



Episode 2: The insurer 2030

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ALICE UNDERWOOD: Being in the business of risk, we tend to be quite cautious. We tend to be slow to adopt change. And I think we've seen in the pandemic that we actually are capable of changing the way that we operate under very tight timeframes.

NARRATOR: You're listening to "Rethinking Insurance," a podcast series from Willis Towers Watson, where we discuss the issues facing P&C, life, and composite insurers around the globe, as well as exploring the latest tools, techniques and innovations that will help you to rethink insurance.

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SINA THIEME: Hello and welcome to "Rethinking Insurance." I'm your host, Sina Thieme. Today, I'm delighted to be joined by my guest, Alice Underwood. Alice is the global leader of Willis Towers Watson's insurance consulting and technology business, which has over 1,200 colleagues operating in 35 markets worldwide. And prior to that, she led the analytics team for Willis Re North America for more than 11 years. And Alice has a background in mathematics, having studied math at University of Texas, and having done a PhD at Princeton. Great to have you with us, Alice.

ALICE UNDERWOOD: Super. I'm glad to be here, Sina.

SINA THIEME: In today's episode, we're going to be exploring how the insurance industry might evolve over the next 10 years. And before we do that, let's find out a little bit more about you, Alice. If I Google your name, then the first thing that comes up after your link and profile is Alice Underwood Films, a British woman who's into filming and photography, and shortly after that, Fair Vote comes up, an organization which you chair and which advocates electoral reform in the United States. Do you like those search results, or would you have hoped something different?

ALICE UNDERWOOD: You know what? It's fascinating. I didn't know anything about my namesake in the UK that does film and photography so I'm definitely going to have to check her out. I'm glad that Fair Vote is highlighted. I'm the board chair for this nonprofit, and it's a nonpartisan organization that's working to improve American elections. I think with the experience of 2020, we see that we have some room for improvement to make things a little bit better for everybody and excited to be able to support Fair Votes' work to promote reforms like ranked choice voting.

SINA THIEME: Yeah, absolutely. So Alice, you published so many articles on actuarial and insurance industry topics, and had board and officer positions within a number of insurance industry associations. And I guess I feel like there's barely anyone out there who's better

placed to discuss the Insure 2030 with me.

ALICE UNDERWOOD: Ha!

SINA THIEME: [LAUGHS] So I guess that question touches upon [INAUDIBLE] angle of the insurance industry, and I want to start with insurance customers like you and me. And of course, individuals have different beliefs about the risks they face. But I was wondering just with the events this year with the hurricanes, and floods, and wildfires increasing media consumption, do you think the risk perception of customers is changing?

ALICE UNDERWOOD: I do think risk perception changes over time. When I first got into the insurance industry more than 20 years ago, we really didn't think of fire as a catastrophe peril. And that's clearly changed now. The kind of wildfires that we've seen on the West Coast of the United States, and Australia, and elsewhere, wildfire is really a peril that we have to think about in terms of its catastrophe potential. So that's an example of where things have changed. Unfortunately, I think human beings just by our nature, we have kind of short memories. And so we'll focus on what's been in our face recently, and then if an event like that hasn't happened in a while, we kind of forget about it.

So flood, for example-- and fully recognize flood is covered by insurance different ways in different jurisdictions around the world. The United States typically doesn't offer flood coverage as a standard part of the insurance package. And you have to think about it and add it on if you want flood coverage. And so people have a tendency to buy it only in the immediate aftermath of a significant flood. I live in New York City, and when we had Hurricane Sandy many years ago, it was a real wake up call for folks-- even me, being in the insurance industry, I hadn't really thought about the fact that where I lived in Manhattan was low elevation very close to the water. It was potentially flood-prone. And for a while I think there was quite an uptick in the purchase of flood insurance. And then after, there hasn't been a flood for a while. People kind of dropped that policy.

So unfortunately, I think to make a bad pun, that will ebb and flow. Obviously, this year pandemic is front of mind for people around the world. And I think that was something that we as human beings had gotten a little bit complacent about since the last time we had a really bad pandemic was about 100 years ago. And now it's something that people are really going to pay attention to, at least for a while. I hope we can learn some lessons and put in place some better infrastructure to manage pandemic risk going forward.

SINA THIEME: So thanks, Alice. That was a perspective on how the risks and [INAUDIBLE] have changed. Do you also think that the way customers purchase insurance is changing with more focus on digital experience, et cetera?

ALICE UNDERWOOD: Absolutely. I think as choice has proliferated in so many aspects of our lives, the same is true for purchasing insurance. I think consumers and businesses are expecting to have more and more options for both how they buy their insurance product, how they interact with their insurer, but also the nature of that insurance product. It's much easier now with the technology that we have to buy insurance on the spur of the moment.

I was talking with someone who had gone on a ski trip with his family-- and this was before the pandemic-- and they were talking about oh, well, have you got insurance for your ski equipment? And they bought it as they were in line waiting for the lift. So it's much easier now to make changes to your coverage, to buy short-term products. And I think customers appreciate that kind of flexibility.

Similarly, in a more standard type of insurance product, motor insurance, more and more people are interested in going a usage-based route or taking on an insurance coverage that gives them credit for safe driving. And that again is something where I think insurers need to be prepared to offer a lot of options. Because some of the customers will want to do that usage-based model where they get credit for their safe driving. Other customers say, hey, I don't want the insurance company looking over my shoulder and seeing how quickly I accelerate and whether I brake suddenly. That's my business, not their business.

So providing that range of options is just going to be, I think, table stakes going forwards. The companies that are not interested in or not able to provide a wide range of options are going to fall behind in the competitive landscape.

SINA THIEME: Right. And I guess another point that is certainly going to influence the product landscape is the shifting demographics, right?

ALICE UNDERWOOD: Yeah, yeah. I guess it's cliché to think that younger consumers will be more internet savvy, will want to have everything on their mobile phone. It's not universally the case. There are some oldsters like myself that are reasonably happy to interact on the phone. But there's also some younger people that would really prefer to have an insurance agent to talk to. So that's one aspect of the demographic change, just thinking about how people like to interact with their insurer.

But another aspect to think about is how broadly demographics are shifting around the world. And in Western countries and developed economies, our populations are aging. And that means that the demand for certain types of products will be increasing, demand for other types of products will be decreasing. You think about the need for long-term care insurance, or additional health supplementary insurance. The nature of demand for that will change as the population ages.

Another thing to think about is the sharing economy. Right now with the pandemic underway, the sharing economy has scaled back somewhat. But I have every confidence that once we get past this public health crisis, people will be interested in doing much more ride sharing, car sharing, sharing of all kinds of things-- scooters and what have you. So the type of insurance product that's needed, if you don't own a car but you just borrow one when you need one is different from if you're a car owner. So that's something that also the insurance companies really have to think about and be out in advance of what the need and what the demand will be.

SINA THIEME: Yeah. And we do see more and more technology players interested in insurance, in particular, that space sort of to do with innovation and digitalization. And obviously, they have tremendous expertise in digitalization and data analysis, and they enable market access through new digital insurance portals. And also obviously, with the Covid-19 pandemic, the demand for digital insurance has accelerated even more, as you just described. Do you think traditional insurers should be alarmed by the risk of losing their distribution networks and customer relationships? Or do you think this is an opportunity?

ALICE UNDERWOOD: I think there are great opportunities for partnership. One of the things that's been happening in our multichannel world is the place for an operation that's fully vertically integrated. I can think of a very traditional insurance company that someone

once described to me as they used to be the type of company that would grow their own trees to make paper with which they would print the policies on their own homegrown paper.

And that sort of model, although that's a joke, it kind of illustrates an old school model of wanting to control every aspect from start to finish of that insurance interaction. I think insurers have realized that there are a lot of benefits to be had in partnering with, for example, technology providers like Willis Towers Watson. As opposed to developing all their own technology in-house, to adopt something like the technology that we provide that we take care of the development, the testing, the upgrading of that technology so that our insurance company customers who are not in the business of developing software can focus on what they're really bringing to the equation.

So I think partnering with some of these newer insure techs for distribution, for unique analysis or data can be a great route for insurance companies. However, the angle that you mentioned Sina about the risk of losing contact with their customers I do think is a real one. The relationship with the customer is just very important in the insurance business. And if the insurance company kind of steps back and lets somebody else handle the entire customer experience, then they've lost a lot of the value. They've ceded a lot of the value that they might

be bringing to that customer.

There could be a model like that down the road. Some insurers might choose to basically just focus on handling the regulatory infrastructure and making sure that all the legal niceties are taken care of and partner with somebody else that will do all of the customer experience. But they will probably be vulnerable in that case to being swapped out for somebody else that could provide that similar regulatory expertise in a way that the person that kind of owns the customer at that point prefers.

SINA THIEME: Right. And how do you think-- so if the risk transfer itself is going to change over time, I guess you could imagine digital insurance marketplaces where different parties-- insurers, reinsurers, [INAUDIBLE] providers-- bid on certain types of risks. And this is highly automated with the use of blockchain and language processing. Do you think that's the way risk transfer is going to work out in the future? Or do you think this is a pretty niche idea that isn't going to work because insurance is just not this easy? [LAUGHS]

ALICE UNDERWOOD: [LAUGHS] Yeah. That's been a twinkle in the eye of creative people in the insurance industry for a long time. And I think why it hasn't come to realization yet, as far as secondary trading of insurance risk, is that the insurance risk tends to be too customized, that the nature of the policy language from one insurer to the next, the nature of the risk from one policy to the next, they're just not necessarily that comparable to one another, which makes it difficult for there to be a secondary trading market.

Now where I think this really could start to take off is if parametric coverage starts to gain more widespread acceptance. Because there you have very clear reference to an external, verifiable thing. It's just-- was there a storm of a certain magnitude that passed through a certain grid on the map? Was there an earthquake of a certain magnitude that happened in a certain location? And you can specify it quite clearly. And under those circumstances, it does seem that the potential for there to be active trading of insurance risk-- it seems like that would be more feasible for that type of risk.

SINA THIEME: Yeah, and I guess even if we're focused on the Insure 2030 narrow discussion right now, we can't really ignore the fact that we're in a pandemic. So what role do you think the current pandemic plays in this discussion, do you think? Is it a distraction for insurers and reinsurers? Or do you think it's actually accelerating the move towards the future insurer? For example, via the use of technologies and the thinking about a new business model and strategic positioning.

ALICE UNDERWOOD: Both, I have to say both. It's for sure been a distraction in figuring out how we were going to deal with a pandemic early on just as employers, and obviously concerned about the well-being of our employees having to scramble to move to a work from home type environment in most jurisdictions. That was something that was taking all of our attention early on. And at the same time, I think it's provided a lens into the fact that we actually can change as an industry more quickly than we typically give ourselves credit for. Being in the business of risk, we tend to be quite cautious. We tend to be slow to adopt change.

And I think we've seen in the pandemic that we actually are capable of changing the way that we operate under very tight timeframes. And we have been making greater use of technology. I think that will continue. I think the insurance industry-- not alone. I think many industries that the prior model was an office environment where the expectation was, as an employee, you go into the office each day to do your work. There will be a lot more flexibility, and employees in all sorts of industries will be expecting greater flexibility from their employer.

And we found that that can work. Insurers and other types of companies have also found that we can make a lot of use of virtual meetings, of video calls. I think we've all gotten a lot better at doing video calls. And while we certainly miss getting together with our colleagues and our clients in person, we've recognized maybe we can do some of these meetings remotely rather than taking all the time and expense of flying to another city or another country to have the meeting in person every time.

Of course, we can't ignore the fact that the pandemic has had some really severe economic consequences. That's meant that, for example, insurers look to give rebates on motor insurance for drivers who weren't really driving during lockdown. There's been a contraction in the economy overall, which means there can be a contraction in the insurance industry. We do think that will come back as we come out of this pandemic. But it's something that we'll be managing and recovering from as a global society for quite some time.

SINA THIEME: Yeah, I agree. It will be really interesting to see how people and technology just will change the way we communicate [INAUDIBLE] and mitigate and transfer risk just generally in the insurance industry. So thank you so much for your time and the really interesting discussion, Alice. It was great to have you with us.

ALICE UNDERWOOD: So good to talk with you.

SINA THIEME: So thank you for joining this episode, and we look forward to speaking again on future episodes of "Rethinking Insurance."

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