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Insurers' migration into non-insurance services poised to accelerate

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Executive Summary

Insurers' migration into non-insurance services are set to be a key element of their strategies going forward. Insurers will inevitably shift away from paying claims in cash toward directly providing preventive and/or repair services. Insurers must redefine their businesses around non-insurance services.

Insurance-like services gaining prevalence

The lines of demarcation around insurance are becoming blurred.

Tokyo Gas offers a protection plan under which it promises to promptly repair gas appliances whenever they break down for a monthly fee of ¥500 (or about $3.40). Two hundred thousand customers have already signed up for the plan. Tokyo Gas is now expanding coverage to include air-conditioners and plumbing. Tokyo Electric Power offers a similar protection plan for ¥200 per month. It covers gas hot water heaters and induction stoves among other appliances. The two protection plans differ in one important respect, however. Namely, Tokyo Gas administers its protection plan itself whereas Tokyo Electric Power's plan is an embedded personal property insurance policy[1] underwritten by Mitsui Sumitomo Insurance.

Japan's Insurance Business Act defines an insurance business as one that collects insurance premiums in exchange for agreeing to compensate insured parties for losses due to certain chance events. Under this definition, insurance businesses include those that provide recompense in the form of services instead of money. Clarity surrounding what types of services do not meet the statutory definition of an insurance business has been increasing in recent years by virtue of so-called mini (i.e., low-value, short-term) insurance policies' legalization in Japan and a growing corpus of No Action Letters issued by the FSA. This trend is ushering in an era where insurers find themselves competing with nonfinancial companies, like Tokyo Gas, that previously would not have been on their radar as rivals.

NOTE
1) Embedded insurance: insurance embedded in a product or non-insurance service. Embedded insurance has hitherto been sold separately from said product/service, but insurers can now provide new, seamless customer experiences with APIs or other such technologies.

Japanese insurers ramping up service offerings

Faced with a mature domestic market, Japanese insurers have been fiercely competing to differentiate themselves through ancillary services and/or policy riders. Examples include not only restoration/repair services but also preventive services such as roadside assistance, unsafe driver reporting systems that utilize dash cams and safe driving assessments. Even life insurers have been launching a plethora of ancillary services, including personalized health advice, health enhancement and welfare monitoring services. In sum, on top of their traditional role of indemnifying losses with cash payouts whenever an insured risk manifests, insurers are adding extra value by offering preventive and restorative services respectively upstream and downstream of the risk event.

Meanwhile, the interrelated trends toward low-value insurance coverage and embedded insurance are driving insurers to further accelerate efforts to differentiate themselves by offering more services. New market segments in which insurers are starting to compete include smartphone insurance with coverage in the tens of thousands of yen, parametric earthquake insurance and trip cancellation insurance. However, such products are not conducive to distribution through existing sales channels because they involve high-frequency, low-value claims processing, are more prone to fraudulent claims and generate low sales commissions. Insurers are consequently offering them as embedded or cashless[2] insurance. While such insurance looks a lot like repair or healthcare services from the user's standpoint, these services are indeed primarily insurance policies. In a vast majority of cases, the service is ancillary to the insurance. Such primarily insurance, secondarily non-insurance services are referred as "Mode 1" below.

2) Cashless insurance: insurance coverage where the insurer pays claims directly to a service provider (e.g., repair shop, healthcare provider) instead of reimbursing policyholders' out-of-pocket expenses. With pet insurance or overseas travel insurance, insurers usually pay veterinary/medical treatment claims directly to the service provider.

Inversion of Mode 1 formula

Business models that invert this Mode 1 formula have emerged. Assurant, a US insurer with a 130-year history, radically transformed its business by adopting a non-insurance service-centric model. It operates a same-day smartphone repair service in the US with 500 locations and 2,000 employees. In addition to repairing smartphones, it also deals in trade-ins and provides technical support. It decided to launch its own repair service after initially branching into smartphone repair insurance. In Japan, Warranty Technology offers low-priced smartphone insurance backed by a nationwide chain of one-stop repair service centers. Such primarily non-insurance service businesses that secondarily offer insurance are referred as "Mode 2" below.

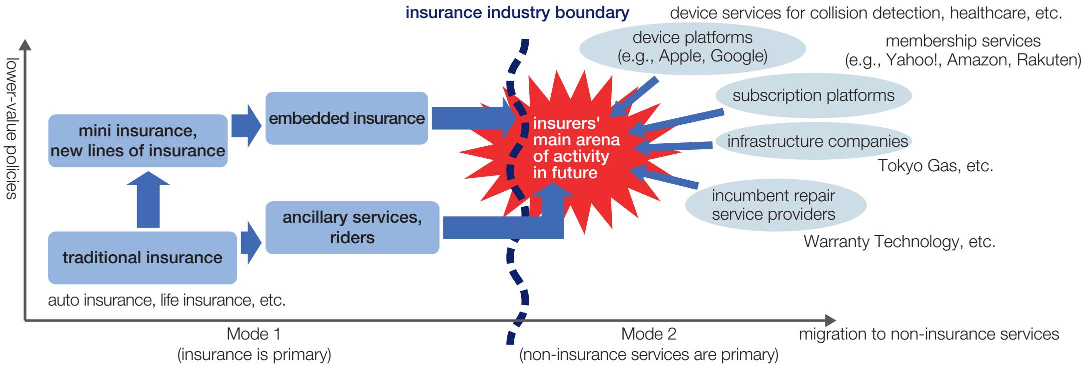
In many cases, insurers partner with outside companies to provide services ancillary to their insurance policies. In Mode 2, however, insourced services are a key differentiator. For example, Japanese insurers that are internally developing their own telematics or health enhancement services could potentially transition to a Mode 2 business model that monetizes their non-insurance services.

This approach is also a proven way to develop new businesses. For example, Amazon's highly profitable AWS was originally the server infrastructure behind its e-commerce business. In Japan, Tsutaya's T-Points were originally an internal loyalty program that Tsutaya ended up externally monetizing as a marketing support tool. The keys to success are future growth potential and unique competitive advantages.

Japanese insurers can be broadly classified into two groups based on their growth strategies. One common strategy is to pursue scale-wise expansion overseas and/or in the reinsurance market. The other is to transition from Mode 1 to Mode 2 by reorganizing as a holding company and diversifying into new service businesses. Neither strategy is easy to pull off, but the idea of refining existing ancillary services and converting them to a subscription model decoupled from insurance is a realistic path forward.

Japanese insurance industry's loss prevention/mitigation initiatives of recent years are a major inflection point in the context of its multi-century history. By leveraging such initiatives to redefine their business models instead of trying to shoehorn them into their insurance businesses, Japanese insurers could begin to transition to the next mode of insurance.

Evolving insurance arena



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