

***'Insurance in the Digital Age  
– a Tori Perspective'***

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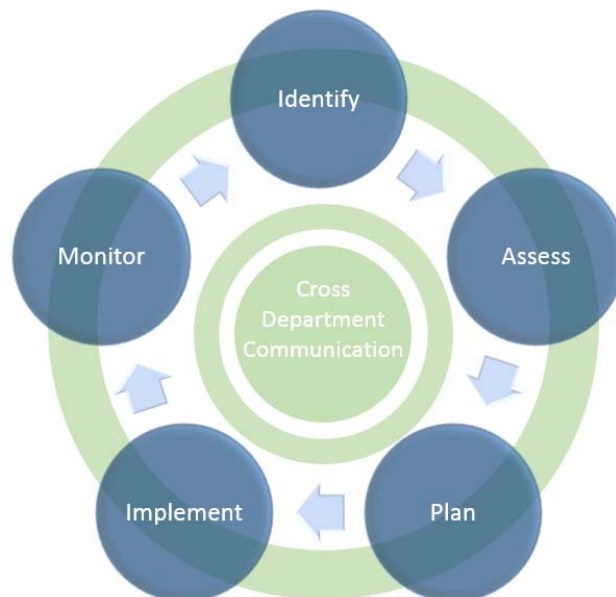
Traditionally, the most conservative of the financial services, the insurance industry has lagged behind in embracing the Digital Age. However, as the industry heads into a new frontier of change, incumbents must adapt if they are to survive.

Change in itself is not new to insurers: In recent years they have had to cope with severe market events and the resulting regulation. Under increased competition, they have also experienced a three-decade long trend of shrinking margins from all fee generating activities.<sup>1</sup> This has affected the whole value chain across distribution, fund trading, valuation and administration. Unfortunately, the situation is about to get worse. Insurance is increasingly being bought over the internet, leaving the traditional sales channels redundant. As a result, there is now an urgent need for the industry to transform and partner with, or compete against, the emergence of the global technology-based retailers and innovative start-ups that are adept in the digital world.

### *Digital Focus*

The importance of these digital technologies cannot be understated. The purchasing decision-making process in many areas of the retail and financial services industries has already been completely digitised, and with consumers seeing it as a necessity, the trend is set to expand across all industries

To stay relevant and compete in the 21<sup>st</sup> century, insurance companies should therefore continue to focus on the standard business strategem of 'Innovation', 'Cost Reduction' and 'Product and Market Expansion'. They should also employ a Digital Risk Management Strategy, whereby they have the tools and resources in place to react quickly to minimise the digital threats, yet embrace the opportunities. However, while the digital risk management strategy process flow shown on the right may look familiar it is important to understand that the threats and opportunities are not isolated, and need to be considered across the entire organisation.



A false assumption around digital is that it is all about technology. In reality, technology is only the tool and digital strategy is more about people and process transformation and how to facilitate this in order for a company to be successful. Within

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<sup>1</sup> 'Is the value chain broken?' Andy Reed and Gary Warman for the Institute and Faculty of Actuaries



the insurance industry, digital strategy is heavily focused on organisational and technological change in order to move to a customer-centric business model. The issue at hand is that many insurance products are still sold in a traditional manner, and digitally superior players are stealing the limelight and rapidly eroding any sense of customer loyalty. Such a decrease in customer loyalty is further exasperated by the financial downturn and the plethora of comparison engines used by digitally aware fickle customers that are able to easily switch policies, yet require an ever increasing amount of attention in order to keep them satisfied.

### *Digital Decision Making*

It is also evident that the purchasing decision-making process is becoming ever more digitised. The digital influence with insurance is far greater than the statistics of policies sold over the internet imply. The Internet is now the de facto tool in purchasing decision-making, due to the ease that quality and price can be discovered, and more importantly compared. An innovative marketing campaign may raise awareness to a product, but negative reviews on forums and comparison sites can drive them to a competitor. Such 'word of mouth' has always been a key decision making factor, but in the Information Age the influence has been magnified and been replaced by 'word of mouse', where recommendations and reviews from friends, family or 'knowledgeable' strangers are only a few clicks of a mouse button away. It is therefore imperative that firms track social channels within their customer service operations to assist in the management of the perception of the firm, in order to monitor both positive and negative sentiment. It follows that all operational systems including Customer Relationship Management and Customer Experience Management are fully integrated to provide a complete view of the customers and prospects. With this in place, social media and other review and forum-based information should be fed back internally to the relevant departments for continuous improvement, while a personalised response should, of course, be handled accordingly with regards to its sensitivity, via the appropriate channels.

Smart contextual content tailored to the individual from interactive marketing campaigns should be accessible over a range of channels and devices. For example, an initial marketing campaign could take place within Facebook, leading to a website optimised for smartphones, whereby the customer is able to request a call back to finalise the details and complete the transaction. With today's consumers expecting the insurance companies to mirror the rich digital retail experience that they already enjoy in other industries, such a multi-channel approach is an absolute necessity. Additionally, would-be buyers also require more control in the purchasing possibilities and the ability to fine-tune the policy components and complementary services, in order to witness the impact on potential premiums in real time.

### *Digital Gadgets, Apps and Devices*

The life insurance business is about to become severely disrupted by the adoption of self-tracking and self-testing technology, fuelled by the healthcare, sports and fitness industries. The demand for self-tracking smartphone apps is already immense, as



demonstrated by 'MyFitnessPal', a calorie counter app that has been downloaded by more than 50 million people. However, a more obvious impact within the insurance industry and particularly the underwriting practice can be demonstrated by a smartphone app released by Mayo Clinic. Based around cardiac rehabilitation, the app tracks a patient's vital signs (weight and blood pressure), while also letting them log their daily exercises. Research has suggested that the app has reduced re-admittance into hospitals by 40%.<sup>2</sup> The success of such an app tunes into the competitive spirit of smart phone users through Gamification, while also tailoring educational content in small doses over a regular basis.

Gamification has been slow to arrive within the insurance industry, when you consider how long it has already existed with the airline industry in the form of air miles. However, to promote customer loyalty, Gamification could soon be extended to include exclusive social games that lock in customers and 'recruit' their friends. Competitive games that promote healthy living with real time leaderboards could become a default offering within life insurance policies. To stimulate demand for annual travel insurance from gap year students, an insurance company could consider building a game around completing challenges, such as uploading 'selfies' taken in a series of famous locations with real prizes awaiting the travellers upon their return home.

Sensor technology such as smoke alarms and burglary systems have provided alerts to threats against insured assets for many years, but now the technology exists to monitor the policyholders themselves. Many sound like they come straight from science fiction, but testament to the enduring human spirit of innovation, and enabled by the research and collaborative abilities of the Internet, they are already here. Odour sniffing machines that can detect cancer at an early stage are set to revolutionise the field of oncology and dramatically improve patient's survival rates. Within a few years, blowing into a medical device or even a standard smartphone could be commonplace, with real-time results leading to instantaneous follow up calls from medical personnel on hand to assist.

The sheer volume of data heading its way to the industry is both an opportunity and cause for concern. Privacy concerns aside, cloud technology has proven itself to cope with an ever-increasing amount of data coming 24/7 from a variety of different channels, although the critical question remains of how to analyse and leverage the data. In a world of increasing price sensitivity and decreasing margins, the firm that can perform the best risk assessment also has the ability to set the most competitive premiums.

With the recent announcement of its health data repository 'Healthkit'<sup>3</sup>, Apple is banking on the continuing growth of the health related device industry. This may be a self-fulfilling prophecy, as it will no doubt spur on the invention and production of third party devices into the Apple ecosystem. Previously, Google and Microsoft failed on similar endeavours, but the area is now ripe for the taking due to the appetite for fitness related gadgets and the advent of smartphone browsing and app productivity.

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<sup>2</sup> <http://mobihealthnews.com/31580/mayo-clinic-study-finds-app-reduces-cardiac-readmissions-by-40-percent/>

<sup>3</sup> <https://developer.apple.com/HealthKit/>



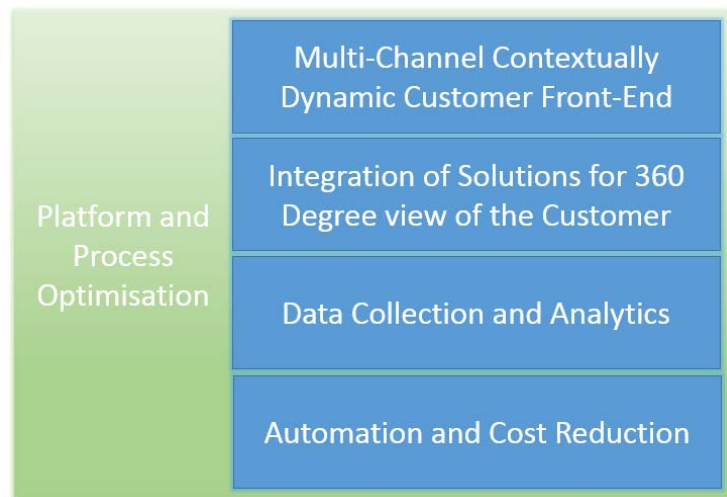
Gadgets and devices have arrived in the non-life business in the form of 'Telematics'. These are small devices the size of a pack of cards that monitor the policyholder's driving habits from within their vehicle, the premise being that if the driver is observed to be driving more carefully than the average driver, it will be reflected in the premiums they pay. With regards to customer adoption, it is true that the devices are still in their infancy, however, in the long run one would expect them to be a standard option on any vehicle insurance policy

### *Digital Disruption in Claims Processing*

Smartphones will play an increasing role within claims processing, leading to reduced administration costs, fraud prevention, and of course, a desirable alternative channel for customers. A number of insurers have already developed apps to streamline the claims process by allowing their policy holders access to the answers of frequently asked questions, while guiding them through the process of describing the accident, uploading photos, and capturing the details related to the other party and witnesses. It is also clear that this concept could be extended further to include fingerprint and number plate recognition with local police being automatically alerted if there is an issue.

### *Wrapping Up*

In conclusion, the digital impact on the insurance industry will be felt across the whole value chain. Furthermore, historical defensive measures to increased competition of cost control will not be sufficient to combat the digital players that simultaneously compete on price, quality and innovation.



With traditional customer loyalty all but disappearing due to the rise of transparent comparable pricing, surviving in the digital arena requires more than a reshaping of business processes: It requires a completely new mind-set with cross-department collaboration and fully integrated customer-centric channels that engage the masses.

The realm of Big Data will either be a saviour or disaster for the insurance companies, as they all tackle and leverage the ever increasing amount of detailed consumer data available from web analytics and tracking devices. Global Technology companies are already in a strong position within this area and have the capability to operate in many other areas within the insurance value chain. Google, for example already dominates



in the collection and analysis of data; is the leader in keyword searches where 'Insurance' is the most expensive<sup>4</sup> and entered the price comparison business in 2012 with the website 'BeatThatQuote' aimed at car insurance.

It therefore seems certain that unless there is an immediate pro-active response to this digital surge, the industry's entire value chain will be severely disrupted by a 'Cyber Tsunami' that will leave the swamped insurance firms fighting over the scraps of providing back office services, or worse.

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<sup>4</sup> <http://www.wordstream.com/articles/most-expensive-keywords>