

## Insurtech: Adapting to a new way of looking at insurance

Opinion

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*Insurtech entrepreneurs are often surprised by how immovable many insurance companies seem to be. (Photo: LifeHealthPro file photo)*

**F**abric, BenRevo and many other life- and health-related insurtech startups are entering the insurance marketplace. I often have the pleasure of discussing ideas and proposed apps or platforms, and I can't help but be impressed by their creativity and innovation. Their focus is on the consumer, and their aim is to make access to a suite of insurance products easier, faster and more customized to each customer.

The primary characteristic I like about so many of the insurtech entrepreneurs that I meet with is that many of them know very little about insurance. While it may sound counterintuitive, that is a good place to start, and offers a refreshing take on an industry that can be stuck in its ways.

Insurtech entrepreneurs wake up in the morning thinking “yes” and not “no.” They don't have years of risk adversity embedded in them with bright lines drawn between insurance products and underwriting departments.

With that said, many of the insurtech companies typically need to sell their products as a licensed broker, which means that they often have to contract with an insurer who can underwrite and cover their particular product. Even with creative platforms and easy to understand apps, insurtech companies have to find a way to work with an industry that is often entrenched in tradition.

In light of a typical insurance company's legacy systems and our 50 state insurance regulatory regime, how much change is really possible?

Almost every insurtech startup that I work with is surprised at how immovable many insurance companies seem to be. I hear stories from frustrated startups about presenting a new product or idea to an executive team at an insurance company that often ends with “well, that sounds interesting, but we just don't (or can't or won't) do it that way.”

Um, that actually *is* the idea, to create a new product and a new way of doing something.

While the strategists in the insurance industry are smart to show great interest in the growth of insurtech, it seems that on the ground insurance companies are struggling with exactly where insurtech and so many new ideas might fit in to their traditional way of operating.

In defense of the insurance industry, legacy systems, like historical underwriting and claims guidelines, are there for very good reasons. Underwriting data and years of helpful claims history makes understanding and pricing particular risks easier. It is how insurance companies develop their underwriting guidelines and set rates. Insurers often have strict requirements on what information they need in order to issue a policy.

For example, when it comes to life insurance, quick and easy life insurance apps are really for the “well



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under 40's." As a practical matter, a platform which only requests minimal information is really about life insurance for the young and healthy, specifically those individuals that an underwriter really doesn't need to ask many questions about. Otherwise, there is nothing quick or easy about getting life insurance. Medical questionnaires and, quite often, medical exams, all of which are historically required as you move towards the brick wall of being 40 years old or over are simply not compatible with getting insurance through an app, but they are helpful in order to appropriately assess the risk for that category of insured.

But, what if there were different or much easier ways to underwrite? Is that even possible? What if there was an app that could help facilitate the collection of medical records, arrange and transfer them to an underwriter, relieving a customer from having to spend hours on phone calls and paperwork? What if you could monitor how often somebody exercises, i.e., their lifestyle? With more innovative ways of gathering and using data, could there be an opportunity to easily sell life insurance to the "almost 40's and older."? What if there was a five year contestability period, would that cut down on the booklet of historical health information needed? Is there really a reason to cling onto the legacy systems? Or has the insurance industry done things in a certain way for so long that they can't think of another way?

In addition to the uphill battle against tradition, there is also the daunting problem of the 50 state insurance regulatory landscape. Even the most nuanced differences in insurance regulation from state to state can make a difference in advertising as well as the design, ease and use of an insurtech's platform. In an industry that is "all about the fine print", marrying up a complex and inconsistent insurance regulations and new technology can be challenging.

One of the biggest issues I typically work with a new startup on (or when advising a venture capital firm investing in an insurtech startup) is that their proposed product or app often trips over numerous insurance regulations. Startups should really be thinking about insurance regulatory compliance sooner rather than later, well before they finalize the platform they are building. Often, with just a few tweaks, regulatory violations can be avoided. While insurance regulators are working with many startups to find some flexibility in the various insurance regulations, providing a customer with appropriate information and adequate disclosure remains a top priority.

I often get the following comment from insurers: "We are interested in insurtech startups, but we still don't know how to integrate their platforms into our existing business."

Also, many insurers are simply not willing to let go of their legacy systems, at least not yet. However, the warning signs are out there: Some predict that insurance companies may lose up to 20 percent of their business to startups. As a former underwriter before going to law school (and now with decades of legal experience), I can see many ways for insurtech to partner with and ultimately integrate into a traditional insurer. For example, by better understanding the software and information gathered, underwriting can be altered and streamlined with less human intervention, creating more efficiency and ultimately higher profit margins for insurance companies. When the willingness to adapt and collaborate becomes part of the culture, everyone can win. As the saying goes: "If you can't beat them, join them."

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