Technology – It's Not Just Coming, It's Already Here

In the LIC's recent Final Expense survey we included a question about paperless processing. Out of 24 companies responding to this question, only five currently offer a paperless application process and more than half of the remaining companies have no plans to do so. Is paperless processing that important? Perhaps not. But our industry's reticence to embrace new trends could be indicative of a larger problem looming.

A recent LIMRA study titled *Tech Quake – Predicting the Global Impact of Technology* (http://www.limra.com/abstracts/abstract.aspx?fid=10218) sheds further light on the state of technology in our industry. This exhaustive and extensive project was truly global in nature, inspiring participation from companies in North America, Latin America, Europe, Asia, Africa, and the Caribbean and consisted of two steps over the course of half a year. The first step was to poll companies about the technologies that they felt would have the most significant impact on our industry over the next five years. Researchers then followed up with a second series of specific questions to predict how much of an impact each of the previously identified technologies would have. In addition to providing a comprehensive and concise assessment of the state of technology in our industry, the report also documents just how cautious insurance companies are as a whole when it comes to embracing new innovations.

The heads of IT at the major global insurance companies confidently go on record predicting that the technologies that will have the most significant impact on our industry over the next five years are essentially the same ones that have already defined the previous five years. Earth shattering revelations such as "on-line business processing will increase" and "the Internet has the potential to change the way we communicate with our customers" would hardly have been considered visionary ten years ago, let alone today. In fact, most of the "predictions" contained in the report could be more accurately classified as summations of past events rather than predictions of the future.

I recognize that life insurance is an unusual product and the sales process doesn't lend itself readily to whatever happens to be the hottest new trend. In fact, the tried and true traditional sales approach remains the most effective foundation of most companies' training platform. Regardless, the internet has forever changed the way people seek information, how they communicate, and ultimately how they transact business. As a result, expectations have changed and companies need to respond to those changes in order to satisfy the demands of their customers, employees, and agents. Our industry can continue to contemplate how the internet might someday impact how we do business, but the fact is that these changes have already taken place whether companies respond or not.

Despite the incredible transformation we've witnessed over the past ten years, the pace of innovation is increasing to such an extent that revolutionary new applications seem to emerge every year. This is no surprise given Moore's Law http://en.wikipedia.org/wiki/Moore which states that the number of transistors per square inch on an integrated circuit doubles each year. Gordon Moore (founder of Intel) made this observation in 1965 and although the rate has slowed slightly, the basic premise has held up and is expected to continue. From this perspective, it's probably more reasonable to assume that the technology that will have the greatest impact on our industry five years from now hasn't even been developed yet. With that in mind, I'd like to go out on a limb and speculate about some of the more recent technological trends that have the most interesting potential to affect our industry.

The first change has already taken place and has drastically transformed the fundamental economics of business, although its impact on the insurance industry is less striking. The "long tail" concept is the brainchild of Wired Magazine's editor-in-chief Chris Anderson and is thoroughly explored in his ground-breaking book The Long Tail http://www.thelongtail.com/. In Chris' own words, "The theory of the Long Tail is that our culture and economy is increasingly shifting away from a focus on a relatively small number of "hits" (mainstream products and markets) at the head of the demand curve and toward a huge number of niches in the tail. As the costs of production and distribution fall, especially online, there is now less need to lump products and consumers into one-size-fits-all containers. In an era without the constraints of physical shelf space and other bottlenecks of distribution, narrowly-targeted goods and services can be as economically attractive as mainstream fare."

For a graphic illustration of this concept, consider that the average Barnes & Noble typically carries 130,000 titles, yet more than half of Amazon's book sales come from titles that Barnes & Noble doesn't even carry. In other words, "the market for books that are not even sold in the average bookstore is larger than the market for those that are".

The combination of unlimited shelf space and minimal cost involved in maintaining a virtual inventory allows internet based companies to expand into product offerings that traditional "bricks and mortar" stores can never compete with. Highly efficient search capabilities, sophisticated recommendation algorithms, and old fashion web-based word-of-mouth expediently match consumers with whatever particular niche they happen to be most interested in.

Anderson's book explores an extensive array of examples from a variety of industries. However, the bottom line is that the internet has created a huge market for niche products that previously didn't exist. Although individually these tiny niches may represent small amounts, collectively their economic potential calls to mind the bonanza in the Superman III movie where Richard Pryor found a way to capture all of those half-cents that were not being rounded up.

Since life insurance is an intangible product and doesn't require shelf space or warehousing, "long tail" economics don't directly apply. However, the growing expectations on the part of consumers to satisfy their niche product cravings along with the increasingly effective tools for identifying and communicating with niche consumers is good news for smaller companies who desire to expand their market share by offering differentiating products.

In many ways, the long tail of the internet is the great equalizer. In the past, smaller companies were at a disadvantage when it came to competing against larger companies with huge advertising budgets and massive field forces. Now, not only can a company more readily identify niche consumers, but there is a cultural expectation for customized products that are specifically suited for individual tastes. It makes sense for smaller companies to not only consider developing niche products that may have limited appeal, but also to market them on a much broader basis geographically.

Another area of potential transformation involves cell phones. According to Gartner, Inc. more than 1.2 billion cell phones were sold in 2008 http://www.gartner.com/it/page.jsp?id=904729. This supplements the 3 billion cell phone subscriptions already in place – an impressive number that is fast approaching half of the world's entire population.

In developing countries, the cell phone is arguably the single most transforming technology. In an interview in Fast Company magazine http://www.fastcompany.com/magazine/138/iphone-envy-you-must-be-joumlking.html, Nokia EVP Tero Ojanperä says, "Think about a young boy in India who is getting his first phone. He can listen to music or take a picture or watch a movie or even make a movie. In many ways, this is his first computer and it is connecting him to the rest of the world for the first time".

In an another article titled “The Ringing Revolution” published in July 2008 in Credit Suisse’s’ In Focus Magazine http://legatum.mit.edu/content-17, Mathew Rees writes that “in developing nations through the world, mobile phones have had an altogether transformative impact. While internet access is growing throughout the developing world, the mobile phone is much cheaper and easier to use. By linking people together and enabling information flows in a manner that is without precedent in human history, mobile phones are truly a revolutionizing force”.

A debate has erupted between cell phone and laptop proponents. Most people are familiar with MIT professor Nicholas Negroponte’s One Laptop per Child initiative http://laptop.org/en/ which has developed and distributed inexpensive and indestructible laptops to school children in 18 countries. Specially designed to meet the needs of the world’s poor and undeveloped villages, the laptops can be recharged using hand-cranks, solar power, or car batteries and each one comes with 100 books pre-installed.

An alternative approach was developed by Iqbal Quadir, director and founder of MIT’s Legatum Center http://legatum.mit.edu/. Quadir launched GrameenPhone in his native country of Bangladesh in 1997 as a means to provide cell phone service to villages with no telephone service. A recent article in The Economist titled “Eureka Moments -- How a luxury item became a tool of global development” http://www.economist.com/specialreports/displaystory.cfm?story_id=14483872 reports that GrameenPhone pioneered the idea of “the telephone lady”, extending loans to women in rural villages to enable them to buy a mobile handset so they could sell calls to other villagers. Taking a small cut on each call, they were able to pay off the loan and thereafter use the proceeds to pay for health care and education for their families and to develop other businesses”. The program has been so successful that it has been replicated in Cameroon, Indonesia, Rwanda, Uganda, Afghanistan, and other nations.

Why is cell phone usage in developing countries important? It’s an important reminder that the center of the cell phone universe isn’t the United States. Here, the phone revolution has been largely defined by Apple and although the iPhone is truly a remarkable device, the world cell phone leader by far is Nokia with nearly 40% market share http://images.fastcompany.com/magazine/138/features-69-nokiapopup.gif -- more than their next three competitors combined. By comparison, Apple’s share in 2008 was less than 1%.

Most of the world doesn’t enjoy the extensive landline phone network that we have in this country. As a result, there has been a greater incentive to develop cell phone technology overseas. In fact, Samsung opened a store in the Time Warner building in Manhattan (one of the highest rent areas in the country) in 2004 that didn’t actually sell anything. All they did was display their innovative new products that were already available in Asia but hadn’t yet been introduced in the US. http://www.samsung.com/us/news/newsRead.do?news_seq=2348&page=1.

To put this all in perspective, a recent World Bank study examined the effect of fixed-line and mobile phones as well as dial-up and broadband internet access in 120 developed and developing countries. They reported that each 10 percent increase in cell phone penetration corresponds to a .8 percent increase in the country’s gross national product. Although internet access was a more effective growth tool, mobile phones had the greatest penetration and therefore the highest aggregate impact. However, as the cost for Smartphones continues to decrease, and their capabilities continue to expand, using a mobile phone to access the internet provides the best of both worlds.

What does this mean to insurance companies? The dynamics that have driven cell phone development in emerging markets are finally finding their way here. Already, cell phones have moved way beyond merely satisfying that “crackberry” email addiction to a fully integrated device that is serious competition to GPS navigation systems, video games, digital cameras, music players, and even laptop computers. The emerging functionality of Smartphones has spawned a

new term for the “old fashion” cell phones that most of us are accustomed to – “stupidphones”. In fact, a November 6, 2009 article in CNET News titled “Smartphone market unfazed by recession” http://news.cnet.com/8301-1035_3-10392252-94.html reports that Smartphone vendors shipped a record number of units in the third quarter of 2009, up 4.2% from last year’s third quarter and up 3.2% from this year’s second quarter.

As Smartphones continue to grow in popularity and functionality, it’s legitimate to speculate that if half of the world is already using a cell phone, how long will it be before half the world is accessing the internet through those same devices? And when the phone becomes the most convenient tool for accessing the internet, how long will it be before consumers and agents expect to access their insurance company in the same manner?

The cell phone gets my vote for the technology with the most potential to impact our industry over the next five years. Rather than pursuing signature pads, agent laptops, and expanded field portals as the next step in new business processing, innovative companies may want to consider exploring cell phone applications instead. Of course, by the time it finally becomes clear whether or not this prediction has merit, there will undoubtedly already be a new trend emerging that will lead to an entirely different strategy. Considering how quickly things change, perhaps the best strategy is to do nothing!

Next month I would like to explore two additional innovations that have significant potential to impact our industry – blogs and social networking sites. I’ll keep my fingers crossed that something new won’t be invented between now and then that renders them obsolete before I have a chance to finish the article!