On-demand Insurance: Challenges and Opportunities for Large Insurance Carriers

Abstract

The preference for convenience and superior experience is driving a change in consumer behavior and service preference in the insurance industry. This coupled with emerging paradigms of shared economy and cross-industry value chains are driving the proliferation of on-demand insurance. Growth of on-demand insurance presents an opportunity for insurance carriers to perform an agile, granular risk assessment aided by automation, artificial intelligence (AI), the internet of things (IoT) and blockchain. This paper takes a look at the challenges facing large insurance carriers in adopting on-demand insurance. It also sets forth the three distinct stages the on-demand paradigm will negotiate in its journey to becoming mainstream.

The Rise of On-demand Insurance

Traditionally, insurance policy issuance has been a manual process involving interactions with brokers or agents. Traditional channels involving paper driven processes slow down the coverage delivery, offer limited scope for customization, and entail tedious underwriting processes. With digitization enabling almost real-time deliveries in financial services, consumers are now expecting the same from insurers as well. In fact, we observe that convenience and experience are fast replacing price as the key buying criteria for insurance today.

Globally, insurtech startups have taken the lead in addressing the demand for customizable on-demand insurance. By leveraging mobile sensors, interactive processes, cognitive technologies, IoT, and blockchain, on-demand insurance is capable of delivering near instantaneous risk assessment, quick policy issuance, and seamless claims handling. Flexible provisions for customization including coverage of shared resources, episodic coverage, or preferential premiums for proactive safety measures taken by the insured are increasingly becoming evident. All this promises major changes to insurance value chains going forward. Large institutional carriers are responding to this trend by leveraging emerging technologies, investing in complementary partnerships, and exploring transformational options to replace traditional services. Chubb Limited, Munich Re (Münchener Rückversicherungs-Gesellschaft AG), Generali (Assicurazioni Generali S.P.A.), and Allianz SE are some of the early movers.

On-demand insurance started with products that were considered too small to insure or the risks too difficult to measure as in the case of mobile devices, laptops, cameras or other valuable personal goods. Micro assessment of risk in real time, enabled by automated underwriting differentiated on-demand insurance from traditional coverage. Soon, insurtechs started looking at more conventional coverage in areas like travel, home, auto, rental, and life insurance. Figure 1 indicates the drivers, potential, and impact of on-demand insurance.

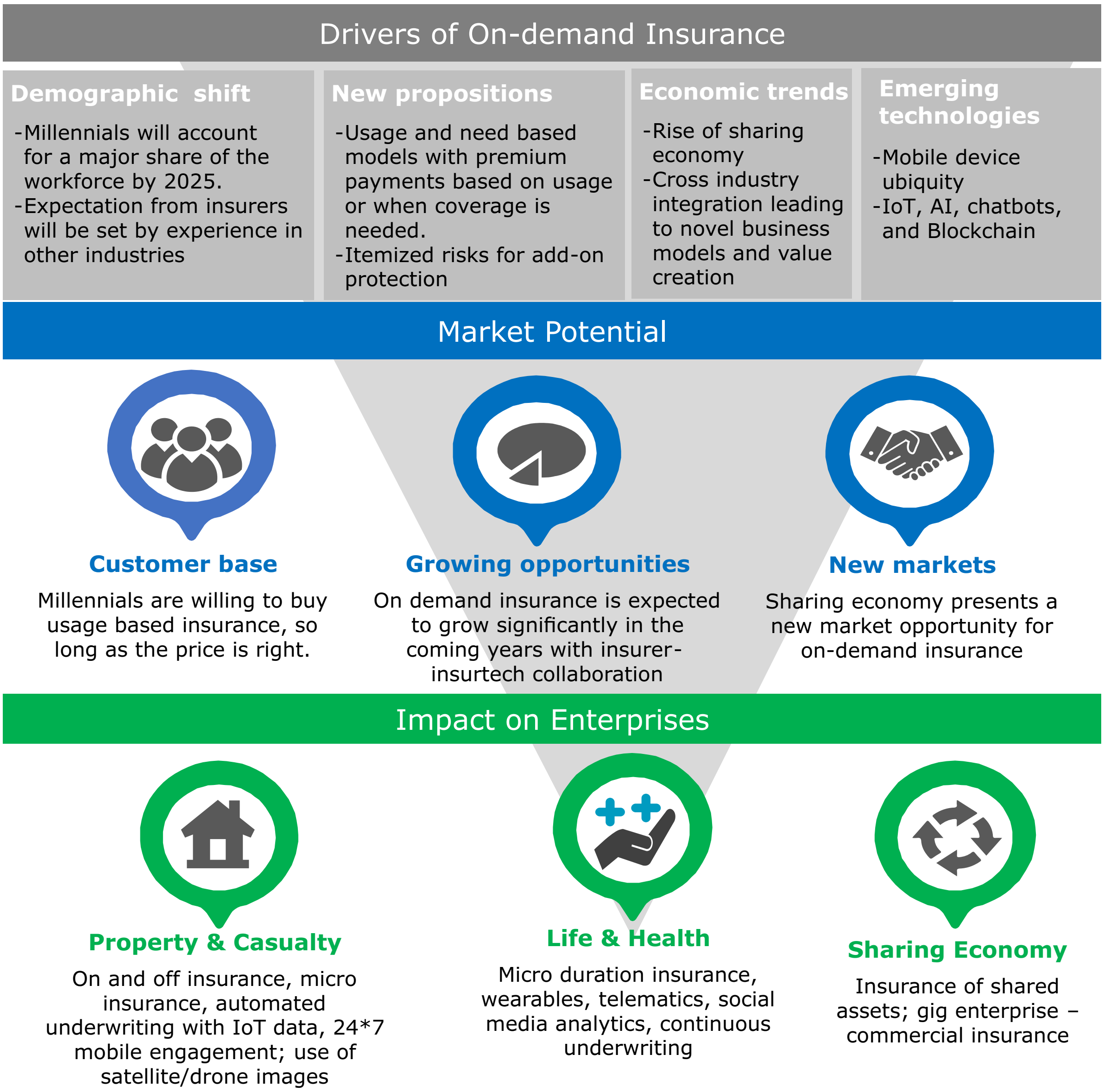

Figure 1: Drivers, Potential, and Impacts of On-demand Insurance

Despite large insurance carriers veering toward the on-demand paradigm, the challenges to enable on-demand insurance are fairly steep. These can be internal — legacy processes and technology infrastructure — or external — pressure from regulators and sales channel agents and brokers. To address these challenges, carriers are partnering with startups. However, many of these initiatives seem reactive and short-term, considering the limited investments made and niche units created to handle them. Major insurance products are yet to be transformed using the on-demand paradigm. Limited long-term view on this industry phenomena and a lack of understanding of the future scenarios will make it difficult for large insurance carriers to capitalize on the emerging on-demand opportunities.

Large insurance carriers need to adopt a calibrated approach toward on-demand insurance and take progressive but phased steps for the transition. Based on our experience with leading insurance carriers, secondary research, and industry observation, we believe that the shift to on-demand insurance will traverse three waves – collaboration, value generation, and establishing ecosystems. These indicative waves will help large insurance carriers to adjust their investment and transformation focus and successfully navigate through the evolving scenarios of on-demand insurance. The time-zones indicate the potential period when the waves will be most prominent and relevant. While the waves are fairly exclusive, organizations can simultaneously undertake initiatives that span across waves.

Wave 1 (0 – 2 years): Collaboration

In the first wave, insurance carriers will explore partnerships with insurtechs and allied industries to gain experience in on-demand insurance, analyze customer behavior on these platforms, drive sales, promote product co-development, and boost coverage; — in fact, we are already seeing this trend:

- Allianz SE and simplesurance GmbH have entered into a partnership under which simplesurance will sell Allianz's products in 28 European countries through online portals.[1]
- AXA UK plc is collaborating with Trov, Inc.[2] to provide underwriting for micro-coverage of specific valuable items.
- Interestingly, we are observing partnerships in the sharing model as well: AXA has tied up with car sharing firm BlaBlaCar[3] to offer insurance to ride sharers.
- Insurance companies are partnering with e-commerce players as well – AXA China Region Insurance Co. Ltd., Alibaba and its affiliate, Ant Financial Services Group, have tied up to distribute AXA products through Alibaba's ecommerce network.[4]

The collaboration model allows large carriers to assess customer preferences, better navigate regulations, and achieve financial sustainability. In wave 1, we believe that large insurance carriers must focus on four key areas – institutional agility, hybrid products, data management, and collaborative eco-systems (see Table 1).

Intervention	Brief description
Agile enterprise	- Adopt small scale, agile, dynamic policy administration solutions that can scale to integrate into core systems. - Focus on customer engagement by deploying chatbots, intelligent decision engines,
Hybrid products	- Build hybrid products; for example, enable custom buying of different risk coverage. - Target user groups with low risk profile, collaborate with insurtechs for joint product development.
Data management	- Roll out initiatives to gather micro insurance risk data; by underwriting for on demand Insurtechs or through niche subsidiaries - Explore solutions to collect data from multiple sources including connected devices
Ecosystem building	- Build data partnerships; for example, with connected car data providers, retailers, travel companies etc.

Table 1: Key Considerations for Large Traditional Carriers in Wave 1

Wave 2 (3 - 5 years): Value Generation

In wave 2, insurers' focus will move to leveraging the latest technologies to adapt or define new business and actuarial models and reorganizing the way in which value is delivered to consumers. In fact, some carriers are already exploring new business models that allow greater value generation through customized coverage.

- Ageas Insurance Limited has launched a mobile app, Back Me Up, aimed at millennials; the app allows customers to insure their most valuable possessions without the hassle of annual policies.[5] Use of mobile interface and big data analytics has the potential to ensure real-time and modular 'bolt-on' coverage approval.
- The Co-Operators has tied up with Slice Labs Inc. Under the agreement, The Co-operators will leverage Slice Insurance Cloud Services™ (ICS) to launch their digital insurance brand in Canada.[6] ICS can be integrated through APIs making it easy for The Co-operators to test and launch new insurance products that drive customer engagement through cloud technologies without having to invest in expensive IT infrastructure overhaul.

Wave 2 will also see large insurers using technology to improve process efficiency to drive value generation. Since risk exposure will typically increase for on-demand insurance, increased data dissemination and analytics will be key to handle fraud. This phase will also see increased automation to bring down selling and servicing costs and enhance efficiency. Deploying bots for data consistency and AI based risk monitoring can improve product delivery. Investments in digital infrastructure, cloudy and agile adoption as well as ecosystem leverage will gain traction (see Table 2). In this phase, insurers' ability to exploit technology differently will be one of the key imperatives to achieving diverse outcomes.

Intervention areas	Brief description
Digital infrastructure	- Adopt agile practices to quickly roll out quotes; leverage cloud platforms for dynamic scaling capabilities to significantly improve policy administration, for example, ability to issue policies within hours. - Launch on-demand products utilizing emerging channels (connected cars, homes, voice assistants etc.).
New business models	- Design on-demand product models with variable or dynamic cost structures. - Maintain a LEAN environment that can adjust itself based on the demand for products.
Data quality	- Build additional mechanisms to check data authenticity as propensity for fraud rises in on-demand insurance. - Automate settlement of claims by using machine learning and image processing technologies.
Ecosystem play	- Build relationships with ecosystem partners to get insights on consumer expectations.

Table 2: Key Considerations for Large Traditional Carriers in Wave 2

Wave-3 (6-7 years): Cross Industry Synergies

In wave 3, insurance carriers will start positioning themselves as industry influencers. The traditional value chain is likely to span beyond present boundaries of the insurance industry. For instance, Berkshire Hathaway Inc. partnered with Amazon.com Inc. and JPMorgan Chase & Co. to provide healthcare coverage transparency[7] for their US employees. The three companies will combine their respective industry expertise and pool in information from third-party healthcare services and use analytics to provide optimized coverage options and reduce healthcare costs. Understanding the impact of changes in other industries will be key – IoT and blockchain will bring together data from related industries to deliver synergistic value. This phase will also see a change in ownership models to shared asset and usage based models — for example, enterprises renting heavy machinery can opt for coverage only when the equipment is in use — customers will demand personalization to suit their individual context. Likewise, demand for compensation insurance for on-demand workforce will rise. Table 3 gives some pointers to large insurance companies to prepare for such futuristic scenarios.

Intervention areas	Brief description
Digital infrastructure	- Adopt blockchain enabled autonomous transaction recording and premium calculation.
New business models	- Adopt customer focused analytical models for personalized coverage, pricing for each consumer. - Position carriers as risk preventers; changed liability models for accidents with autonomous machines. - Offer commercial insurance for shared assets, gig economy.
Ecosystem play	- Build consortiums enabling unified score or risk records for customers enabling ecosystem partners to reuse risk scores of customers.

Table 3: Key Considerations for Large Traditional Carriers in Wave 3

Looking Ahead

Large insurers must augment their strengths — a wide customer base, valuable customer data, and financial resources — with insurtech partnerships to render the capabilities required to deliver superior customer experience and prompt service. It is indisputable that the on-demand paradigm is set to disrupt the insurance sector and create an innovation driven ecosystem. To stay relevant in the evolving environment and retain market supremacy, large carriers must plan their future initiatives in line with the three waves – collaboration to design innovative products; value generation through technology exploitation, and create cross-industry synergies to influence industry evolution.

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