



**TRADITIONAL
INSURANCE
INDUSTRY
TRANSFORMATION
IN THE DIGITAL
AGE**

2020 RGA Leaders of Tomorrow

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TRADITIONAL INSURANCE INDUSTRY TRANSFORMATION IN THE DIGITAL AGE

The digital age has revolutionized people's lives, it has generated profound changes in our society. Internet, computers and devices modified the habits and customs of our society, allowing people to interact with each other around the world, chat with family and friends, share moments, work remotely, compare goods and services, order groceries, buy technology items and carry out banking operations. No one in 1983 (year of internet born) would have imagined that.

Nowadays, the digital economy is the most efficient mechanism for wealth creation and one the greatest distribution channel for goods and services. There are many advantages that digital age offers to society and economic sectors that are capable to adapt to this new reality, and the insurance industry is not an exception.

Traditional insurance companies' dilemma

Traditional insurance companies have developed a network of offices and agents that provide face to face service to their clients. This interaction is primordial for the user experience in order to commercialize an intangible asset; they have historically focused their efforts on approaching these agents to ensure their loyalty or preference over other companies.

Nevertheless, customer's habits and behaviors have changed in a world where technology has integrated communication channels with them. People are always looking for an experience that fits with their lifestyle.

Traditional Insurers are finding that digital channel can streamline their tasks, and new technologies give them the possibility not only to control expenses and seek efficiency but also to access and contact customers, personalize products and the shopping experience.

Here are **3 key actions** from the digital age that could be implemented in order to transform insurance companies.

- Design and sale of “Massively distributed & unique products”
- Transformation of the insured/insurer relationship
- Analytics, information as transformation basis

“Massively distributed & unique products”

In order to create value within their brand, offer and sale their products, the companies have taken advantage of social networks and digital platforms (such a powerful mechanism that few people dispense of them), and living the effects of COVID 19 pandemic, digital media have become the best ally for goods and services market.

The insurance industry can take advantage of new technologies in order to encourage the **MASS DISTRIBUTION** of its products (easy-to-find and consumer-friendly). For such effects it is necessary to generate:

- *Internet marketing*: allowing to know information prior to purchasing the insurance, send appropriate and timely messages at every moment of the purchase process.
- *Detailed information*: having detailed information on the services offered to increase consumer trust on products offered.
- *Automatic confirmation processing*: it is necessary to implement automatic and online underwriting mechanisms. The sale does not end until the customer has the product in his hands.
- *Mobile and online charge*: implementing auto service and streamlining collection processes.
- *Digital mobility*: a customer’s favorite. In order to search for information, compare, select and buy products and services. This allows policyholders to request insurance policies at any time and from anywhere.

Also, it is necessary to put customer experience at the center and make **UNIQUE PRODUCTS** in order to attend the necessity to personalize the industry, recognizing the characteristics of individuals.

Therefore, the digital proposal must give the user the control over their policies and our customers must have the possibility to:

- Activate and deactivate the products they want to insure online and manage aspects of the service through an application.
- Select different coverage according to their needs (like Lego).
- Manage aspects of the service through an application, from the method of payment to the communication of any claim via chatbot, allowing self-service processes.

New technology allows insurance companies to maintain a constant approach with their clients, and to form a comprehensive vision of their lifestyle and to help them manage their risks. This can be useful to generate a unique experience, so they must focus on collecting data through connected devices to improve the services and to use the information to create a broader structure that connects customers, partners and agents.

In auto insurance sector for example, the connectivity is bringing disruption and opportunity. Many insurers already use car telematics to personalize risk assessment and pricing, or even to offer usage-based products. Some are using it to offer a range of value-added services like roadside assistance and traffic alerts, vehicle security, driver coaching and so on.

In UK, Cuvva allows management of auto insurance (to increase the duration of the insurance, depending on the needs), or Trōv in California which allows the micro-management of the insurance by adding or removing insured products and changing also the duration dates (v.).

In the emerging interconnected environment, insurers have to build tailored products and services and to accurately price the risk for individuals. It is their opportunity to change the perception that insurance is a commodity product that offers little value until the consumer makes a claim. Instead of simply selling coverages, insurers could form part of a hub of services that contribute to people's day-to-day lives.

Transformation of the insured/insurer relationship

In the digital age, agents should not forget the added value that has always differentiated them from other actors in the sector: their closeness and personal contact with their clients. That is appreciated by clients and insurers, making them the most important distribution channel to establish a trustworthy and direct relationship with the insured.

Nevertheless, that relation is fragile, mainly due to stressful events in which clients need immediate assistance and expect a favorable outcome without complications (so the client turns to the insurer and the agent). However, the insurance industry involves external actors that, although they are key in operations, they are not directly controlled by insurers and have their own processes which can favor or hinder the company's value proposition.

Insurers must provide digital tools that facilitate administrative tasks for agents, partners and policyholders, strengthening a relationship of trust. They must design features for tablets and smartphones to allow customers to interact through the insurance distribution and services network.

- *Claims management process*: insurance companies have a relevant change in the entire process of the insurance value chain. Having an accident, reporting the location and loss to the company, taking photos and sending them, sharing the contact of the other accident victims, requesting a courtesy car or directly leaving the place of the accident (prior approval at the time of the company), etc., are already common in many countries.
- *Charges through websites and apps*: integration of warning systems for non-payment of premium and *charges through websites and apps*.
- Online processes insured data update such as beneficiaries changes, request for withdrawals from the insured's fund, etc.

The success of these new services in full expansion is highly conditioned by the usability aspect. It is necessary to provide an excellent experience in all digital media.

Insurers should not only implement tools that strengthen closeness and trust during administrative processes. Companies that solve their customers' problems by understanding their goals and challenges can connect with them on a deeper level (iii.).

This creates a path toward changing the nature of the insured/insurer relation from transactional into emotional ones.

Lemonade (in the USA) is an insurer that has adapted to consumers expectations. The company's chatbot, called Maya, manages a credible conversation with the user (with a simple, natural and personalized language from the first moment you ask the name of your interlocutor), allowing the client to see exclusively the necessary information on the decisions that is making(v.).

Maya solves the explanations of the legal terms in a way that is easy to understand, one of the challenges of the insurance company and the success of the claims processes (with an average of 3 minutes) and underwriting and application process (in 90 seconds on average).

The use of digital tools and analytics is a clear advantage, designed to simplify and automate administrative tasks (which frees up the time you can dedicate to better and more personalized service to policyholders).

It is important to understand the client demographics, needs, wants and challenges. To be effective, it must be based on real and objective data. Once you understand your customers' goals, you should be laser-focused on them.

Analytics, information as transformation basis

The insurance industry has been characterized as a data-driven business; however, new technologies allow insurers to collect a greater amount of potentially useful information for risk assessment and to understand customer needs.

Data collection from devices along with personal and historical information that the insurer already has and the data that can be obtained from social networks is allowing an increasingly complete view of clients.

Detailed information about the vehicle and the behavior of the insured in their driving can be known through monitoring devices in automobiles, which will permit them to take advantage of discounts according to their driving behavior.

Some apps let insurers to know customers health data such as physical activity, heart rate, food consumption and others. Munich Re partnered Trictrac are offering “Wellgace” to its insurance partners so they can engage customers and use the analytics to further support their core business in the areas of product development, pricing, and underwriting (vii.). Wellgace combines a user's lifestyle signals, from their apps and wearables, with contextual information about their surroundings - guiding them to achieve their health objectives, such as preventing diabetes or reducing stress.

Data from the new devices will allow insurers to understand their clients better, and the great challenge will be to understand how they can use it in order to design new products, personalized premium and real-time services customized for particular needs.

Platforms such as Netflix or Amazon have designed personalized experiences to sell products and services, so insurers clients expect this in the purchase of insurance.

According to an Accenture study (vii.), 77% of consumers are willing to provide usage and behavior data in exchange for lower premiums, faster claim settlement, or insurance coverage recommendations.

Insurers will become a custodian of behavioral information, so it is necessary that clients accept a higher level of involvement, willing to share as well as access and management of new information flows. The healthier the lifestyle of the insured, the more points possibly accumulated by the members of the program to receive valuable rewards and discounts from leading providers.

Conclusion

Nowadays, it is clear that customers expect to be connected 24x7, regardless of where they are, new generations buy differently, and these digital natives go to digital channels more frequently.

The new technologies will simplify the purchase of insurance policies throughout the sales channel, improve profit margins, give faster decision-making, allowing the design of customized products and services, and more satisfied customers.

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I have the privilege to lead the life insurance actuarial team, being responsible for calculating prices, reserves, ensuring business profitability, leading the business to the strategic goals planned in Grupo Nacional Provincial S.A.B., insurance leading company in Mexico, determined to maintain our position by providing the best products and services to Mexican families.

I have been working at GNP since 2009. In my early days, I worked in the statistics, reserves and reinsurance areas of long-term life insurance. For 3 years, because of the strengthening of the Corporate Governance, due to the implementation of Solvency II regulation in Mexico, I developed the Internal Actuarial Audit Unit (short term life, auto and health insurance).

In 2018, i returned to the actuarial life team to direct the update of the actuarial assumptions and models for different purposes, leading the Long Term Life Insurance unit since 2019.