Nontraditional Insurance Companies
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Trend:
Nontraditional Insurance Companies - Companies with large amounts of data and capital, such as Google, Facebook, and Amazon, are entering the insurance market, starting with sales and distribution, and with the potential to become actual risk bearers.

Implications:

- Wholesalers will be under increasing pressure to automatically connect with retailers’ and carriers’ systems to provide a seamless experience for customers.
- Increase in E&O exposures for these companies due to lack of experience and knowledge.
  - Increase in litigation and litigation costs due to lack of or incorrect coverage – could be the fault of the insurer or the insured.
- The carriers’ and wholesalers’ roles need to evolve – The role of the carrier and the agent will evolve more into Risk Management and Loss Control.
  - Similar to what the car dealership model is fighting with Tesla where the car dealerships need to evolve more into car repair and maintenance versus sales.
- This trend will first impact the Standard markets and then the simpler E&S business, driving those companies to focus on growing in the more complicated parts of E&S market in order to remain relevant.
  - This would drive a significant increase in acquisitions as companies need to consolidate to compete in a smaller marketplace.
- There will be significant implications to UW talent in the insurance industry as well as IT talent in general.
- This could be the entry into other financial businesses such as Banks.
- If Google is successful in its efforts to aggregate shoppers and offer price comparisons, market share changes will take place as business is written through their channel. Carriers and agencies who participate will see market share gains as they write business formerly written by non-participants. Those agencies and carriers who don’t participate will see their market share decline. This shift in market share could lead carriers and agencies to exit those lines where they can’t compete.
- These companies currently make their money by connecting the insureds with the carriers. They may not want to change that model.
- Wholesalers need to become more efficient to keep their competitive place with these types of companies entering the market.
- There is a lot of value provided by wholesalers that will be hard to replace with comparative raters and these non-traditional insurance companies that are focuses more on volume.
- Customers will research insurance options online and be able to have a live online chat with an agent.

Opportunities:

- Worldwide Regulatory changes would make it easier to do business globally for carriers and the distribution. This would create new E&S markets outside of the U.S.
The younger generation is more willing to have sensors and devices that track their behaviors, because they are less sensitive to privacy issues. This leads to:
- Additional Cyber Exposure
- Increased use and accuracy of Predictive Analytics, making it easier to automate UW for many products
- Target marketing for specific types of insurance

Wholesalers can focus on becoming specialists for niche markets rather than generalists, which are at risk of moving to the standard markets. – Specialist could also refer to specialized services, such as risk management/loss control.

Wholesalers could partner with these companies (i.e., Google) and receive referrals for non-standard business that their current partners do not offer and the Google would not offer in the future.

If they use a third party for claims, there is an opportunity for Wholesalers to sell their superior claims services.

Wholesalers will still be needed for the more complex products.

Could offer a prime opportunity for wholesalers to explain how much value they add to retailers as opposed to buying online just based on a price comparison.

When you buy more complex products online, what you actually receive is not what you thought it would be. The personally contact through a wholesaler is a competitive advantage here.

Threats:

- The belief is that the new model of these companies acting as part of the distribution will emerge into them becoming agents and carriers themselves.
- There may be massive U.S. Regulatory changes erasing the boundaries between the Standard and E&S Markets driven by customer demands.
- Disruption to distribution channels and carriers, potentially putting smaller companies out of business. Smaller companies may be under greater pressure given that they have access to less data. The exception may be smaller companies that find specialized niches or have strong carrier relationships.
- This model, coupled with social media, facilitates the creation of unlikely Risk Retention Groups buying insurance in bulk or insuring themselves.
- The younger generation is more willing to have sensors and devices that track their behaviors, because they are less sensitive to privacy issues. This leads to:
  - Additional Cyber Exposure
  - Increased use and accuracy of Predictive Analytics, making it easier to automate UW for many products
  - Target marketing for specific types of insurance
- Due to the decreased loyalty of younger generations and the ease of online shopping, renewals become much less common and insurance is re-shopped yearly.
- Insureds can earn commissions for bringing in new leads, making them a growing sales force.
- The competition between the Carriers and their pricing will increase as these non-traditional companies track who sells the most insurance through their sites and at what prices.
• This is a real threat to wholesalers heavy in personal lines.
• Long term, the E&S market will probably shrink given the increasing amounts of data available to companies such as Google and Amazon. This is especially true for the simpler E&S products.
• Could companies such as Amazon offer an automatic discount for prime customers buying insurance products.
• These companies will probably target standard markets first. If that is the case, those standard companies will probably start to target more E&S business.
• Nontraditional insurance companies will probably not want to go after many of the E&S risks (i.e., coastal property). The threat would come more from standard companies and potentially reinsurance companies that are looking to grow given all of the excess capital. For larger brokerage types accounts, this could also apply to Risk Retention Groups.

Summary of Research

• Google predicts that 75% of all insurance purchases will occur online by 2020\(^1\).
• Falling technology costs have radically lowered break-even requirements in terms of transaction size. This has allowed companies to conduct all kinds of transactions online, allowing them to sell a wider range of products and services through the Internet than was feasible only through physical platforms.
• Social media satisfies our urge to belong (Twitter, Google, Facebook), increases our self-esteem (social platforms), and helps with self-actualization (blogs). In the words of Mark Zuckerberg – “People influence people. Nothing influences people more than a recommendation from a trusted friend. A trusted reference influences people more than the best broadcast message.” That’s what social media offers.
• A number of online platforms, such as Compare.com and BeatThatQuote.com, offer users the opportunity to compare quotes across many auto insurers at one time. This has led to a concern among retail agents that consumers will use these tools to purchase insurance directly without help from an agent\(^2\).
• Actors such as Google, Walmart, and Ikea have already entered the insurance marketplace either by partnering with existing companies or startups or by providing their own services.
  o Google currently offers auto insurance.
  o Wal-Mart has offerings in both health insurance and auto insurance.
  o Google Capital has invested heavily in Oscar Health Insurance Corporation, a health insurance startup targeting individuals which matches patients with physicians and offers free telemedicine services as well as free fitness tracking devices to patients. Over 40,000 patients use this corporation\(^3\).
  o Ikea offers Child and Pregnancy coverage.

• Studies indicate that approximately a quarter of insurance consumers don’t consider themselves loyal to their current carrier and would leave for a better rate, while 75% believe there is no significant difference between insurance products offered by different companies⁴.

• New players in the marketplace offer customers fresh approaches in several areas including pricing, services, and the sales approach⁵.

• PwC notes three waves of change are taking place in insurance that will allow insurers to create additional value through their online platforms and digital interactions, and require them to focus more on the customer in their selling approach⁶:
  o Having the right mix of digital channels allows businesses to improve customer experience;
  o Businesses can leverage user data to develop new product proposals tailored to customers; and
  o Customers’ digital presence will develop over time providing more detailed insights and information.

• Further, PwC predicts three distinct changes in personal lines insurance in the coming years⁷:
  o Virtual Business Affinity Groups: small business will form social networks facilitated by greater information and price transparency which allow them to pool their risks.
  o Automated Underwriting: existing moves toward quoting and underwriting automation will continue and expand.
  o Business Model Transformation: timelier, more specific, and greater volume data will continue to drive evolution in insurance business practices.

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