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# News Direct

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# Chairperson's Corner

By Bill Bade

The Marketing and Distribution Section Council recently met in Chicago to set strategic priorities for 2019. Our team is excited about the trajectory of the section and the innovative content that we will be releasing throughout the year. I would like to personally thank our outgoing newsletter editor, Ailen Okharenia, for his many contributions in 2018 and welcome our newest addition, Mark Sayre. I think you will enjoy the plans Mark and the section council have for the newsletter.

We recently unveiled a new set of marketing reports with Competiscan, a Chicago-based company that houses a database of web-based marketing. Competiscan has used this database to create reports that are relevant to our membership. Future reports will be aligned with our strategic priorities and will be distributed via email (in PDF format) to our section membership. If you have not viewed the past reports, I would encourage you to visit our section website.

After a fun and engaging section council meeting, we intend to focus on two strategic priorities in 2019. The first priority is direct to consumer (DTC) marketing, with an emphasis on technology as well as integrating distribution channels. Our second priority is InsurTech with a focus on health and



well-being. The planned activities for each of these priorities include a dedicated newsletter, webcast(s), town hall discussion, Competiscan report, SOA Annual Meeting session and other activities.

We value your membership in the Marketing and Distribution Section, and we hope to see you at a future event! ■



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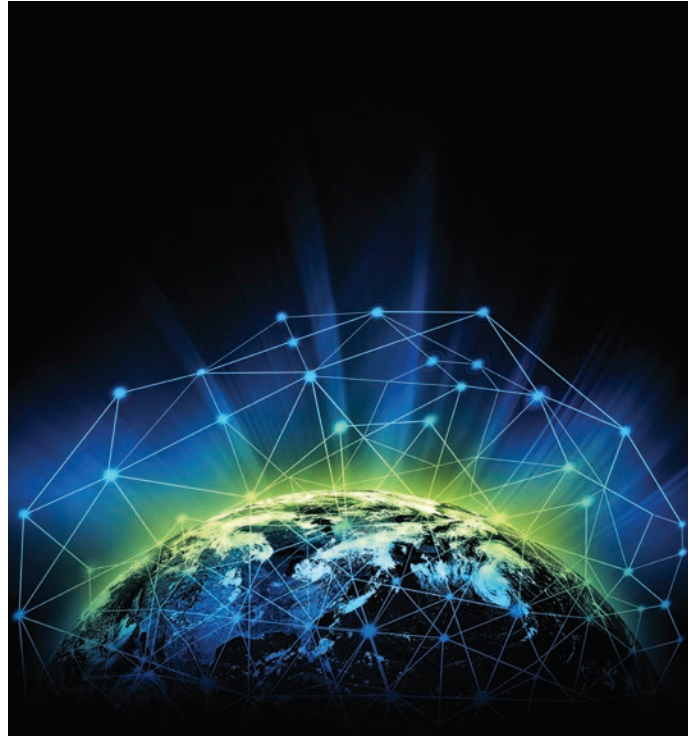
# Letter From the Editor

By Mark Sayre

**H**ello readers! I am very excited to work on my first newsletter as the incoming editor for the Marketing and Distribution section. First, I would like to thank Ailen Okharedia, our outgoing editor, who set a high standard for newsletter quality (one which I hope to meet), and also helped prepare me for success in this new challenge by sharing his experience and learnings.

One of the goals I hope to achieve with this newsletter over the next two years is to reimagine the newsletter as a forum in which each article provides a unique perspective on a particular topic within the broader theme of each edition. By putting these articles in dialogue with one another, I believe that you, the reader, will come away with a slightly deeper understanding of our theme and how that theme varies across industries, populations and geographies.

With that in mind, I am excited to introduce our first theme: The Underserved. In this edition, we explore the underserved and underinsured across different product lines and countries, the factors that precipitate this gap in protection and ideas for how to address the problem. We bring together topics as varied as the health protection gap in China, individual life insurance in the U.S. and natural catastrophic coverage in Latin America. By exploring these issues across coverage types and countries, I hope our readers will draw inspiration to think about new and different ways to solve protection gaps relevant to their areas of practice.



As we experiment with this new approach to our newsletter, we need your feedback and contributions to ensure that we are constantly learning and improving. Reach out to me, to Bill Bade (section chairperson), or to any other members of the Section Council with your thoughts and suggestions. Until the next time, happy reading! ■



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# Consumers Drive Change

By Richard De Sousa

The “protection gap” is a market condition that life insurers have studied widely and are making significant efforts to close. But it is an intractable challenge, especially in the Millennial market (generally defined as those born between the early 1980s and the late 1990s), which is now the largest generation in the U.S. According to the 2018 LIMRA Insurance Barometer Study, 58 percent of this generation do not know how much or what type of insurance they need, and 43 percent say they have not been approached by anyone to purchase life insurance. Millennials understand the need for insurance, even acknowledge that they should have it, yet they are more likely to prioritize savings, college debt and vacations over life insurance purchases according to the LIMRA study. Grim as this seems, Millennials present a tremendous prospecting opportunity.

Reaching Millennials and closing the protection gap requires a deeper understanding of what appeals to this growing segment and how to approach them. In its fifth annual Global Consumer Study, ReMark focused on how consumers of all generations prefer to interact with insurers.

The global study of 9,760 consumers conducted during 2018 by ReMark shows that consumers want to interact with insurers in the ways that work for them at a particular time and in specific ways, moving across online and offline channels. Insurers must do more than market products. They must understand how customers feel and behave as well as their attitudes about life and health. And today’s consumers expect an easy buying experience.

## DIFFERENCES AMONG CONSUMERS

The study segmented respondents into four demographic and economic categories in 16 key life markets throughout the world. Generational groups identified were Millennials (born after 1985), Generation X (born 1970–84), Boomers (born 1950–69) and the Silent Generation (born before 1950). Consumers in all categories value adviser experience and specialized knowledge, as well as the speed and consistency of technology and its ability to iron out confusing and time-consuming processes. They want access to online channels for a range of needs—but when it comes to the purchase decision, they value the human touch.

The 2018 study demonstrates that consumer use of technology varies greatly and changes frequently. At one end, consumers embrace social media and quickly adopt applications that save time and make life easier, even interacting with their insurance company. At the other extreme, consumers are suspicious about technology that digs into their lives, creating possible exposure to unexpected risks. The study’s findings show that responsible use of consumer data and delivery of clear benefits improve customer relationships—and entice the elusive Millennial generation to engage.

Innovative applications of technology lie at the heart of Millennial engagement. ReMark’s study shows that all Millennials, especially those in developed markets, are more motivated by happiness and related goals. They want to live well. Health and wellness motivate them far more than fears. Wellness and loyalty programs, together with wearable technology that enables the sharing of data, bring benefits that speak to both insurer and consumer.

## DIFFERENCES AMONG CHANNELS

While generational segments have different engagement preferences, all have an appetite for online engagement at some point in the purchase journey. Some variance may be attributed to the differing complexity of products purchased by each generation. Younger generations may purchase simple term products online with little or no personal interaction, while the older generation who is buying complex retirement products may require specialist advice after initial online research.

The number of information channels used for research prior to policy purchase has grown steadily in all categories of consumers except for the Silent Generation, where use of information channels has decreased slightly. Direct online channels are favored for research, and these channels often supplement information from offline intermediaries such as agents or bank advisers. In fact, some 66 percent of direct policies were finalized by Millennials, Generation X and Boomers through online channels, according to the 2018 study.

ReMark’s study discovered variation in consumer trust of different direct channels, with direct-to-consumer insurance company websites getting highest trust scores among all generations. Direct bank websites have slightly lower trust scores in all generations, with direct comparison websites (such as SelectQuote, PolicyGenius and Insurify among a host of others) coming in third. Ranking lowest among channels were direct non-financial-service channels such as social channels like WeChat or websites that offer insurance via third parties to customers who have purchased noninsurance goods such as flights or car rentals.

## WILLINGNESS TO SHARE AND WEAR

Insurance companies must be realistic about the data they are likely to obtain. Historical evidence shows that consumers frequently do not disclose alcohol or tobacco use accurately (or at all). Having accurate and complete information is, of course, key to pricing risk appropriately for individuals. In the study, ReMark sought to identify how consumers perceive their own health status and how comfortable they are in sharing health data.

Most respondents believe they are healthier than average (42 percent) or are in average health (49 percent). Fewer than 10 percent reported being less healthy than average. The study further shows correlation between perceived health status and consumers' comfort in answering questions about their health. A strong majority of respondents (86 percent) who believed they are healthier than average reported being comfortable about answering health questions while only two-thirds of those who believed they are less healthy than average were comfortable doing so.

As for data from wearables, ReMark shows that 40 percent of respondents in the U.S. currently own a wearable device that gives information on exercise; between 20 percent and 25 percent of respondents in Canada and Latin American countries report owning such a device. Therefore, in order to benefit from wellness or underwriting programs that incorporate data from wearables, insurers will need to encourage further adoption of these devices in order to achieve critical mass.

Insurers desiring to move consumers to wellness platforms and to integrate wearables data into their underwriting and pricing should be aware of these findings. Some consumers—particularly those who believe they are less healthy than most other people—may not be attracted to those new products and interactive programs tracking health and fitness data. Engaging this consumer segment and influencing them to change behaviors to improve their health status, without being intrusive, will be key to success.

Biological Age Models (BAM) offers incentive for consumer and insurer alike. Consumers learn how the simplest form of exercise (that is, steps) can have a strong effect on their mortality risk. Their personal health intelligence also includes real-time coaching on diet, exercise, sleep and stress management based on simple activity data. Furthermore, the programs reward consumers for taking responsibility for their personal health management.

And insurers benefit from continuous risk assessment from a simple dataset—dynamic underwriting that minimizes risk, facilitates competitive pricing, speeds the purchase cycle and enhances the customer experience.



The shift in focus from providing death benefits to encouraging healthier living resonates across all categories of consumers in the ReMark study. For developed-market Millennials in particular such programs can be a gateway to engagement with direct companies.

Joining customers on their journey means tapping into their interests and serving those interests to become a valued part of their efforts to get fit, stay fit and protect the lives they love. Insurers must support customers' desire for lifestyle-based protection with a dynamic data-driven approach designed to encourage, acknowledge and reward positive behavioral change. And for dynamic underwriting to flourish, creative long-term engagement strategies that will sustain partnerships of value with customers are vital. ■



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# Narrowing the Nat CAT Protection Gap in Latin America

By Carlos Arocha

In 2017 Latin America experienced an outlier year in natural catastrophes. Nineteen events caused insurance losses of more than \$5 billion, but total economic losses may have been as high as \$32 billion.<sup>1</sup> In other words, about 16 percent of losses were insured. But global reinsurers seem to enjoy excess capital, and the regional insurance industry thrives as the Latin American economies expand. In the more developed insurance markets of the U.S. and Europe, typically about one-half of losses are insured. How can the gap be narrowed in Latin America? Two cases highlight the importance of insurance coverage. This article deals with the earthquakes in Mexico (September 2017), and the torrential floods from El Niño in Perú (February–April 2017) and proposes solutions that involve collaboration between the private and public sectors.

## SEPTEMBER MOURN

Mexico was badly struck by two major earthquakes in September 2017. The first one, on September 7th, had a magnitude of Mw 8.1<sup>2</sup> and was classified as the strongest earthquake in the past 100 years. Its epicenter was located some 60 miles south of the southern Mexican state of Chiapas, in the Gulf of Tehuantepec. More than 41,000 homes were severely damaged in southern Mexico. In Mexico City, some 400 miles away, although no major damage was registered, buildings trembled and swayed and about 1.8 million people lost electricity service. Insurance losses were estimated at \$400 m, and economic losses at \$4 billion, a 10 percent coverage ratio, which is not surprising given that the earthquake caused damages in the less economically developed Mexican south.

A few days later, on September 19th, a date that Mexicans remember for a big earthquake that in 1985 killed more than 10,000 people, a second calamitous earthquake hit the state of Puebla and caused extensive damage in central Mexico, including Mexico City. Fifty-two buildings collapsed and more than 500 were damaged, for estimated insurance losses of \$1.2 billion, and economic losses of \$8b (a coverage ratio of 15 percent).



## BAD, BAD BOY

The warm ocean water that develops in the equatorial Pacific produces high precipitation levels in South America in the early months of the year, affecting mostly Perú and Ecuador. This phenomenon is officially called “El Niño Southern Oscillation”, or “El Niño” for short. In the months of February to April 2017, torrential rains caused the worst mudslides in 30 years. Perú declared a state of emergency, as 150,000 homes became uninhabitable. Thousands of farmers lost their crops as 37,000 hectares were severely affected. These farmers have little or no access to insurance. Thus, a natural catastrophe turned into an economic crisis, a scenario that is frequently found in less



Figure 1  
Top Reasons That Prevent Consumers From Buying Personal Lines Property Damage Coverage



economically developed countries. Insurance losses were estimated at \$380 million, but economic losses were as high as \$3.1 billion, for an insurance coverage of 12 percent.

#### (NOT SO) PROUD MARY

Just to place the insurance coverage ratio in perspective, September 2017 also brought a deadly Category 5 hurricane. “Maria” struck Puerto Rico, several Caribbean islands and the U.S.<sup>3</sup> In Catano, a town in northern Puerto Rico, 80 percent of buildings were destroyed by sustained winds of 175 mph. Insurance losses brought about by Mary in all impacted countries, including the U.S., were estimated at \$32 billion, and economic losses were \$65 billion, for an insurance ratio of 49 percent.

#### THE DEMAND SIDE

A possible but very likely factor that explains the lack of insurance coverage is the poor understanding of insurance products. A recent survey<sup>4</sup> of members of FIDES, the Interamerican Federation of Insurance Companies, showed that property damage products are overly complex and often they exclude damages caused by natural catastrophes. This was clearly the case in Mexico, where thousands of homeowners were frustrated when they discovered that their policy did not cover the losses caused by earthquakes. Another problem is that policies cover the outstanding balance of a mortgage, but not the commercial residential value.

Lack of trust in insurance companies as well as insufficient disposable income exacerbate the gap problem. Finally, some people think that the government should pick up the cost when a natural catastrophe strikes.

#### THE SUPPLY SIDE

On the supply side several problems are apparent. Despite technological progress, the cost of producing insurance covers is intensely debated in the industry. Although no official statistics are available, we found that according to AMIS, the Mexican Association of Insurance Companies, for property damage products, about 24 cents of the dollar are spent in distribution and administrative expenses.<sup>5</sup>

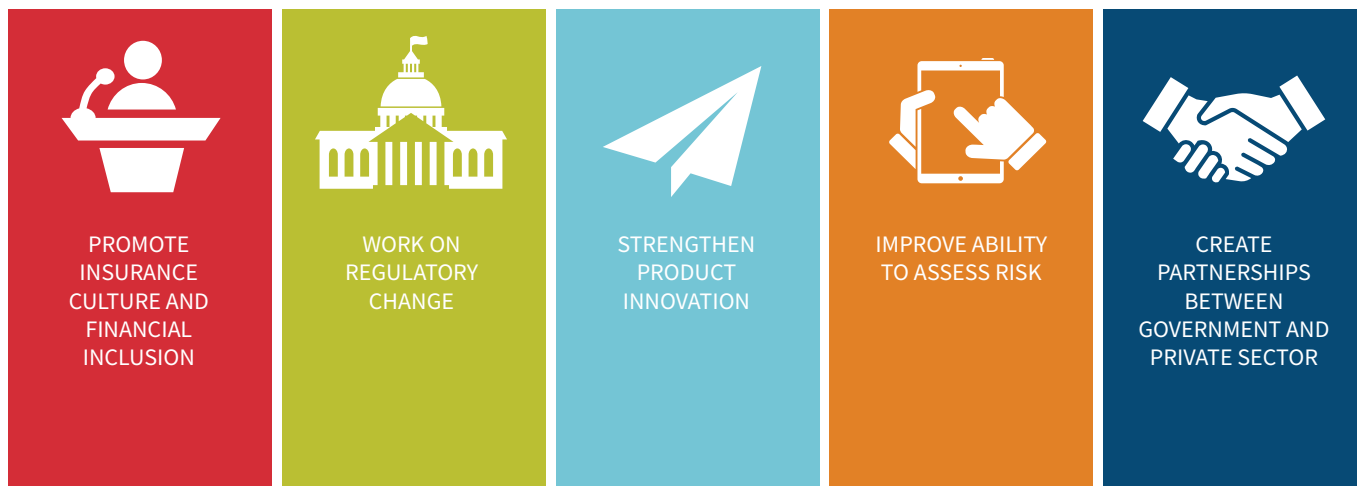
Insurers face complex modeling challenges too. A few vendors have developed catastrophe models and the largest insurers possess the skills set, but compilation of meaningful statistics and the maintenance of expert systems add to the cost of homeowners’ insurance, where quotes must be developed relatively quickly.

Regarding product design and development, insurers typically focus on preventing fraud, as opposed to bringing product value. Simplified forms and policy language are usually neglected. Consumers would certainly benefit from more accessible products.

Distribution is also problematic. Many insurance agents and brokers deemed property damage insurance as a complex product to sell, where much effort must be spent in understanding and explaining the product to a potential consumer. They would rather sell car insurance, where products are easier to understand and receiving a commission requires less effort.

In many Latin American countries institutional obstacles prevent the development of a healthy insurance market. The legal environment tends to be somewhat weak and contracts are

Figure 2  
How can the Gap be Narrowed?



difficult to enforce. Many homeowners do not have a property title. Another institutional obstacle may be regulation. Many Latin American countries have somehow emulated the Mexico regulatory solvency regime, which is a risk-based regime inspired in the European Solvency II Directive. Risk-based solvency regimes require expert consideration of risk profiles, and modeling catastrophes is a complex and expensive task.

### HOW TO NARROW THE GAP

The large insurance protection gap will probably never be closed. However, there are certain measures that may help in narrowing the existing gap. These are:

1. Promote insurance and financial inclusion—the fact that products are seemingly complex can be addressed by government action such as funding programs that promote financial knowledge and allowing access to financial services to millions who do not currently have the possibility to buy insurance covers.
2. Work on regulatory change—Copying and pasting regulatory solvency regimes from developed insurance markets is a recipe for failure. Risk-based regulation is taking hold in Latin America, where many countries are in the process of overhauling solvency regimes. However, it is important to balance the need of solvency regulation with the incentives for insurance companies to introduce new and innovative products without having to be engaged in overly complex

processes. Solvency regimes must be adapted to the features of the market in question.

3. Strengthen product innovation—insurers need to focus on the development of products that cater to the needs of policyholders and not merely spend their full energy in designing “anti-fraud” products. Insurers can tap into the experience available from global reinsurance players, who offer not only capacity but also knowledge transfer. A win-win situation may be achieved.
4. Improve the ability to assess risk—with the exception of Mexico, Brazil, Argentina and Colombia, only a handful of actuaries can be found in other Latin American countries. Actuarial skills are urgently needed in the Latin American insurance industry. But also important is to build robust modeling skills, where other insurance professionals may also play a crucial role. The Latin America Committee of the Society of Actuaries has been an active promotor of actuarial education and research in the region, but much is yet to be done.
5. Create partnerships between government and private sector—this is probably a “catch-all” category. The above measures would greatly benefit from fruitful relationships between government and players of the insurance sector. This is not only about regulation: it is creating more fertile ground to sow the seeds of strong insurance market growth.

## A FINAL IDEA

According to the World Bank, Mexico receives about \$34 billion in remittances every year, an amount that is equivalent to 2.8 percent of its GDP<sup>6</sup> (the figures for Perú are \$3 billion, or 1.3 percent of GDP). What about designing parametric coverages that give protection in case of certain natural catastrophes? For example, the payment mechanism can be triggered when an earthquake reaches a certain magnitude level. The funding could be automatically deducted from the money that immigrant workers send home to their families.

Actuaries can play a critical role in designing products that meet real needs, particularly in those countries where insurance penetration is relatively low. Innovation and the use of technology may help narrow the gap but building partnerships between governments and the private sector may be the most effective way to ease the burden derived from being uninsured or underinsured. ■



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## ENDNOTES

- 1 Economic and insurance losses according to *Sigma 3/18*, Swiss Re Institute.
- 2 The United States Geological Survey reported a moment magnitude scale, Mw, of 8.1.
- 3 Hurricane Maria hit the Outer Banks of North Carolina on September 26, 2017.
- 4 The Latin American Committee of the Society of Actuaries in collaboration with the Interamerican Federation of Insurers (FIDES) conducted a survey in 2018. Results were presented at the 2018 SOA Annual Meeting in the session called "Closing the Nat CAT Protection Gap in Latin America."
- 5 Information compiled for purposes of developing the session indicated in the preceding footnote.
- 6 *Migration and Remittances Data 2018*, The World Bank.

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SOCIETY OF  
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# Narrowing China's Health Protection Gap

By Robert Burr and David Zhang

## RESEARCH BACKGROUND

According to a report from the World Bank and the World Health Organization in 2017, close to 100 million people worldwide are pushed into poverty every year due to health expenses. Swiss Re released the latest update on the Asia Health Protection Gap research. The research surveyed more than 16,000 consumers across 12 markets in Asia to investigate the causes and implications of financial stress arising from out-of-pocket health care expenditure. This study is essentially a reflection of consumer perception toward the gap between their ideal level of health care services and affordability. Markets covered by this research include mainland China, Hong Kong, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.

All across Asia, payment for medical services is viewed as the biggest challenge to households.

“Although China’s economy has been growing rapidly and people are earning higher household income, access to quality and affordable health care continues to be a challenge in the country today,” said Robert Burr, managing director and head of Life & Health Client Markets Asia at Swiss Re. “This study identifies the various factors driving the health protection gap in China and 11 other markets across Asia. Together with the government’s effort in driving better protection for the people in China, it’s time for all stakeholders to come together with a multilateral approach to build stronger societal resilience for all, especially with health care providers, insurers/reinsurers, pharmaceuticals and nonprofit organizations.”

## DEFINITION OF THE HEALTH PROTECTION GAP

The gap in this report is defined as the amount of financial stress arising from unforeseen, direct out-of-pocket medical expenses,

and the estimated cost of nontreatment due to limited ability to afford. The gap could be medical expenses not covered by other payers such as insurance, social security or government, forcing people to cut back from other household spending (for example, school fees) or use personal savings or loans to fund such unforeseen expenses. Or it could be nontreatment due to lack of financial resources, potentially exposing the households to greater health risks and worsening health conditions.

## KEY FINDINGS

Asia’s health protection gap increases to USD1.8 trillion (7.4 percent of regional GDP)

All across Asia, payment for medical services is viewed as the biggest challenge to households. The current health protection gap means that more than 40 million households are under financial stress due to medical expenses. The consequent emotional burden and treatment cost are even greater.

Most of the gap, near USD1.4 trillion, originates from Asia’s emerging markets, including China. According to our survey, average out-of-pocket medical expenses in emerging Asia constitute almost 18 percent of net household income. In the absence of remedial actions, we expect the health protection gap across Asia to widen in the coming years as the rates of acceleration in aging and of growth in medical inflation are higher than the growth rate of average incomes.

In recent years China’s health protection system has continued to improve, and it covers all basic protection needs. According to this survey, the share of out-of-pocket (OOP) health expenditure in China is comparable to the Asian average (10 percent), second only to Thailand (2 percent) and the Philippines (9 percent) among emerging markets. However, due to its enormous population size, relatively low gross income level and ever-increasing health protection needs driven by continued economic growth, there was still a USD805 billion health protection gap in China in 2017.

## Overconfidence About One’s Health, the Prevalence of Chronic Conditions and Increasing Health and Wellness Behaviors are Some of the key Factors Affecting the Health Protection Gap

Consumers tend to be overconfident about their health status in China, which in turn leads to greater interest to purchase insurance. Fifty-one percent of respondents described themselves as healthy, 29 percent of the self-reported healthy ones exercise only once a month or less, while 27 percent are smokers.

Improving financial status is changing lifestyles in China, which has also contributed to the increasing prevalence of chronic conditions. According to the survey, 47 percent of households in China are dealing with chronic conditions, and they contribute



to 55 percent of China’s health protection gap, higher than Asia’s average of 46 percent. As a result, households with chronic conditions have higher interest to buy insurance. The health protection gap may continue to grow as the prevalence of chronic conditions aggravates with urbanization, ageing issues and economic development.

One way to tackle the health protection gap is to promote consumers’ involvement in health and wellness activities. More than 80 percent of respondents in China are engaged in health and wellness activities, and they also show a greater interest in buying insurance.

## FUTURE INITIATIVES

### Embracing Digital Developments Provides Opportunities for Narrowing the Gap

As one of the most digitally advanced countries, China had more than 770 million internet users in 2017. About 26 percent of respondents in China owns a wearable fitness app. As consumers have easier access to their health data and are able to analyze the data through personal health management apps, the insurance industry can seize the opportunity to enhance multipronged cooperation to develop innovative solutions. At the same time, it should promote health assessment and management among the public aimed at addressing specific health protection needs.

### Multiparty Cooperation to Deal With Various Scenarios in the Health Care Sector

Insurers, governments and health-care providers should explore new ways of cooperation to effectively minimize risks by sharing market development costs (including distribution and promotion costs, as well as the cost of raising consumer awareness).

China can give the public-private cooperation model a try to complement the current health protection system, encouraging commercial insurers to provide more comprehensive and flexible medical insurance products beyond basic protection. By fully unlocking the potential of commercial institutions, the relevant government agencies will receive better support to facilitate the virtuous cycle of the social insurance system and expedite the fulfillment of the “Healthy China” goal.

“Narrowing the health-insurance gap requires collaboration among multiple stakeholders. As a key player in the health-care value chain, insurance companies should focus on providing consumers with technology-based solutions that meet the actual needs of the Chinese market, thus offering a tool to close the gap for society and consumers,” David Zhang, head of Client Markets Life & Health China, Swiss Re. ■



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# Medigap: One Part of a Quest for a Fantastic Health Care Future

By Jing Lang and Rajiv Sood

**B**efore I moved to New York from Toronto, I was warned by many that the health care system in the U.S. is different; while it delivers faster service and excellent quality of care, it is also unnecessarily complex, especially when compared to Canadian universal health care. I was skeptical. After all, the U.S. is home to Amazon, LinkedIn and Google. With such strong emphases on customer experiences, health care in the U.S. surely cannot be that far behind in terms of simplicity and personalization—can it?

After 18 months in the U.S., I stand corrected. The statement “I have insurance!” in the U.S. offers little clarity on coverage nor certainty on out-of-pocket costs—there seems to be an infinite number of coverage types and payment methods. I unwillingly joined millions of consumers in a tumbling, vicious cycle of confusion, unclear expectations and negative customer experiences. While many other aspects of the U.S. economy and society are revolutionized by personalization and a relentless focus on customer experience, health care is not there yet; but I’m confident it is coming—and we could start with Medigap.

## WHAT IS MEDIGAP

You may be asking “why Medigap?” and the answer to that question can be found among the 10,000 people who turn 65 every day. This number represents a critical mass of increasingly savvy individuals who bring with them higher expectations for the new world of health care. It is in this context that Medicare’s relatively standardized product (known as Medigap) has an opportunity for real innovation and personalization.

Before we discuss the personalization efforts currently under way, let’s first start with a recap of Medicare’s main components:

- **Medicare Part A**—often called “hospital insurance”—covers inpatient care, including the costs of hospital stays, nursing facility stays (if specific criteria are met), home health care and hospice care.
- **Medicare Part B**—often called “medical insurance”—covers outpatient expenses, including physician and nursing fees as

well as a range of services (such as x-rays, diagnostic tests, and so on)

- **Medicare Part C**—aka Medicare Advantage (MA)—allows Medicare beneficiaries to receive Medicare-covered benefits through private health plans that typically include extra benefits such as prescription drug coverage. In exchange for the benefits, coverage may be limited to a network of providers.
- **Medicare Part D**—prescription drug coverage—provides substantial savings on prescription drugs; Part D plans are designed and administered by private health insurance companies.

Medigap, also known as Medicare Supplement, is a standardized insurance policy that fills the gaps—deductibles and copayments—in Original Medicare (Medicare Part A and B). It is considered supplementary coverage that only people who elected Original Medicare are eligible to purchase. People who elected Medicare Advantage are not eligible to purchase Medigap. Given recent changes to the Medicare Advantage market, there is also a need to rethink Medigap to innovate on the standard chassis as well as improve the customer experience.

Medigap is sold by insurance companies. There are 10 standardized Plans—named A through N—and each offers different benefits with various coinsurance and deductible amounts. Since the plans are standardized, there is no baseline variation in benefits. No matter which insurance company provides your coverage, the benefits and deductibles will be the same. As a result, price and service along with innovation become important considerations when selecting coverage and an area for companies to differentiate themselves from the rest of the market.

## CURRENT OPPORTUNITIES: WHY SHOULD YOU BE EXCITED?

Although there are many reasons why carriers should innovate on their Medigap offerings, here are our top five:

1. Growing customer base due to shifts in demographics.
2. Opportunities to complement your existing product suite or as a way to leverage and cross-sell a final expense or other product.
3. Standardized designs that provide consistency and make it easy for customers to focus on new innovations that matter to them—and easy is good!
4. Compared to Medicare Advantage, its ultimate rival, Medigap buyers are generally more affluent (better health and higher income), all typically pointing to better underwriting results.

- 5. Market resources, including reinsurance, are available to help you enter, expand or exit.

## FUTURE DIRECTION

With technology advancements through wearables, like the Apple watch, health-care options will become increasingly customized and personalized. It doesn't matter whether we are talking about technology, care management, underwriting or clinical aspects, personalization is here to stay. Here are some areas where we're seeing considerable movement:

- **Propensity models**, such as smoker propensity models, use data-driven predictive analytics to predict (with a high level of accuracy) whether a declared nonsmoker is, in fact, a true nonsmoker. This then allows an application to be routed to a faster and more streamlined track for underwriting and approval for initial life insurance coverage or increases in limits as life circumstances warrant.
- **Accelerated Underwriting** enhances the customer experience by facilitating the offering of competitively priced fully underwritten products without the need to complete a medical exam. One may also be able to identify applicants who are most likely to be preferred based on nonmedical components, thereby further supporting cross-selling efforts.
- **Behavioral economics** explores the effects of psychological, social, cognitive and emotional factors on various economic decisions and the consequences of those decisions. This can then lead to modified buying behavior, price changes, rates of returns, and so on.
- **InsureTech** speaks to several ways in which technology can enhance the way insurance is bought, sold, evaluated or managed. Common uses today include AI software to harness, examine, calculate and determine both price and sales opportunity.
- **Life scores** produce risk scores based on a variety of application data, like laboratory test results and prescription data, in increasing the efficiency and degree of transparency in decisions.
- **Wearables** and sensors track biometric data and fitness to promote overall wellness and to encourage healthier behaviors, while providing new data and actionable insights.
- **Modifiable (AKA Improvable) Risks** represent conditions like diabetes or other cardiovascular risks that may initially lead to declinations of coverage, but can be modified or improved over time, thereby resulting in a different coverage decision.
- **Consumer engagement** seeks to better understand how protection and other needs fit into people's lives so that a relevant



solution can be presented in a very personalized way. It is hard to do this without understanding emotions, behaviors, motivations, concerns, obstacles, social determinants, and so on.

- **Genetics** looks for changes to a person's genes (or characteristics of) in order to identify disease and health risk. This could lead to increased awareness that in turn could help in managing or improving that risk, thereby potentially increasing longevity. This may also support the development of new markets or products, like critical illness.

While this is not an exhaustive list, it shows that we are well on our way as an industry toward delivering better customer experience and, ultimately, personalization. Some of these things may be revolutionary, others evolutionary, but all of them speak to rapid change from the ways that things have historically been—and are currently—being done. Over time, more of these will be incorporated into the product's design, effectively upending the current vicious cycle, turning it into a virtuous one.

At the end of the day, simple and easy wins. Delighting the customer wins. May the company who best delights their customers through innovative and simple experiences win. After all, as football legend Paul Bryant said, "Winning isn't everything, but it beats anything that comes in second." ■



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