

# The Urgency for Digital Execution in Insurance

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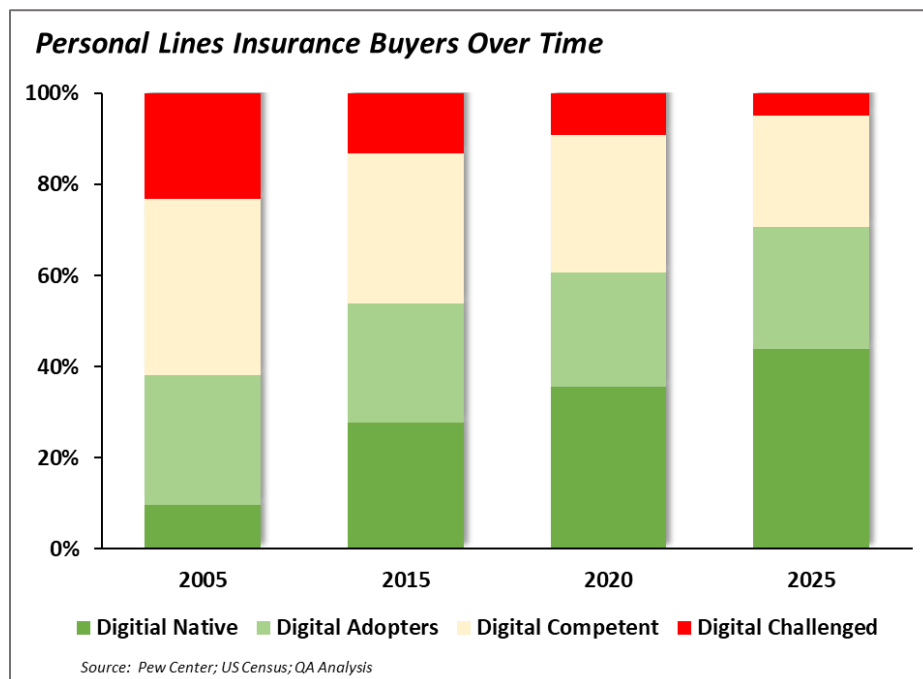
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February 5, 2018

Slowly, sometimes reluctantly, large insurance carriers have grown more customer-centric. An industry historically steeped in confusing policy forms written in archaic language with outdated terms and coverages often frustrated customers who perceived the industry giants as only trying to protect themselves and their own interests - not theirs. After all, the carriers didn't even refer to them as customers - they were "policyholders" or "claimants."

But that has changed significantly, especially in the past 15 years. While industry pioneers like GEICO and Progressive took a more customer-focused and "friendly" approach to catapult their personal lines business, many of the largest carriers now boast a Chief Marketing Officer, Chief Customer Officer, or Chief Engagement Officer. Those senior titles were relatively unheard of 20 years ago.

This shift from an internal, institutional, legacy view to an external, customer-focused view is timely. As this chart shows, the demographics of *insurance buyers* are changing. The data reflect purchasers of personal lines (auto, homeowners, renters, etc.) insurance from 2005 actual to 2025 forecast. Buyers are becoming more digitally adept and that trend will continue. This is not simply driven by age as Gen-X/Y and Millennials overtake their Baby Boomer parents and grandparents and supplant the vanishing Silent Generation. More of the



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older generations are becoming more digitally proficient, too: many a grandparent today is as adroit with Facebook and online shopping as their grandkids. So, while the population is shifting to a younger generation of insurance buyers, this migration of earlier generation technophobes or late adopters to online and digital enthusiasts is accelerating the trend.

Today's insurance consumers can be broken into four groups:





- ❖ **Digital Native:** these buyers grew up with or have become comfortable with digital “ubiquity.” The internet has always been a part of their life and interacting with sellers online is fundamental, if not “old school.” They expect interactions to happen anywhere, on any digital device (smartphone, tablet, Alexa/Echo devices, etc.), with lightning speed and zero complexity. These buyers aren't impressed with a quote in “15 minutes or less”; they want it in 60 seconds or less. While powered by the influx of Millennials (born ~1980-1996) and Gen-Z (born after 1996) into the insurance buying marketplace, they are augmented by many Gen-X (born 1965-1979) who came of age in the PC era and some Baby Boomer (1946-1964) technophiles.
- ❖ **Digital Adopters:** with Gen-X and early Gen-Y as their largest core, digital adopters have come to expect most if not all of the ease and simplicity of ubiquitous digital interaction as the Natives. They may revert to an actual phone call to a carrier less reluctantly than the Digital Natives, though.
- ❖ **Digital Competent:** while this group may not have come of age with PCs and smartphones, they have grown accustomed to and comfortable with emerging technologies. They may not handle every brokerage or banking transaction online or by smartphone app, but they know how to. Even though they may still read a physical paper (sometimes just out of nostalgia), they are regularly reading their morning news on the train on a Kindle or iPhone.
- ❖ **Digital Challenged:** this group prefers the old ways of interacting with their carrier or agent - by phone or even in person - and eschews (or distrusts) most things digital. They may pay by check (or cash) rather than ACH or credit card, and they want to speak with a person, not some “interactive voice response” system. The dwindling number of the digitally challenged is partly driven by the passing of the Silent Generation (born prior to 1945) but also by steadfast technophobes and those wary of digital transactions in general.

The importance of this customer evolution for insurers is clear. Those with the highest expectations for a concrete, pervasive, simple, purposeful, and engaging

digital customer experience (Digital Natives and Digital Adopters) currently account for over 50% of personal lines buyers, up from under 40% just 10 years ago and will top 70% of insurance buyers by 2025. Carriers who do not recognize, adapt and embrace the changing demographics are apt to be left in the “digital dust.”

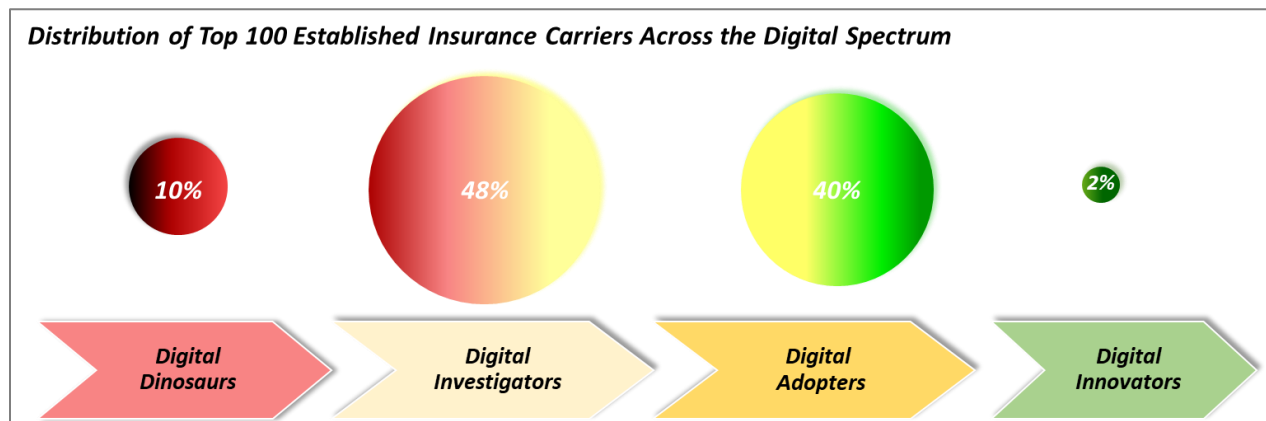
Given the shift in demographics, digital expectations, and a desire to change what’s perceived as “wrong” with traditional insurance, it is no surprise that a new group of “disruptors” is emerging. Many of these (some well-funded or mainstream carrier backed) startups claim to “reimagine” the insurance experience and set out to eliminate unnecessary complexity and steps in the insurance process. Leveraging InsurTech innovations such as artificial intelligence and big data (to improve and perhaps mechanize underwriting and product development), offering a digital-only (online and smartphone apps) or digital-heavy customer experience to bypass physical agents or help manage claims, and designing digital-centric user interfaces and customer-focused user experiences, these startups can seem daunting. Here are a few examples:

***“Disruptors” Appealing to the New Insurance Buying Demographic***

Innovation	Example	Appeal
Insurance “with a cause”		Lemonade initially offered renter’s insurance targeted squarely at millennials in large urban markets (e.g. NYC). The twist: after paying claims, collecting a fee (and a profit), they give “what’s left” to causes the customer “cares about”
Insurance “on demand”		Slice recognized that digitally savvy consumers want specific coverage for specific items or occurrences any time, anywhere, and perhaps for very short time periods. Slice targets the “shared economy” (e.g. Airbnb and soon Uber/Lyft)
Products “tailored to a new demographic”		Hippo customized the standard homeowner’s policy recognizing that standard forms and traditional offerings covered pewter bowls, stock certificates, and furs but only offered \$2,000 of coverage for home electronics
A pervasive, engaging, and simple “user experience”		A usage-based, pay-per-mile auto insurer, not only has a top-rated website for simplicity and ease of use but a mobile app that integrates into the car’s data port to help the owner track how their driving and vehicle condition affects their rates

Rather than viewing these startups, or upstarts, as foreboding harbingers of rampant disintermediation, job loss, or doom, traditional carriers can and are learning from some of the best-in-class innovators who are “plugging into” the new insurance

buyer's psyche. Many insurers are already using InsurTech advances developed in-house or through technology partners; however, to date most of these applications have been aimed more at cost/headcount reduction and efficiency gains (e.g. robotic process automation to eliminate rote tasks and clerical labor; leveraging "Big Data" and AI algorithms to enhance pricing and underwriting accuracy; using drones to assess damage and improve claims adjustment). But very few of the largest insurers have made the leap to become pervasive digital innovators focused on the needs and desires of the emerging customer demographic. A recent survey bears this out:



Only a handful of insurers have *implemented* a cohesive and truly innovative digital customer experience ("Digital Innovators"). 88% of insurers are either investigating or partially implementing digital customer experience strategies, and many programs labeled "digital strategy" are still internally focused (looking at leveraging data and communication to improve internal - or legacy - KPIs, metrics, and processes), not really *externally* focused on the customer experience and evolving customer needs. Digital Adopters (40% of the sample) have executed at least a few portions of innovative digital engagement (perhaps enhanced online user interfaces or smartphone apps), but are sometimes merely "shining a sneaker" rather than acting like digital disruptors. Others (Digital Investigators) are actively developing use cases, business cases (ROI), and prototypes but seem to be moving glacially, allowing ideas to get stymied in bureaucratic committees.

Still, about 10% of large, traditional insurers (Digital Dinosaurs) either don't have the requisite capital or inclination to innovate; they are simply burying their heads in the sand. Some are content to focus on a declining customer segment that has no use for a digital solution (or at least a digital experience when it comes to insurance). This last group is pursuing what is called a "last iceman strategy": while there may not be much demand for ice delivery anymore, the sole surviving iceman does have a

monopoly of that small market. For such a strategy to succeed in insurance, the last large player will certainly have to have market dominance given that segment is likely to account for 5% of insurance purchases by 2025...and shrinking.

Pursuing a bona fide digital strategy has two core aspects. First, it is outward-looking at emerging customer needs and preferences, not inward-looking at digitally enabling legacy processes, products, and internal reporting. Second, it is pervasive: contemplating all elements of the value chain from payments processing to regulatory reporting and compliance to historically mundane back-office operations, not just product development, pricing, underwriting, and claims. A digital *strategy* is not developing a new, “hip,” snazzy website or launching a smartphone app. Improving and tailoring the customer engagement experience *is* vital, but improved user interface (UI) and user experience (UX) alone will fail if underlying processes, approaches and thinking do not embrace a pervasive digital approach.

Established carriers can learn from, adopt, and improve upon startup InsurTech innovations, much as they did in the e-commerce era. But the demographics alone dictate that insurers move out of committee and into action. Ultimately, it may be less about “reimagining insurance” than refining, evolving, and adjusting to a digital world, new customer expectations and needs. The digital era isn’t coming; it’s here.