July 2017 Newsletter (Copy 03)

Campaign Preview | HTML Source | Plain-Text Email | Details

View this email in your browser

Risky business - the changing nature of the insurance industry

Blog | Contact | About | Speaking | Videos | Books | Consulting | Events

RITA GUNTHER | MCGRATH
Author. Speaker. Consultant.

Dear Colleagues,

Insurance used to be thought of as such a boring industry that Dorothy Parker mockingly referred to it in her poem “Bohemia”:

Authors and actors and artists and such
Never know nothing, and never know much.
Sculptors and singers and those of their kidney
Tell their affairs from Seattle to Sydney.
Playwrights and poets and such horses' necks
Start off from anywhere, end up at sex.
Diarists, critics, and similar roe
Never say nothing, and never say no.
People Who Do Things exceed my endurance;
God, for a man that solicits insurance!

The image of the once quiet and stable insurance (and reinsurance) business is heading toward a number of critical inflection points. Let's look at a few.

Changing assumptions and the business of insurance

Why preventing bad things from happening ironically may reduce insurance premiums

One would think that technology that prevents losses would be a major boon to auto and property and casualty insurers. Houses are now becoming "smarter" with sensors to provide early warnings of problems and avoid various kinds of potential damage. Owners of new cars are benefiting from a host of technologies that have been developed to pave the way for autonomous vehicles but which are in the market now. These include technologies such as sensors that can slow a vehicle down if it detects an obstacle, blind-spot assistance, cars that can park themselves, and so on.

The ironic consequence of all this new, safer, technology, however is that when risks go down, so too do premiums, and eventually profits, as a recent study by McKinsey projected.

Not only are cars themselves safer, but many Americans are taking fewer car trips. Even obtaining a drivers' license is down across many age groups. Internet shopping requires fewer car trips. Young people, burdened with student debt, are unable to afford their own vehicles. People and companies are moving to be in areas with public transportation options rather than in suburban campuses (we're looking at you, GE). More people want to live in bike-and-walking accessible environments. The well-worn teenage ritual of driving around orange cones to pass a driving test may be in retreat.

In other changes, job losses are shrinking the market for insurance such as workers' compensation and disability insurance, and of course who knows what is going to happen with health care.

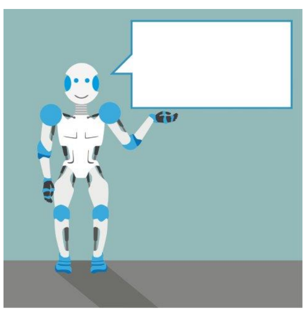
Do millennials really want to interact with brokers? Maybe a chatbot would be

more responsive.

As with other intermediaries such as travel agents and taxi dispatchers, insurance brokers face the threat of digital disintermediation. A recent Accenture report found that revenues to brokers were in steady decline and profits from more digital ways of doing business were largely distributed to customers. While the armies of brokers working for large insurance companies were once a reliable route to market, their hold on the burgeoning population of millennials is likely to be weak.

No less an authority than the Council of Insurance Agents and Brokers found the challenge of interacting with millennials to be so significant that they actually created a 45 minute webinar for their members with pithy advice such as “engage, don’t tell” and “use social media.” It really is a hoot – have a quick look if you have time.

More significantly, perhaps, is the emergence of direct-to-buyer channels in more and more corners of the insurance business. Gather, for instance uses technology to create risk pools consisting of local small businesses. The businesses pay into the pool, and the insurance processes are handled by an entirely captive company. Gather takes a 5% membership fee, but doesn’t make profits from denying claims.



Coverwallet is another relatively new company that uses technology and design to dramatically improve the insurance experience for small businesses.

Chatbots, software designed to interact with people using artificial intelligence and machine learning are also potentially disintermediating to many players throughout the insurance value chain.

Solving customer and company pain points

Given how little has changed in the insurance business since your dad’s days, it isn’t surprising that a whole lot of customer pain has grown up around the industry. As in other fields, tech startups are emerging to tackle these with the hope of finding a new profit model.

Insurify has created a digital broker that uses artificial intelligence and natural language processing to streamline the process of shopping on a mobile platform. Cover takes the mobile commitment even further – take a picture of anything you want to insure with your phone and they’ll get you a quote. PolicyGenius is committed to tackling America's under-insurance problem, recognizing that the majority of Americans don't have protection from even modest disruptions in their financial lives. Friendsurance, a German startup, essentially offers peer-to-peer insurance with the promise that customers can get part of their premiums back if they remain claimless.

Vaporizing the value of historical data sets and creating new arenas to contest

Progressive Insurance, whom I've often mentioned as a leader in creating value from new technologies, was among the first to take advantage of the power of digital technologies with its 2008 introduction of its Snapshot offering. Initially, the program, which uses telematics to collect information about how its customers are driving, offered a discount, or reward, to drivers it deemed to drive carefully, avoiding such practices as hard braking and rapid acceleration. Recently, the company has taken things a step further by charging those drivers it deems more dangerous an actual surcharge.

The bigger story behind the Snapshot offering, and telematics in general, is that they erode what was once a treasure trove for incumbent insurance companies – their vast troves of historical data. These data, which captured information such as one's history of accidents and claims, formed the basis for traditional underwriting and pricing decisions and constituted a barrier to entry in the industry.

Today, so-called 'connected' cars are producing huge amounts of data in real time and creating entirely new ecosystems of interaction. With such rich troves of information about what is actually going on with drivers, insurance companies may well be looking to shift from their traditional business of spreading risks to new activities, such as providing information in real time. This will, inevitably, create a new set of battlegrounds as automakers, digital map-makers, app developers and myriad other players seek to be the dominant source of information for the digitally connected driver.

How soon should incumbents in the industry move?

Welcome to the inflection point.

While I don’t have the space here to do a really comprehensive overview, there’s an excellent perspective on the major trends for 2017 in this CapGemini report which goes into a lot of detail.

Insurance on the whole has been a pretty complacent industry. And don’t take my word for it – the folks over at *The Economist* agree.

What advice would I give an insurance industry executive? Job one is to begin to develop a sense of urgency to get smarter about potential trends and changes. Get out of the building and look for what improvements new technologies make possible in terms of workflows, customer experience and other key practices. Taking the time to not be crushingly “busy” is key to getting a more strategic, future-oriented perspective.

The research I’m doing reveals that strategic inflection points are often brewing long before they land on your doorstep as a credible threat. And I’m not the only one who thinks insurance is on the brink of big changes.

Say hello to Valize!

For some time now, people have been saying that it would be great to have more tools and apps to make the innovation and growth concepts I’ve been working with more accessible. I can begin talking about some of what we’re working on. Together with our software partners, Robots & Pencils, we are working on a concept we’re calling an Innovation Operating System that will provide tools to accelerate established organizations’ progress toward innovation mastery.

A good point of departure is to conduct what we call an Innovation Maturity Scale survey. The survey is administered to whoever in your organization you determine, for whatever segments you decide you need (by region, function, line of business, etc.). We’ll connect the people you choose to an on-line survey, obtain their responses and create a customized report for you. This is followed by a two-hour responses and create a customized report for you. This is followed by a two-hour webinar with me (or an in-person meeting if we happen to be nearby) to review the findings and discuss next steps.

Come to think of it, doing such an assessment wouldn't be a bad thing for my colleagues in the insurance industry.

I'm happy to talk about the vision for Valize and the other tools we're creating. Drop me a line at Rita@valize.com.

Leading Strategic Growth and Change

Discovering new sources of growth and transforming organizations to stay competitive are two of the biggest challenges I find my clients face. This weeklong course, which runs next in October, covers the latest thinking on these topics, including how to manage the entire cycle of competitive advantage, how to manage growth portfolios, design thinking and inspiration from unusual places, platform (2 sided) strategies and managing organizational politics. It runs in New York City during the day for a week.

Participants bring a real organizational challenge to the program and work on it throughout the week. Click here for more information. Or drop me a line at rdm20@gsb.columbia.edu.

Mastering Corporate Entrepreneurship Online
July 10 through August 21, 2017

Learn best practices for intrapreneurs such as how to create, develop, and sustain innovative new businesses by capturing opportunities fast, exploiting them decisively, and moving on even before they are exhausted. Here's the link to find more information.

The program is run in 3 separate segments designed for professionals and executives who need to develop the language, skills, behaviors, and capabilities of mastering corporate entrepreneurship.

Because it is offered in three parts – ideation, incubation, acceleration – that can be taken individually or as a series, some will want to begin with the very first course on finding great ideas and follow through the entire series. Others may already have a great idea but need to learn more about incubation and prototyping. Others still may have a project they believe is ready for the marketplace and want to develop scaling skills.

This program is ideal for individuals who have a role to play in an innovation effort. They will be asked to work on a project that they are currently involved in. They will be grouped with other participants with individual cases. The work that will be done in the program is intended to be extremely practical and hands-on, with the result that as participants move through the segments they will be generating real value, with concrete business outcomes to be able to demonstrate at the conclusion of each module.

The program is also designed for participants who might not be part of an organizational innovation team but would still like to gain the skills and capabilities taught in this program. This might be because they are jumping into a project mid-stream and have to come up to speed. In these cases, the participants will be working with case studies intended to help them master various program elements.

Click here to learn more or to register.

Recent press coverage:

Harvard Business Review
How to Set More-Realistic Growth Targets

National Public Radio - All Things Considered
Yahoo CEO Marissa Mayer Resigns As Verizon Completes $4.5 Billion Purchase

The acquisition of Yahoo by Verizon – plusses and minuses on Wharton Sirius Radio
6/14 - Rita McGrath and Hemant Bhargava on Knowledge@Wharton

Exciting news:

In May, I was invited to speak at the Thinkers50 European Business Forum. I'm delighted to be planning to attend the Thinkers50 awards program in London in November, and would be honored to have your vote! You can provide a nomination here: Thinkers50 nominations

---

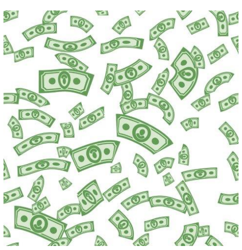
Upcoming Events:

Business of Software Conference
September 18 - 20, 2017 in Boston, Massachusetts

Leading Strategic Growth and Change
Columbia Business School
October 16 - 20, 2017 in New York, New York

Growth & Inclusive Prosperity - The Secular Management Challenge
The 9th Global Peter Drucker Forum
November 16-17, 2017 in Vienna, Austria

As before, where there is uncertainty, there is also opportunity



Tim Kunde, the founder and CEO of Friendsurance, makes a telling observation about what incumbents have in store: “Companies like Spotify are so hyped, but the global music industry only makes $15 billion (€14 billion) in annual revenues, excluding concerts,” says the entrepreneur. “The German car insurance market alone gets €20bn ($22 billion) a year in premiums.” Where there is that amount of money to contest, it is bound to attract entrepreneurs.

Here’s to your next advantage!

Rita

If this newsletter has been forwarded to you and you want your own copy - please sign up here to be on the mailing list.

Share Tweet Share Forward to Friend

Our mailing address is:
Rita Gunther McGrath
2880 Broadway
Armstrong Hall, 4th Floor
New York, NY 10025

Add us to your address book

unsubscribe from this list update subscription preferences