The rules of engagement

Andrew Harley talks to Shona Cotterill, Kiruba Eswaran and Magdalena Ramada Sarasola about the influence of insurtech on the life insurance industry

Some view insurtech businesses as being highly disruptive and a malign presence in the life insurance sector, while at the other end of the spectrum, the position is more positive and collaborative, with insurtech companies seen as potential partners to learn from. These companies have a much lower cost-base than traditional insurers, they are not saddled by legacy IT systems, they don't have the burden of insurance operations and their absolutely razor-sharp focus is on the customer, who benefits as a consequence.

Should insurers be worried by the presence of insurtechs, or should they be seen as potential partnership opportunities through which we can learn and develop?

Magda, with your global perspective of innovation, what are the main changes you are seeing across the world's markets?

Magda Ramada Sarasola (MS): Just four years ago, a lot of people were telling me insurtech would never reach the life sector. Fast forward to 2017, which saw two quarters of record investment in life insurance-related insurtech – twice as high as P&C investment. And the same is true for the first quarter of this year. Another big change is that the industry has started to engage a lot more with the insurtech ecosystem, which is changing the agenda to the extent that we are now seeing enabling rather than disruptive behaviour.

New data from Willis Towers Watson (WTW) shows that 61% of insurtechs have a model that wants to work with the industry and with incumbents. Some 30% are disintermediating the customer from incumbents, usually with the backing of reinsurers that are increasingly looking for ways to target consumers directly. Just 9% are trying to disrupt the business model and change the way the industry works. A surge in venture capital funds investing in insurance during the past five years has also shifted the agenda towards back-end efficiencies, data analytics and customer-centricity, rather than attempting to fully disrupt the model.

Kiruba, you're on the other side of the fence; are you seeing insurers making a greater effort to engage with and invest in start-ups?

Kiruba Eswaran (KE): Tier two and tier three insurers are very keen. They know that it is not possible to compete directly with the big players. Instead, they are looking to engage with us and create a fully digital proposition. I would expect to see a lot of purely digital life players in the market very soon, if the big insurers don't also open up and engage more with the start-ups.

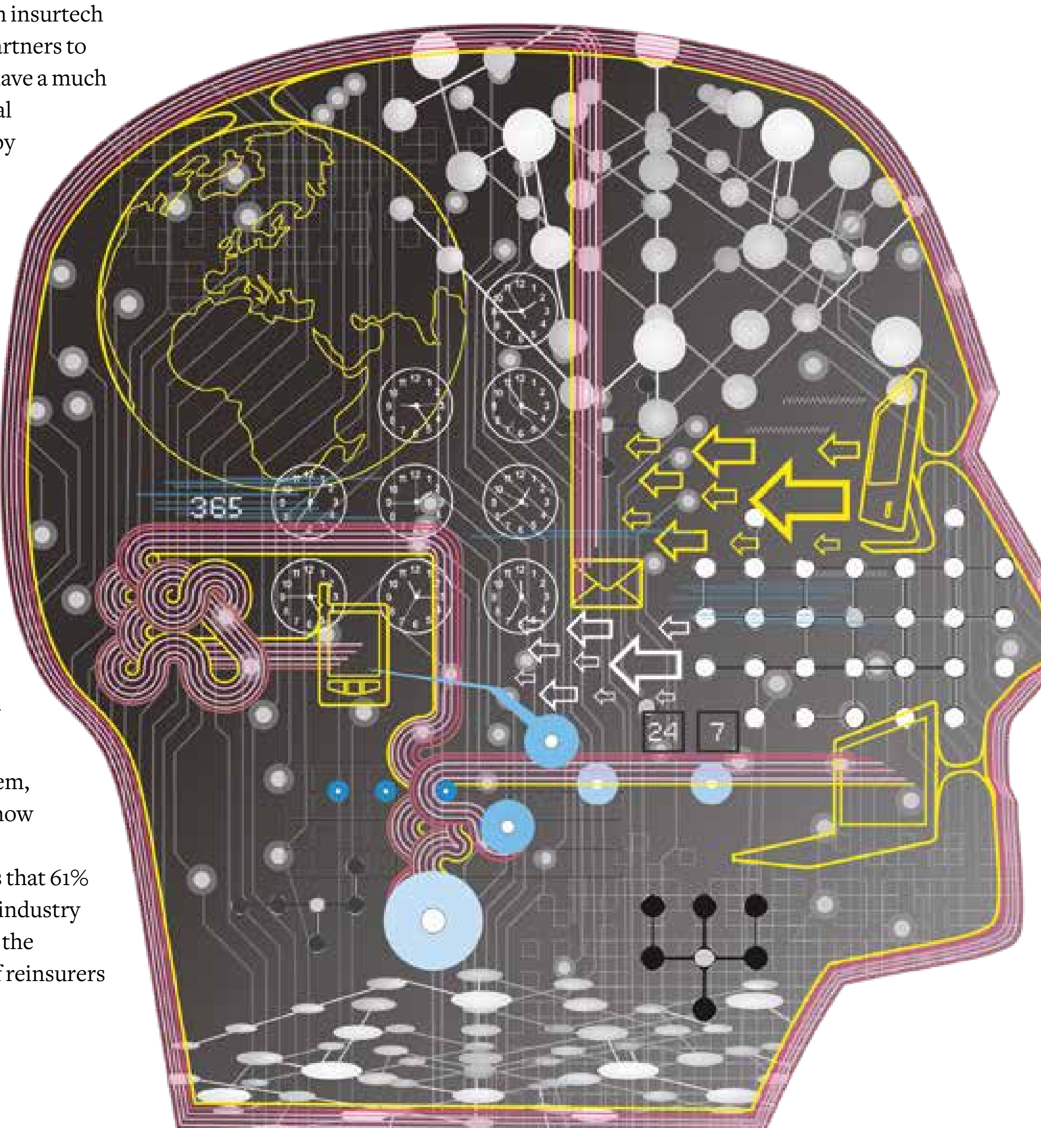

ILLUSTRATION: SUPERSTOCK

Shona, how do you think the insurance sector should think about start-ups?

Shona Cotterill (SC): There are about 1.2m start-ups out there, with 3,000 more firing up in China every day. The venture capital funding behind these start-ups is an innovation budget that insurers don't have to spend. So, we may spend $2m over two years developing our product, but an insurer can pilot it for a few weeks for just a few thousand dollars, to see whether it's right for them. Working with start-ups lowers the risks and costs for the incumbents, allowing them to test, learn and innovate more quickly.

Where do you think the life insurance model is most ripe for disruption?

MS: Many areas that are ripe for disruption in the life insurance sector relate to the ability to interact in near-real time, combining machine learning with behavioural science to understand how you change customer behaviour and how you move towards a model that is about risk mitigation and improving your risk fall. It is about segmentation, but also creating the right type of incentives so that you change the risk profile of your customers. Another trend that concerns both life and P&C insurance is data self-sovereignty – how people are going to be in charge of their own data and how that data is stored and protected in the future.

Is data the new battlefield?

SC: Absolutely, and it is fascinating to see the new categories of data that insurers are now interested in. For example, Munich Re recently published a white paper which found that the biggest single indicator of mortality risk, after age, was physical activity. They translated that into steps per day, which they said was 10 times more indicative than smoking. So, steps per day is now of interest for underwriting. Across all lines of insurance, we find insurers looking for new data that can prevent or mitigate losses.

Also, when we think about life insurance and protection and pensions, it's always been linked to our employer. But now, more of us are self-employed and contracting in the gig economy – and as a result, many start-ups are looking at how we give these people protection and savings.

What are insurance products going to look like in five or 10 years' time, and how will they be delivered?

KE: With startups such as LadderLife already in the market, offering purely digital products that are easy and quick to buy, I can easily see the whole sector going digital in the next three to five years. Another change will be breaking down the silos and making insurance easier for people to understand. If anything happens to me I want my mortgage to be protected, which incorporates critical illness, income protection and life, so that no matter what the life risk is, my mortgage payments are protected.

SC: With more focus on prevention, you could see yourself in the future waking up in the morning with your pillow and mattress already having told Alexa how you've slept that night, then going into the bathroom, where the toilet gives Alexa a full diagnostic read out of nutrition and hydration while searching for pre-cancer cells. You then put on your smart bra, which will continuously scan you for pre-cancer breast cells, while your t-shirt sends ECG updates to your cardiologist. And perhaps your health insurance premium is covering this, so you're paying your insurer to keep you well and healthy, instead of paying them to make you better if you get sick.

MS: During the next five years, a lot of what we're going to see is our business models becoming better, more accurate, more efficient, quicker and cheaper through things such as machine learning, AI, chatbots and data enrichment.

Where do you see the risks coming from?

MS: In the long term, there is a social risk of sustainability. If the whole industry heads towards hyper-personalisation, it will break down and we may end up with parts of society that cannot be insured because we or they are unable to afford it.

SC: There is also a technological risk. In the future, will everyone's DNA and lifestyle data be stored in the public domain? For example, one motor insurer has tried to use Facebook to find out how much people party, which would then be used as an indicator for underwriting motor risk.

Which insurtechs should the life insurance sector be most worried about?

SC: Besides Apple, Amazon and Google, reinsurers are also looking for new ways to boost their revenues and add value by trying to get to customers and their data directly. They are working with and investing in start-ups, but they also have big innovation hubs.

MS: Big players such as Amazon and Google are sitting on a lot of behavioural data. They know exactly which shampoo or coffee you like or what you ordered online last week. It's not only that they are sitting on a mountain of behavioural data, though – they are also nimble, they don't have the legacy systems, and most of them are iCloud-enabled.

Living support

There seems to be an increasing realisation across the sector that through the right partnerships, technology and forward thinking, the life insurance sector has a key role to play in taking on the industry-wide challenges presented by extraordinary change. And, based on what we have discussed here, a critical and positive step for the industry will be to transition from a 'life support' model that is no longer sustainable to one that is instead more progressively focused on 'living support'.

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THE PANEL

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