Video transcript

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Rivian to initially launch in-house insurance program in 40 states
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Welcome to Accenture’s News Analysis, I’m Abbey Compton here with Kenneth Saldanha, Accenture’s Global Lead for Insurance, we’ll be talking about what’s making news around the industry. So, Kenneth, Rivian, a maker of electric SUVs and pickup trucks in the U.S. announced the launch of its own insurance product similar to what Tesla did in California, only it will be available in 40 states initially. When it was just Tesla and only one state this didn’t seem like a huge threat to incumbent insurers, but now it’s two auto makers and 40 states. Is this the beginning of a trend and what can incumbents do to defend their position in the auto space?

Kenneth Saldanha
Global Lead—Insurance, Accenture

Yeah, Abbey I would say this is a continuation of a trend, not the beginning of a trend, in that we’ve talked for a while about “compressive disruption” and the fact that new entrants coming into the industry pick out parts of the value chain and relegate insurers to the high-capital underwriting capacity role, and that’s what we’re seeing with Rivian and with Tesla. If you look at those websites you’ll notice that it’s Tesla Insurance Agency, or that Rivian is hiring agency managers what, to me, what that says is they have no intention of actually putting up the capital to underwrite the losses, they want the commission from placing that with an insurer who provides the underlying insurance. And that has been what we’ve seen, very much so across new entrants, is looking for those fee-based... the service revenue side, while leaving the underwriting capital to the insurers. So this is actually a continuation of a trend, and I think what’s interesting here is that, really, it also is very clear that they’re looking for vertical integration and that they have their own preferred repair
shops, their own networks. That’s also another signal to insurers to watch out for the economics changing as these new entrants take on the interesting parts of the value chain for them, and leave the rest for the insurers. So I think a continuation of this compressive disruptive trend we’ve seen for a while.

Abbey

So, our next story, the pandemic has really shone a light on the long-standing shortage of home health care workers. Now the Biden Administration’s new infrastructure plan includes $400 billion for home-based care workers for the elderly and for persons with disabilities. As the global population ages, what can insurers do to help address the needs of their existing long-term care customers and how do you see them changing underwriting for these products going forward?

Kenneth

So, Abbey, I think the long-term care as a product is certainly going to be something that is... We take a very different approach on, because if you look at the long-term care products right now they’ve been quite tough for the industry, the projections for cost of care, medical costs, etc. have ended up being, I think, a lot higher than what was projected and so what you see is most carriers have stepped away from a long-term care product and those books are essentially in runoff, which means there’s no new policies it’s just managing the claims on what was sold previously. What I do think will happen, looking forward, I think we can look at the Asian markets as a forerunner for what I think we will see globally, and that is really three things that I think are very positive.

First off, a lot more focus on preventative care, and so the notion of wellness, you know, doing memory games to work against dementia and Alzheimer’s, being very careful about diet and exercise, and using wearable devices to encourage that. So I think preventive care is going to be big. I think starting early, and so you look at what is coming out of the Asian markets around all the traditional co-morbidities, so diabetes care, obesity, a lot of these elements... there’s a lot of preventative care being started and offered up early to, really, the population in the thirties and forties, to really be able to step out in front of the problem. So a lot of this mitigation and management of risk earlier on, and then finally the long-term care product was a fairly broad product that said it would cover the costs of home health care. I think we’re going to see much more specific underwriting for specific chronic conditions, so products that are particularly focused on dementia or Alzheimer’s and caring for that, or caring for lack of mobility and elements like that, so I think we’ll see all three of those start to play out globally.
Abbey
So sticking with the topic of caregivers, the Association of British Insurers is promoting flexible work arrangements to help more women progress into senior roles in the sector. Their research cites working patterns associated with motherhood, such as part-time work, as the dominant reason for the industry’s gender seniority gap. Is the “motherhood penalty,” as one ABI executive called it, something more insurers will have to address in their workforce operations, post-pandemic?

Kenneth
Absolutely, Abbey, and I think there’s nothing unique about the insurance industry in this light, right, because I think that that motherhood penalty has been endemic to our entire workforce and we don’t need to look outside of the insurance industry, we can just look in the mirror and look at our own industry and look at consulting or professional services, where we’ve seen that play out for decades. Because the steep part of the career trajectory curve and the very traditional model that we’ve been in place with, right, to travel, etc. has always created a much higher burden on young women as they enter that parallel time of looking at building their families. And to be fair that’s true for men as well, but nowhere to the same degree as it has been a burden for women. So I do think that insurers, like every other business, is going to have to take a long, hard look at this as our awareness around this increases and I think it’s great.

Abbey
So, moving to weather, Aon’s latest impact-forecasting report found that the severe weather in the U.S. in March is likely to result in $1 billion in insured losses and it’s not even hurricane season yet. With these extreme weather losses becoming more common and little historic data to guide the actuarial function, how much more do you see insurers turning to AI and is AI their only hope against catastrophic claims?

Kenneth
Well I think, Abbey, what’s... insurance is all about pattern recognition and predictions, and I think the industry is struggling right now with the disruption to those patterns, whether you look at what’s happening with weather or you look at what’s happened with pandemics, you look at what’s happening with, you know, cyber risk and the disruptions of those patterns puts a much, much higher bar on what has to happen now with the statistics of the analytics of what’s happening. So I think insurers will use every available tool that’s... that’s out there, to try to up the game on what can we do around analytics, what can we do around the predictions here and I have no doubt that AI will play a role in that, every single tool will. So I do think the industry is facing a real uptick in the complexity and the sophistication of analytics that are being put in place to look at loss patterns, to look at loss-reserving, because it’s an existential risk.
If we don’t actually find a way to better predict these losses, the blanket increase on capital reserves required to write the business is just too much for the insurers to take, and what will happen is for a certain, for a fixed amount of capital, insurers will have to scale back the amount of policies or amount of premium they can write, which is a very difficult thing to do, to walk away from revenue because you don’t have the capital base to put up for it. So I would absolutely expect AI and every other possible tool to be put in place to get to that sophistication that prevents that step-back-from-revenue outcome.

Abbey
So, Kenneth, always great to talk to you and hear what’s going on in the industry, thanks so much for joining me.

Kenneth
Thanks for the time, Abbey.