revenues—that digital distribution will come into its own.

Another misconception is that digital distribution means direct-to-consumer. It's far broader than this. It relates to digitizing the whole process end-to-end—from improving the sales process through to identifying target audiences—whether that involves a direct-to-consumer marketing element or not.

SD: From what you've seen in the market, do carriers' digital distribution initiatives introduce channel conflict?

TL: Not nearly as much as people within the industry often assume at first.

While it can cause some problems *internally* within an organization, the fact that digital strategies are more direct, and that they by-and-large target a different pool of customers to traditional approaches, makes for minimal natural overlap, significantly reducing the problem.

A few years ago this was a dominating fear, and the main reason behind a lot of companies' reluctance to adopt direct, digital models. But the fear was largely based on the misconception that both strategies would be targeting the same audience. This isn't the case.

On the contrary, embracing the digital side can make the traditional component more efficient and effective. The data and insights generated on the digital side can be used to inform and improve marketing and outreach on the traditional side in a

way that was too prohibitively expensive before. There's more synergy than conflict.

SD: From your perspective, what are barriers to the success of digital distribution?

TL: There are two main barriers. First is the question of technology and infrastructure, of making the investment required to ensure the company has the means to execute these quite unfamiliar, data-heavy digital strategies—whether that be through replacing or upgrading in-house systems, or through partnering with third party technology firms in some capacity.

The second is a bit trickier, and relates to the question of talent and company culture. Fully embracing digital means processing large amounts of data, and then knowing how to use it to maximum effect. This will require hiring people who are tech-savvy and know how to navigate, for instance, social media, or data analytics. The skills and aptitudes involved are quite alien to many insurance firms and it will involve hiring new types of employees at all levels. Any insurance firm that wants to do it entirely in-house will have to, to some extent, become a tech firm—and that's a big cultural leap. There's also the inconvenient fact that insurance is not exactly the first sector that younger tech wizards think of when deciding on a career—firms will need to think about how to make themselves appealing to this kind of talent, and bridge the gap.

SD: There are certainly marketing, technology and process changes that come along with digital distribution, but how does digital distribution affect the carriers' risk profile?

TL: The main hazard from a risk perspective is the loss of the human judgement element when bringing new customers onboard. The digital approach is about automation and volume—what comes through the door is a set of data points. There isn't an agent talking to the customer, getting to know them in a more rounded way.

This is far from an insurmountable problem, but it does introduce the potential for new risks coming on board to not be screened as well as they would be via the traditional approach. It means learning new ways to screen for risks. The main things an insurer needs to understand about new customers are their financial status, their health, and whether they truly need the product in question. This has to be done differently to simply relying on the expert judgement of agents—any digital onboarding process, for instance, needs to incorporate a way of both capturing and assessing this information in a reliable fashion.

This further underlines the point that digital and traditional should be seen as complementary rather than mutually exclusive—ultimately a human element will always be needed to address this type of risk. The key is finding a way to integrate the two together, so that the digital side isn't just a dumb robot that lets anything through, and to ensure there's an aspect of human intelligence and judgement built in.

SD: How are insurers collaborating with emerging digital distribution companies?

TL: While a few brave souls are going it alone and trying to develop a capability wholesale in-house, the majority are looking for partnerships.

These partnerships broadly fall into two categories. Firstly, there are companies that want to build their own digital capabilities and channels but recognize they don't know where to start, and so they bring in a tech firm to advise and help them to do so.

Secondly, there are firms that don't want to build their own full-blown digital offering and so essentially partner with a tech firm in order to outsource the function. In these cases, the insurtech firm gets 'bolted on' to the insurance company, bringing its own talent and essentially acting as that company's digital department.

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The relationship between traditional insurers and smaller insurtech outfits has changed considerably over the last couple of years. Whereas many insurers initially thought they'd be competing directly against a new generation of disruptive fintech startups, a far more collaborative dynamic has now emerged. This makes a lot of sense—the two sectors bring very different-yet-complementary skills and capabilities to the table, and have advantages with different markets and consumer audiences.

SD: How can carriers leverage the technology tools of digital distribution to add more value to their customers and increase engagement?

TL: The aforementioned idea of "Reciprocal Intelligence" is a good example on this front. As well as providing the core insurance service, insurers could provide regular updates to customers

regarding their own data and information—for instance, a message could inform a customer that they've reduced their average heart rate by X over Y period, or that their exercise levels have dipped by Z amount.

This could be tied to customer incentives, function as a health warning, or could even connect to policy design through, for instance, targets to reduce premiums. It would allow insurers to engage with their customers on a regular and meaningful basis, in a non-sales-oriented fashion, as opposed to the far more remote, irregular and formal traditional relationship. This in turn would create far more opportunities for firms to educate and inform customers of the benefits of more comprehensive policies, as well as for more targeted upselling.

More generally, partnering with an insurtech firm of some variety is a good first step towards adding value via digital means—they are, generally, the ones that know the terrain best at present.

SD: What core competencies and talent do carriers need to launch successful digital initiatives?

TL: As mentioned, there's a real need to bring technology-orientated talent onboard to focus on systems and development—software engineers, architects, data analysts and so on. The digital marketing side will also need an injection of talent that understands the modern world of social media and apps and so forth. This is a real challenge as traditional insurance companies just don't have this sort of talent in-house at present, nor do they have a history of courting it. This is partly why so many are turning to partnerships as a shorter-term way in.

SD: What are the key things to monitor for once you have launched a digital distribution channel?

TL: This comes back to the question of how to effectively screen risk for new customers when the model is digital and automated, and there isn't a human agent involved to make the same degree of judgement calls. Firms need to develop ways of keeping tabs on who is coming in via the sales process, and ways of ensuring the influx is in line with the model and pricing of the product in question.

This is unlikely to be a one-off process and there will be periods of trial and error—a lot of the time the new customer set will fail to align precisely with expectations. Constant reevaluation and analysis is required.

SD: Can companies survive without doing digital distribution?

TL: "Survive" is a tricky word in this context.

In the short-term, yes, they can *survive*. The more traditional revenue pool, while dwindling and growing ever-more competitive, has some life in it yet.

However, to not just survive but also *thrive*, companies at the very least need to understand their customers better, and be more up to speed with modern consumer behavior. This doesn't necessarily mean they have to go down the direct-to-customer route, but adaption is needed to unlock the efficiencies that digital can enable, and to bring approaches in line with expectations consumers now have regarding the purchasing of services. Relying on traditional messages and systems limits the potential market right now, and will eventually be obsolete entirely—firms will be outcompeted if nothing else.

Digital distribution is itself just one aspect of the ongoing modernization of the insurance industry, and in the long run it's inevitable—those that don't adapt will be left behind. It's almost 2020, and consumers want things quickly, conveniently, and on their mobile. This applies to insurance as much as it does to entertainment, grocery shopping or banking. ■

Sevilla Dees, MBA, is corporate marketing and communications manager with Hannover Re. She can be reached at *Sevilla.dees@hlramerica.com*.