

InsurTech IFTTT product design

If you want to disrupt, then design your product like this

Steve Walsh
29 NOVEMBER 2017



Executive summary

InsurTechs are uniquely positioned to improve customer and carrier results with IFTTT products

- **Traditional insurance product design relies on human implementation for agent sales and claims adjusters**
- **If This Then That (IFTTT) product design relies on data to pay a defined benefit based on an objective trigger**
 - Provides customer delight in immediacy of payment without filing a claim
 - Eliminates perceived conflict of interest in claims adjusting
 - Enables new distribution channels and low-priced products
 - Improves risk management for InsurTech financial results
- **IFTTT product design aligns with overall strategy common to many InsurTechs**
 - Aligns with marketing promise of seamless customer experience
 - Aligns with operations seeking scale without investing in a large field staff
 - Aligns with distribution through lower cost channels
 - Aligns with financing from reinsurers and alternative capital providers familiar with parametric coverage
- **The challenges of basis risk and speculation can be addressed through product design and underwriting rules**

Product design comparison

Inspired by www.ifttt.com platform for integrating apps

IFTTT Design

[Chubb with App in the Air](#) provides flight delay insurance of this style



IF THIS

Your flight is delayed > 2 hours



THEN THAT

Receive \$200 electronic payment

Traditional insurance



IF THIS

Declarations
Agreement
Definitions
Coverages
Exclusions
Conditions

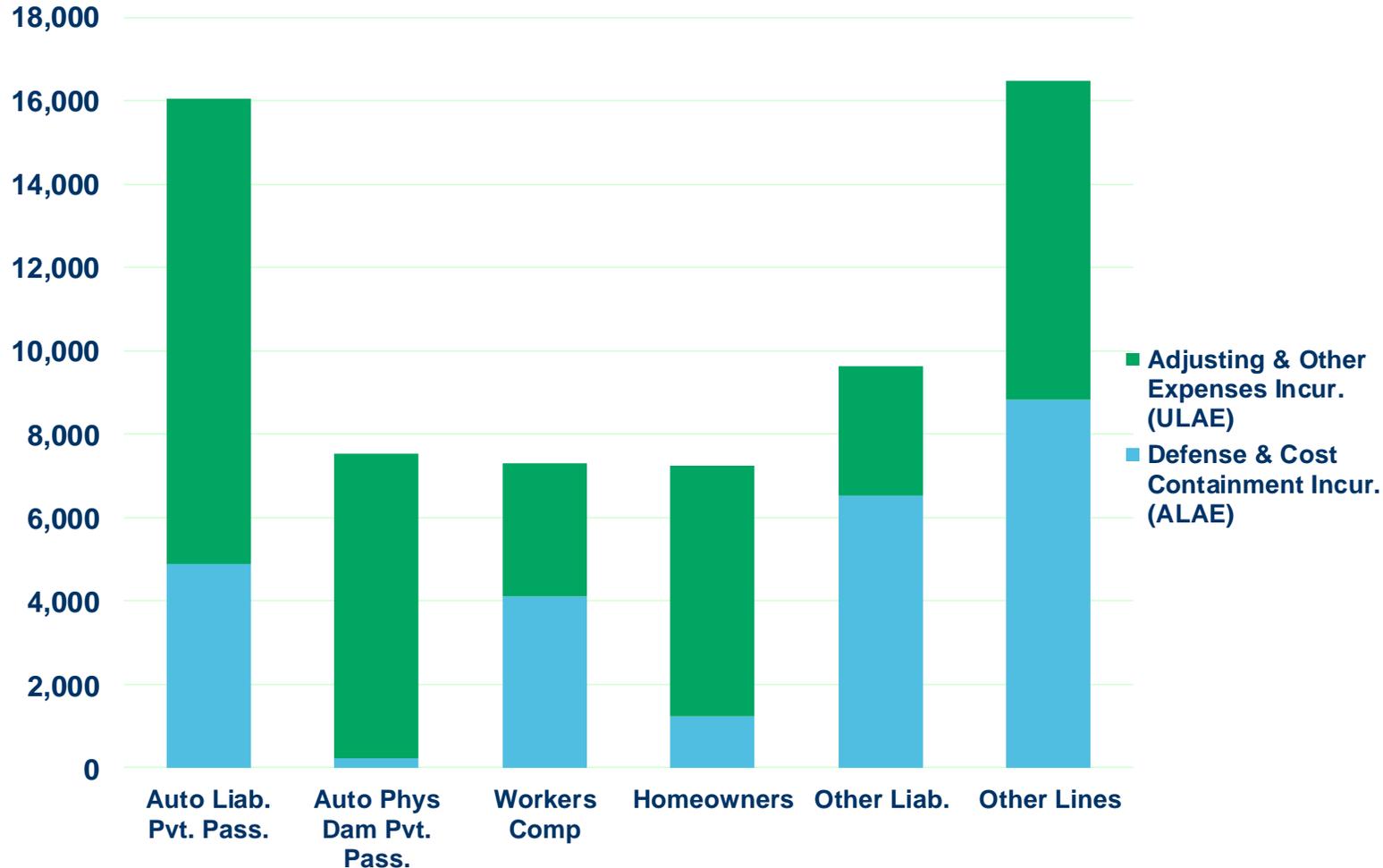


THEN THAT

First notice of loss
Initial contact
Adjuster visit
Partial payment
Additional contact
Final payment

New opportunities for proven design

\$64B of claims adjusting expense in 2015, shown by line in \$M*



- IFTTT products could replace a share of the \$64B of annual loss adjusting expense (LAE), especially in personal lines
- At the reinsurance layer, the market for alternative capital and Insurance Linked Securities (ILS), particularly catastrophe (Cat) bonds, [already exceeds \\$80B](#)
- At the primary insurance layer, few examples exist today
 - [Chubb Flight Delay](#)
 - [Zhong An high heat and smartphone screen damage](#)
 - [Jumpstart earthquake products](#)

Benefits of IFTTT product design



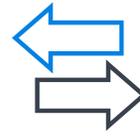
- Customer delight
 - Customers receive payment without filing a claim



- Low-priced products
 - Microinsurance has led the development of index-based products by necessity
 - [Kilimo Salama](#) pays Kenyan farmers based on deviation from local rain index



- New distribution channels
 - Flight delay insurance can be sold with the flight and phone insurance with the device

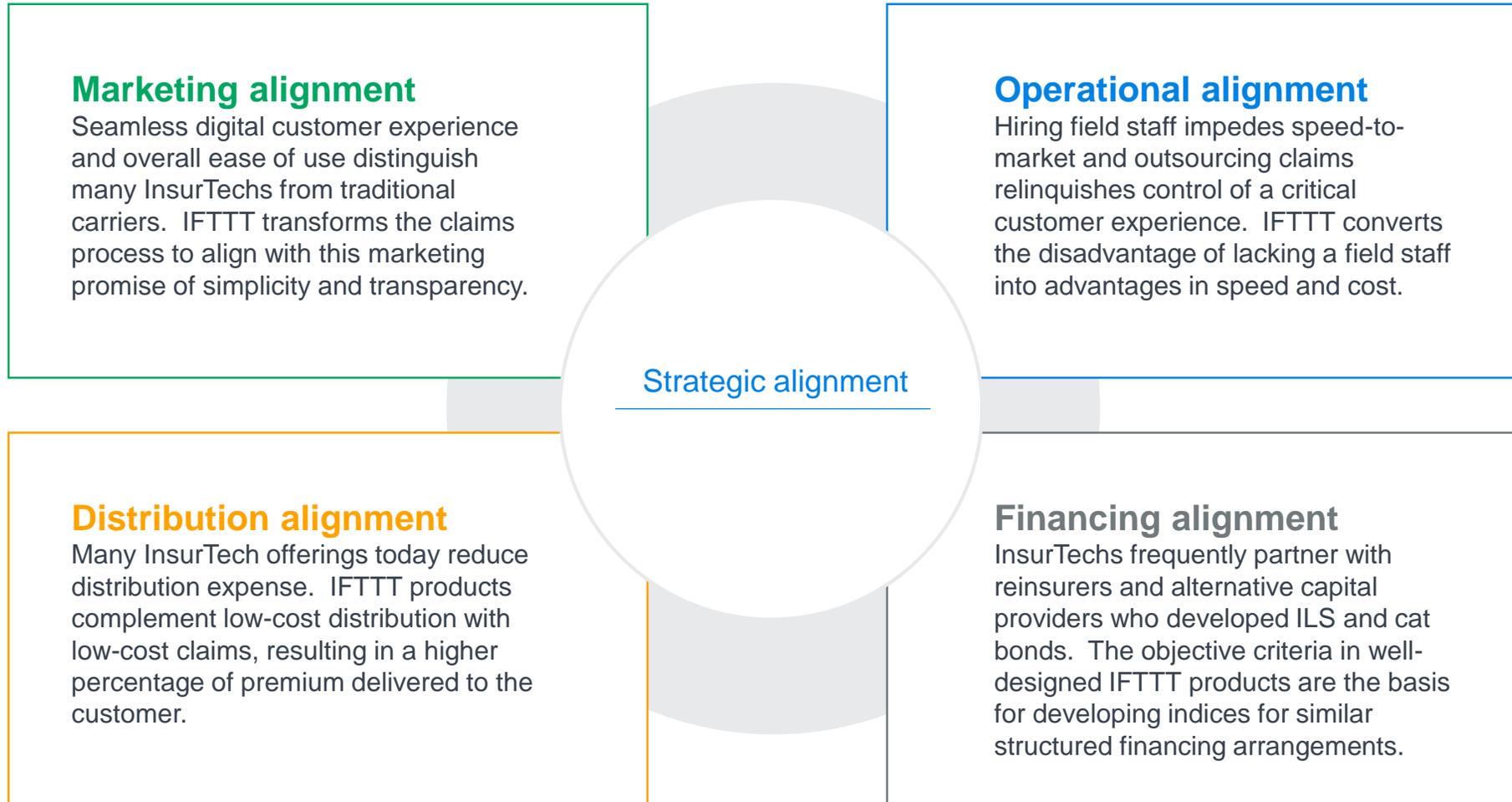


- Reduced conflict of interest
 - IFTTT removes perceived claims adjusting conflict by removing adjusting
 - Changing product design more directly solves the issue than changing organizational design to peer-2-peer

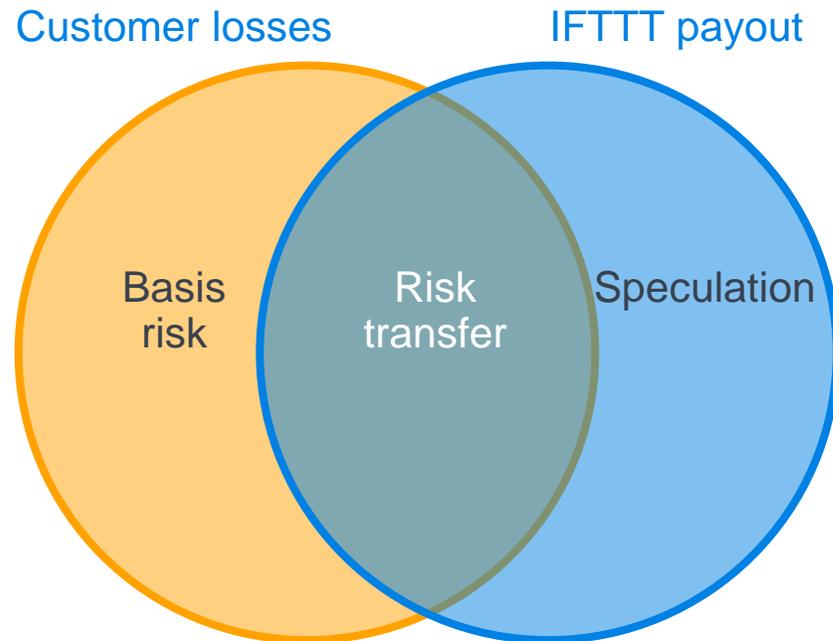


- Improved risk management
 - Defined benefit amount reduces the variance in loss severity
 - Prompt payment reduces reserve risk
 - Automation reduces operational risk

IFTTT design aligns with InsurTech strategies



Challenges: Basis risk and speculation



- Risk transfer from the customer to the carrier is a foundation of insurance
- Basis risk is the risk retained by the customer when the “if” trigger does not align with their exposure
- Speculation is the potential gain for the customer when the “then” response exceeds their actual losses
- Regulators may reject products for basis risk or speculation
 - Unacceptable basis risk could be home insurance not covering rebuilding after above average storm damage
 - Unacceptable speculation could be life insurance on someone else’s life
- Product design and underwriting rules optimize risk transfer
 - Product design can incorporate personalized data streams, like Internet of Things (IoT) sensor data
 - Underwriting guidelines target sales to limit speculation

How Milliman can help

Milliman is the leading global provider of actuarial and risk management services

- **MicroInsurance Centre at Milliman**
Experience implementing microinsurance solutions in over 70 countries over the last two decades
- **Insurance line of business subject matter expertise**
Subject matter experts including personal homeowners, auto, dwelling fire, and umbrella, as well as commercial auto, workers' compensation, property, business owners protection, and title insurance
- **Product management and pricing**
Strategic product and pricing advice, including incorporating predictive modeling into connected home, car, and other behavior models
- **Rate development, regulatory filing strategy, and approval**
Preparation and submission of state rate filings and response to questions from state insurance departments
- **Capital modeling**
Implementation of economic capital models aligned with business strategies and a realistic assessment of available and required capital



Steve Walsh
Consulting Actuary
New York, NY, US
+1 617 971 8327
Steve.Walsh@milliman.com

