

NCOIL 2018 Annual Meeting

Academic Perspective Serving as Introduction to Discussion on Insurance Innovation

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Innovation

- “Any combination of activities and technologies that breaks existing performance trade-offs ... expands the realm of the possible.” Michael Raynor
- Benefits – economic growth
 - Innovation brings positive externality (e.g., technology spillover) with social returns substantially greater than private returns

Historical Examples of Insurance Innovations

- Insurance embedded in maritime loans
 - Phoenicians and others (500 BC)
- Northampton Mortality Tables
 - Dr. Richard Price (1783)
- The Philadelphia Contributionship
 - Ben Franklin (1752)
 - Trap doors in rooftops for chimney fires
 - Lightning rod

Drivers of Innovation Today

- Predictive analytics; blockchain; A.I.; telematics; ...
 - Using telematics (i.e., smartphone data) to monitor customers' driving behavior in auto insurance
 - Short duration contracts for Airbnb hosts

Challenges and Opportunities

- Regulation to protect consumers
 - Rules written in a “paper world”
 - Promote confidence in insurance market
- Innovation to better serve customers
 - Survivorship bias: Innovations fail
 - Limited opportunity to leverage human capital and working capital
 - Objectives differ, but interests overlap

Collaboration

- How can regulatory environments strike the appropriate balance between fostering innovation and protecting consumers?
 - Regulatory Sandboxes
 - “Structured Experimentalism”
 - Seek to reduce the regulatory barriers to live-test innovations in insurance