What Life Insurance Companies Can Learn from Mobile Phones and App Stores

My son-in-law Kyle lives with us and is finishing up his masters degree in computers. He's one of those kids who grew up obsessed with technology and has been fortunate to turn his passion into his career – and I am extremely lucky to have live-in tech support that is strongly influenced by the desire to keep my daughter – and by extension, me – happy! Don't we all wish we had that much influence over our company's tech resources?

An added benefit of having Kyle around is that he is constantly introducing me to new technology -- I think he figures if he can explain it to me he can explain it to anyone. This has been proven extremely valuable because Kyle epitomizes the very best of what this next tech savvy generation is all about. He resents having to physically visit a bank and deposits his checks by taking a picture of them with his cell phone and transmitting the information via an app developed by his bank. He doesn't call customer support, he tweets the company he has a question for and is annoyed if they don't respond to him within minutes. He "checks in" on his cell phone at his favorite establishments and expects to be recognized and rewarded for his patronage. He reads e-books on his tablet computer, has written term papers on his phone, and has an active social life that includes meeting his friends on line at specified times to play video games and chat via a cordless headset.

In an article titled The Rise of Generation C published by European consulting firm Booz and Company, http://www.booz.com/media/uploads/Rise_Of_Generation_C.pdf Kyle falls into a new demographic that "is the first generation that has never known any realty other than that defined and enabled by the Internet, mobile devices, and social networking. We call them Generation C – connected, communicating, content-centric, computerized, community-oriented, always clicking. By 2020 they will make up 40 percent of the population of the U.S., Europe, and the BRIC countries, and 10 percent of the rest of the world – and by then they will constitute the largest single cohort of consumers worldwide".

Although Generation C may not be the target demographic that most life insurance companies are focused on – Kyle is in his mind still immortal – the technological resources that his generation are embracing and enjoying will ultimately trickle down to the rest of us dinosaurs. Not only will this require companies to respond to these changing consumer expectations, but the increased efficiencies will ultimately serve to make our companies even better and more profitable.

As the first one in our family with a smart phone, Kyle quickly became the "go-to person" for every random inquiry. Whether it was a trivia question about a movie, a fact checker to settle an argument, or information about a product we were considering, we developed an expectation that Kyle could immediately respond to even the most obscure request. This impatience for instantaneous gratification is consistent with the way that Kyle interacts in his world, but I was surprised at how quickly the rest of us were co-opted. There is a spontaneity that develops from having the power of the internet in your hands at all times that is addictive even for dinosaurs like me who remember when the accepted business turnaround was six to eight weeks.

For an excellent example of how this lightening pace has manifested itself in business, consider the start-up company Zynga who is credited (or blamed) with creating Farmville, the free Facebook time-waster. According to an article in Bloomberg Business week titled Inside the App Economy http://www.businessweek.com/magazine/content/09_44/b4153044881892.htm Farmville became one of the most popular games in the world within four months after its launch with 60 million players. Many of Zynga's employees came from video game companies who expressed amazement at the different time frames they were working under. With video games, they might develop a new feature and not know for two years or more if people liked it. With Farmville, they can design something and put it in the game the very next day.

Contrast this to our industry where lightening speed would be defined by bringing a new product to market in six months or outstanding customer service entails a three business day turnaround.

Even more amazing is the source of Farmville's revenue – people can buy digital crops, cattle, and farm land to enhance their playing experience. Obviously, these items don't exist in the real world and cost nothing to produce, but "corn seed goes for the equivalence of 10 cents; cows run 20 cents each". How lucrative is this digital economy? One recent experiment was digital sweet potato seeds which cost $5 a packet. The company pulled in more than $400,000 in three days! According to the article, Zynga brings in nine-digit revenue from more than twenty of these games and employs nearly 500 people.

I must confess, I have no idea how to apply this to life insurance – I just find the whole concept of paying real money for imaginary items too surprising not to share! Pet rocks anyone?

In the US, there's little doubt that the release of Apple's iPhone in 2007 changed everything, and the opening of their App Store in 2008 sealed the deal. What was it that made the iPhone so transforming? Even more than the phone itself, the most significant factor was the exclusive contract that Apple negotiated with AT&T. According to an article on Wired.com titled The Untold Story: How the iPhone Blew Up the Wireless Industry http://www.wired.com/gadgets/wireless/magazine/16-02/ff_iphone?currentPage=1 "for decades, wireless carriers have treated manufacturers like serfs, using access to their networks as leverage to dictate what phones will get made, how much they will cost, and what features will be available on them". At that time, network providers were primarily interested in getting cheap phones into the hands of consumers so they could sign them up for lucrative long-term contracts that ensured a reliable revenue stream. The phones themselves were little more than commodities and the manufacturers were at the mercy of the network providers since they controlled all access to the consumer.

Sounds a lot like the relationship between many insurance companies and their agents!

According to the article, AT&T (then called Cingular) saw that the wireless business model had to change. "Wireless access was no longer a luxury; it had become a necessity. The greatest challenge facing the carriers wasn't finding brand-new customers but stealing them from one another. Simply bribing customers with cheap handsets wasn't going to work."

Ah, if only the day would come when life insurance became a necessity and our agents wouldn't be reduced to stealing customers from each other with the lure of cheap policies!

But Apple gets the credit for wrestling the control of the wireless market away from the network providers and showing them that "the right phone – even a pricy one – can win customers and bring in additional revenue. Now, in pursuit of an Apple-like contract, every manufacturer is racing to create a phone that consumers will love, instead of one that the carriers approve of".

There's no reason why a similar shift couldn't take place in the life insurance industry given the right product. The challenge is how to come up with something truly revolutionary and once again we can look to the second factor of Apple's success for an answer – the App Store.

The slogan “there’s an app for that” has become more than just an advertising tag-line. In fact, the word “app” was given the distinction of the “2010 Word of the Year” by the American Dialect Society. To put the explosiveness of apps in perspective, Apple opened up their App Store in July 2008 and in early 2011 had their 10 billionth app downloaded. The popularity of Apple’s apps is noteworthy considering that Nokia launched the first app store back in 2003 and Google’s Android operating system is available on more phones. Never the less, Apple’s app strategy has resulted in an astonishing $2B in additional revenue for the company.

What did Apple do to produce this revenue? They merely made their operating software available to developers and then sat back and let them create the apps. There are currently more than 300,000 third-party apps available in Apple’s App store and Apple keeps 30% of the revenue generated.

Why would so many developers volunteer their time developing apps for Apple? According to an article in Visionmobile.com titled Mobile Developer Economics: Taking Applications to Market http://www.visionmobile.com/blog/2010/07/mobile-developer-economics-taking-applications-to-market/ “app stores represent a direct developer-to-consumer channel for their products”. Just as cell phone companies used to have to rely on network providers to access the consumer, so did developers have to rely on the manufacturers. In this way, developers not only improved access to consumers, but dramatically decreased the average length of time it takes for them to get an app to market “from 68 days across traditional channels to 22 days via an app store”.

There’s that theme of improved access to consumers and better efficiencies again!

Try to imagine what might be possible at your company if you had access to a vast army of programmers who would voluntarily create enhancements for your products? Could it improve your financials if you could keep 30% of the revenue generated from the efforts of volunteers? And what kind of creative concepts might arise if these developers came from outside of the life insurance industry with none of our preconceived notions about how our products need to work? Could an app be developed that streamlined the life insurance application process? Could the personal data and health history that is part of the life insurance application process be leveraged to make the ownership of our products more interactive? What kind of riders might be possible?

Sound farfetched? Consider that on March 5, 2011 Paypal announced a contest offering a top prize of $25,000 for the best Android app integrating Paypal service with a May 14th deadline for submissions.

How much might it cost your company to develop creative new software within such a tight timeframe?

During the course of researching this article, I was struck by how quickly so much has changed since I made what I hoped was a convincing case for the tremendous potential of cell phone technology in my August 2009 article titled Technology – it’s not only coming, it’s already here http://www.loma.org/content/public/documents/lic/licarticle_nov09.pdf#zoom=100. Once again we are fortunate to witness the introduction of a new technology that has dramatically transformed the way we live. In just two short years, we have seen a level playing field develop that allows equal access to cell phone consumers by providers, manufacturers, and software developers. We now have viable proof of the commercial application of open source software and concrete examples of how companies can tap into this resource for their own benefit. We also have heightened consumer expectations in terms of turnaround and responsiveness and a corresponding dramatic improvement in the development and delivery of the tools needed to meet those expectations.

And most significantly, we have seen little to no innovation in the life insurance industry over this same time period.

Fortunately our customers don't expect their life insurance companies to be cutting edge and innovative. But Kyle does. And it won't be long before Kyle and the rest of the Generation C demographic will be forced to come to grips with their own mortality – and when that time comes, our products could easily become just another app on some other product's platform unless we start innovating now.