Amazon's Insurance Opportunity

10 areas Amazon can disrupt

There's huge excitement in the insurance industry at present and we've been reading many sensational headlines about disruption from InsurTech players and the death of traditional insurers. With £4-5bn invested in insurance technology start-ups around the world, it's difficult to ignore. But with very few breaking through and gaining significant market share, is Amazon perhaps the real threat to the 300-year-old insurance industry? In this piece we look at 10 areas we believe Amazon has an opportunity to disrupt, and also the places where they could struggle.

Amazon has recently begun downsizing at its Seattle Headquarters. Whilst some believe that this is an effort to reduce costs following the significant expenditure on recent acquisitions, others believe that this is due to the automation of certain roles via AI. Whichever story you believe, Amazon is always changing, and this should concern insurers.

The Amazon Protect product went live in 2016, but it's not their first entry into insurance. Amazon was offering extended warranty policies, underwritten by Allianz Cornhill, as far back as 2007. This extended warranty product has changed in recent years and cover types appear to have been extended for the newer Amazon Protect policy.

The most credible sign of intent by Amazon to disrupt the insurance industry was late in 2017, when it become publicly known that Amazon was recruiting for a Product Manager. According to Lemonade Co-founder Shai Wininger, they were also trying to poach Lemonade staff.

From its humble beginnings of selling books, to becoming the world's biggest global e-retailer, Amazon has diversified into new markets at will and with unrelenting ability. Some of these include its Marketplace that allows sellers to sell on Amazon; AWS (Amazon Web Services), which is both the preferred cloud solution for developers but also the biggest in the world; Amazon Prime providing streamed content, seamless logistics and much more; to its recent acquisition of Whole Foods and entry in the grocery space - Amazon can disrupt at will.

Amazon disrupts through diversification and we should take note of one particular proposition – AWS (Amazon Web Services). How on earth could Amazon who merely sold goods online become the biggest provider of cloud services, in the process outmanoeuvring the likes of Microsoft, HP, Dell, Oracle, Google, VMWare, IBM and the list continues. What we do know is that, in doing this AWS provides vital profit for the rest of Amazon and supports its M&A and investment operations.

Amazon's next move in the insurance sector looks to be in Health where they are already selling medical supplies to hospitals and have forged partnerships with some of the key distributors in the US, as well as applying for state-by-state licenses to distribute these goods. Notably, the company announced partnerships with Berkshire Hathaway and JP Morgan to rethink health care for their combined 1.2 million workers.

What often strikes fear into the mind of insurers with regards to Amazon is their slick processes. For example, their 1-click button is where most of us, regardless of our insurance capacity have experienced the seamless ease of their process.

So we ask ourselves, where do we think Amazon will strike next? Based on the Altus General Insurance Capability Model, here are 10 areas where Amazon could disrupt the Insurance Industry:

PRODUCT DEVELOPMENT

New insurance products

Chinese start up insurer ZhongAn sold 100M Shipping Returns policies during a peak seasonal holiday. There isn't the same need for such a product in the UK, but what if Amazon decided to create new insurance products such as insurance against website DDoS (Distributed Denial of Services attacks for their hosted websites), WiFi disruption or even Online Identity Protection. They already have easy access to millions of potential customers and currently seem more likely to create innovative products than other insurance industry players.

PRICING & U/W MANAGEMENT

Amazon don't need to underwrite, they are just the introducer.

Allianz were the underwriters for their EW (Extended Warranty) product, whilst The Warranty Group's London General Insurance Company underwrite their Protect policy. Amazon needn't become an Insurer but an MGA (Managing General Agent), which over a period of time will absorb the simpler products such as Gadget, and then progress towards the more complex ones. Worryingly, it would be able to form larger pools due to its reach, and potentially become better at pricing perils as well as utilising price elasticity to convert more customers.

PROPOSITION DEVELOPMENT

Productization of 'Amazon Prime'

In recent years, the FCA has introduced legislation to prevent insurance product bundling, but with Amazon on the scene, we could see them potentially wrapping up the cost of EW cover within the cost of Prime. Just like a Barclays or Nationwide AVA (Added Value Account) would offer EW for a range of electrical items, Worldwide Travel Insurance and Breakdown Cover amongst other things, could Amazon offer versions of their Prime i.e. Bronze, Silver, Gold and Platinum? They could provide a 'base and build' approach that would help them with regards to the challenge of raising the price of Prime, still at £79.

CUSTOMER EXPERIENCE MANAGEMENT

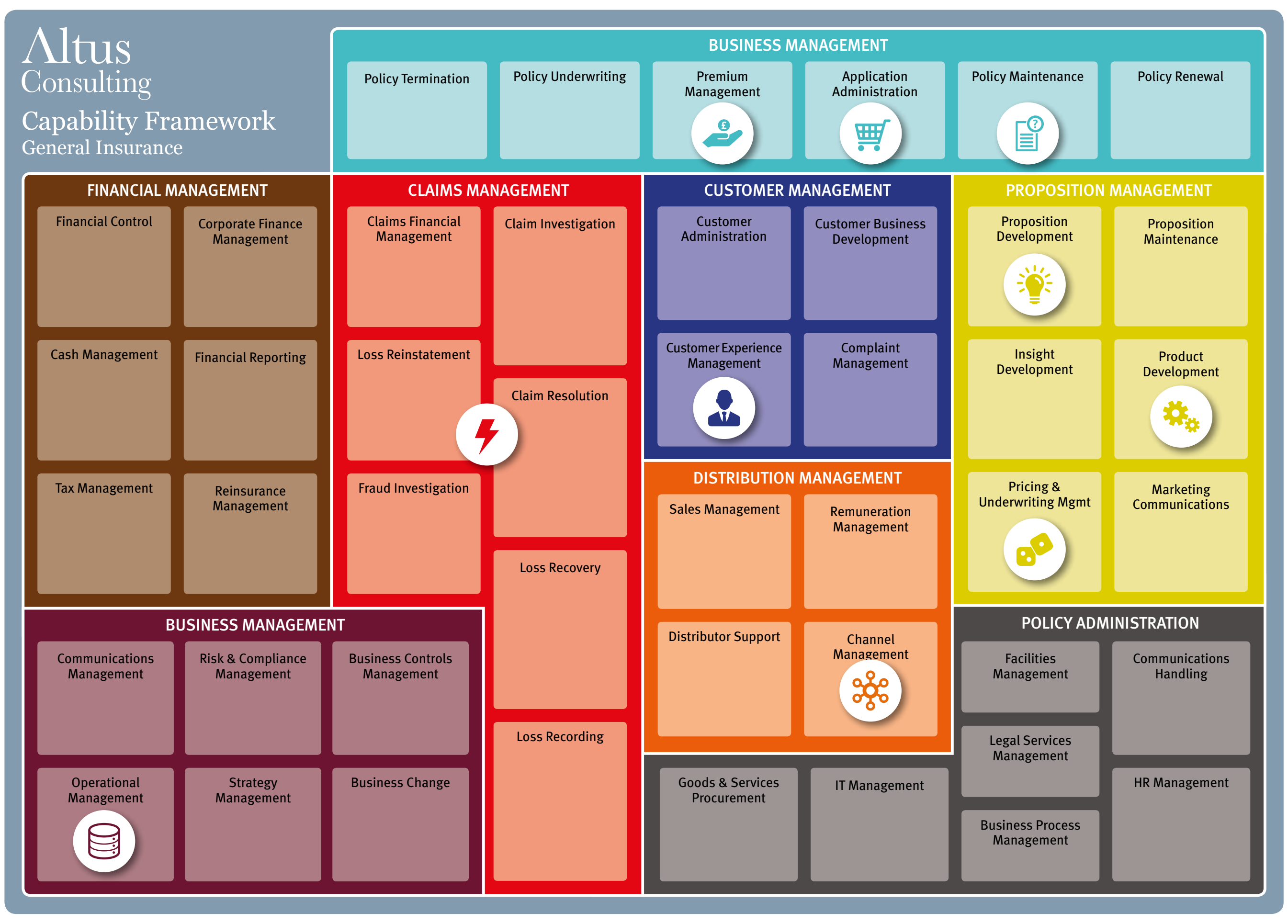
Can they translate their Retail experience into insurance?

Amazon has proved its credentials in the UX space. A/B testing, continuous development and multiple deployment windows have meant the UX for web and mobile channels is always improving, and by implication, conversion rates too. They have been able to attract the digital talent where insurance companies are struggling. Truth be told, their UX is starting to look a bit busy (some may even say dated) rather than deploying the minimalist view that websites lean towards today.

CHANNEL MANAGEMENT

Distributor or Aggregator?

Could the Amazon Marketplace become a distribution channel for standard covers such as EL (Employer Liability) cover? A customer needn't have to enter many details, could purchase much more simply, and then have access to a printable version whenever required. They could even compare prices as they do with existing retail products. This allows them to pick up the policy admin for the simpler products or hand off to insurer partners and also hand over claims management to the professionals.



CLAIMS MANAGEMENT

1-click claims could be the future!

This is where Amazon could really disrupt. Altus GI Digital Research (2017) highlighted the significant lack of digitalisation with regards to claims, and for simple claims, Amazon could simply use business logic together with AI to automate the process. A simple example could be that a claim for a £100 drone for a first-time claimant for a certain peril type should simply be paid via a new drone being dispatched (also by drone!). Random sampling and those claims that are from repeat claimants, certain item types or those that haven't completed the form with enough information, could be where investigation takes place.

POLICY MAINTENANCE

Voice-activated policy queries

Policy Enquiry and Customer Query Management are two areas where Amazon could make use of advanced AI in the form of voice-activated policy queries. Common customer gripes are to do with Insurance having complicated policy wordings and the lack of simple FAQs for coverage. Therefore, using Alexa and its AI capability, Amazon could provide better FAQ capabilities as well as a page for open text queries i.e. am I covered etc. Sentiment analysis on steroids!

PREMIUM MANAGEMENT

Amazon's famous 1-click ordering

As most businesses will know, providing and integrating payment services into their digital propositions can be slow, painful and costly. Amazon's 1-click payment is fairly advanced within this arena and I can only see them getting better. Take-up of cryptocurrencies as a payment method is more likely to be accepted if Amazon lead the charge. Apple Pay drove the use of contactless mobile payments even though BlackBerry had similar capabilities (i.e. Near Field Communication) built in much earlier. More recently, Amazon is reportedly offering discounts to merchants who use its in-house payments processing service, Amazon Pay.

APPLICATION ADMINISTRATION

1-click and central location

The Quote and Buy experience for customers would just be easier, compared to even the most modern methods from traditional insurers. Managing the application itself, and presenting and sourcing risk data, would be quicker as Amazon tend to have better data management and a SVoC (Single View of Customer). If Amazon wanted to tap into data enrichment, they could offer a quote with a few questions. Whilst insurance Quote and Buy UX journeys are getting smarter, with traditional lengthy question sets and mouse clicks being greatly reduced, insurance companies would still need to ask more questions than Amazon, who can already legitimately hold details about the Customer. The industry-leading insurance Quote and Buy journey is approximately 22 mouse clicks vs potentially 3 clicks from Amazon!

OPERATIONAL MANAGEMENT / DATA MANAGEMENT

Or more specifically data sharing

Customers are more likely to share data with Google/Amazon/Facebook(?!)/Apple as they typically get a value exchange for valuable services they need. (This may change given recent events though!) This is still not the case with insurance companies. It will be interesting to see what impact the GDPR (General Data Protection Regulation) has for insurers who have no material interest in holding onto personal data for customers who no longer have policies or open claims. Amazon, meanwhile, has ongoing engagement with their customers and is more likely to be able to hold favourable marketing preferences.

Where Amazon could come unstuck

Their UI is tired

And fairly difficult to navigate for a journey that doesn't involve a purchase. When lost, users tend to Google the question, which then takes them to the relevant page. The webpage UI is becoming a bit busy, but their mobile app is better, which is their same basic UI but is better presented on a mobile phone. Tesco themselves have experienced this when, a few years ago, their stores became suddenly outdated and terrible overnight! The reality was that through lack of continued innovation for well over a decade, their stores became stale over a period of years. By the time the company acknowledged this, it was considerably behind the curve and had a lot of expensive catching up to do.

Tax

Amazon has a colourful history when it comes to its tax affairs. Tax is paid as part of a customer's premium (typically 12% for most lines of business, but 20% for Travel and Extended Warranty) so we could see significant future tax contributions from Amazon down the line!

Regulation and Capital Requirements

Insurance is a highly regulated industry and we're unlikely to see a brand new technology start-up make a significant impact in the insurance market with a 'full-stack' insurance offering. Amazon, no doubt, have the capital available, but are they willing to enter the insurance market and take on the responsibilities of a market regulated more strictly than the Retail industry? This could be a real challenge for them.

Pushing Through a Price Rise

Now that would be interesting! Amazon is stuck on their £79 price for Prime, and just like insurance underwriters struggle to push through a rate rise. We expect that the reason Amazon hasn't increased their rate is because they know that customers would drop off and this would detrimentally offset the gains from a price increase. Interestingly, in the US, Amazon Prime raised its price from $99 to $119 only last week – we will keep a close eye on how customers respond to this 20% price increase.

Call Centre Operations

Are Amazon set up to scale call centre operations to cover significant demand from insurance customers? Investment in technology would mean they perhaps wouldn't need to scale as much as a 'traditional' insurer, but could instead follow the Lemonade model of pushing Customers to AI channels.

Margin

Do the numbers work for Amazon to push into Insurance? Amazon Retail has a profit margin of 1-2% even with their dubious tax regime. A move into technology and infrastructure hosting with AWS has created a return of ~30%. Is there really enough of a return for Amazon to dabble with a wider reach into the insurance market? Another way of looking at this is that insurance is analogous to retail in the 'pile it high, sell it cheap' approach, and small margins from enormous premium is exactly where Amazon was successful in the first place.

Final Thoughts

If Amazon do decide to take the plunge further into general insurance, and the complex regulatory framework may be a saving grace here, then you can be sure that it will be a decisive and disruptive step, will make use of their extensive knowledge of their customers, and will provide a simple but compelling journey for these Customers. Incumbents in the insurance industry simply cannot wait for this to happen and need to be thinking, and acting, now to combat this threat.

They need to be taking the Amazon route to success before Amazon take it themselves.

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