Willis Towers Watson

The future of financial services:

how work is impacted by the connection and convergence of people and technology

Using technology to help rebuild trustworthiness in the insurance industry

Jagdev Kenth, Director of Risk & Regulatory Strategy, Financial Institutions Group and Grace Watts, Executive, Global Industries, WillisTowers Watson

> ### Insurance
> 1. Business that involves selling people promises to pay later that are never fulfilled
> 2. A way to get free money
>
> Source: the crowdsourced Urban Dictionary

> ### Insurance company
> 1. An affiliation of pirate-gamblers who accept bets called premiums. The dollar amounts of the premiums are non-negotiable but the amounts of the claim settlements, should the company lose the bet, are rarely delivered without argument.
> 2. Evil multi-billion dollar corporations that earn a profit from your premiums, and then find any loophole they can so they can refuse to live up to their responsibility in order to save money.
>
> Source: the crowdsourced Urban Dictionary

The two most popular definitions of 'insurance[1]' and 'insurance company[2]' on the crowdsourced Urban Dictionary are symptomatic of the pervasive lack of trust within the modern insurance sector.

Perhaps unsurprisingly, the Urban Dictionary definition of 'insurance fraud' is:

"A person in need of cash. They will deliberately chuck themselves in front of vehicles just to get compensation. They will use some of their money from the insurance company to pay the health bills to recover and then the rest is pure profit[3]".

There is no reference to insurance fraud being improper or illegal. It seems we are justified in exaggerating or falsifying claims to get some of this money back – it was taken from us unfairly, after all.

The distrust cycle

So, have the actions of insurance companies eroded trust and pushed consumers towards the notion that defrauding insurance companies is socially and morally acceptable? Or have dishonest consumers who believe fraud is harmless caused insurance companies to question or challenge claims?

According to the FBI, insurance fraud actually costs the average US family between US$400 and US$700 per year in the form of increased premiums[4]. So for most this 'free money' remains elusive. It's not just individuals and families bearing the brunt of these actions, but societies too.

In Europe fraud is estimated to account for 10% of all claims[5], in Australia it costs the industry US$2 billion per year and in South Africa, US$390 million[6]. Fraudulent and unfair health insurance claims alone cost the South Korean government US$500 million in 2016[7].

However, the insurance sector is not above criticism. After Hurricane Katrina, the industry faced a raft of negative publicity for denying claims to policyholders at a time of great human suffering. Elsewhere, a report found that UK car insurance companies were making £1 billion per year by hiding price rises from customers at renewal[8]. Earlier this year insurers received more negative attention when some rejected claims following a London terrorist attack that killed seven and shut down local businesses for 11 days. One restaurant was faced with £50,000 in losses despite having business interruption cover; it excluded terrorism and the claim was not paid ex gratia[9].

And so distrust breeds misbehaviour, which fuels more distrust. Indeed according to one behavioural economist, "If you tried to create a system to bring out the worst in humans, it would look a lot like the insurance of today[10]".

---

[1] www.urbandictionary.com/define.php?term=insurance
[2] www.urbandictionary.com/define.php?term=insurance+company
[3] www.urbandictionary.com/define.php?term=insurance%20fraud
[4] www.fbi.gov/stats-services/publications/insurance-fraud
[5] www.insuranceeurope.eu/fraud
[6] www.ssp-worldwide.com/fraud
[7] *Insurance Business*, 'Insurance fraud to cost South Korean government over US$500m', December 2016

Why do we even need trust?

Trust – our belief in the reliability, truth or ability of something or someone – is integral to daily life. We trust drivers of public transport to get us to work safely, we trust our favourite lunch spot to serve us edible food and we are trusted by our employer to carry out our duties in a responsible and legal manner. These simple, everyday activities become laborious in low trust environments.

> “The inability of societies to develop effective, low-cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment in the Third World”
>
> Douglass North, *Institutions, Institutional Change and Economic Performance*

According to the economist Stephen Knack, “If you take a broad enough definition of trust, then it would explain basically all the difference between the per capita income of the United States and Somalia”[11]. For Knack trust has wide-ranging economic and social impacts: from reducing transaction costs to strengthening democratic governance. When trust is present, we can enforce contracts quickly and cheaply[12].

In the insurance industry the abundance of protocols to tackle distrust can add layers of complication and cost, both for the insurer and the insured. Arguably, like certain societies around the world, the industry is being hampered by such complicated processes.

[8] *The Telegraph*, ‘Car insurance companies making £1 billion a year by keeping customers in the dark’, June 2015
[9] *Insurance Business*, ‘Restaurant claim fails after London Bridge terrorist attack’, June 2017
[10] www.lemonade.com/blog/the-cost-of-our-dishonesty/
[11] *Forbes*, ‘The Economics of Trust’, July 2010
[12] www.oecd.org/innovation/research/1825662.pdf

A trust revolution?

The sharing economy has generated much thought on trust. In its entirety, the industry will be worth US$335 billion in 2025, up from US$14 billion in 2014[13]. In today's world people open their homes to strangers (Airbnb), order a ride with an unseen driver (Uber) and entrust their pets to someone they met online (BorrowMyDoggy).

All of this relies, in some part, on trust. Indeed Amsterdam-based Peerby relies entirely on trust; users put household items on loan and borrow the things they need from people in their neighbourhood without any financial transaction.

This business model is not restricted to tangible assets: it's also being used in insurance. German start-up Friendsurance uses the sharing economy approach to unite groups of similar policyholders who can gain cashback on their premiums if no one in the group makes a claim. Guevara encourages friends and family to join mutual pools. Members trust each other to mitigate risk and not make fraudulent claims, which would decrease the potential group rewards. Any money left at the end of the policy year is used to discount their renewal.

Lemonade is a start-up carrier that also functions as a public benefit corporation. Its mission is to "use the power of technology to transform insurance from a necessary evil to a social good" and its Chief Behavioural Officer Dan Ariely was appointed to "make Lemonade trusting and trustworthy[14]".

Lemonade has disrupted the traditional insurer model in two fundamental ways in a bid to gain its customers' trust. Firstly, it has declared it will only ever take 20% of premiums as a flat fee; it does not make money from denying claims.

Secondly, when policyholders sign up to Lemonade they are asked to nominate a charity to benefit from its Giveback programme. Each year the company donates any underwriting profit to these nominated causes. According to Ariely this is not just about philanthropy but good business as it "neutralizes the conflict of interest at the heart of the insurance industry, lowering fraud, costs and hassle all around[15]". It functions as a mechanism to foster trust between Lemonade and its customers, because if they try to claim 'free money' it will be at the expense of a charity they care about, not Lemonade's bottom line.

Or is it?

However this idea that trust is integral to business is not a 21st century concept introduced by the sharing economy or technology disruptors. And fundamentally, the concept of an insurance company *wanting* to pay claims is not a new one.

The motto of Lloyd's of London, the world's largest and oldest insurance marketplace, is *fidentia,* meaning 'confidence'. The underlying legal principle of London insurance is 'utmost good faith', namely all insurance contracts rely on full and complete honesty.

In 1906, a major earthquake hit the American city of San Francisco. The quake and its ensuing fires ravaged the city, killed thousands of people and left half of the population homeless.

As the government was not responsible for financing relief, the insurance industry bore the cost of these losses: US$50 million in total, over US$1 billion in today's money. Famously, one of Lloyd's leading underwriters, Cuthbert Heath, instructed his agent to "pay all of our policyholders in full, irrespective of the terms of their policies[16]".

Heath's actions were revolutionary at the time and solidified Lloyd's reputation for the fair and honest payment of claims. It is this same reputation that today's technology disruptors are hoping to rebuild. Rather than trying to keep up with these new entrants, insurance companies may want to take a step back into their past to find the way forward.

---

13 Niam Yaraghi and Shamika Ravi, 'The Current and Future State of the Sharing Economy', March 2017
14 https://blog.lemonade.com
15 www.lemonade.com/blog/lemonades-social-impact-report-20-nonprofits-100-days/
16 www.lloyds.com/lloyds/about-us/history/catastrophes-and-claims/san-francisco-1906-earthquake

Rebuilding trust versus becoming trustworthy

Insurance companies are not the only organisations caught in cycles of distrust. Even new business models centred on trust have had their trustworthiness questioned in recent times.

In 2016, a study on racial discrimination in the sharing economy found that guests with distinctively African-American names were 16% less likely to be accepted for an Airbnb stay compared to identical guests with typically white names[17].

Algorithms, which are heavily relied on by low-cost insurtech companies, have also come under scrutiny. Scientists recently found that word embedding algorithms exhibit gender and race biases, such as associating white names with pleasant words and African-American names with unpleasant ones[18]. "A lot of people are saying this is showing that AI is prejudiced," said one of the study's authors, "No, this is showing we're prejudiced and that AI is learning it[19]". Algorithms, unlike humans, cannot consciously detect their own biases and redress their behaviour.

New technologies and disruptive business models are not therefore a quick fix for distrust or a proxy for trustworthiness. Indeed, insurtech start-ups face many of the same problems as traditional insurers; Lemonade has publicly acknowledged how refusing claims to underinsured customers can create distrust.

Trust cannot be taken, it must be earned. Much of the current thinking is around how the insurance and broader financial sector can rebuild trust; the approach has involved increased regulation, more compliance officers and further processes. A better approach would be to rebuild trustworthiness.

Ways to build trustworthiness:

1. **LISTEN** – to your customers and act on their feedback
2. **CULTURE** – embed inclusivity and fairness: from IT development to customer services, demand the same of partners
3. **EDUCATE** – employees through effective training and clients through 'plain English' contracts
4. **TECHNOLOGY** – to detect, develop and demonstrate trustworthiness for example, through swift claims payments

By appropriately adapting to a future of work where trustworthiness is at the core of the business model, for example, insurers can instil trustworthy behaviours in their business, employees and customers. Using technology to take the pain and friction out of the claims process allows insurers not only to engender good feeling, but also to redeploy human capital for customer-facing interactions, which in turn can demonstrate trustworthiness and develop mutual trust.

The question is not how can we convince our customers to trust us, but what actions do we take to make ourselves worthy of their trust and vice versa.

[17] Edelman, Luca, and Svirsky, 'Racial Discrimination in the Sharing Economy: Evidence from a Field Experiment', 2016
[18] Caliskan, Bryson, and Narayanan, 'Semantics derived automatically from language corpora contain human-like biases', *Science*, April 2017
[19] *The Guardian*, 'AI programs exhibit racial and gender biases, research reveals', April 2017

Trust in conversation with Mark Evans, Marketing Director, Direct Line Group

"**Insurance is unique in that it is a business where you don't know the cost of something at the point in time that you sell it**. For example, the average motor insurance premium last year in the UK was a few hundred pounds – and yet our largest motor claim in 2015 was well over £10m due to the devastating injuries incurred by multiple crash victims.

This makes the sector constitutionally risk averse. Simultaneously, with the growth of price comparison websites the market has become increasingly commoditised leading to an over-focus on price at the expense of value-for-money. As a result, surveys from the likes of NVision and Edelman suggest that it is one of the lowest trust sectors in the economy. As a die-hard consumer marketer, I found this a sorry state of affairs for our industry when I joined but I can also see the huge opportunity that it presents – going back to the basics of marketing and meeting consumers' unmet needs.

At Direct Line we are confident that we've found a way through this distrust cycle – by listening to our customers to understand their unmet needs and sorting out our processes to deliver that. For example, when customers take their damaged car to a garage to be repaired, they don't know when they'll get it back and if they get a replacement car during the process. We found that customers want certainty – so we gave it to them: a guarantee of a seven-day repair turnaround (approximately half the industry average) or we pay them a daily rebate of £10 and a guarantee of an equal standard replacement car in the meantime. There are many examples like this where we have challenged the norms of the industry.

Focusing on meeting customer needs is not always easy – in the past three years it has required a huge amount of effort across the organisation to change our propositions and processes and also the culture to support this. We've had to shift our mindset to become 'fixers' all the way from the front line staff to the executives – and to trust each other that we will each play our part in this journey. Hence, we were particularly proud when in a 2015 **Harvard Business Review study** Direct Line was voted the most empathetic company on Twitter, reflecting our genuine customer orientation.

But implementing **a strategy in support of trust has also made great business sense** – our numbers reflect that, which is why it's a strategy that we will continue to focus on."

Trust in conversation with David Williams, Technical Director AXA Insurance

"Trust is so important throughout the whole insurance purchase process – as we're selling a promise that should things go wrong, we will look after you.

But trust requires a relationship. In insurance, it's difficult to connect with customers in the right ways to create that trust. After all, even in a bad year less than 15% of us as retail consumers will make a claim, so most people will only interact with their insurance providers once a year at renewal time. Also, renewals can be somewhat 'reluctant' – as some types of insurance are driven principally by what the law requires us to do.

Engendering trust is important to counter the potential for substitution from technology. Just think about it for a moment – the fully connected home is almost a reality where we'll be able to remotely check our home for intruders via 'canary cameras' or be alerted to fire or moisture threats by other monitors before disaster falls. In this scenario, where technology could facilitate a deep and trusting relationship with consumers, they could start to question 'what do I need insurance for?' To counter this, insurers will need to have established a trusting relationship with our customers in order for our advice to be heard – otherwise our promises to protect people when things go wrong will just sound like more 'fake news'.

At AXA we want to **create the right types of interactions with customers** beyond the annual renewal. Avoiding the persistent and impersonal mass mailshot that says 'buy this random thing now', we want to suggest topics and services that are relevant to specific customers using the communication forms they like – say social media or email. That way, people will get to know us and trust us more.

90% of AXA's business is intermediated. So if we want to build trust with our end-customers, **we will need the help of intermediaries to do this**. This means reinforcing another kind of trust – between intermediaries and underwriters. Intermediaries need to trust us that we can have a direct client relationship without disconnecting them from the client – basically that we can build trust with the end client in a way that will be a good outcome for all of us. That's part of the overall trust dialogue that we want to start building."

Trust in conversation with Richard Norris, Director Consumer UK Insurance, Bupa

“We want to be loved as a true customer champion in health and care. Customers are at the heart of everything we do. **For us, trust is simple: our customers trust us to do what we say we are going to do and we do it.**

For us this means listening to our customers, acting on their feedback and responding to their needs quickly and with respect. We trust our customers to give us the right information, whether that’s their date of birth or employment status, but we also have our own checks in place. This builds mutual trust.

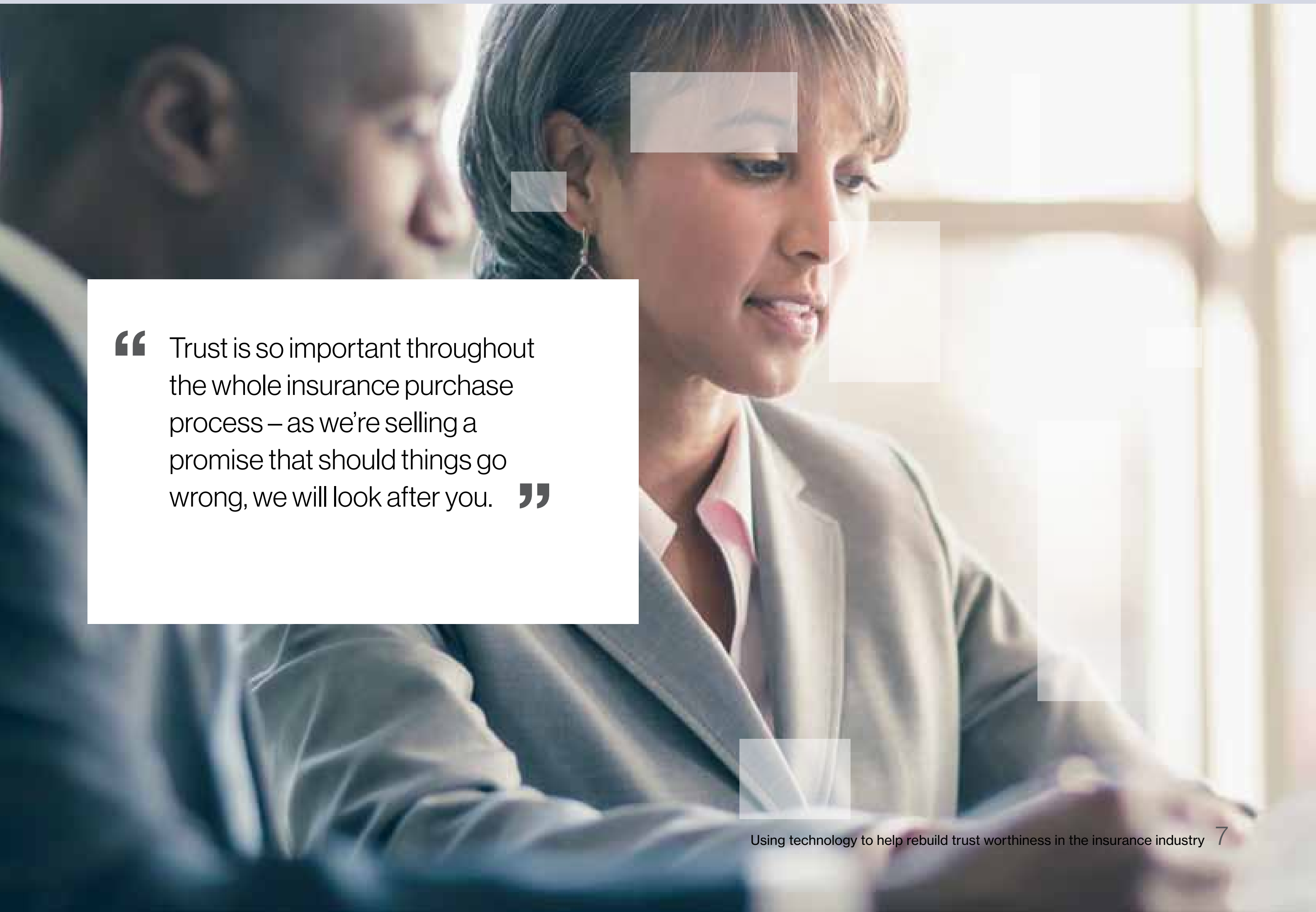
We see it as a balance sheet; every interaction a customer makes with us should be a positive asset on their balance sheet. There should be no ‘trust liabilities’.

Core to our business is health insurance and we recognise our responsibility to care for our customers when they need us the most. When customers make a claim on their policy, they expect us to make sure that they receive appropriate treatment from the most appropriate clinical provider. We also focus on the points where customers buy and renew their policies. As four out of five customers may not use their insurance in a given year, we focus on giving them trust in the value of their purchase despite not using it regularly. Again, this means trusting us to do what we say we are going to do.

We recognise that trust is not a right or a given, but it needs to be earned. Health insurance is not compulsory in the UK as it is in some other markets and our customers in the UK have a free alternative under the National Health Service (NHS). As a result we must work even harder to get customers to trust that health insurance products are a valuable and viable alternative.

We also want to build partnerships with our intermediary partners to put our shared customers at the centre of what we do. Importantly, everyone must trust each other to have the end customer’s best interests at heart – nothing can be withheld in the middle.

Ultimately trust should form part of an organisation’s very ethos; **as an industry we must take actions that are trustworthy because we want to, not just because the regulator has enforced it.**”



“Trust is so important throughout the whole insurance purchase process – as we’re selling a promise that should things go wrong, we will look after you.”

Contact details:

Mary O'Connor
Head of Client, Industry and Business Development and Global Head of Financial Institutions Group
Mary.OConnor@willistowerswatson.com

Alexander Van Kuffeler
Head of Financial Institutions Group, EMEA
Alexander.Vankuffeler@willistowerswatson.com

Andre Van Hooren
Head of Financial Institutions Group, Western Europe
Andre.Van.Hooren@willistowerswatson.com

Christopher Nelson
Head of Financial Institutions Group, Australasia
Christopher.Nelson@willistowerswatson.com

Jonathan Bush
Head of Financial Institutions Group, GB
Jonathan.Bush@WillisTowersWatson.com

Michael O'Connell
Head of Financial Institutions Group, North America
Michael.OConnell@willistowerswatson.com

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 40,000 employees serving more than 140 countries. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

willistowerswatson.com/social-media

Willis Limited, Registered number: 181116 England and Wales.
Registered address: 51 Lime Street, London, EC3M 7DQ.
A Lloyd's Broker. Authorised and regulated by the Financial Conduct Authority for its general insurance mediation activities only.

Towers Watson Limited (trading as Willis Towers Watson) is authorised and regulated by the Financial Conduct Authority.

20489/09/17

willistowerswatson.com

Willis Towers Watson