

# INTERVIEW WITH ALAN BAUER

The insurance sector's challenges and opportunities in the US

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by Alan Bauer

*Akur8 had the extreme pleasure of sitting down with Alan Bauer, an insurance veteran who, among other positions, was President of US insurer Progressive Direct. His work in the field was absolutely instrumental, particularly in transforming technology in the P&C Insurance space. He led the creation of the industry's first ever website; which came about through his love of Dan Hicks, a musician that he saw live during his college days! (The full story arose during our interview!)*

*In the interview, he shared his insights across some of the major themes in the insurance sector. We talked about pricing challenges, especially around COVID, how determining pricing can be an even bigger challenge in the US due to the regulatory landscape, how rating variables and risk calculation have changed, how AI is gaining traction in rate making, as well as consumer behaviour and best practices in advertising across the insurance industry. We rounded out the discussion talking about potential disruptions if, or when, the likes of Amazon and/or Google enter the insurance space, and what that could do to traditional insurance carriers.*

*It is a really informative and entertaining deep dive into what is happening now and how the insurance sector is evolving, from one of the industry's true visionaries. Enjoy the full length interview below!*

## In your opinion, how has insurance pricing evolved over the past decade, particularly in the US and particularly for the P&C industry?

First of all when we talk about the US, we have to talk about 51 different countries, almost. There is hardly any federal regulation regarding pricing, it is all done state by state. Some states require full disclosure by the carrier as to how they charge prices. Other states have little or no requirements.

In terms of pricing evolutions, there are four major ones that are worth noting.

- The first one lies in the competitive landscape with the emergence of price comparisons websites. Though there has been a lot of talk around it, I do not see it satisfying customers. Rate comparison companies do not calculate rates themselves and go to the carriers to obtain the quotes. The results shown to customers are thus either partial or lack transparency or both. Data is everything, if you cannot harness it directly, be it from internal or third party data, your relevance as an insurer becomes limited.
- A second one, more technical, is the variation of models used on top of Generalized Linear Models (GLMs). These models definitely remain at the very core of risk-modeling, with variations allowing other types of interactions between variables.
- The third one is the push towards AI, though it has not fully materialized yet. One illustration of AI application is to allow for the discovery of further predictive rating variables determining the risks of given customer profiles, thus further improving the predictive power of risk modeling. This requires to process a huge amount of data, looking for correlations that couldn't be run before, or at least that took way too long to conduct. This is one example only of the magnitude of impact AI can have in the pricing field.
- Lastly, a deep and thorough understanding of the market has become absolutely key:
  - Market positioning analysis: benchmark your competition - which carrier is the most active, on what given product - and know your competitive positioning: what market share, on what line and what product
  - Customer analysis: know your customers, define clear targets and clear segmentation

To react and adapt to such diagnosis, the ability to run market simulations is instrumental for P&C carriers. Market simulations allow them to measure the impact of price changes, to both calibrate top line - and competitive positioning - and bottom line impacts. This has to be repeated as much as needed, aligned with competitors' moves.

## What key success factors do you believe P&C carriers will need to master in the near to medium-term?

If we look at insurers' core differentiation capabilities, pricing will definitely be one of the key capabilities P&C insurers will need to reinforce, and Covid-19 accelerated an already-existing dynamic in this area.

We are in a time where customer behaviours are significantly changing and these changes will probably last somehow. People will have a lower use of their vehicles, remote working will increase permanently, just to quote the most obvious examples. These new behaviors are likely to create a downward pressure on prices. Ultimately, I believe this pressure will result in price war amongst P&C insurers. Insurers will have to be able to react and adapt very fast to adjust their prices based on customer behaviours. They will also need to quickly reassess the risks tied to given customers profiles. New predictive variables may also arise and the insurers being the fastest to discover them and the most nimble to execute on them will be the ones succeeding. Insurers could also think of novel pricing schemes such as applying discounts for the customers finishing their quotes in one minute or less.

Beyond insurers' core processes, further down the insurance value chain, advertising is becoming a rising means for insurers to differentiate. This will help break the image of somehow traditional, old-fashioned insurance companies into companies that engage directly in novel ways with their customers. Geico and Progressive are telling examples of companies going down this road, and doing it quite well.

## Conversion models are forbidden in the US. Still, price elasticity and conversation rate modeling are commonly used in other geographies. Do you think that will change in the US?

Demand sensitivity is a strong profit driver, hence the attention around it. AI actually does have a role to play in both simplifying and sophisticating the approach on this topic. The broader stake that all insurers are looking at is to understand as deeply as possible consumers behaviours. Price sensitivity is a key aspect of it, though not generally applied in the US to date.

## AI can be a polarizing topic. Do you see AI playing a role in helping carriers enhance their pricing capabilities?

AI is actually not such a polarizing topic, especially if it can meet a key criterion when it comes to core processes such as pricing: transparency. That is really key. AI can and will definitely help insurers gain more speed and performance in and out of what they do.

Perception and use of AI will continue to gain maturity. I believe that conversion models, along with notions like price elasticity and conversion rate, which are common in many geographies, will make their way to the US. Demand sensitivity is a strong profit driver, hence the attention

around it. AI actually does have a role to play in both simplifying and sophisticating the approach on this topic. The broader stake that all insurers are looking at is to understand as deeply as possible consumer behaviours. Price sensitivity is a key aspect of it, though not widely directly applied in the US to date.

**Taking a step back, the insurance competitive landscape has experienced a relatively unique stability for many years. Yet, new entrants are multiplying: insurtechs, like Lemonade and Oscar, are very successful in the US; Tech giants, like Google and Amazon are making bolder moves in the insurance space. What is your take on this rising pressure on traditional carriers?**

I do not think the most immediate pressure will come from Insurtechs.

I would pay a lot more attention to the Tech giants making moves in the insurance sector. They have a huge existing customer base to leverage, very strong brand equity and immense financial capabilities. And more importantly, they are renowned for their excellent customer and user experience, which is something traditional insurers definitely struggle with.

One could argue that customer inertia is a strong factor. Changing insurance companies is not an easy journey and is viewed as a hassle. Yet, I firmly believe that the likes of Amazon and Google would strongly differentiate on that point. As I mentioned, the strength and attractiveness of their brand equity as well as the smoothness of their customer journey make it much less of a barrier for customers to change.

**If you want to know how Alan Bauer's taste for Dan Hicks' made Progressive the first ever insurer to sell online, here is an entertaining anecdote!**

I want to tell you an amusing story.

I went to a reasonably prestigious tiny college in Minnesota called Carleton College, and one reason I went there is because my father had gone to the other college in the same town; so this would be a way to get back at him. While I was in college, there was a musician by the name of Dan Hicks. I had never heard of him before but was dragged to see him. I ended up thinking he was great and still do! Years later, there was a web service named Compuserve, which was Facebook before Facebook. There was a Dan Hicks interest group that I joined. In the beginning of 1995, the web became available to the public. I decided to create a Dan Hicks website. It got attention and gave me enough courage to go to my management at Progressive to say that we needed a website. I thought it's the future and we have to do it.

I asked IT to help, and they said they were backlogged and couldn't help at the time. So, I hired several people and we built it ourselves. It did give us some attention and it got us some press. And, it helped us to see what was going on in the web. Fast forward two years, we were the first company in the world to sell directly online and it really helped the company grow its direct business. Before that, most of our business went through independent agents.

One last piece of advice. Remember, as an organization, you never know what makes a person special. And the resume itself, I've found, isn't enough.

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