TDI ACADEMY
LEARNING FOR THE DIGITAL AGE

# TDI PoV: The future of personal lines insurance

By Frederik Bisbjerg

**What is a TDI Point of View (PoV)**

A TDI PoV is a mini whitepaper where industry experts present their point of view on a subject related to digital insurance. In this PoV Frederik Bisbjerg talks about the future of personal lines insurance and provides his views of how incumbents need to change to survive and thrive as competition increases.

**The PoV…**

*The tech giants only need a license and a small team, and they're ready to give the incumbents very tough competition*

With Amazon, Google, Tencent, WeChat, etc as major distribution channels, the future of the traditional personal insurer is uncertain, but it's certain that the current business model must change – add to this that one of the major product lines most probably will become obsolete during the next decade and you have all ingredients to promise the incumbents a bumpy ride going forward.

Personal lines insurance is and will (most probably?!) always be a numbers game. Each insurer must reach a critical mass of customers for each personal product on offer to make the products viable, and hence be able to pay claims and ultimately company operational costs and shareholder dividends.

It is therefore no surprise that the latest development in the personal lines insurance space is tech giants looking into the field of personal lines insurance – they have millions of customers and an abundance of data about each – easily enough to provide for very detailed underwriting and hence very personalized products and prices. They have the experience in automating customer service, allowing them to run a very smooth and lean operation and they can easily team up with any third-party administrator for claims management.

**In short, all they need is a license and a small team, and they're ready to give the incumbents very tough competition**

To further complicate matters, one of the major product lines, motor insurance, is facing an uncertain future too; autonomous vehicles will be insured as a product and will therefore most likely fall under the commercial lines of the insurer – depending on what forecasts you believe, the autonomous vehicles will be on the streets in any time from now, to the next five-ten years. Regardless, no forecast predicts that the autonomous vehicles will not come, so personal insurers must prepare to see this specific product line decline and ultimately vanish (except for a very limited segment of special vehicles; collectors' cars, special sport cars, etc).

# The future is in the focus

Few, if any, insurers will be able to stand against a full-frontal attack from some of the largest companies in the world, all completely built and driven by technology, where incumbent insurers are struggling with legacy IT systems, rigid and complex organisational structures and very slow change processes – quite the opposite of the much younger and much more tech and product development savvy tech giants.

To have a decent chance of survival, incumbent insurers must craft and implement a much more focused strategy than what is seen in the markets currently, effectively directing all resources to this strategy and divest the units and departments that cannot, or does not fully support the decided future strategy.

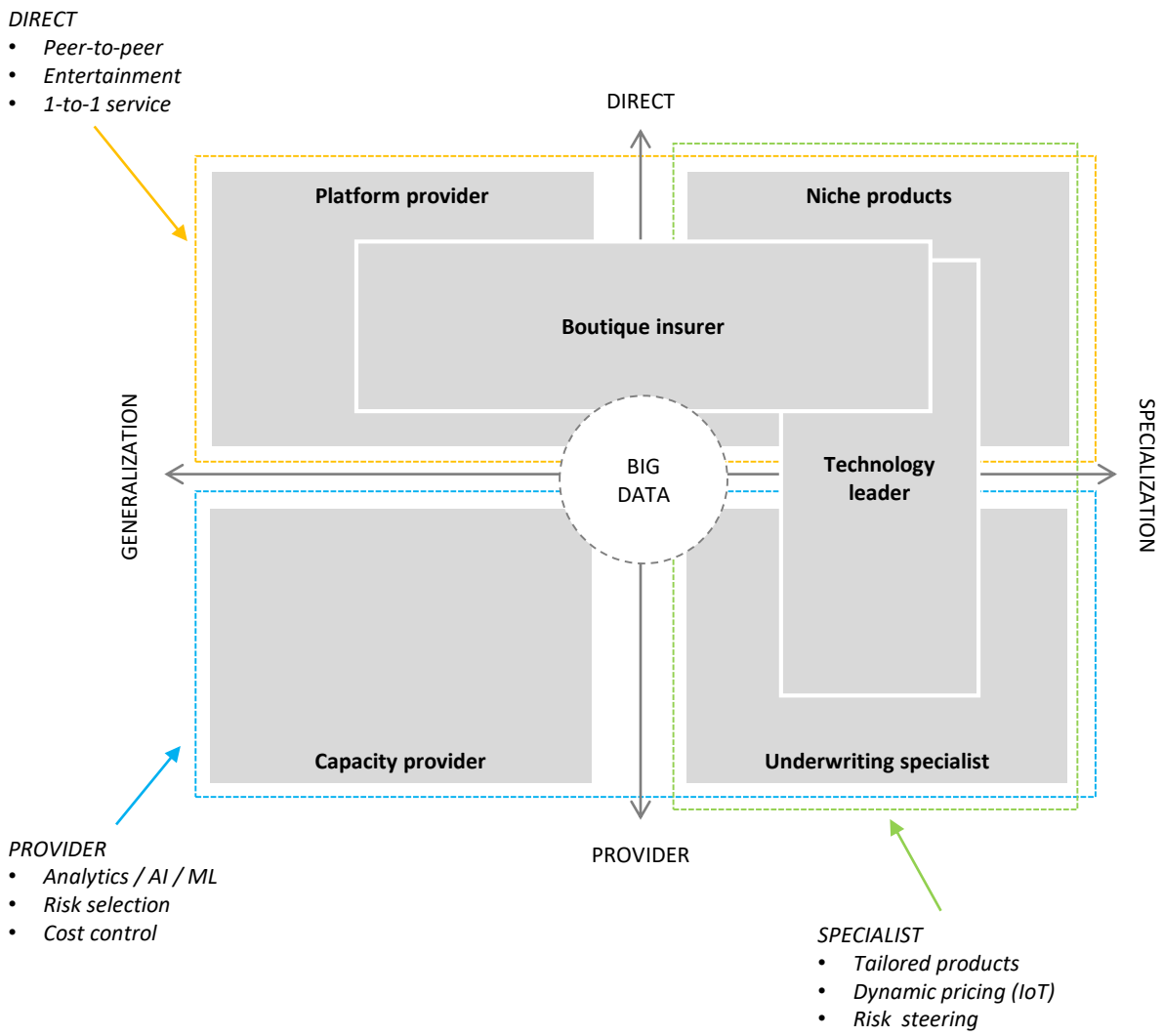


*Figure 1: To secure future viability, incumbent insurers much carefully choose and pursue a focused strategy*

**The future retail insurer must select a strategy that fits in the new order of personal lines insurance products, services and distribution:**

- **Platform provider**, the 'Uber of insurers', connecting a plethora of insurers with a wide range of products to a large user base, thus establishing a strong distribution channel – this is the expected strategy of tech giants like Amazon or Google as they already have the user base, creating a very attractive platform for insurers to participate in

- **Niche product provider** creating and selling a strong, very specialized product where the sheer product expertize is the core competence of the insurer – this product can be sold directly and / or through insurance platforms and other platforms (e.g. insurance-on-demand products, home insurance through AirBnB, pay-as-you-go passenger protection through Uber, etc)

- The **Boutique provider** creates products and services tailored for a specific segment and sold directly – e.g. personal lines insurance product suite for pilots sold through pilots' associations. This is somewhat similar to the niche product provider but the value provided from the boutique insurer is deep knowledge not only of a product but also of a target segment of users and their specific needs

- **Raw capacity provider**, providing other insurers and new startups insurance capacity – this is likely to be a future provider for the tech giants if / when they enter the personal lines insurance market

- **Underwriting specialist** for one or more products based on high level of data analytics, usage of Internet of Things and artificial intelligence / machine learning – these specialists will be providing their expertize to other insurers that are participating in the insurance platforms or as part of a boutique insurance solution

- **Technology provider**, specialized in one or more of the core insurance processes like claims systems, underwriting tools, customer relationship management etc. They will provide an invaluable part of incumbent insurers' value chain in the future.

*Product and services must be relevant for the consumers – even insurance products!*

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# Direct is entertainment and meaning

Insurers that choose to sell directly to end-users need to understand that the needs and expectations of users have been changing over recent years, and they continue to evolve. Consumers today expect immediate access to all services and products and they don't want to wait (the latest research from Google finds that consumers leave a mobile site if load time is longer than three seconds).

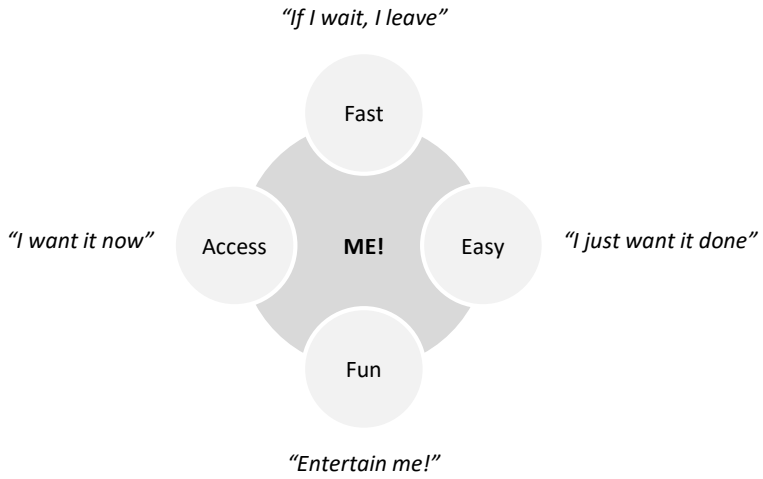


*Figure 2: Consumers basically expect it all immediately with no hassle*

At the same time, consumers expect that their problems to be resolved immediately and with no hassle for them – and they expect to be entertained all along! Going direct poses a serious challenge for the distribution and service channels as well as the systems supporting them. IT systems must be flexible enough to change with the change in consumer moods and the organizational operational processes nimble enough to support the changes too.

Apart from the above, the products and services must be relevant and make sense for the consumers so they're able to connect with the service that they buy – not an easy task for an insurance product, but several newcomers have already tried, Lemonade as the most successful at the time of writing.

# Providers must know it all – and then some

If the incumbent insurer decides to pursue a provider strategy, providing underwriting services or capacity to direct insurers or MGAs, the battle is all about turning data and data processing into knowledge, providing raw data power for big data analytics and strong, self-learning systems that continues to improve alongside the growth of consumer data available.

A key success factor is the ability to collect data from an infinite number of data sources and creating systems prepared for adapting new sources instantly.

Since data collection and following analytics are key competences for these insurers, nothing that hinders this must stand in the way. Systems connectivity between all partners and sources in the overall ecosystem is key.

Another key value to be provided is loss control, analyzing the data to identify risks and apply methods to avoid these – or to steering the end-user towards a less risky behavior.

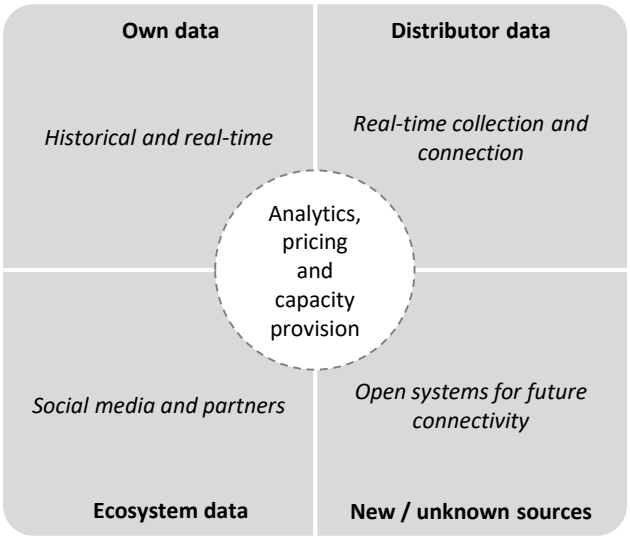


*Figure 3: A provider strategy requires heavy data analytics skills and ultra-connectivity towards virtually everybody*

# Specialized insurers must be just that

As an underwriting specialist, or a niche product insurer, it's necessary to know more than anyone else in the market about the specific product and target segments. Underwriting specialists and niche insurers must be able to price products with laser precision and enhance further specialization with ancillary products to refine underwriting and improve customer experience.

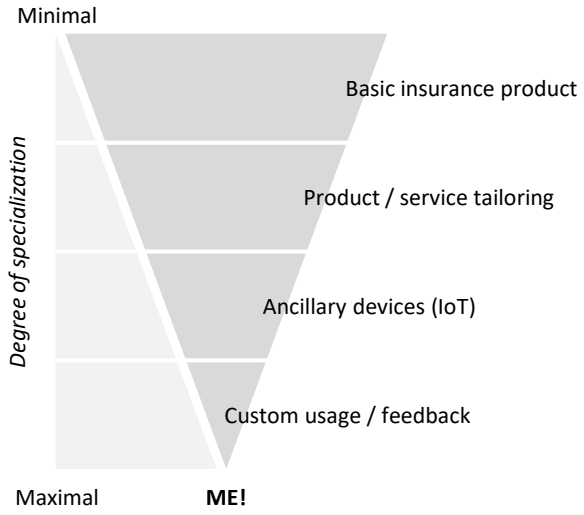


*Figure 4: Specialization means going deep in service, product and ancillary product offerings*

These insurers would offer programs that steer consumers towards a specific behavior, and through this behavior reduce the risk and hence allow even more refined pricing. However, it's not enough to offer a program for increased risk control, the customers have to feel compelled to use it too, or they simply will not – this is where the insurers should use Internet of Things and connectivity to engage the customers. Examples could be in-car-telematics with gamification and competitions, home monitoring while away, and individual healthcare programs based on sensory inputs.

Another compelling way is to offer customers individual and tailored insurance based on their specific needs, and offering them something they didn't expect that adds value to the product and how they use it – for example a medical insurance paired with a DNA test and an Apple Watch monitoring health and activity on a daily basis – the human version of in-car telematics.

# Trying to do all ends up doing nothing

The 'one-size fits all' is fading away and to survive, incumbent insurers must carefully understand their current core competences and decide what position to strive for in the future – it's clear that full control of the value chain will be next to impossible, so another very important aspect of creating a winning strategy is to select the right partners throughout the value chain.

This takes careful analysis and a strict selection and – even more importantly – de-selection of what areas to operate and specialize in going forward. It is far more important to completely master a select few elements of the value chain and deliver superior operational results here than striving to own all elements mediocrely.

Some may argue that owning all elements of the value chain – even if not to perfection – can be a competitive advantage in itself, but in today's world with open APIs and simple connectivity this will not be a lasting competence as competitors will be able to, fairly easily, construct a complete value chain by using strong partners.

Each of these partners will be specialized in exactly their element of the value chain, outmatching the mediocre performance of the insurers insisting on owning and managing the complete value chain in-house.

Even though the boutique insurers and insurers offering niche products theoretically could cover the whole value chain, it's hard to see how they'd be able to offer operational excellence throughout all elements – it will be a stronger end-to-end solution if they're able to partner with specialists in the areas where they're not experts (e.g. claims handling systems).

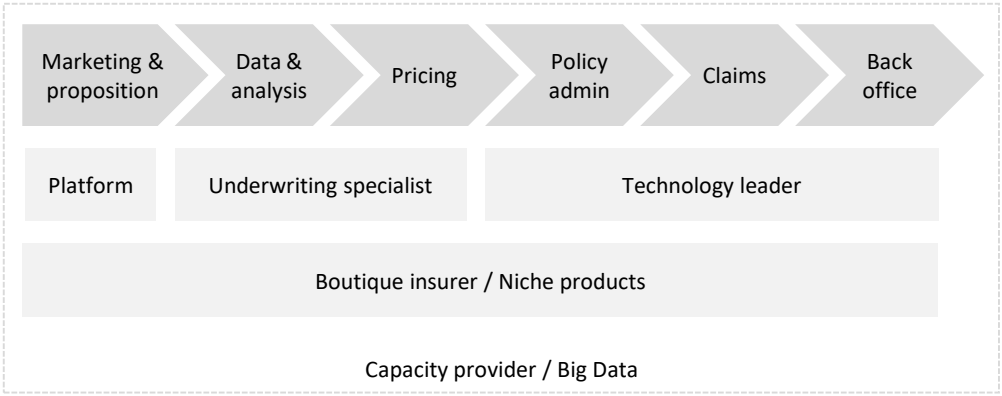


*Figure 5: The 'new' value chain is made up of partnerships – no-one can be operational best at all elements in the value chain*

## OPEN YOUR SYSTEMS OR CLOSE DOWN

Continuing the discussion on the deconstructed value chain, it should be obvious that a vital point in the future will be the insurers' ability to connect to virtually everybody in the ecosystem through simple API functionality. This holds true regardless of what strategy the insurer choses to pursue.

Insurers would need to be able to connect seamlessly to partners, technology providers and customers – and even other insurers. This is currently a major obstacle in the industry as incumbents are fighting age-old legacy systems with limited or close to no external interfaces. The solution may be to detach the digital part of the insurer and create new and simple connection options, with just a single connection back to the legacy systems. .

# Mitigating the loss of a large product line – the demise of motor insurance

There's little argument that the nature of personal motor insurance will change dramatically over the next decade, most probably rendering the product obsolete as the (autonomous) vehicle will be covered by a commercial product liability insurance instead of a personal vehicle or driver's insurance.

Going forward, and depending on the chosen strategy, insurers must find ways to mitigate the loss of this significant product line.

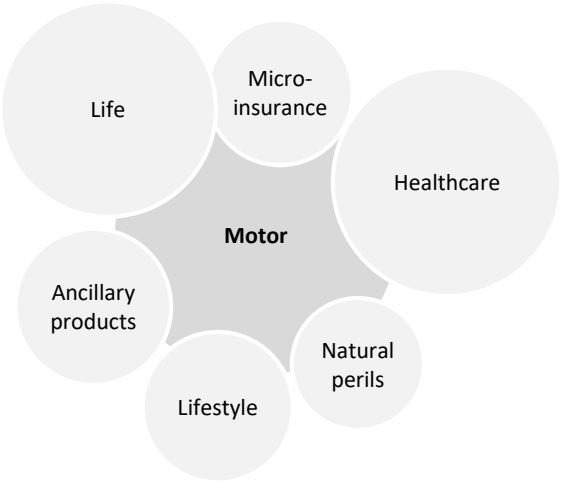


*Figure 6: With motor insurance threatened to perish, insurers must seek other products and services to offset the loss of premium*

The choice of, and focus on, strategy is extremely important as this defines the future battlefield of the incumbent insurer. Choosing a boutique strategy requires the insurer to combine a large subset of insurance products into one tailored offering, where the niche insurer must create and perfect (typically) one insurance product.

A deep understanding of the near and far markets will be key to developing and executing a future strategy – not only knowledge of the consumers' needs and expectations, but also demographic and sociographic development, which will enable the insurers to spot trends and develop products to accommodate these. The large migration from rural to urban areas in Asia is one major trend insurers are acting on, offering various micro-insurances for newcomers to the cities.

For now, and while deciding on the future strategy, insurers must do all they can to optimize the current production and delivery of the vehicle insurance, including a strong focus on cross-sales of existing products to the customer base as well as increasing the sheer customer mass.

In parallel, incumbents must optimize processes and reduce costs to maximize profits so sufficient capital for future investments is secured. As mentioned several times, data and functionality connectivity through easy-to-use API offerings will be key, so incumbents should focus on creating a strong suite of APIs based on customer and partner research as well as analysis of future market trends.

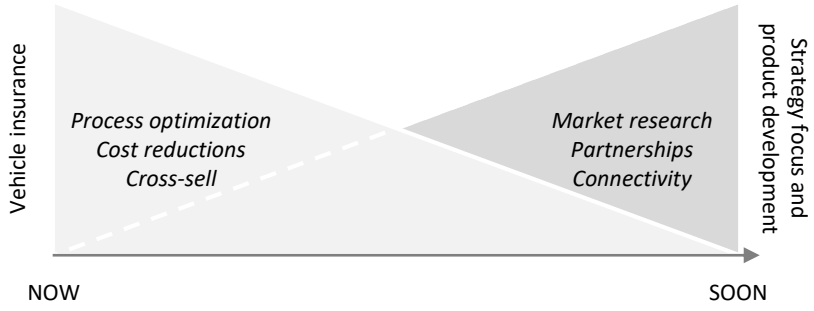


*Figure 7: Cost optimization for motor insurance operations must be in focus to secure funding for executing the future strategy*

About the author

Frederik Bisbjerg (born 1973 in Denmark) is working as Chief Digital Acceleration Officer at Noor Takaful and was previously President for Qatar Insurance Company (QIC), the largest composite insurer in the MENA region and one of the largest insurers in Asia. He is also Head of MENA for The Digital Insurer. Frederik is based in Dubai.

He has more than 10 years' experience from the insurance industry worldwide and is well known and respected for rapid execution of digital and organizational turnarounds as well as fast implementation of commercial strategies.

contact the author :
Email: frederik.bisbjerg@the-digital-insurer.com
LinkedIn: https://www.linkedin.com/in/frederikbisbjerg/

*To achieve things you've never achieved before, you must do things you've never done before*