

# EMPATHY AS A NORTH STAR IN THE INSURANCE MARKET



The ability of insurers to go beyond the quantification and actuary tables of its customers will be a differentiator as the volume and variety of data points increase. The expectation is that digital improvements, AI and wearables will all robustly impact insurance underwriting, making it easier for insurers to assess risk more precisely. Unraveling customer motivators and driving to understanding the ‘why’ will provide a dramatic competitive advantage as insurers tailor customized plans and services.

## CASE STUDY: EMPATHY IN ACTION

Satya Nadella, ‘rewrote’ Microsoft’s code<sup>1</sup> after being appointed CEO in 2015. As of 2017, he had created over \$300 billion in market value. Mr. Nadella sees “empathy as an existential priority for any business<sup>1</sup>.” Leaders across insurance must pay close attention. Incumbents possess great power and responsibility with their unprecedented access to large amounts of consumer and business data. Technology will enable them to carry more empathy, underwrite better risk, and unravel new ways to prevent it, all while delivering value to ‘buyers’ in yet to be created, business models.

Nadella says that “true innovation allows a business to meet unmet or unarticulated needs of customers.” For a \$1.1 trillion industry founded upon people’s aversion to risk, the innovation he mentioned “is impossible if we listen to just the words... and not go deep to understand the needs behind them<sup>1</sup>.”

The advent of technology has already caused the DNA of the insurance industry to see meaningful change. The number of insurtech deals increased 39 percent globally in 2017, and the total value of deals went up 32 percent to \$2.3 billion<sup>2</sup>. This increase in deals raised competitive pressure for insurers across the value chain agnostic of a product line. Insurance technology or ‘insurtech’ as it is globally known, was always meant to inspire change among incumbents. However, quarterly earnings, close eyes on expense ratio and regulatory driven capital expenditure have seen industry leaders hesitant to drive without their hand on the handbrake.

## DRIVING WITH THE HANDBRAKE ON? DON’T.

Carriers must ask themselves if they are genuinely empathetic toward their policyholders, partners and employees before kicking off their next set of promising initiatives. Empathy must be at the center of the ‘change in mindset,’ with technology being a key enabler in this pursuit.

A self-mandated digital transformation must have a clear pipeline of near, medium-term and long-term digital initiatives, with operational efficiency and customer demands mapped to distinct enterprise metrics. The need of the hour is finding the right balance between enhancing short-term digital agility and thinking strategically about how future-proof existing operating models are. This is not an easy ask, as c-suite level executives across the industry figure out ‘where to play’ and ‘how to win.’

<sup>1</sup> <https://www.fastcompany.com/40457458/satya-nadella-rewrites-microsofts-code>

<sup>2</sup> <https://www.businesswire.com/news/home/20180321006267/en/Investment-Insurtech-Industry-Surged-2017-Europe-Emerging>

# LENDING TO BANKING TO INSURANCE: DIGITAL TRAVEL DIARIES

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Referencing the disruption that awaits, a prominent Silicon Valley venture capitalist (VC), Mickey Malka<sup>3</sup> recently stated that “insurance won’t get you a date, but it really feels like lending did in 2007.” It’s not outlandish to think that the waves of innovation in digital lending or banking will wash ashore to the insurance industry. If this hypothesis based on the latest headlines<sup>4</sup> rings true, venture funding into financial services seems likely, then the future is very bright. Today we see banks, non-banks and challenger banks launching seamless product offerings and experiences at scale, and even creating new business models. All this to simply, but diligently benefit the customer. For an industry that occupies a more significant share of U.S. GDP than banking, the complexities facing insurers are not going anywhere soon. What’s interesting is the people interested in overcoming these complexities don’t view prior insurance knowledge as a prerequisite. ‘Big Tech’ is coming, and they are putting the customer at the center of everything they do. “Historically, insurance companies have been highly focused on their products and services, not necessarily on the customer experience. But as nontraditional players begin to emerge, this mindset is becoming more of a liability than a competitive advantage<sup>5</sup>.” Today’s digital leaders are thinking of new ways to disrupt their core business, by either partnering with larger technology companies or starting incubator accelerators themselves. But near-term results are hard to come by. Insurers writing greater than \$4 billion in direct premiums require an even fiercer long-term commitment to working collaboratively with digital technology. If leaders across carriers big and small do this, the future will look bright. Drawing inspiration from neighboring financial services disruptors, as well as challengers within insurance, can lead to some very productive conversations. At LendIt 2018, Lending Club CEO

Scott Sanborn highlighted how 57 percent of Americans are considered financially unhealthy (i.e. 138 million Americans)<sup>6</sup>. Most consumers today lack essential savings and insurance coverage to help manage their financial lives. For carriers selling consumer products, this is especially relevant. It’s easy to see how the secular trends cited by Sanborn, would make their way to the insurance carriers. Sanborn mentions financial inclusion, regulatory innovation and customer alignment as the key priorities of the digital lending revolution that need to take in place in the U.S. Today’s carriers must apply this as conventional wisdom. One insurer, Lemonade, builds on this very narrative. Lemonade describes its release of Policy 2.0<sup>7</sup> in 2018 as a ‘radically simplified, modernized and digitized insurance policy’ which is open source for everyone to contribute to and benefit from it. In addition to being transparent, Lemonade’s business model includes flat fee premiums and giving back aligns with customers.

Today’s incumbents are dealing with rock-bottom customer loyalty metrics while continually battling the common perception that consumers don’t like the insurance sector.<sup>7</sup> For Lemonade, focusing on today’s ‘millennial-mindset,’ insurance products ‘sold’ and not ‘bought’ and operating as a certified B-Corp seems to have done the trick. Using artificial intelligence, machine-learning and behavioral economics, they cover nearly 50 percent<sup>8</sup> of the U.S. population with their renters and home insurance products. Incumbents have waited and watched with a multitude of opinions, only taking only a page of Lemonade’s book. Incumbent carriers must step into the shoes of their customers, and the time to act is now.

## PLAYING TO WIN: DIGITAL INSURANCE

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Carriers must fully digest the digital revolution to shift organizational mentality and culture. The industry consensus is that customer experience and operational inefficiencies are top of mind with the need for change evident across verticals. A KPCB Annual Report<sup>9</sup> revealed that rising costs of U.S. healthcare insurance have seen consumers pay a higher portion of their insurance costs at 18 percent versus 14 percent in 1999. With increasing vertical integration from incumbents and the success of digital native startup’s like Oscar, Cedar or Capsule – the

consumerization of healthcare, coupled with improved access to data will mandate reducing the cost to the consumer. More provocatively, auto insurance as we know it may cease to exist if we were to take a longer-term view. At InsureTech Rising 2017, a keynote speaker explained how Elon Musk’s vision for a ‘Tesla-as-a-Service’ would change the game for consumers and carriers with Millennials increasingly expected not to own a vehicle.

Plenty thus far has been written about a Wikipedia, Kodak or Napster ‘moment’ for financial services, and carriers must ensure their entire organization is aware. Teams across all levels of the organization must realize the urgency to view the technology stack used to support functions across the value chain and once again put the customer at the center. Aviva’s True Customer Composite ethos where the carrier strives to “offer products individually or in tailored combinations to meet customers’ needs in a convenient, easily understood and timely manner” has resulted in industry awards for innovation and customer satisfaction.

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<sup>3</sup> <https://www.cbinsights.com/research-insurance-tech-trends>

<sup>4</sup> <https://www.spglobal.com/marketintelligence/en/news-insights/blog/fintech-funding-flows-to-insurtech-in-february>

<sup>5</sup> <https://www.digitalistmag.com/digital-economy/2018/06/05/resilient-no-more-insurers-face-new-reality-of-digital-disruption-06174381>

<sup>6</sup> <https://finhealthnetwork.org/research/2017-financially-underserved-market-size-study>

<sup>7</sup> <https://www.lemonade.com/policy-two>

# CARRIERS MUST ADOPT A HIGHER VELOCITY OF CHANGE

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Leaders across the industry must now be more willing to play with the tools available and understand what is useful and what is not. The ability to adapt gives industry leaders the best shot at meeting shifting customer expectations and competitor offerings. A 2016 survey revealed that only 15 percent<sup>10</sup> of policyholders were satisfied with their insurers' digital experience. The results of the survey serve as more evidence of the skin-deep transformation initiatives that focus on the front office to realize short-term upticks in volume or demand for their business. Carriers must get their house in order and solve for the complex and inefficient back-office processes. The technology ecosystem within the firm has always compromised its ability to attain speed to market, preventing them from getting ahead of customer demand. A study revealed, leading digital companies across industries to have 50 percent<sup>11</sup> of their customer interactions personalized, and insurance carriers must strive to surpass this by being proactive when it comes to employing digital.

# CARRIERS MUST MARRY TALENT AND DIGITAL FOR INNOVATION

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When looking at successful firms, a survey revealed 80 percent of their digital talent has digital experience (from leading academic institutions and digital organizations), and over 60 percent have completed a rigorous digital training program. The insurance industry has a lot of catching up to do here, and the solution lies within. In early 2018, Guardian partnered up with General Assembly to upskill its employees<sup>12</sup>. CSAA Insurance Group's approach<sup>13</sup> sees them employ a portfolio of initiatives categorized as 'incremental,' 'evolutionary' and 'disruptive innovation' with employees receiving training and support in an environment where success is defined, transparency is encouraged, and ideas supported till reality.

# CARRIERS MUST BRING THE FUTURE.NOW.

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Carriers have been relatively successful in growing policyholder excesses and managing their expense ratios for some time now. However, their success has established a beautiful, virtuous cycle. Assets that insurance companies have built up over the past 100 years, their product development, distribution methodology and technology stack has created a wide variety of problems. As the smartest and brightest in the world of technology apply themselves to solve these problems – insurers will need to reimagine critical segments of their businesses from the ground up. As intelligent technologies attain scale, and enterprise use cases for automation across the value chain go into production, carriers must continuously analyze the evolution of their customer demands and iterate upon their business models.

From acquisition and partnership execution to strategic technology and operational reorganization, with the industry set to look a whole lot different in the coming decade, Capco has excelled in outlining strategic and tactical responses while providing practical next steps to increase operational efficiencies and develop innovative products and services. Capco has implemented a wide variety of insurance solutions and guided clients across the globe to carefully consider how to differentiate their value propositions across the value chain.

## AUTHOR

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<sup>8</sup> <https://www.the-digital-insurer.com/blog/10-insurtech-trends-insurance-2018/>

<sup>9</sup> <https://www.recode.net/2018/5/30/17411618/full-video-transcript-kleiner-perkins-mary-meeke-trends-presentation-slide-deck-code-2018>

<sup>10</sup> <https://www.propertycasualty360.com/2016/05/30/digital-transformation-can-help-insurers-keep-cust>

<sup>11</sup> <https://hbr.org/2014/03/insurance-companies-untapped-digital-opportunity>

<sup>12</sup> <http://ireporter.com/guardian-life-embarks-on-talent-transformation-with-general-assembly/>

<sup>13</sup> <https://hbr.org/2017/08/how-one-insurance-firm-learned-to-create-an-innovation-culture>