LJS GLOBAL

Planning for Future Market Environments
Innovating & Accordingly

We know that almost every aspect of the insurance landscape is changing but perhaps the fastest adjustments are being driven by digital and mobile technology. This has implications for pricing, distribution, product evolution, claims, technology, etc. To prepare, insurers must determine how this change is going to affect their legacy businesses and consider where they can continue to grow.

The question for management is how to set their company up for strategic success in five to ten years time when adapting to the new norm is so hard tactically. The restrictive structures of a large organization mean that decisions on how, when and if to innovate are not made or executed easily. Investing in seemingly risky tech for a financial return that is just that bit over the horizon doesn't come easily.

Stealth innovation

The easier solution is what LJS Global calls "stealth innovation". This approach does not call for large budgets to push through technological breakthroughs, the profits of which may not come until the next management team is in place. The key is to decide where growth opportunities lie within your books of business. With that focus and a little management support, the team can implement programs now that lay the groundwork for a future of more refined decision making and better calculated bets.

For a relevant example of the stealth approach, I'm going to begin with a simple hypothesis that focuses on one part of the digital argument but could be applied to any one of an insurer's product segments:

> There will be greater demand for flexible, digital policies that provide a simpler and fairer customer experience.

Adapting the product to fit the future

Assuming that the insurer's business goal is long term growth (not just current profitability), the challenge becomes how to take the above premise and move toward an iterative product solution based on learnings from the current platform.

What information and services are needed to adapt a perfectly acceptable product that fits the current market to one that is designed for the next generation?

For the sake of generating actionable ideas, we are going to **apply the hypothesis to the motorcycle book** and define the "**job to be done**" as:

> The creation of a truly mobile, on-demand product using known customer behavior.

The stealth part of this innovation is to **create a program that generates short term results in customer engagement or policy differentiation while generating valuable customer riding data that enables the future development of a mobile on-demand product.**

THE FUTURE...

Motorcycle riding behavior

It is impossible to price an on-demand product effectively without certain information. An insurer obviously has a wealth of underwriting, claims, and pricing data to segment the customer base and price the current annual term policy. But currently no motorcycle insurer has the fundamental telematics data on where, what time of day, how far and how frequently their customers are riding. This would be valuable information that provides a significant competitive advantage.

Telematics has finally been accepted in segments of the auto space and is delivering a positive effect on driving behavior and the pricing of risk. But given the motorcycle rider's customer profile, it is unlikely that monitoring riding behavior (speed, braking, cornering) will be accepted for a number of years to come. This means that a telematics platform that is capable of collecting the "when, where, how far" data needs to provide motorcyclists with a powerful solution to a different real problem.

Crash detection and alert

Motorcycle crashes are messy affairs and a lone rider is dangerously exposed. A rider's chances of survival are dramatically improved by accelerating emergency service response times, providing real-time access to rider medical history and generating precise crash victim location data.

We have been evaluating a very capable crash detection, location and emergency response app. The technology is fully integrated into national emergency services in both the US and Canada and during a six month period last year, this technology travelled with riders and drivers, more than four million miles.

The technology can be provided to customers through an engagement program that builds customer loyalty, brand awareness and policy differentiation. The service is built around the rider's experience and community to record and share rides, find riding buddies and points of interest. This community angle improves retention and encourages promoters. **Importantly, the only telematics information that is collected is an anonymized summary of miles driven, etc.** When and if motorcyclists feel more comfortable with allowing an insurer to monitor their driving behavior, that service could become part of the platform.

So now the insurer is collecting mileage data and gaining a deeper understanding of what a policy is actually covering:

A per mile insurance cost adjusted for season, time of day and geography.

Back to stealth...

While the customer engagement program is generating a positive ROI in its own right via improvements in retention and sales, the technology is creating a sound foundation for growth.

When the future becomes the present...

- Within a couple of years, the insurer would have better motorcycle riding data than any competitors.

- Select customers would be using the crash detection app and seeing their insurer's as their guardian angel.

- The insurer would have a known technology partner from which to launch the on-demand insurance product.

- The insurer would not just be ready to price an on-demand motorcycle policy, they would have the app usage information to help them understand how best to launch it.

Simple, straightforward motorcycle insurance that you pay for only when you're actually riding your bike.

Adaptor **and** disruptor

As large insurers work to keep up with the changing landscape, they will need to consider their competitive edge. Adapting is generally a better strategy for an incumbent, that is, unless the incumbent innovates successfully to develop/ partner with new technology to generate new solutions and proprietary data.

Doing the customer discovery groundwork is key to positioning future products. Insightful market and customer data (that has not been available until the mobile digital era) becomes hugely important for innovation.

While management commitment is important and a budget is best practice, a strong game plan can make all the difference. Efficient, targeted pilots can be inexpensive to implement, easy to cut if ineffective (fail fast) and reasonable to pivot if evidence creates opportunity.

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