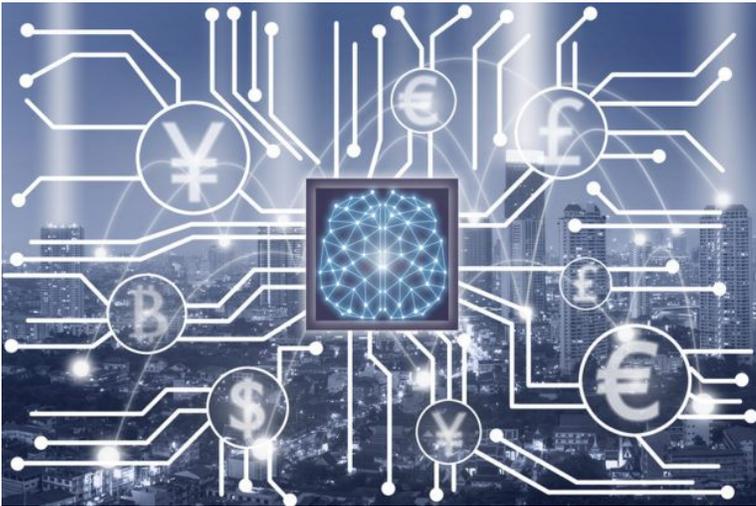


## Carrier Management

Written BY JOHN SARICH // APRIL 09, 2018

# Can InsurTechs Compete With Carriers and Agencies on Main Street?

As an industry, insurance has always been a technology pioneer of sorts—so it comes as no surprise that in these halcyon days of digital commerce, more than 700 new insurance technology vendors, mostly startups, have recently come onto the scene, accounting for the phenomenon known as InsurTech.



We did a survey of these new companies and found that nearly three-quarters are consumer-facing platforms for selling and comparing insurance products online. The other quarter comprises B2B companies offering back-end technologies to streamline and automate processes that would otherwise be unwieldy for insurance companies. I think there's a dividing line between these types of companies, though on the face of it they're both about insurance and about technology, and it lies in how useful an InsurTech

company is in solving day-to-day problems for carriers—in particular, waging the battle of winning and growing new business.

Carriers like to see new technologies that are available. They invite IT vendors to meet with them to confirm that they've seen a product before or because they want to see if a particular vendor has anything worth a look or discussion. Very often these startups will assert that their particular technology is going to revolutionize insurance. But to the wise InsurTech buyer, these sales pitches run the danger of falling on deaf or jaded ears. Even with the promise of transforming how insurance is done, and with impressive funders backing upstart InsurTechs, for an experienced insurance IT executive, it's not about a big name from Wall Street really liking the technology. The critical question is whether the technology will help find and win new business or keep existing business.

Let's take a look at how this works on the ground.

## The Real Economics of Main Street

Viewing the day-to-day combat that exists between agents and carriers from both the carrier side and the agent/broker side, I've seen that for all its seamlessness, the technology that InsurTechs offer isn't necessarily geared to helping you write a policy for Babsy's Bakery on Main Street. Assume, if you will, that you are not the incumbent carrier, and your agent brings you the Babsy's Bakery businessowners policy (BOP) application. A quick look at the old underwriting files shows that you've quoted the insurance on Babsy's four times in the last 10 years and have never won their business.

It's a fact that all across America, small towns are not burgeoning with new businesses coming to town, nor with local entrepreneurs starting businesses. In reality, economic activity in the average town is slow, anemic and slow again—hardly setting a fire under the local scene. So, if your company—we'll call it ABC Insurance—wants to grow, you must be able to take business away from the incumbent competitor, DEF Insurance. ABC knows that DEF's agent is working to retain the Babsy's Bakery account—after all, the primary rule of growth in insurance underwriting is to not lose an account you want to (or must) retain.

Successful underwriting is something of an art, but it's also a science. Your goal is to retain low-loss accounts, give up those with a higher risk profile, and find a way to write new business that has a lower loss profile than those you are willing to give up. Let's say that you want to grow 10 percent in the next year. Going into the year, you know that you will likely lose 10 percent of your business due to nonrenewals, clients moving to another insurer and general attrition. So, to grow 10 percent you have to make up the 10 percent you are losing, which gets you to zero growth, and now you must write 10 percent more business in order to achieve that 10 percent net growth.

If you're ABC Insurance, you know that you must quote more business to meet growth targets. And DEF Insurance knows that, as well. But down on Main Street things aren't exactly booming, so you have to fight both to retain business and to write more desirable business. This is one of the reasons agencies, agents and carriers wage daily battles—they're all seeking to grow.

To return to our hundreds of InsurTech startups, the question I'd advise them to answer for carriers—putting aside their funders for a moment—is how this exciting new technology will actually work in the insurance combat zone known as Main Street. Can it help to win or write new business, or to retain existing business? Being in insurance technology for more than 25 years—since long before our field was known as InsurTech—has allowed a perspective on which new-at-the-time technologies had staying power and which didn't, and a unique vantage point from which to understand the current crop of InsurTech startups.

## End of Article ##

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### About VUE Software

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