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Changing the Status Quo Bias: Applying Behavioral Science as a Win-Win for Insurers and Clients

By Jos Maroba, Francois Millard and Daniel Kotzen

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Letter From the Editor

By Ailen Okharedia

Welcome to the May 2018 edition of *NewsDirect*. We have a collection of interesting, informative and very topical articles in this issue.

In this edition, we have articles that cover a wide range of topics including:

- "Changing the Status Quo Bias: Applying Behavioral Science as a Win-Win for Insurers and Clients,"
- "So Your Startup Wants to Sell Insurance—Agencies, MGAs and Carriers,"
- "A New Age of Insurance Marketing"
- "The Super Insurance Agent" and
- A selection of important MaD Happenings for 2018.

Have you ever wanted to become a published author? At *NewsDirect* we are always looking for people to contribute articles with fresh ideas and new perspectives on topics that are relevant to our MaD mission. If you have an idea for an article that you'd like to write, please contact me or any MaD council member.

Also, I would love to get feedback on this edition from anyone who reads any or all of the articles. What did you like? What would you like to see in the next edition? Do you have suggestions for particular authors or subjects? What changes could we make so that you receive the most possible value from reading *NewsDirect*? Please let me know what you think.

I hope you enjoy this edition of *NewsDirect*!

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Changing the Status Quo Bias: Applying Behavioral Science as a Win-Win for Insurers and Clients

By Jos Maroba, Francois Millard and Daniel Kotzen

The age-old question of how to bridge the gulf that divides the insurance industry and prospective clients has been pored over since the years of the Amicable Society for a Perpetual Assurance Office. While the problem may seem like a perpetually moving target, the insights from Nobel Prize-winning behavioral economists like Daniel Kahneman and Richard Thaler pave the way to reimagining and optimizing the insurance value chain.

This concept is neatly captured by Ailen Okharedia, who in a prior edition (*NewsDirect*, May 2017) noted how behavioral economics, together with big data and digitization, can and should be leveraged to address the behavioral dilemmas that plague consumers[1], most notably that "*the benefits of holding the insurance are delayed, the probability of having a claim is hard to analyze, consumers do not get useful feedback on whether they are getting a good return on their insurance purchases, and the mapping from what they are buying to what they are getting can be ambiguous.*"[2]

In fact, it is by pairing behavioral economics with a shared-value ecosystem that not only leads to insurance becoming more tangible to the client, but—contrary to current structures—results in a product that rewards clients for living a longer life in better health, all on an ongoing basis. By creating a product that reveals its value from issuance through the duration of the policy, insurance becomes an engagement and health-incentive platform rather than a theoretical safety net.

Shared-value, the basis for this win-win proposition, emerged as a concept from a *Harvard Business Review* article by Professor Michael Porter and Mark Kramer, conceived as a framework for creating economic value while also addressing a societal need. Discovery, a South African insurer, pioneered the Vitality wellness program in 1997, growing it over the years to reach seven million clients in 15 countries across the world. The Vitality Shared-Value Insurance model is predicated on Discovery's core purpose of making people healthier and enhancing and protecting their lives. Importantly, the structure comprehensively addresses all the perceived behavioral pitfalls highlighted by Thaler and Sunstein, creating a lasting and meaningful connection between company and client.

THE BENEFIT OF HOLDING THE INSURANCE IS IMMEDIATE AND SUSTAINED THROUGHOUT THE POLICY DURATION

Policyholders enjoy dynamic pricing and have access to a suite of rewards. Examples include deep discounts on healthy grocery purchases (Vitality HealthyFood) and the latest in wearable health and productivity technology in the form of the Apple Watch (Vitality Active Rewards with Apple Watch).

Case Study 1: Vitality Active Rewards With Apple Watch

The benefit employs loss aversion, pre-commitment and financial incentives to nudge members toward increased levels of physical activity, thereby turning both the financing and the features of the device into drivers of behavioral change.

At a high level, Vitality's Active Rewards with Apple Watch benefit is structured to reduce the upfront cost of new technology such as the Apple Watch. A monthly physical activity goal structure allows clients to potentially reduce their monthly Apple Watch payment to zero. In addition to these macro incentives, Vitality has paired micro incentives in the form of Active Rewards where members are rewarded (e.g., with a Starbucks coffee) on a more regular basis for attaining weekly physical activity objectives, creating a positive feedback loop.

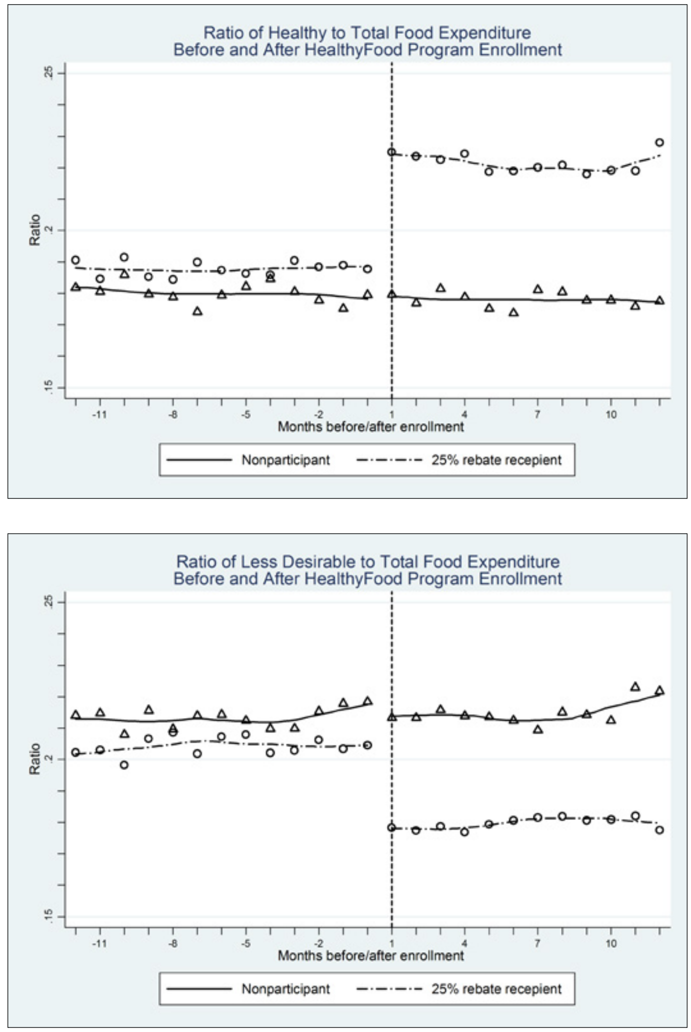
The behavioral improvements have been substantial with members recording a workout on the Vitality program 78.4 percent more often following [its] introduction.

The behavioral improvements have been substantial with members recording a workout on the Vitality program 78.4 percent more often following the introduction of the benefit, increasing from approximately 11 to a little over 20 workouts[3] per month, on average. Importantly, these improvements were seen across risk profiles—individuals with low, medium and high BMI-risk increased their workout profile by 90.1 percent, 51.2 percent and 74 percent respectively.[4]

Figure 1
Illustration of Active Rewards With Apple Watch

Image used with permission.

Figure 2
Results From the RAND HealthyFood Study



While meaningfully engaging with the program to earn these rewards, members become healthier and build a repertoire of healthy habits that are sustained over time. All of this ensures that individuals have a real sense that their insurer is seeking to both reward and protect their longer and healthier lives.

Case Study 2: Vitality HeathyFood Program

The HealthyFood program reduces the cost barrier to healthy eating by providing a discount on selected HealthyFood items at partner grocery stores. Healthy items are clearly marked on supermarket shelves, relieving members of the cognitive load of deciding which foods are healthy. Vitality members also earn points for each dollar spent on healthy food. These points accumulate, together with points for exercise and other wellness activities, to move members up a tier status (Vitality status[5]) which in turn unlocks increasing discounts on travel, entertainment and retail shopping, further incentivizing individuals to opt for fresh produce over the candy aisle.

The results speak to the power of the nudges at play. In a study[6] of 300,000 Vitality members by the RAND Corporation, sponsored by grants[7] from the National Institutes of Health in the United States, a 25 percent rebate on healthy foods was associated with a 12 percent increase in spend on healthy foods and a 6 percent reduction in spend on foods that are high in sugar, salt and/or fat. In addition, the rebate was associated with an increase in fruit and vegetable consumption by 21 percent and a reduction in high sugar, processed meat and fast food by 29 percent, 15 percent and 17 percent respectively.

PROVIDE MEMBERS WITH AN INTUITIVE RISK METRIC AND A DEFINITIVE GUIDE AS TO HOW THEY CAN IMPROVE THEIR LIFE EXPECTANCY THROUGH HEALTHIER BEHAVIORS

Life expectancy and its statistical underpinnings are poorly understood at the best of times and so driving home the likelihood of an insurance claim is certainly difficult. Vitality seeks to address this through Vitality Age—a clinically-robust risk-adjusted age that not only gives a person a sense of their relative health and life expectancy, but is also embedded in a program where resources are provided to ensure that members can improve their Vitality Age over time.

CONSUMERS GET CONSTANT FEEDBACK ON THE VALUE THEY ARE EARNING THROUGH DYNAMIC PRICING AND REWARDS WITHIN THE PROGRAM

Typical insurance policies are structured with the end in mind and there is little cause for interaction between policy issuances and claims. Within the shared-value construct, members are incentivized to engage actively in the program and are rewarded for doing so on an ongoing basis.

While members view Vitality Status through a rewards lens, this measure is also a powerful, dynamic rating factor that provides real-time insights into a client's risk status at a point in time—critical data that would not be available to the insurer otherwise. Vitality's dynamic pricing approach takes advantage of this feature by using loss aversion to incentivize clients (through rewards and premium discounts) to maintain good health. In particular, Vitality clients with a life insurance policy receive an upfront discount which they can retain by sustained healthy behavior; the discount can be increased or slowly eroded depending on the client's Vitality Status in a given year.

MEMBERS CLEARLY UNDERSTAND THAT THEY ARE BUYING A PROGRAM THAT REWARDS THEM FOR HEALTHY BEHAVIORS WHILE PROVIDING THEM WITH LONGER-TERM INSURANCE PEACE OF MIND

Insurance buys policyholders security, but there is a substantial amount of cognitive dissonance and the safeguard seems as though it is for a theoretical construct in an altogether distant world. Instead, within the shared-value construct, the focus is on incentivizing and nudging individuals towards healthier behaviors. In doing so, insurance is not simply a protective mechanism against a catastrophic end state, but rather a bridge that provides support and guidance towards a protected, healthier, longer and well-rewarded life.

CONCLUSION

The Amicable Society for a Perpetual Assurance Office's motto in the 18th century was *prudens simplicitas* (prudent simplicity). Prudent, according to the Oxford English Dictionary, is defined as acting with or showing care and thought for the future. However, it is only in bridging the gap between the client's present and future state that the value of insurance comes to the fore. Behavioral science and shared-value insurance provide a simple yet immensely powerful mechanism with which to bridge the two temporal spaces to allow members to act with absolute prudence, even if they need to be nudged in the right direction. ■

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ENDNOTES

1 Okharedia, Ailen. "Insurance is Sold, not Bought—But Why? Some Lessons Learned From Nudge by Thaler and Sunstein." Society of Actuaries: Marketing and Distribution Section (Issue 74 May 2017).

2 Thaler, Richard H.,Sunstein, Cass R. *Nudge: Improving Decisions About Health, Wealth, And Happiness*. New Haven: Yale University Press, 2008.

3 Workouts are tiered at different levels, starting at recognizing physical activity over 5,000 steps (or the equivalent).

4 Results are based on United States data current as of Dec. 31, 2017.

5 Vitality typically has four statuses: Bronze, Silver, Gold, and Platinum

6 Sturm R. et al (2013), "Eating better for less: a national discount program for healthy food purchases in South Africa," *American Journal of Health Behavior*.

7 Support for this project came from the National Cancer Institute (Grant No. R21CA161287) and National Institute of Child Health & Human Development (Grant No. R21HD071568).

So Your Startup Wants to Sell Insurance?

Agencies, MGAs and Carriers . . . oh my

By Kyle Nakatsuji

This article originally appeared on Medium *on April 18, 2016. It is reprinted here with permission.*

Selling insurance is complicated. Not impenetrable, but complicated. The sales process is sort of like a tangled piece of string—it's easy to see the beginning and end, but hard to figure out what's happening in the middle.

When you start untangling, you'll find prospect lists, telemarketing, direct mail, traditional marketing and web-based lead generators uncovering and enticing potential customers. You'll also find captive agents, independent agents or brokers, wholesalers, direct telephone sales, the Internet, affiliates, carriers and carrier-like entities selling various products.

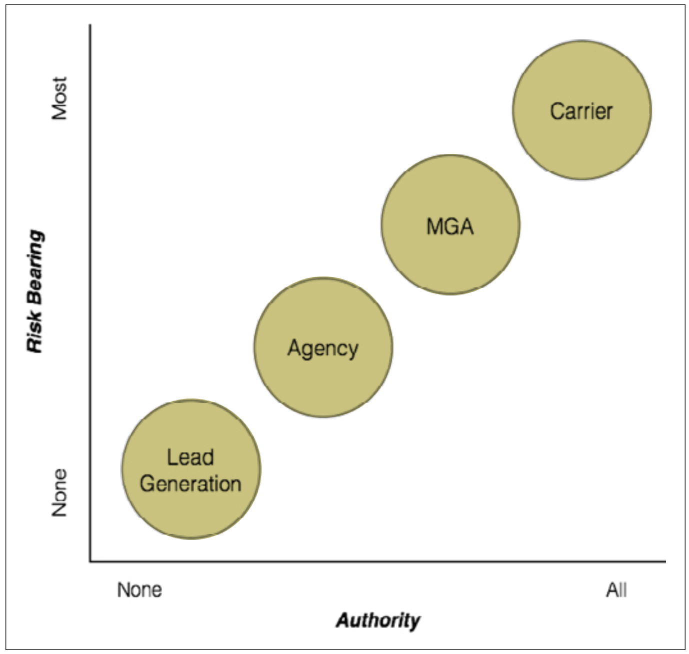
Some of these strategies work in coordination or create feedback loops—a customer sees a TV ad, which prompts them to submit a form online, which adds them to a direct mail list, that points them to an online aggregator, which puts them in touch with an independent agent selling insurance on behalf of a managing general agency ... as you can see, the number of distribution permutations is considerable.

However, at American Family Ventures, we classify insurance distribution startups using four groupings: lead generation, agency/brokerage, managing general agency (MGA) and carrier.

As pictured in Figure 1, the primary distinctions between participants in each group arise from the amount of insurance risk they bear and their control over certain aspects of the insurance transaction (for example, the authority to bind and underwrite insurance policies).

However, many other tradeoffs await insurance startups navigating among these four groups. If you consider the evolution of digital customer acquisition, including new channels like mobile-first agencies and incidental channels, choosing a niche becomes even more complicated.

Figure 1
Insurance Distribution Groups



In this article, I'll discuss some of the key attributes of each group, touching on topics relevant for startups new to the insurance ecosystem. Please note, in the interest of time and readability, this article is an overview. In addition, any thoughts on regulatory issues are focused on the U.S. and not legal advice.

LEAD GENERATION

Lead generation refers to the marketing process of building and capturing interest in a product in order to create a sales pipeline. In the insurance context, because of the high-touch sales process, this historically meant passing interested customers to agents or call center employees. Today, lead generation operators sell to a variety of third parties, including online agencies and digital sales platforms.

Let's consider a few key attributes of lead generation providers:

- **Revenue model**—There are a variety of lead-selling methods, but the most common is "pay per lead," where the downstream lead buyer (carrier or channel partner) pays a fixed price for each lead received. When pricing leads, quality plays a big role. Things like customer profile, lead content/data, exclusivity, delivery and volume all affect lead quality, which frequently drives the buyer's price sensitivity. As a lead generation provider, you'll generally make less per customer than others in the distribution chain, but you'll also assume less responsibility and risk.

- **Product breadth**—With the Internet and enough money, you can generate leads for just about anything. Ask people who buy keywords for class action lawsuits. However, startups should consider which insurance products generate leads at acceptable volumes and margins before committing to the lead generation model. Some products are highly competitive, like auto insurance, and others might be too obscure for the lead model to scale, like alien abduction insurance (which, unbelievably, is a real thing). Startups should also consider whether they possess information about customers or have built a trusted relationship with them—the former is often better suited to lead generation and the latter can facilitate an easier transition to agency/brokerage.

- **Required capabilities (partnerships)**—Lead generation providers need companies to buy their data/leads. Their customers are usually the other distribution groups in this article. Sometimes they sell information to larger data aggregators, like Axciom, that consolidate lead data for larger buyers. Generators need to show lead quality, volume and uniqueness in order to secure relationships with lead purchasers, but beyond that they don't typically require any special partnerships or capabilities.

- **Regulation**—While I won't go into detail here, lead generation operators are subject to a variety of consumer protection laws.

AGENCIES AND BROKERAGES

Entities in the agency/brokerage group (also called "producers") come in a variety of forms, including independent agents, brokers, captive agents and wholesale brokers. Of note, most of these forms exist online and offline.

Independent agents represent a number of insurance carriers and can sell a variety of products. Brokerages are very similar to independent agents in their ability to sell a variety of products, but with a legal distinction—they represent the buyer's interests, whereas agents represent the carriers they work for. Captive agents, as the name suggests, sell products for only one insurer. While this might seem limiting, captive agents can have increased knowledge of products and the minutiae of policies. Finally, some brokers provide services to other agents/brokers that sell directly to customers. These "wholesale brokers" place business brought to them by "retail agents" with carriers, often specializing in unique or difficult placements.

> With the Internet and enough money, you can generate leads for just about anything.

An important difference between the lead generation group and the agency/brokerage group is the ability to sell and bind policies. Unlike the former, the latter sells insurance directly to the consumer and in some cases issue binders—temporary coverage that provides protection as the actual policy is finalized and issued.

Some attributes of agencies and brokerages:

- **Revenue model**—Agencies and brokerages generally make money through commissions paid for both new business and on a recurring basis for renewals. The amount you earn in commissions depends on the volume and variety of insurance products you sell. Commission rates vary by product, typically based on the difficulty of making a sale and the value (profitability) of the risk to the insurance carrier. Startups should expect to start on the lower end of many commission scales before they can provide evidence of volume and risk quality. Agents and brokers can also be fee-only (i.e. paid for service directly by the policyholder and receive no commission), but that's rare.

- **Product breadth**—Agencies and brokerages sell a variety of products. As a general rule, the more complex the product, the more likely the intermediary will include a person (rather than only software). Startups should also consider tradeoffs between volume and specialization. For example, personal auto insurance is a large product line, but carriers looking to appoint agents (more detail below) in this category usually have numerous options, including brick and mortar and online/mobile entities. Contrast this with a smaller line like cyber insurance, where carriers may find fewer, specialist distributors who understand unique customer needs and coverages.

- **Required capabilities (partnerships)**—Agencies and brokerages are appointed by carriers. This process is often challenging, particularly for startups, who are nontraditional applicants. Expect the appointment process to take a while if the carrier isn't familiar with your acquisition strategy or business model. Startups trying to accelerate the appointment process can start in smaller product markets (e.g., non-standard auto) or seek appointment as a sub-producer. Sub-producers leverage the existing appointments of an independent agency or wholesaler in exchange for sharing commissions. You could also apply for membership in an agency network or cluster—a group of agents/brokers forming a joint venture or association to create collective volume and buying power.

- **Regulation**—Agencies and carriers need a license to sell insurance. Each state has its own licensing requirements, but most involve some coursework, an exam and an application. As we've recently seen with Zenefits, most states have a minimum number of study hours required. There are typically separate licenses for property, casualty, life and health insurance. Once licensed, many states have a streamlined non-resident licensing process, allowing agencies to scale more quickly.

MANAGING GENERAL AGENCIES

A managing general agent (MGA) is a special type of insurance agent/broker. However, unlike traditional agents/brokers, MGAs have underwriting authority. This means that MGAs are (to an extent) allowed to select which parties/risks they will insure. They also can perform other functions ordinarily handled by carriers, like appointing producers/sub-producers and settling claims.

Startups often consider setting up an MGA when they possess data or analytical expertise that gives them an underwriting advantage vs. traditional carriers. The MGA structure allows the startup more control over the underwriting process, participation in the upside of selecting good risks, and influence over the entire insurance experience (e.g., service and claims).

We've recently witnessed MGAs used for two diverging use cases. The first type of MGA exists for a traditional use case—specialty coverages. They are used by carriers who want to insure a specific risk or entity, but don't own the requisite underwriting expertise. For example, if an insurer saw an opportunity in coverage for assisted living facilities, but hadn't written those policies before, they could partner with an MGA who specializes in that category and deeply understands its exposures and risks. These specialist MGAs often partner closely with the carrier to establish underwriting guidelines and roles in the customer experience. Risk and responsibilities for claims, service, etc., are shared among the two parties.

The second type of MGA is a "quasi-carrier," set up through a fronting program. In this scenario, an insurance carrier (the fronting partner) offers the MGA access to their regulatory licenses and capital reserves to meet the statutory requirements for selling insurance. In exchange, the fronting partner will often take a fee (percentage of premium) and very little (or no) share of the insurance risk. The MGA often has full responsibility

for product design and pricing and looks and feels like a carrier. They underwrite, quote, bind and service policies up to a specific amount of written authority. These MGAs are often set up when a startup wants to control as much of the insurance experience as possible, but doesn't have the time or capital to establish themselves as an admitted carrier.

Some important characteristics:

- **Revenue model—**MGAs often get paid commissions, like standard agencies/brokerages, but also participate in the upside or downside of underwriting profit/loss. Participation can come in the form of direct risk sharing (obligation to pay claims) or profit sharing. This risk sharing functions as "skin in the game," preventing an MGA from relaxing underwriting standards to increase commissions, which are a function of premiums, at the expense of profitability, which is a function of risk quality.

- **Product breadth—**MGAs of either type often provide specialized insurance products, at least at first. The specialization they offer is the reason why customers (and fronting partners) agree to work with them instead of a traditional provider. That said, you might also find an MGA that sells standard products, but takes the MGA form because it has a unique channel or customers and wants to share in the resulting profits.

- **Required capabilities/partnerships—**Setting up an MGA generally requires more time and effort than setting up an agency/brokerage. This is because the carrier vests important authority in the MGA, and therefore must work collaboratively with it to build trust, set guidelines, determine objectives and decide on limits to that authority. Startups looking to set up an MGA should be ready to provide evidence they can underwrite uniquely and successfully or have a proprietary channel filled with profitable risks. Fronting often requires a different process, and the setup time required varies based on risk participation or obligations of the program partner. Startups should also carefully consider the costs and benefits of being an agency vs. MGA—appointment process difficulty vs. profit sharing, long-term goals for risk assumption, etc.

- **Regulation—**MGAs, like carriers, are regulated by state law. They are often required to be licensed producers. Startups should engage experienced legal counsel before attempting to set up an MGA relationship.

Carriers

Insurance carriers build, sell and service insurance products. To do this, they often vertically integrate a number of business functions, including some we've discussed above—product development, underwriting, sales, marketing, claims, finance/investment, etc.

Carriers come in a variety of forms. For example, they can be admitted or non-admitted. Admitted carriers are licensed in each state of operation, non-admitted carriers are not. Often, non-admitted carriers exist to insure complex risks that conventional insurance marketplaces avoid. Carriers can also be "captives"—essentially a form of self-insurance where the insurer is wholly owned by the insured. Explaining captives could fill a separate article, but if you're interested in the model you can start your research here.

Attributes to consider:

- **Revenue model—**Insurance carrier economics can be complicated, but the basic concepts are straightforward. Insurers collect premium payments from insureds, which they generally expect to cover the costs of any claims (referred to as "losses"). In doing so, they profit in two ways. The first is pricing coverage so the total premiums received are greater than the amount of claims paid, though there are regulations and/or market pressures that dictate profitability. The second is investing premiums. Because insurance carriers collect premiums before they pay claims, they often have a large pool of capital available, called the "float," which they invest for their own benefit. Warren Buffet's annual letters to Berkshire Shareholders are a great source of knowledge for anyone looking to understand insurance economics. Albert Wenger of USV also recently posted an interesting series that breaks down insurance fundamentals.

- **Product breadth—**Carriers have few limitations on which products they can offer. However, the products you sell impact regulatory requirements, required infrastructure and profitability.

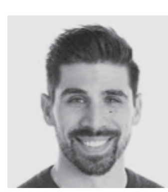
- **Required capabilities/partnerships—**Carriers can market and sell their products using any or all of the intermediaries in this article. While carriers are often the primary risk-bearing entity—they absorb the profits and losses from underwriting—in many cases they partner with reinsurers to hedge against unexpected losses or underperformance. There are a variety of reinsurance structures, but two common ones are excess of loss (reinsurer takes over all payment obligations after the carrier pays a certain amount of losses) and quota share (reinsurer pays a fixed percentage of every loss).

- **Regulation—**I'll touch on a few concepts, but carrier regulation is another complex topic I won't cover comprehensively in this article. Carriers must secure the appropriate licenses to operate in each country/state (even non-admitted carriers, who still have some regulatory obligations). They also have to ensure any capital requirements issued by regulators are met. This means keeping enough money on the balance sheet (reserves/surplus) in order to ensure solvency and liquidity (i.e. maintaining an ability to pay claims). Carriers also generally have to prove their pricing is adequate, not excessive, and not unfairly discriminatory by filing rates (their pricing models) with state commissioners. Rate filings can be "file and use" (pre-approval not required to sell policies), or "prior approval" (rates must be approved before you can sell policies).

CONCLUSION

In this overview, I did not address a number of other interesting topics, including tradeoffs between group choices. For example, you should also consider things like exit/liquidity expectations, barriers to entry, and creating unfair advantages before starting an insurance business. Perhaps I'll address these in a future article. However, hopefully this brief summary sparks questions and new considerations for startups entering the insurance distribution value chain.

I'm looking forward to watching thoughtful founders create companies in each of the groups above. If you're one of these founders, please feel free to reach out!



Kyle Nakatsuji is CEO and co-founder of Clearcover. This article was written while in his former role as a principal at American Family Ventures. He can be contacted at *kyle@clearcover.com*.

A New Age of Insurance Marketing

By Gregory Bailey

The need for insurance companies to reimagine the way they market, engage and sell to consumers has never been greater. The vast majority of insurance carriers recognize this and believe they must move faster, innovate and change. While growth is the imperative, insurers face a highly competitive market.

To understand the environment from which a new paradigm must emerge, let's look at the challenges—or, rather, opportunities—the industry faces:

- 72 percent of insurers are concerned about losing out to competitors if they can't become more agile.[1]
- 68 percent of insurers say it's becoming more challenging to find avenues for growth in today's environment.[1]
- 29 percent of consumers would consider buying insurance from online service providers such as Google or Amazon.[2]

How are insurance companies responding? One way is by increasing their investment in marketing and distribution. Life insurers are expected to boost advertising and marketing budgets 51 percent from $3.7 billion in 2016 to $5.6 billion in 2020.[3] And as marketing and distribution costs increase, insurance prices will also rise.

Advertising costs aren't the only way marketing and distribution influence insurance pricing. Bill Bade, FSA, MAAA, a Milliman consultant located in Tampa, Florida, views marketing approaches and distribution channels as two of the most important factors in pricing life and health insurance products. "It all starts with distribution," Bade said. "Distribution influences underwriting, commission rates, expense margins, profitability margins, the risk of anti-selection, and other critical pricing factors. For example, carriers selling through employer channels may be asked by brokers to reduce or remove underwriting, usually leading to higher prices. In the rapidly expanding digital markets, carriers selling direct to the consumer may experience higher acquisition costs that are passed onto the customer."

For these reasons, we believe there's never been a better time to reimagine marketing and distribution with intelligent, data-driven technology. The middle market represents a tremendous opportunity—a $12 billion opportunity in life insurance alone[4]—for insurers that can quickly develop products and provide more choices. But here's the challenge: Highly digital, middle-market consumers expect a seamless, personalized approach that anticipates their changing needs and adapts products to meet them. They hate paperwork and expect to complete the entire process in an intuitive, online experience from their mobile devices. In fact, one out of four life insurance companies says the process of buying insurance will become completely digital from start to finish within the next three years.[5]

The shift in consumer demand for access, transparency and mobile experiences only adds to the widening gap, a divide that exists between insurance companies and the digital imperative of today's mobile consumers. More than 85 percent of insurance buyers start their journey toward purchasing online. Pew Research's 2017 study of smartphone usage indicated 77 percent of Americans are smartphone users. That same stat was 35 percent when Pew first conducted the study just six years ago. The rapid use of mobile and social media has radically shifted consumer behavior in just a few short years—and the pace of change isn't slowing down.

Let's take a look at some of the latest technologies and trends that have the potential to narrow the gap between today's digital consumers and insurance companies, while at the same time lowering prices and improving bottom lines.

LEVERAGING BIG DATA

Big data is transforming the way business decisions are made. The depth of consumer information available is changing how organizations think about customer acquisition, customer buying decisions, customer retention and more. And we know it's top-of-mind for many insurance industry executives. In a recent poll my company conducted with nearly 100 insurance and financial services industry leaders, 60 percent said activating data for growth is a key focus of their company's 2018 business plan.

However, the insurance industry historically has struggled obtaining data on consumer engagement with mobile and social media marketing campaigns specific to its own industry. Insurance has always looked to banking, retail or other industries and tried to extrapolate that data to make assumptions for insurance.

To address that challenge, our platform has aggregated more than 1 billion data points on consumer engagement with mobile and social media ads powered for insurance companies. As much data as that is, it only scratches the surface on the amount of cross-channel behavioral data available.

One way to activate that much information to make smarter marketing decisions and improve consumer experiences is by understanding how different audience segments perform with different campaigns. Often, marketing teams think about audience segments differently than the way mobile websites and social media platforms, such as Facebook, are able to segment them. With the data collected, we have the capability to intelligently micro-target the consumer segments most likely to respond to a marketing campaign.

Although one dataset can make the picture clearer, it is the combination of the insights provided by multiple datasets that will allow for a vivid picture of today's consumer market and the ability to target it in a more comprehensive way.

That's why we decided to partner with a variety of organizations, including a global actuarial consulting firm, to determine how the contribution of our dataset can help the industry better understand a consumer's risk assessment and determine if improved product pricing is warranted.

BALANCING TECHNOLOGY AND HUMAN INTERACTION

It's clear that developments in artificial intelligence (AI) and other innovative technologies will have an impact on nearly every industry, including insurance. But the question has to be asked: What data is training the AI? The key is to remain focused on a strategy that delivers a continuous flow of massive amounts of data to begin with. And from there, we deliver uniquely new mobile experiences that take advantage of the data we've amassed.

AI applied to large amounts of data will not only reshape marketing outcomes; it will also reshape how consumers think about their relationships with the companies they do business with. In fact, it already has. There has been a significant shift in customer expectations: Today's consumers aren't benchmarking insurance companies against other insurance companies only; they're comparing them to all the experiences they receive from increasingly digital brands, such as Amazon, Google and Facebook.

Another finding from our poll mentioned earlier, 39 percent of respondents believe underwriting will be the insurance process most impacted by AI. Underwriting was closely followed by marketing and distribution with 32 percent and customer service with 26 percent. Clearly, it's not just one area that will be impacted.

> The middle market represents a tremendous opportunity—a $12 billion opportunity in life insurance alone.

When it comes to marketing and distribution, local and personal engagement on smartphones is the new norm. Brands are becoming dramatically more attuned to the needs and priorities of consumers and increasingly shaping their product offerings around rising lifestyle trends. Traditional blanket methods like cold calling no longer cut it in today's uber-connected, digital age. AI can pull in consumer data to create a full profile that can be used to offer only relevant insurance products and remember a consumer's preferences.

We believe a focus on human-centered AI is the key. There's a lot of talk about how AI will lead to the displacement of vast numbers of agents and brokers in the insurance industry. We hold a slightly different point of view. We believe the future is where AI automates the marketing and sale of very simple insurance products on behalf of carriers, agents and brokers. For more complex insurance purchases, AI will serve to enhance human advice in marketing and distribution.

We believe in designing and building products for humans, where human behavior and personality are key considerations in designing and building products. Human-centered design

places people at the center and then designs the best solutions that deliver the best outcomes for those people. As simple as this may sound, we believe an opportunity exists for the insurance industry to reimagine its value offering to consumers by taking a more human-centered approach. Examples are whether to build product value with an emphasis on agents and brokers or on policyholders; or how to balance the difficult decisions related to product pricing and the resulting impact on shareholder returns.

CONNECTING THE DOTS

So, where do we go from here? For those of us who come from the corporate insurance environment, we know innovation and change don't always happen as rapidly as we'd like. That's why InsurTech companies are critical to the future of the industry. There's clearly a set of complementary strengths that exist between corporate entities and early-stage companies. We believe partnership and collaboration is the path to success in the highly competitive insurance marketplace.

Delivering the types of experiences today's digital consumers have come to expect and connecting the dots between marketing, distribution and pricing will require both the decades of experience and consumer trust insurance companies have earned and the agility and innovation that are hallmarks early-stage companies like ours.

"A successful marketing plan will exploit competitive rate opportunities, while a marketing plan that is too broad or poorly defined can lead to higher mortality/morbidity and unfavorable profitability," Bade said. "The insurance industry is very competitive—carriers that can connect distribution, marketing and pricing should realize a significant competitive advantage." ■

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ENDNOTES

1 State Street, Growth Readiness Study, 2017

2 Accenture, Global Distribution & Marketing Consumer Study: Insurance Report, 2017

3 Aite Group, Life Insurance: Trends in U.S. Marketing and Advertising Spend Report, 2017

4 Accenture, The $12 Billion Opportunity in Life Insurance for the Middle Market, 2017

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The Super Insurance Agent

By Dustin Yoder

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Gone are the days of the door-to-door insurance salesman. For a time, his personable sales approach served customers and insurers well, but a new breed of consumers and an evolving market landscape has obsolesced traditional agent tactics. The insurance agent of yesteryear is unsure of how to do his job in the new world, and the field isn't attracting much young talent. The reality is that many agents are sitting on tons of potential business, which raises the question "How does one optimize insurance sales?"

The agent profession has regressed into a low-skill data-entry job, and the sales savvy within the agent force is going to waste. In light of this, the obvious answer to our question might be "We need to eliminate the outmoded insurance agent." But advances in consumer data gathering, coupled with machine learning technology and AI, could not only revitalize the agent profession but perhaps generate a whole new class of what I dub "super agents." The super agent is the result of an elegant combination of cutting-edge technology and good old-fashioned human persona. The super agent uses his natural born salesmanship in cooperation with AI and machine learning programs which provide him with a steady stream of relevant data on existing clients and market trends. The result is a super agent that upsells and cross-sells at a blistering pace, the holy grail of the insurance industry.

We know that most insurers are unhappy with the upselling and cross-selling of their agent force. One-off policy sales don't build customer relationships, brand trust or significant revenue. But insurers who can find novel ways of gathering customer data can convert those data into information that their agents can crucially leverage.

Imagine that super agent Sam sells a small term life insurance policy to Jones, who is young in his career and without dependents. The normal agent would be left to make a cold, somewhat arbitrary follow-up call a year later, if he even remembers to do so. But super agent Sam gets notified that Jones is now married and his wife is expecting. He now has an excellent reason to call Jones up and recommend an increase in coverage or perhaps a conversion to permanent life insurance. Jones buys and is the happier for it, knowing his family's future is more secure.

In this example, we see multiple points of agent enhancement: the agent's sales abilities are enhanced by having personal information on the customer with which he can influence his decision and also by having the right timing for calling the prospective buyer; the customer's experience is enhanced, for he feels that he is getting personalized service, perhaps even that his agent has his financial security in mind; and of course there's the enhancement of the agent's efficiency, for he can use the information the program feeds him to narrow his focus to only those most likely to buy a policy (in fact, the program could automatically queue up leads for the agent, where the persons queued would be those the program has algorithmically determined are most likely to buy).

Life event data of this kind can be sourced in different ways but few insurers are taking the steps to do so. Some personal data are publically available via sources like the DMV's Motor Vehicle Reports, while other data are readily purchasable from corporations such as LexisNexis and the Medical Information Bureau. Additionally, there's an opportunity to collect ongoing data by providing consumer-facing web and mobile applications. These apps can go beyond policy management and provide many use cases for acquiring dynamic data on policyholders. Open authorization logins, rewards programs, and social features within such applications present opportunities to collect customer data which insurers have never had before.

In our example, Jones is not surprised that Sam knows of these life events, not merely because he volunteered access to his Facebook, etc., but because of the rapport Sam built with him upon their first meeting. Indeed, the millennial generation has shown a remarkable willingness to exchange once closely guarded personal information for the rights to products and services. Of course, personal information can be obtained more indirectly, and the best recipe for a super agent is probably a mixture of both volunteered and indirectly gained information, resulting in a stew of personal details for the super agent to use according to his sales expertise.

Clearly the case delineated above does not work for all types of insurance, or all types of insurance agents, but this is all well and good, for the types of insurance it doesn't work for, like car insurance, can be completely automated: policies can be bought through a mobile app or other internet platform, chatbots can field customer questions, and policy management can be done via the same platform on which the policy was bought. Thus, the super agent, or any agent for that matter, is irrelevant for certain types of insurance, yet indispensable, that is, indispensable if one wants to maximize his profits, for other types. Life insurance is a perfect type, so is home insurance, but the myriad specialty insurances will really be where the super agent's bread is buttered. The customer who will be cross-sold and upsold the most

The super agent uses his natural born salesmanship in cooperation with AI and machine learning programs.

is an upper middle class to wealthy individual who owns many insurable items. If an agent could cultivate enough customers approaching this ideal, and it wouldn't take many, then his cross-selling and upselling percentage would be more than satisfactory. Thus, the super agent would be reaping more profits from a smaller subset of customers than ever before; he would, of course, still have the trickle-in customers accounting for most of his pecuniary gains, yet the small collection of customers to whom he regularly cross-sells and upsells would bring in profits in great disproportion to their head count. Similar models have been highly successful in other industries, for as long as a company cultivates a core base of customers it regularly sells to, that guaranteed income allows the company to maintain profitability even in the face of downward market trends.

Now, despite the foregoing explication of the super agent model and its benefits, one may still not be convinced that pure automation is inferior, asking: "Well, we know the current model isn't working, given the lack of cross-selling and upselling, but how do we know the super agent model is more profitable than implementing pure automation?" While it is true that all insurances could be automated (excepting, perhaps, specialty items, which may be the only argument one needs against pure automation), it is more plausible than not that this would be a much less profitable avenue to take than the one the super agent strolls: for the multiple points of enhancement listed above would simply not be present in a purely automated insurance industry, as there would be limited customer satisfaction, and thereby limited willingness to buy due to the whole impersonality of the affair, and no cultivation of, what we may call, "super customers" would occur. Furthermore, since the agent's income can be primarily commission based, the bulk of the pecuniary subtraction his employment incurs will be in direct proportion to his sales, thereby resulting in a net gain for the insurer. Thus, given its superior profitability and customer satisfaction, it's clear that the super agent model is the best option for optimizing insurance sales moving forward. ■

Dustin Yoder is an InsurTech entrepreneur, visionary, and product builder. He can be contacted at *dustin@sureify.com*.

MaD Happenings

By the Marketing and Distribution Section

MaD will be sponsoring three sessions at the 2018 SOA Life & Annuity Symposium, May 7–8 in Baltimore. *Please see the meeting program and registration page for more details*.

We look forward to seeing you there!

- Session 11 Open Forum: Personalization is the Next Frontier

  - Monday, May 7, 10:15–11:30 a.m.

  - Existing insurers are struggling to adapt to the changing needs of customers. New entrants are more nimble, offering flexible and personalized products for consumers to address gaps in the market. This session will discuss how personalization will change the way actuaries think about the customer, the different sources of data, and what it will mean for developing and pricing new (and existing) products.

- Session 31 Open Forum: Actuaries & Distribution Product Views From the Other Side

  - Monday, May 7, 3:00–4:15 p.m.

  - Product actuaries think about the products they design and price in a different way than their "customers" in distribution who are responsible for selling the products to the end customer. Actuaries may find themselves pressed to satisfy both of these customers and rarely have the opportunity to speak to either of them. During this session, presenters will discuss life and annuity products from the perspective of distribution professionals, i.e., actuaries working in distribution roles, agents and other financial services professionals.

- Session 54 Panel Discussion: A 360 Degree View of the Worksite Life Market

  - Tuesday, May 8, 10:00–11:15 a.m.

  - The worksite life market has boomed in the recent years as carriers seek to complement their worksite supplemental health sales and to meet a growing market need. Presenters will provide perspectives from a worksite life carrier on recent product trends, as well as a consultant on the results of a recently-released survey of major worksite life carriers. They will also discuss what has moved the drivers of market movements to certain offerings, and what the market may look like in the future. ■

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