The Future of Insurance

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Let’s take a moment and picture ourselves at the Swiss Re conference – in the year 2038.

Some of us get here by Uber. We don’t have to tip the driver because the car doesn’t have one. It’s fully automated.

Some of us arrive in our own vehicles. On the commute, we watch a movie – or have a power nap after a long night of post-conference “networking.” Our new Audi Sovereign does the driving for us.

By the way, this being Toronto, there is still a traffic jam. Even in an imagined future, there are some problems that can’t be solved.

On the way to Swiss Re 2038, we hear the news we need to know from our electronic personal assistant, Cynthia. That’s Alexa’s granddaughter.

Cynthia tells us about the migration away from the North American coast line – as the effects of climate change bring unprecedented flooding.

She tells us about a ring of cyber criminals hacking some of the world’s largest financial institutions.

Finally, as she does each morning, Cynthia gives us our revised life expectancy – based on what we ate and drank the night before. The news isn’t good.

Our car finds us a vacant spot in a parking lot – and we pull in next to an old-school Mercedes. We pause to take a look. It’s a model from way, way back – 2015 or ’16. So quaint with its “out-of-style exterior” and its “steering wheel.”

And suddenly a question pops into our head: "Do they even still have insurance for relics like this?"

Ladies and gentlemen, we live in an age of disruption. For some industries it's already 2038.

We watch as longstanding businesses fall victim to new ways, powered by new technologies.

And yet, those of us who have been around our industry for a while may find ourselves thinking: "We're safe. No one can do what we do."

But isn't that what newspaper publishers thought? And travel agents and cab drivers? Isn't that what Kodak thought? None of them fully recognized the threat.

It is true that our industry is unique in some ways. Regulatory oversight and heavy capital requirements make traditional entry into our business more difficult.

There's probably a reason that Steve Jobs went into that garage in California and built a computer rather than an insurance company.

But that doesn't mean we are inoculated against the disruptive changes happening <u>around</u> our industry.

We need only look at the growth of ride-sharing services and their effect on car ownership.

Or think about the potential impact of autonomous cars and what they mean for our traditional business model and our traditional definition of risk.

What we're going to see for the next 20 years is a messy, complex and uneven transition that raises a number of questions:

How do we keep the traditional auto insurance system going, as fewer and fewer hard-core drivers insist on doing it the old way?

How do we begin to adapt to a transportation system in which the concept of liability is going to be transformed?

Ride sharing is already affecting how our business provides insurance to these drivers. Or think about Airbnb – today a lot of home and condo insurers may not have considered the increased risk exposure.

That's because most people don't necessarily rush to tell their insurance reps when they're quite literally giving the keys to their house to strangers they met online.

Consider the implications for life insurance as people learn more and more about their genetic makeup – and, over time, become empowered to tailor and tweak who they are.

In a time of such relentless change, is any company bulletproof? Is any industry truly secure?

Is our industry secure?

How we respond will go a long way to determining how successful our companies and our industry will be in the decades ahead.

It's not just advances in technology themselves that pose a threat. It's how technology transforms the expectations and behaviours of our customers – and our potential customers.

Let's think for a moment about millennials – and what they think about us.

The millennial generation has a very different way of interacting with the world. And today's teenagers go a step beyond that – they quite literally have no memory of a time before the Internet.

Research tells us that millennials are less likely to be loyal to a brand or a company. They are more likely to switch providers in pursuit of better service and price.

These new generations of consumers want services tailored precisely to their needs. They want faster service, more options and lower prices.

We all want that, of course. But research tells us millennials are more motivated than most in the pursuit of those objectives.

A survey done for the World Insurance Report found that only 34% of customers under the age of 35 reported having positive experiences with their insurers. That compares with 55% of those over 35.

That's a big satisfaction gap.

And it’s not just millennials. Technology is recalibrating the expectations of all consumers.

Think of someone who buys a book on Amazon with a couple of clicks… while in an Uber they summoned in five seconds on the elevator… on their way to a restaurant table they reserved with three taps of their smart watch.

We must seem like dinosaurs to them. Even our cousins in the banking industry are adapting at a much quicker pace. Their customers can now deposit cheques, transfer money and buy stocks through their phones. While we continue to move along at a pace that must seem glacial.

The nature of consumer engagement is also changing.

It is therefore more important than ever to understand what our customers know, what they want, and how they perceive the future.

So we went into the field and asked them.

We did our own public opinion research – with the results coming in just last month.

Our research found that millennials are much more likely to be interested in receiving their insurance documents digitally – and in having their pink slip accessible electronically.

They don’t understand why that hasn’t happened already. Millennials perceive the stuff on their phone to be every bit as secure as a piece of paper.

They also have greater interest in autonomous vehicles, compared to the general population. And a stronger belief that roads will be safer when there are more tech-guided automobiles on them.

Millennials will be at the cutting edge of the transition away from traditional driving – if they decide to own a car at all.

You may be wondering, as I have, why millennials attract so much attention.

This is not a niche segment of the market. By the time of the next federal election, millennials will constitute the largest voting bloc in our country.

To ignore this would be at our peril. So, are we ready to serve them on their own terms?

It may very well be that our future success lies in harnessing the power of disruption and using it for our own purposes.

To the extent that we have engaged technology over the past decade or so, it has largely been to get better at what we do – to improve our understanding of risk, or to create new efficiencies. These achievements are important.

But we need to be equally focused on creating new products and services – and new ways of delivering them.

There are whole fields of insurance coverage that didn't exist or weren't as relevant a decade or two ago, such as cyber security and flood.

On the other hand, there's the challenge associated with tomorrow's cars – and how to price liability that is going to shift from the driver to the manufacturer.

A changing world brings new vulnerabilities. But it also opens the door to innovative new products that help protect people and businesses.

There has been an explosion in data that's available to us, albeit with some privacy and legal restrictions.

There are competitive gains to be had by investing in digital analytics. In particular, telematics give us the ability to tailor highly individualized products to small subsets of consumers – exactly the right approach to reach younger demographics.

I know many of you are already on board this train. That's great news. We will all benefit from playing a leading role in this kind of innovation.

But it's not just the revolutionary, big-picture innovation that we need to be concerned with.

Our future relevance can take many forms. One of them is education. Another is advocacy.

Let's focus on floods just for a moment. As the effects of climate change begin to be felt, we are seeing more floods of greater severity.

Our public opinion research discovered three pieces of data that I find revealing.

First, only about one in 10 Canadians has an emergency plan or a disaster kit in their home.

Second, a lot of people – almost 45% – think they have flood insurance, when in fact they most likely do not.

And third, when people were asked who they trust as a source of information on floods and flood risk, only about one-third said the federal government. But more than half said they trust their insurance company.

As I see it, the takeaway is this: Floods represent an emerging threat. Homeowners aren't taking that risk seriously yet – and they don't know much about whether or not they are insured for flood damage.

But they are willing to listen to us. They trust us as a source of education and information on floods.

And they are likely to appreciate our efforts to advocate to government on their behalf. This, to me, seems like the kind of opportunity we should embrace – a chance to prove our value in the face of a new and emerging threat.

Beyond the products and services we offer, and beyond the policy issues we choose to emphasize, our relationship with consumers must evolve even further. We need to build rapport in new ways.

To do that, we have to be where consumers are. A generation ago, that was around the family kitchen table for an evening visit. Today, it's on electronic devices, 24/7.

We need to find new ways to help our customers navigate the complexity of insurance.

To do so, we must find ways that our regulators will accept to better engage and interact with our customers and potential customers.

Now, here's an obvious statement: Technology evolves at a faster pace than regulation. And, by the way, that's largely for the best.

But there comes a moment when regulations become so out of touch with the world that they begin to adversely affect an industry's ability to innovate.

We live in a time when we can see, or learn, or order almost anything we desire by touching the screen of our phone… and yet we live in a country where only one province has taken steps to allow for the use of electronic pink slips.

Regulators and policy-makers need to adapt to the world as it is – not cling to the world as it was. And they need to do it now – with a sense of urgency and an understanding that we need the freedom to adapt as the world changes around us.

This winter IBC submitted *An Innovation Agenda for Ontario's Insurance Industry* to the provincial government. Each of you has a copy in your package. It makes common sense recommendations for modernized existing insurance laws and regulations. This is a good first step.

The message is clear: We need to get moving. The clock is ticking and, as so many others have discovered: When it's too late, it's too late.

I’ll focus on just one example of usage-based insurance or UBI. But there are many others.

In our opinion survey, fully two-thirds of respondents agreed that determining premiums based on driving performance is a fair way to price auto insurance. Only one in 10 disagreed. The public sentiment is clear and overwhelming.

And yet here in Canada we still can’t use UBI to help fully determine premiums.

Nor are we able to use the latest technology to better communicate with our customers.

That’s important. In the research we just conducted, we found that only 37% of Canadians – barely one in three – feel confident that they fully understand their home insurance policy. And only 42% say they fully understand their auto policy.

By using new and more efficient avenues of communication, we could better inform our clients and better respond to their concerns.

Our politicians, our policy-makers and our regulators are denying consumers more accurate pricing for their insurance premiums.

They are closing off the competitive playing field. They are limiting our ability to serve the people who trust us.

And they are stifling the kind of innovation and forward-thinking that we need to be embracing.

There is value in regulation. It helps keep our system strong.

But there comes a point at which regulation becomes counterproductive…

… a point at which it works against the interests of the very consumers it is charged with protecting.

I believe we have reached that point.

Consumers want more competition.

They want good companies serving them well, using the latest technology.

Regulators and policy-makers must update their vision of what protecting consumers means in the 21st century.

And they need to get on with it.

Ladies and gentlemen: The computer scientist Alan Kay famously said back in 1971: "The best way to predict the future is to invent it."

And that is what we seek.

It's not protection we want. It's not preferential treatment.

It's the opportunity to be the disruptors – and to lead the way.

There will be changes to our industry in the years ahead, and there will be challenges. We will continue to bear witness to the impact of disruption.

Change of this magnitude brings the potential for decline – but it also opens up a world of possibility.

Industries that demonstrate leadership, that embrace change, are more likely to survive.

I opened my remarks by taking us into the future. You will agree, that for some industries the future is now. When will it be our 2038?

We can’t just sit back and hope for the best.

Through our actions and our advocacy, we must all work to lead the change that will shape and define the future of our industry.

Thank you.