How InsurTech is Bridging the Industry’s Trust Gap

October 7, 2017

Who Do You Trust?

Tim Rozar FSA, CERA, MAAA
PROLOGUE: RIDING THE INSURTECH WAVE

Source: CB Insights, Venture Scanner
PROLOGUE: RIDING THE INSURTECH WAVE

Source: Google Trends
PROLOGUE: RIDING THE INSURTECH WAVE

Quarterly InsurTech Funding Volume – All Stages

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$32</td>
<td>$240</td>
<td>$331</td>
<td>$44</td>
<td>$707</td>
</tr>
<tr>
<td>2013</td>
<td>$78</td>
<td>$110</td>
<td>$45</td>
<td>$422</td>
<td>$285</td>
</tr>
<tr>
<td>2014</td>
<td>$135</td>
<td>$180</td>
<td>$132</td>
<td>$172</td>
<td>$600</td>
</tr>
<tr>
<td>2015</td>
<td>$369</td>
<td>$2395</td>
<td>$783</td>
<td>$271</td>
<td>$4309</td>
</tr>
<tr>
<td>2016</td>
<td>$398</td>
<td>$295</td>
<td>$230</td>
<td>$283</td>
<td>$906</td>
</tr>
<tr>
<td>2017</td>
<td>$985</td>
<td>$283</td>
<td>$271</td>
<td>$283</td>
<td>$985</td>
</tr>
</tbody>
</table>

Deal Count

R&C: 5 2 4 3 5 4 11 8 8 6 11 8 12 13 13 18 42 18 30 27 23 34

L&H: 8 7 7 10 15 8 10 4 11 16 19 15 13 18 15 22 17 16 8 16 15 30

Source: Willis Towers Watson/CB Insights Quarterly InsurTech Briefing Q2 2017
PROLOGUE: RIDING THE INSURTECH WAVE

InsurTech's First IPO:

- 460 Million Customers
- 5.8 Billion Policies Sold
- ~ $10 Billion Valuation

Chinese online insurer ZhongAn raises $1.5bn in IPO

Group's Hong Kong flotation is world's first 'insurtech' public offering

PROLOGUE: RIDING THE INSURTECH WAVE

ITC 2017 Is SOLD OUT

We planned for 3,000. We secured space for 3,500. But now that upwards of 3,800 are confirmed, the only thing we could do is close registration. We even have a waitlist 200+ deep who would love to take your place.

We are doing everything we can to create the best experience and minimize any hiccups, issues, or delays.
WHAT DO I BELIEVE ABOUT THE INSURANCE INDUSTRY?

Insurance serves an **honorable purpose** and changes the lives of customers and their beneficiaries.

There is an **enormous gap** between the amount of insurance that is owned and the amount that is needed.

**Trust and transparency** are the cornerstones of a sustainable insurance industry.
...Yet Financial Services is still among the least trusted industries

Edelman Trust Barometer: How much do you trust businesses in these industries?

- Technology: 75
- Food & Beverage: 65
- Automotive: 64
- Packaged Goods: 63
- Telecom: 63
- Energy: 62
- Financial Services: 54

MISTRUST IS A TOP REASON FOR THE INSURANCE PROTECTION GAP

LIMRA Research: Reasons People Don’t Purchase Life Insurance

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I would not qualify</td>
<td>27</td>
</tr>
<tr>
<td>No one has approached me</td>
<td>28</td>
</tr>
<tr>
<td>I don’t want to think about death</td>
<td>35</td>
</tr>
<tr>
<td>I haven’t gotten around to it</td>
<td>36</td>
</tr>
<tr>
<td>I do not trust insurance agents</td>
<td>38</td>
</tr>
<tr>
<td>I do not trust insurance companies</td>
<td>38</td>
</tr>
<tr>
<td>I’m not sure how much or what type to buy</td>
<td>43</td>
</tr>
<tr>
<td>I don’t feel I need any</td>
<td>44</td>
</tr>
<tr>
<td>I have as much as I need</td>
<td>54</td>
</tr>
<tr>
<td>I have other financial priorities</td>
<td>66</td>
</tr>
<tr>
<td>It is too expensive</td>
<td>66</td>
</tr>
</tbody>
</table>

AND BRAND EQUITY OF INSURANCE COMPANIES IS NEAR THE BOTTOM (AND FALLING)

2016 Harris Poll: “EquiTrend” Rankings

<table>
<thead>
<tr>
<th>Selected Industries</th>
<th>2016 EquiTrend Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>65.0</td>
</tr>
<tr>
<td>Restaurants</td>
<td>63.8</td>
</tr>
<tr>
<td>Retail</td>
<td>63.5</td>
</tr>
<tr>
<td>Technology</td>
<td>62.6</td>
</tr>
<tr>
<td>Travel</td>
<td>60.9</td>
</tr>
<tr>
<td>Beverage</td>
<td>60.7</td>
</tr>
<tr>
<td>Media</td>
<td>60.5</td>
</tr>
<tr>
<td>Non-Profit</td>
<td>58.4</td>
</tr>
<tr>
<td>Automotive</td>
<td>58.1</td>
</tr>
<tr>
<td>Alcohol</td>
<td>57.1</td>
</tr>
<tr>
<td>Financial Services</td>
<td>55.3</td>
</tr>
<tr>
<td>Pet Care</td>
<td>54.5</td>
</tr>
<tr>
<td>Telecom</td>
<td>52.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Services Subcategories</th>
<th>2016 EquiTrend Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment Card</td>
<td>66.6</td>
</tr>
<tr>
<td>Mobile Payment</td>
<td>62.1</td>
</tr>
<tr>
<td>Tax Preparation</td>
<td>55.1</td>
</tr>
<tr>
<td>Discount Brokerage</td>
<td>54.7</td>
</tr>
<tr>
<td>Regional Bank</td>
<td>54.4</td>
</tr>
<tr>
<td>National Bank</td>
<td>54.1</td>
</tr>
<tr>
<td>Insurance (Multi)</td>
<td>53.4</td>
</tr>
<tr>
<td>Auto Insurance</td>
<td>53.2</td>
</tr>
<tr>
<td>Home Insurance</td>
<td>53.1</td>
</tr>
<tr>
<td>Investment</td>
<td>53.0</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>52.4</td>
</tr>
</tbody>
</table>

Source: Harris Poll 2016 EquiTrend Insurance Report
A VICIOUS CYCLE OF MISTRUST

- Invasive Underwriting
- Denied Claims

- TRUST

- Misaligned Incentives
- Complexity

- TRUST

- Anti-Selection
- Non-Disclosure

- TRUST

- Misselling
- Fraud

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THE FIRST STEP IS ADMITTING THERE IS A PROBLEM

https://www.policygenius.com/about/trust
AND THEN WE HAVE TO SOLVE IT

Build Trust
1) Provide Trusted Advice
2) Deliver a Modern Experience
3) Make it Easy

Borrow Trust
4) Leverage a Trusted Brand
5) Connect People Together

Increase Transparency
6) Deliver Price/Value Transparency
7) Align Incentives
8) Utilize Data & Analytics

Trust and transparency are the cornerstones of a sustainable insurance industry.
1) PROVIDE TRUSTED ADVICE

“I trust that these guys know what they are talking about”

Leveraging the power of customized content, brands build trust with consumers and guide them toward a purchase decision.
1) PROVIDE TRUSTED ADVICE

Everplans.com
1) PROVIDE TRUSTED ADVICE

GYST.com
New brands are bringing modern digital design approaches to better meet customers expectations around user experience.
2) DELIVER A MODERN EXPERIENCE

Fabric

Haven Life

Ladder Life

Oscar Health

Build Trust

Borrow Trust

Increase Transparency

Fabric

Haven Life

Ladder Life

Oscar Health

Fabric

"I am a __ age __ year-old.

Gender __ living in __ state __.

I do/do not use __ tobacco."

Fabric Instant accidental death insurance is guaranteed issue for anyone 25 to 50 years old. Gender and tobacco questions are used to generate a quote for Fabric Premium only.

Haven Life

"I am a man born on __/__/1982.

I currently live in the __ZIP, I am in __excellent health and do not smoke.

I want to protect my family by providing a $500,000 policy lasting 20 years.

$21.00/mo

GET STARTED>

Still thinking? Save your progress.

Ladder

"I am a __ man/woman.

and was born on __/__/____.

I'm __ feet __ inches tall and weigh __ pounds.

I do/don't smoke. ___

My zipcode is __.

My overall health is __

Get a quote in seconds.

Oscar Health

My zipcode is __. 10001

I'd like to cover me, my spouse and my kids.

I'm __ years old, my spouse is __ and my 2 kids are __ and __.

My family makes $__ yearly

with ___ people in my tax household.

Valid income value is required to get a quote.
3) MAKE IT EASY

“I’m cautious, but this seems like an easy, low-risk way to get started”

Some brands are offering starter products and simplifying the customer journey to overcome consumer inertia and build trust.
3) MAKE IT EASY

Fabric Instant

Start with Fabric Instant.

If you’re 25–44, accidental death is your life’s single biggest risk*. Get covered with accidental death insurance in under 2 minutes with Fabric Instant.

* CDC. National Vital Statistics Report, Volume 64, Number 2; (February 16, 2016), Table 9.

Upgrade anytime to Fabric Premium.

Upgrade coverage later to include death from accidents and illnesses by replacing Fabric Instant with Fabric Premium, a 20-year term life insurance policy.

Let’s do this!

https://meetfabric.com/
3) MAKE IT EASY

Free Parent Life Cover (UK/Ireland)

At Aviva, we’re here to help protect what matters most to you. And what could matter more than your family? We’re giving each parent a £15,000 free life insurance as a first step towards protecting your family. There’s no purchase necessary and there are absolutely no strings attached.

A free life insurance policy – easy to set up, and protect what matters most today.

- Cover lasts for 12 months from acceptance and pays out £15,000 if a parent covered dies during this time.
- It takes just a few minutes to apply and cover will start as soon as you’ve completed the short application process.
- You can take out the plan once your child has been born and before they are four years old.
- No payment is needed and we won’t request bank account or credit card details.
- Rest assured any personal information included on your Free Parent Life Cover application will not be sold on to a third

Visit our site for more information:

http://www.aviva.co.uk/life/free-parent-life-cover/
https://www.irishlife.ie/life-insurance/get-25000-free-parent-life-insurance
4) LEVERAGE A TRUSTED BRAND

“I trust these guys, so I’ll give this other thing a try”

Partnerships with other non-insurance companies or influencers provide insurers with access to new customers with the implied endorsement of a trusted brand.
4) LEVERAGE A TRUSTED BRAND

Partner Programs

http://www.protective.com/sofi/quote/
http://www.nylaarp.com/
5) CONNECT PEOPLE TOGETHER

“I trust that what my friends (or people like me) do will be good enough for me”

Affinity platforms and peer-to-peer insurance marketplaces allow consumers to leverage the trust of their peers to feel more confident and engaged with their insurance choices.
5) CONNECT PEOPLE TOGETHER

Percent who rank each spokesperson as extremely or very credible

- A Person Like Yourself: 60%
- Technical Expert: 60%
- Academic Expert: 60%
- Employee: 48%
- Financial Industry Analyst: 46%
- NGO Representative: 43%
- CEO: 37%
- Board of Directors: 35%
- Government Official/Regulator: 29%

Peers are deemed as credible as experts.

5) CONNECT PEOPLE TOGETHER

Customized affinity programs

FitLifeCovered

PEOPLE LIKE YOU.
For the young and active, term life insurance rates can be significantly less expensive.

YOUNG. FIT. HEALTHY.
TERM LIFE INSURANCE can cost you significantly less!

HealthIQ

SPECIAL RATE LIFE INSURANCE FOR Tennis Players
Get Free Quote

Coverage Secured

BoughtByMany

Car Insurance for Musicians

About this group
Our research suggests musicians are being penalised by insurance companies. Please join this group if you agree and want to see this change.

How does the cost of car insurance for musicians compare to other professions?

We based our research on quotes to insure an experienced driver living in a low-risk area (see note below). This suggested musicians were paying between 40% and 50% more for car insurance than drivers with similar professions.

5) CONNECT PEOPLE TOGETHER

Peer-to-Peer Models

Guevara (UK)

Friendsurance (DE)

Peer Cover (NZ)

“30% of consumers would be likely to purchase life insurance via a peer-to-peer platform if available”*


6) DELIVER PRICE/VALUE TRANSPARENCY

“I want to know that I’m paying a fair price for what I’m getting”

Digital marketplaces create a one-stop shop for consumers to research, select and purchase insurance products.
6) DELIVER PRICE/VALUE TRANSPARENCY

Online Aggregators
6) **DELIVER PRICE/VALUE TRANSPARENCY**

Online Aggregators
7) ALIGN INCENTIVES

“I trust that they have the same interests as me”

Incentivized wellness programs and other consumer engagement platforms can help align the interests of the consumer and insurance company.
### 7) ALIGN INCENTIVES

**LIMRA: Sharing Health/Activity Information With a Life Insurance Company**

<table>
<thead>
<tr>
<th>Percent Likely to Share</th>
<th>Reasons for Sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Millennials</strong></td>
<td><strong>Financial savings</strong></td>
</tr>
<tr>
<td>48%</td>
<td>65%</td>
</tr>
<tr>
<td><strong>Gen X</strong></td>
<td><strong>To establish wellness goals/make healthier choices</strong></td>
</tr>
<tr>
<td>32%</td>
<td>52%</td>
</tr>
<tr>
<td><strong>Boomers</strong></td>
<td><strong>Build long-term relationship with company</strong></td>
</tr>
<tr>
<td>13%</td>
<td>31%</td>
</tr>
<tr>
<td><strong>Seniors</strong></td>
<td><strong>Interaction with an insurance company</strong></td>
</tr>
<tr>
<td>21%</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
<tr>
<td>31%</td>
<td></td>
</tr>
</tbody>
</table>

Source: LIMRA, 2016 Insurance Barometer Study

https://www.lifehappens.org/industry-resources/agent/barometer2016/
7) ALIGN INCENTIVES

Wellness programs

7) ALIGN INCENTIVES

Engagement Platforms

- Life.io
- melius
- everplans
- Society of Grownups

8) UTILIZE DATA & ANALYTICS

“I understand that insurance companies will need to collect and analyze other data sources to make sure I’m not hiding anything”

An increase in the availability of health, financial and behavioral data is helping simplify the application and underwriting process for consumers and control fraud and anti-selection*.

* For much more on this topic, see: http://www.rgare.com/knowledge-center/media/videos/behavioral-drivers-of-mortality-experience
8) UTILIZE DATA & ANALYTICS

Data-driven evidence is now routinely gathered to streamline the risk-selection process.

- Over 80% of companies now query the MIB and prescription databases on simplified-issue products*.
- Motor vehicle records, criminal histories and many other sources are routinely collected.
- Advanced analytics approaches are being deployed to improve the predictive value of the data being used.

Rx: Rozar and Rushing, Journal of the Academy of Life Underwriting, March 2009
MVR: Rozar and Rushing, Journal of the Academy of Life Underwriting, March 2012

* Source: LIMRA, Simplified Issue Insurance Made Simple, 2017
8) UTILIZE DATA & ANALYTICS

New data sources are coming online every day

- Financial credit data has proven to be very predictive of mortality and persistency and is now being used in life insurance underwriting.
- New medical data sources are seeking to supplement prescription histories and reduce attending physician statements.
- Other third-party sources are being actively explored as predictors of lifestyle or other behavioral risks.

Mortality by Financial Credit Score*

- TransUnion TrueRisk® Life:
  http://www.rgare.com/knowledge-center/media/videos/predictive-nature-credit-data
8) UTILIZE DATA & ANALYTICS

This one is a little trickier…
8) UTILIZE DATA & ANALYTICS

Do you trust your own model?

Machine Learning in Insurance: Do Actuarial Models Trust the Data Too Much?

Aug 1, 2017 by Colin Priest

8) UTILIZE DATA & ANALYTICS

Are you using appropriate data?

- Inappropriate use of data will be rightly opposed by consumer advocates and regulators and will put at risk the industry’s right to underwrite.
- Despite increased availability of data, insurers must be careful to safeguard the interests of consumers.
- Transparency is critical to building trust.
8) UTILIZE DATA & ANALYTICS

Do you have the right to use the data?

Nov 2, 2016 1:00 AM BST

[Link to article: https://www.theguardian.com/technology/2016/nov/02/admiral-to-price-car-insurance-based-on-facebook-posts]

Nov 2, 2016 9:00 PM BST

[Link to article: https://www.theguardian.com/money/2016/nov/02/facebook-admiral-car-insurance-privacy-data]
8) UTILIZE DATA & ANALYTICS

Is your data secure?
8) UTILIZE DATA & ANALYTICS

Is it?
8) UTILIZE DATA & ANALYTICS

Are you sure?

<table>
<thead>
<tr>
<th>Year</th>
<th>Company</th>
<th>Stolen Records</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>AOL</td>
<td>92,000,000</td>
</tr>
<tr>
<td>2005</td>
<td>Gawker.com</td>
<td>1,500,000</td>
</tr>
<tr>
<td>2006</td>
<td>NMBB</td>
<td>1,460,000</td>
</tr>
<tr>
<td>2007</td>
<td>Carefirst</td>
<td>1,100,000</td>
</tr>
<tr>
<td>2008</td>
<td>River City Media</td>
<td>1,370,000</td>
</tr>
</tbody>
</table>

2004-2017 Data Breaches With More Than 1,000,000 Records Stolen

- 2004 AOL
- 2010 Gawker.com
- 2013 NMBB
- 2015 Carefirst
- 2017 River City Media

Source: databreaches.net data at https://docs.google.com/spreadsheets/d/1Je-YUdnhjQJO_13r8IeRxpU2bKuV6RVRH0YCgiMfg/edit#gid=322165570

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BONUS: IT’S ALL ABOUT THE BLOCKCHAIN

Blockchain protocols may transform how information, value and trust are distributed.

KPMG: Blockchain Accelerates Insurance Transformation
“Most observers therefore believe the system to be immensely more trustworthy and transparent than traditional approaches...”

TechCrunch: Blockchain is Empowering the Future of Insurance
“Digital trust is now an ever reasonable possibility”

Accenture: Blockchain: Industrializing Trust in Insurance
“Blockchain has the potential to provide a secure, transparent and verifiable mechanism to execute transactions in a manner that replaces the traditional notion of utmost good faith with provable trust.”

Deloitte: Blockchain: Trust Economy
“The emerging trust economy depends on each transacting party’s reputation and digital identity—and that’s where blockchain comes in.”

https://techcrunch.com/2016/10/29/blockchain-is-empowering-the-future-of-insurance/
<table>
<thead>
<tr>
<th>Build Trust</th>
<th>Borrow Trust</th>
<th>Increase Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Provide Trusted Advice</td>
<td>4) Leverage a Trusted Brand</td>
<td>6) Deliver Price/Value Transparency</td>
</tr>
<tr>
<td>2) Deliver a Modern Experience</td>
<td>5) Connect People Together</td>
<td>7) Align Incentives</td>
</tr>
<tr>
<td>3) Make it Easy</td>
<td></td>
<td>8) Utilize Data &amp; Analytics</td>
</tr>
<tr>
<td></td>
<td></td>
<td>9) Blockchain</td>
</tr>
</tbody>
</table>
“Trust arrives by foot and leaves by Ferrari”

Mark Carney,
Governor of the Bank of England