

# PADEMICS – THERE'S INSURANCE FOR THAT

Lisa Smith, Principal Consultant

One accusation that the insurance industry often gets is that it lags and has low innovation in product development.

Surprisingly, the reality is products are diverse across offerings and options. Products exist for pandemics, alien abduction, and even ghosts. Coverage exists for identity theft, cyber exposure and digital data recovery. Yet, many consumers are not aware of these solutions. The debate continues: is insurance bought or sold?

We don't buy a policy and celebrate like we do our homes, cars, or even a new comfortable hoodie. We buy policies then resent the premiums as they clear our bank statements. We dislike that automobile policies are legislated, or homeowners' policies required by mortgagees or landlords. When is the last time you thought to look for an insurance product such as pandemic coverage? Under this premise, insurance is sold.

As an established global industry, the existing processes and marketing both enables and limits the development of products. Typically, marketing courses teach the 5 P's of product, promotion, price, place and people to consider when launching new products.

## PRODUCT

Products are traditionally defined in terms of their appearance, pricing, packaging, the value it creates and the target market. Insurance is intangible – a promise to pay if events or conditions are met, eliminating the traditional product considerations.

Mass market products include personal auto, homeowners, credit life insurance, and point-of-sale product coverages. Many products have tailoring options such as deductibles, limits, and coverage extensions but are generally priced through automated rating systems.

Specialty products, where the 'law of large numbers' doesn't apply, are often custom-designed. Risk transfers are negotiated with highly tailored rates based on estimates of frequency and severity predictions.

The challenge, and the opportunity, is developing specialty products that convert to mainstream mass-market. As with most products, economies of scale are achieved as we increase production. High costs to define rating algorithms and data analysis make this transition complicated, resulting in products, like pandemic insurance, never moving into the mass market realm.

# PRICE

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Product pricing is typically dependent on the type of product, manufacturing process, market segmentation, competitive offerings and substitutes. Insurance pricing is dependent on the frequency and severity of perils for exposure.

For mass-marketed products, even if the pricing models have many variables and customizations, the products have standard baselines and margins and begin to feed into their analytics. In essence, last year's losses and gains feed into this year's price.

Specialty products are often a risk for both parties until patterns are established, allowing the products to go to the mass market.

For example, while pandemic insurance exists, there are currently debates as to its coverage or exclusion in business interruption policies. Additionally, risk models are complex given errors in pandemic data reporting, low frequency and inadequate severity estimates.

Hence, the perceived product lags. It takes large samples of data to develop pricing. As technology supporting third-party data aggregators and risk modeling solutions move forward with data integrations, product-to-market times may reap significant gains that aren't currently available.

# PROMOTION AND PLACE

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Insurance distribution channels are well defined and regulated, especially for mass-market products. While it is usually an advantage to have an existing distribution network for products, for insurance, the regulations and established options often contribute to the slow product launch.

- Regulators: often need to approve product definitions, pricing algorithms and ensure underlying liquidity and reinsurance are properly covered
- Advisors: whether captive or independent advisors, they need to be incentivized with easy-to-distribute processes, tools, training, pricing and commissions
- Digital Processes: New technologies help improve target marketing by analyzing and aggregating the research data and target specific consumers. Firms can use AI and ML to research needs assessment, coverage alignment and pre-qualification. However, existing channels and licensing may limit options or require separate branding

- Digital channels: Consumers expect online research and data before going into traditional advisor channels to purchase - adding overhead and additional steps to launching new products
- Marketing budgets: Do carriers spend their efforts generating brand recognition? Product promotion? Awareness in the distribution channel? Direct to market? Social media campaigns are often more expensive than efforts in the advisor channels but offer more direct control
- White Label: Is it easier to leverage an alternate distribution option such as point-of-sale add on protection? Or bundle it as an endorsement?

Currently, insurers are experimenting with a variety of combinations and even setting up subsidiaries to offer new products and experiment with distribution as well.

# PEOPLE

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While insurance is an established industry, it isn't always trusted. Many consumers feel coerced to buy products. Needs-based selling and tailored solutions, even for mass-marketed products, are available but rarely sought out by consumers. And, when consumers search for the products, the distribution channel is often wary of anti-selection - i.e., you need life insurance due to a recent medical condition, or you are buying home insurance as your new home is the path of a hurricane.

The challenges in launching new products are the same as for traditional product marketing:

- Generating awareness of solutions and letting the market know it is available and will meet a need
- Generating trust and recognition for new products being able to deliver on the promises

# PROGNOSIS

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New products are still designed and marketed to be sold. To deliver innovative and responsive products, we need to resolve data and technical gaps quickly, educate our consumers and advisors on opportunities, and focus on the trusted, reliable solutions to meet the client's needs. To offer products intuitively online, that are easily bought, understood and priced. We need analytics to identify and match the need for product options.

The COVID-19 pandemic is proving that while we have the products, we didn't estimate the market risk, or needs, appropriately. Either we provided the product ahead of the client's need and were unable to establish it, or we didn't align it with their need and price tolerance correctly.

The next challenge may be another epidemic or pandemic, climate-related challenges, or a new form of cyber risk. No matter the challenge, the insurance industry needs to meet its mandate of providing tools to secure our financial future.

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