Digital Insurance

Answering digitalization questions in life insurance

By Tony Laudato
August 08, 2019, 5:32 a.m. EDT

In our last piece, we discussed the nuances of digital marketing, and why life insurers should adapt their strategies to account for them. Today, we answer the key questions companies have on their digitalization journeys.

Office workers sit inside an illuminated office building in the City of London, U.K., on Thursday, Nov. 22, 2018. Brexit Britain will be the top destination for major European investors to snap up commercial property next year, according to a survey of executives managing more than 500 billion

pounds ($640 billion) of real estate conducted by Knight Frank. Photographer: Luke MacGregor/Bloomberg
Luke MacGregor/Bloomberg

First is the question of technology and infrastructure, of making the investment required to ensure the company has the means to execute these quite unfamiliar, data-heavy digital strategies - whether that be through replacing or upgrading in-house systems, or through partnering with third party technology firms.

There is also the question of talent and company culture. Fully embracing digital means processing large amounts of data, and then knowing how to use it to maximum effect. This will require hiring people who are tech-savvy and know how to navigate, for instance, social media, or data analytics. The skills and aptitudes involved are quite alien to many insurance firms and it will involve hiring new types of employees at all levels. Any insurance firm that wants to do it entirely in-house will have to, to some extent, become a tech firm – and that's a big cultural leap. There's also the inconvenient fact that insurance is not exactly the first sector that younger tech wizards think of when deciding on a career – firms will need to think about how to make themselves appealing to this kind of talent, and bridge the gap.

And there is also the matter of digital distribution impacting the carriers' risk profile. The main hazard from a risk perspective is the loss of the human judgement element when bringing new customers onboard. The digital approach is about automation and volume – what comes through the door is a set of data points. There isn't an agent talking to the customer, getting to know them in a more rounded way.

This is far from an insurmountable problem, but it does introduce the potential for new risks coming on board to not be screened as well as they would be via the traditional approach. It means learning new ways to screen for risks. The main things an insurer needs to understand about new customers are their financial status, their health, and whether they truly need the product in question. This has to be done differently to simply relying on the expert judgement of agents – any digital onboarding process needs to incorporate a way of both capturing and assessing this information in a reliable fashion.

This further underlines the point that digital and traditional should be seen as complementary rather than mutually exclusive – ultimately a human element will always be needed to address this type of risk. The key is finding a way to integrate the two together, to ensure there's an aspect of human intelligence and judgement built in.

Life insurers are starting to embrace the shifting sands and are looking to digitize. Some firms want to build their own digital capabilities but recognize they don't know where to start, and so they bring in a tech firm to advise. Other firms are partnering with tech firms to outsource the function. In these cases, the insurtech firm gets 'bolted on' to the insurance company, bringing its own talent and essentially acting as that company's digital department.

The relationship between traditional insurers and smaller insurtech outfits has changed considerably over the last couple of years. Whereas many insurers initially thought they'd be competing directly against a new generation of disruptive fintech startups, a far more collaborative dynamic has now emerged. This makes a lot of sense – the two sectors bring very different-yet-complementary skills and capabilities to the table, and have advantages with different markets and consumer audiences.

Life insurers' traditional revenue pool does have some life in it yet. But firms who are not just looking to survive but to *thrive*, at the very least need to understand their customers better, and be more up to speed with modern consumer behaviour.

This doesn't necessarily mean they have to go down the direct-to-customer route, but adaption is needed to unlock the efficiencies that digital can enable, and to bring approaches in line with expectations consumers now have. Relying on traditional messages and systems limits the potential market, and will eventually be obsolete entirely. Digital distribution is just one aspect of the ongoing modernization of the insurance industry which is, in the long run, inevitable. Those that don't adapt will be left behind.

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