

Insight

Risk Adviser

Insuring Success

The insurance industry has a tremendous opportunity to transform itself by providing direct value-added service.

Have you ever met a person who really likes to buy insurance? With most purchases you get some direct benefit from the transaction: You see a movie, get a car, or a new computer. But with insurance you get a piece of paper which basically says, subject to specific terms and conditions, you have a promise to receive some payment. And yet, this over \$1 trillion industry (just in the U.S.) underpins our society.

Based on the check you write compared to the check you might receive, it's not too surprising that insurance is often viewed as a commodity. And like most commodities, the main differentiator is price. The news on any day clearly shows the need for insurance is not going away. Insurance buyers are also unlikely to change their insistence on keeping costs of premiums low. So, it appears the industry is caught between the proverbial rock of growing exposures and the hard place of a soft market.

Just as technology has transformed telephones from static communication devices to an integral part of modern society, insurers have a similar opportunity to change the world. For they have the "secret sauce" of success: the most detailed data on failures and loss exposures. If insurers can predict failure, then why not predict success?

Predicting success by just looking at loss histories would be problematic, but today—thanks to science and technology—insurers can gather more robust data about their insureds' exposures in near real-time. And working with insureds, certain data elements can be correlated to identify specific risk mitigation actions that in essence prevent future losses. Today, in some cases, the future can be seen. Here are some examples:

- Medical science has identified certain genetic situations that are usually precursors to specific



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diseases. Patients can take specific actions to prevent or minimize these health risks.

- Internet-supplied data collection on driving habits can influence auto premiums.
- Monitoring temperatures and equipment operating parameters can identify equipment degradation long before failures occur.

This is both the challenge and the tremendous opportunity for insurers: to transform from a commodity to a direct value-added service. In simple terms this means we insure what people really want—not just the air conditioner, but the ability to have cool air; not just industrial equipment, but a minimum level of system availability. The paradigm shift transforms an insurer who indemnifies failure, into a service partner who insures a minimum level of success.

This may sound like a monumental task, but it's actually a natural extension (or evolution) of classical insurance. If our industry is to keep pace of market demand, success-based insurance

represents an important part of our future. One glance at the growing global influence of technology-based companies shows that the future will involve innovative applications of real-time data.

For insurers to be viewed as valued partners rather than commodity providers, our products need to evolve to protect what people really want rather than just provide loss recovery payments. Here are two hypothetical situations comparing indemnification and success-based coverages. Which would you buy?

- Conceptually, life insurance that pays out if you die within the policy term? Or insurance that states that if you prescribe to a certain set of behaviors (health maintenance and monitoring), the policy insures you will live for the policy term?

- Practically, would you purchase all risk insurance for a municipality microgrid? Or insurance that covers a minimum level of power system availability?

Indemnity insurance is not going away, but the next frontier may just be insuring success.

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