



“Outside In” Innovation: What Insurers Can Learn from the Blockbuster Bust

Disruptive new technologies are usually blamed for the demise of businesses, from Kodak cameras to Blackberry smartphones.



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Case in point: Blockbuster video rental stores, which went from 3,600 outlets down to just one over the course of 16 years.

Many would say the internet and on-demand video streaming services like Netflix are to blame.

I disagree. The problem wasn't that Blockbuster failed to respond to changing tech; the problem was that Blockbuster failed to anticipate that change was required – to look at its market from the outside in. The video rental industry had been so profitable that leaders had little incentive to take the risks that were ultimately necessary to save it.

Insurers can learn a lot from the Blockbuster bust when it comes to marketing and selling to a new generation of convenience-driven buyers. Numerous consumer studies suggest that once life insurance purchasers experience an online, straight-through underwriting decision, they are far less likely to respond positively to a less convenient, paper-based insurance purchasing process. Further complicating insurance sales is the fact that once a younger consumer makes a life insurance purchase, years may pass before another life event incents that same individual to consider another purchase.

Embracing a Data-Driven Future

To ensure more qualified prospects become policyholders, technology and data sources available today can be applied to streamline this process. No wonder life and health insurers report mounting pressure to define a data strategy, according to [RGA's 2019 Global Life and Health Data Analytics Survey](#). Eight out of the 10 major multinational organizations participating in this online study reported having developed a data analytics strategy, yet only half were in early stages of putting this plan into practice, and one had not begun.

It is becoming very clear, very quickly, that a data strategy, combined with process automation, can deliver convenient, accurate, and efficient risk assessment and offers. Some carriers already recognize this reality. In RGA's Data Analytics Survey, eight of 10 participating insurers agreed that data analytics would have a “high” or “very high” transformative influence over distribution and underwriting practices over the next three to five years, with 60% of respondents sharing the intent to invest in data-driven underwriting. When asked about non-traditional data sources, 60% of respondents reported planning to use wearable sources such as steps, sleep, and heart rate monitoring, and 50% indicated plans to employ “digital fingerprint” data that draws on social media disclosures.

Recognizing the Next Big Thing

Carriers may recognize that they ignore data at their peril, but integrating it across the insurance value-chain can pose unique challenges. Anyone who has observed the insurance industry for any length of time realizes that the next “big thing” quite often appears like nothing at all in the beginning. Even though it may seem as though online retailing appeared overnight, it took years to develop, and risk assessment digitization and automation also will require time and investment.

As a result, insurers can easily find themselves making large investments in underwriting rules engines that require on-premise installation. These are not only expensive to maintain but require frequent, laborious, expensive upgrades to keep pace with change. Unsurprisingly, carriers can easily fall behind as technologies leap forward.

Software as a Service (SaaS) presents a powerful response to this problem.

SaaS models were initially deployed in more back-office functions such as human resources and financial accounting. Over time, carriers began to recognize that SaaS-based benefits, such as more efficient system maintenance, faster upgrades, and lower infrastructure costs, were being underutilized and could be applied to underwriting and new business processes.

AURA, a SaaS-based e-underwriting system using RGA's underwriting expertise, offers a compelling example of what's possible when investing in data-centric technology to improve efficiency and customer experience. Among its many capabilities, AURA is a multivariate rules engine that can efficiently incorporate multiple evidence sources in automated underwriting assessments, empowering insurers to deliver underwriting decisions without having to fully rebuild a rules engine to accommodate each unanticipated or emerging data type. This technology has been recognized as a strong performer, with the second highest score in the strategy category among the select group of companies who participated in The Forrester Wave™: Automated Life Insurance Underwriting Systems, Q4 2019 evaluation.

Anticipating Change

It is important to note that successful carriers don't need to abandon efficiency or practicality to integrate innovative data sources into underwriting decisioning. Carriers should think beyond building systems that respond to change, and focus on technology investments that anticipate it.

This requires technologies that empower the carrier to seek out market openings and adapt processes proactively to fill them. Even Blockbuster experimented with home delivery when Netflix launched its startup, but its management preferred to focus on its core video rental business rather than risk becoming distracted by what seemed like a side business. We all know how well that decision turned out.

Companies like Blockbuster ultimately failed by getting better and better at things that people cared about less and less – in this case, video rentals in a world of on-demand streaming. They remained dominant in markets that disappeared.

For life and health insurers the time to act is now. The current generation of life insurance purchasers are making purchases today. The next generation of buyers will have even higher expectations for a seamless, non-intrusive, data driven experience. Just as AURA has continued to evolve to support the digital age, we welcome the opportunity to discuss how AURA can help evolve your processes to support the digital age. Curious? [Ask AURA](#).

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