



Applications 2.0 – New Risks, New Opportunities

Digitalisation in the insurance sector – and the possibilities opened up in the application process

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Digitalisation now extends to all areas of personal and professional lives. It is therefore a statement of fact that insurance is not immune to digitalisation, even if it is not yet possible to fully predict its long-term effects.

Digitalisation touches on a wide range of insurance-related issues. These include touchpoints with end customers and brokers, which is where InsurTechs wish to come in, and wearables such as fitness trackers that nudge customers to adopt more risk-conscious behaviours.

We firmly believe that customers’ expectations of insurers in an online world will be decisively influenced by their experiences in other areas. Of particular importance here are online processes in the fields of shopping (e.g. Amazon), social networks (such as WhatsApp, Facebook, Instagram) and streaming services (e.g. Netflix, Spotify). For insurers, this means that simply replicating analogue processes in digital contexts is bound to frustrate customers.

In this online publication, we will therefore be focusing on other key aspects of digitalisation for life insurance companies: managing policyholders and developing the application process in an online world.

Digitalisation of the application process

It is already possible to conduct pretty much any everyday transaction online; whether bank transactions, postal services or supermarket shopping, people can even look for love online.

If you were to ask most users what makes a successful online platform, they would probably say that it has to have an appealing design, use text sparingly, be intuitive to use and quick and easy to navigate – none of which are hallmarks of the traditional application process for life insurance. Therefore, the following principle applies in terms of online life insurance processes: whilst simply transferring the old processes onto the Web will utilise the possibilities offered by the medium, it will not be appropriate to customers and their needs. New approaches are required.

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The online world poses completely new challenges to designers of application processes. The first things that come to mind are the layout and technical execution. Various sophisticated technical mechanisms are available to guide customers to a website. To make use of these mechanisms, you need the support of qualified experts in online marketing and online processes. This alone, however, is not enough. After all, the customer needs to be kept on the site until he or she has successfully completed the application. Ideally, the person should feel so content and find such attractive opportunities for interaction that he or she is always happy to come back to the site.

In this regard, the industry faces an unprecedented situation: whilst agents or brokers previously assisted the applicant as the individual completed the form – answering any questions, clarifying any points with the insurer and explaining the necessity of coverage to the customer whenever the individual doubted the point of taking out the policy – now no immediate opportunities exert outside influence. The applicant is often sitting alone in front of the screen, and there is much less of an emotional impediment to aborting the process. What's more, the competition has never been so close, namely a click away. Comparison sites also do everything they can to persuade applicants that the first offer is not necessarily the best.

Opportunities within application design

Cause for despair? Not in the slightest! Although digital applications harbour many new challenges, they also offer unprecedented opportunities to design processes in a flexible and appealing way and therefore to respond to the needs of today's customers in a far more personalised manner.

This is all the more reason for us at Gen Re to explore the risks and opportunities of completely new application types in detail and thus help our primary insurance clients to tap into the potential of life insurance in the online world with increased vigour.

Alongside many other activities, we have, for instance, been working with the Behavioral Insurance research unit at TH Köln/University of Applied Sciences led by Professor Horst Müller-Peters to explore what makes an application process attractive to the insurance customers of today and tomorrow, i.e. Generation Y. In doing so, we have considered insights from behavioural economics, which provide valuable information about how a willingness to take out a policy can be promoted and maintained, as well as how the design of questions and response options influences the quality/ authenticity of the answers provided. Below, we would like to outline some of the insights garnered from this project.

The applicant may have much less control than generally assumed about how truthfully they answer the insurer's questions. The good news is that it is much easier for the

insurer to exert and strengthen its influence on this decision than it may realize.

There has been much discussion in the past concerning the risk posed by incomplete and untruthful information on the part of the policyholder in the event of a claim – and insurers have found ways and means to limit this risk. Incomplete and untruthful information also occurs in risk assessment. This might be unintentional – such as when questions are misunderstood or things forgotten – or, less frequently, intentional. This may lead to an inadequate risk assessment on the part of the insurer; it also harbours the risk that the policyholder may lose their coverage. It is therefore in the interest of both parties to create the ideal conditions for straightforward questions that yield high-quality answers. And small measures can make a big difference in this area.

Insights from behavioural economics also indicate that the image of the insurer plays a role in determining what lengths the customer goes to in order to recollect all relevant risk factors and how much of an impediment there is to the customer concealing or playing down such factors or making untruthful claims. It therefore remains extremely important in an online process for the insurer not to come across as an abstract construct that is unaffected by fraud, but rather as a group of people (a 'team') – comprising both employees and policyholders – who are impacted by actions taken in bad faith. This allows the customer to feel that they are part of a community that looks after each other, which in turn fosters increased loyalty and personal commitment to behaviours that do not harm the community.

There are other, seemingly minor aspects – such as the right colour scheme – that support the process and increase the likelihood of a policy being taken out.



Including social media is part and parcel of a modern online process; however, there should always be an alternative. Contrary to popular opinion, even Generation Y is extremely sensitive when it comes to the sharing of their personal data. Moreover, many of them prefer to keep their personal interaction separate from business transactions such as the taking out of a life insurance policy. Therefore, social media should be seen by customers as an opportunity to speed up the process by incorporating information that is already available, but not as a requirement for taking out the policy and certainly not as a means of “snooping” for the insurer.



Even minimal gamification elements – such as the freedom to complete the various sections in whatever order – make the process seem easier and keep the applicant “on task”. The inclusion of symbols familiar from other contexts (the “like” thumbs-up) lends the site a “younger” and more modern appearance.



The design of the response options can also be used to influence the quality of the information provided at a subconscious level, such as the use of a scale to indicate height and weight. Here, the aim is not to manipulate the applicant, but rather – by including a wide-ranging scale – to avoid putting up obstacles to the truthful answering of the question. If the scale allows a high maximum weight, overweight people will have fewer inhibitions about entering a high weight. This is a prime example of how methods from behavioural economics (in this case, “anchoring”) can be combined with digital possibilities to improve the quality of the answers provided.



Clear and intuitive imagery ties in with the general trend towards visualisation and is therefore contemporary. It also speeds up navigation of the application process, since simple topics, such as the choice of sports played, can be grasped immediately and therefore processed intuitively. The customer has to invest less time and thought, making the process seem easier.



Positive messages, backed up by corresponding images, make a good impression on the customer. Really, it’s a banal way of creating an appealing design for a process that was previously seen as taxing and annoying – and thus enhancing the insurer’s image.



If you remind yourself of the classic paper application form for a life insurance policy, it is clear that two completely different worlds are colliding. It is no surprise that new approaches are welcomed from a sales and marketing standpoint. But is there really any need for risk assessors, risk managers and claim assessors to miss the “old” way of doing things?

The classic application process – particularly concerning the traditional health questions – has been criticised time and again for being hard to understand and therefore in need of explanation, not to mention extremely time-consuming and an impediment to doing business.

For several years now, we have therefore been witnessing a trend for shorter health questionnaires, which, due to a simple reduction in the number of questions, has led to risky gaps in the questionnaire that invite adverse selection. Despite the reduced number of questions, however, the questions themselves have become longer and even harder to understand. This latter trend (behavioural economics experiments have also given us interesting insights in this regard) leads to a deterioration in the quality of the answers for myriad reasons.

The customers have to exert themselves more to remember risk-related aspects, as memory is not sufficiently aided by the wording of the questions and because some aspects fade into the background when others are highlighted.

- When questions bunch together aspects that are only partially linked – i.e. that are of a completely different nature or that represent a completely different level of risk – the applicant gets trapped in an almost moral dilemma when answering and can only extricate himself or herself by giving incorrect or incomplete answers.
- When compared with the traditional paper application, the new application platform offers new opportunities for simplification. As a result, the process can be made more convenient for the applicant without losing sight of important conditions, such as the insurer’s need for information and the extensive regulatory requirements, for example. There are therefore many good reasons to eagerly get to grips with the new possibilities available when designing application processes.

Conclusion

The combination of scientific findings, such as insights from behavioural economics, with today’s digital possibilities gives rise to new and promising approaches.

Firstly, they have the potential to appeal strongly to policyholders, who are familiar with this appeal from other areas of their lives and therefore expect the same when dealing with insurance. Secondly, these approaches offer risk management possibilities that cannot be achieved with the static procedure of the paper-based application.

We will be happy to help you implement projects in this area. Just let us know!

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