

# insurance day

www.insuranceday.com

in association with



TECHNOLOGY FOCUS



## Customers show the way

Is innovation in insurance all talk and no action? It seems as if the next wave of business change is always just over the horizon and the job of decision-makers is to watch and wait, poised to take action – but not until the way ahead is obvious.

However, while we wait for the business case to write itself, the future sneaks up on us from left field. The people making the future are the leaders; those who do not take a hand in making the future run the risk of being the losers.

As Chris Skinner says in the main article, our industry's true leaders are now to be found among consumers. Consumer power is a real force in the land, and it is not just the age-old power that goes with being able to take your custom elsewhere.

Ordinary people now have command over extraordinary resources. They have unprecedented information and, crucially, communications and processing tools that enable them to perform feats that used to be the preserve of corporations.

People are not just trying to invent a better e-mousetrap on their laptops and smartphones; they are also reinventing the substance of financial services.

The question that arises for me is: Where are the major insurance players in this? Have they set up skunk works where business and technology people work together to think and act like disruptive consumers, prototyping the products and services of the future? Are they scouting young start-ups for possible acquisitions?

Controlled experimentation with new ideas has a long history in insurance. Blending this heritage with the innovation culture of information technology has great promise – for those who take the initiative. ■

Gregory Maciag is president and chief executive of ACORD. He can be reached at gmaciag@acord.org



# Step forward, innovation



Chris Skinner,  
chairman  
Financial Services Club

Having begun life in the finance sector in insurance, taking the insurance exams and gaining a professional qualification, I am still a chartered insurance practitioner today.

I have also been in the technology business a long time and remember selling my first major system to an insurance company. At that time, “major” meant a 16 Mb processor with 250 Mb disk storage and a \$300,000 price tag.

It seems while the technology gets better, insurance stays boring. Why? Well, because it is run by actuaries. The old joke goes: When do you know you have met an extroverted actuary? They are the one looking at someone else's shoes.

Traditionally, innovation was not that important, as insurers either had a customer for life (pensions and endowments) or worked on a rate churn (home and auto-insurance).

### Questions of innovation

Today, innovation is central to every industry you can think of, yet it does not appear to be a pressing concern in mainstream insurance. For example:

- Why do insurers renew policies annually, when they could offer two-, three- or even five-year policies? Annual renewals just raise the question: Why not leave?
- Whatever happened to the idea of an insurance policy on a pay-as-you-go or pay-as-you-use basis? This would be far more flexible than the bulk standard products that cover you, regardless of usage and need. So far, we are only seeing telematics products in this category; and
- What about the idea that if you do not use the policy in a given year, you can get a rollover effect or a reimbursement? Yes, we talk about no-claims bonuses, but that is not really a tangible return to the customer. There should be something better.

### Insurance goes social

Look outside the mainstream, and you will find some real innovations



Kroodle is a Facebook-based insurance service that requires no form filling

Ingvar Bjork/  
Shutterstock.com

that are leading the market in new directions. Two examples are Kroodle from Aegon and Friendsurance.

Kroodle is a Facebook-based insurance service that requires no form filling. It can, for example, provide you with home insurance and will pre-fill as much of the form by scraping your name, address and date of birth from your Facebook profile. It will use your address details to calculate the replacement cost of your home by feeding the data into a property-valuation website.

Kroodle recently launched in the Netherlands. Aegon invited Chris Hughes, co-founder of Facebook, to the launch, where the theme was social media and entrepreneurialism. This is insurance looking forward, not back.

### Insurance without insurers

Meanwhile in Germany, there is Friendsurance, a peer-to-peer insurance company. Friendsurance is reviving the original rationale of insurance: the sharing of risk among the many to cover the uncertainties of losses among the few. Insurance is all about creating a pool of shared coverage, so when an issue hits one member, they can recover and not face financial ruin.

Sharing risk and creating a

**Technology is disposable and easy to use. Technology was once a price barrier, but now it is a usage encourager. The consumer now has the power that used to belong to large corporations in their pocket or purse**

common pool chimes well with the concepts of social media and peer-to-peer networking. Friendsurance's founder, Tim Kunde, believes insurance is just a social network to share risk.

*The Economist* describes the business model like this: “The costs of smaller claims, which would normally be paid by a policyholder as part of a ‘deductible’ amount, are shared within a small circle of friends, who can either sign up as a group or hook up on the site. Part of their premiums are set aside to settle these small claims. If something is left over at the end of the year, each friend gets back his share.”

### Consumer power

There are bright people behind these innovations, but they are

being led by consumers. Customers now have fast, ubiquitous access to complex services. Processing and storage are cheap.

Technology is disposable and easy to use. Technology was once a price barrier, but now it is a usage encourager. The consumer now has the power that used to belong to large corporations in their pocket or purse.

Consumers are socialising and communicating with the tools that used to be exclusively used by businesses to communicate and transact. As a result, consumers are creating their own ways of trading, interacting and organising their finances, using cheap and powerful tools at their disposal from many providers, including financial and non-financial firms for their financial needs.

They are clamouring for innovation from service providers. Do we want to be gazing at their shoes – or hurrying to keep up with their footsteps?

Whatever the future brings, it will not be boring. ■

Chris Skinner is an independent commentator on the financial industry and chairs European networking group the Financial Services Club