CAKE & ARROW | coverager

Millennials & Modern Insurance

CHANGING THE WAY MILLENNIALS THINK ABOUT INSURANCE

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The Convenience Generation

Executive Summary

Empowered by the internet and digital technology, Millennials have opted for unprecedented levels of convenience. But as the insurance industry journeys toward convenience, is it headed in the right direction?

In recent years, there's been no shortage of labeling, discussing, and research when it comes to Millennials. WebMD discovered that Millennials are more likely than Gen Xers and Baby Boomers to prefer speed and convenience from their healthcare professionals over comprehensive interactions (WebMD Health Services, 2016). The Washington Post has discussed how Millennials reversed a longtime trend of steady growth among warehouse clubs and supercenters, choosing the convenience of Boxed and Amazon Prime over the prices of Costco and Sam's Club (Bhattarai, 2018). And when it comes to labeling, there's been a few: lazy, entitled, self-centered, disloyal and spoiled.

While not all Millennials are alike, there is one term defining their generation most might agree upon– the convenience generation. From on-demand taxi services, to on-demand food delivery and on-demand entertainment, Millennials have opted for new levels of convenience unlike any other generation before them. This consensus set the path for insurance companies big and small, old and new, to embark on a journey towards convenience. Terms like "digital transformation," "personalization," and "on-demand," are the chosen jargon of the industry, used in industry events, panels, webinars, and reports across the world in an attempt to set clear objectives and guidelines for companies that want to stay relevant. What's more, these terms have been portrayed by others as promising opportunities for those willing to embrace the journey. We're here to challenge that.

The first half of the report explores the state of the industry at large as it concerns Millennials. Using Coverager's industry research, we provide a synopsis of where the funding is going, what trends we are seeing, who the key players are, and what the industry is doing to respond to Millennials and the demands they are making of the insurance industry.

We then take a critical look at how convenience and price are driving innovation in insurance and in the economy at large, with an attempt to understand the opportunities and limitations that exist for insurance when convenience is the primary innovation strategy.

The second half of the report takes a deep dive into a year's worth of Cake & Arrow's Millennial research. In it, Cake & Arrow explores insurance from the Millennial perspective, reviewing mindsets around insurance, and identifies key opportunities for where the industry can provide more value and shift the paradigm for how Millennials think about and experience insurance.

The Landscape of Modern Insurance

State of the Industry

Just like Netflix hasn't changed the genre, the internet isn't changing coverage, but rather how coverage is being delivered (digitally and conveniently) and how it's being packaged (fairly).

The Rise of Direct-to-Consumer Insurance Players

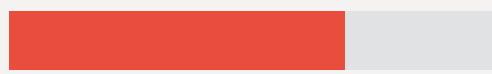
Sampling 100 direct-to-consumer insurance brands that have launched since 2014, it's clear the industry's focus is on delivery, and less on coverage, and that the playground is a mix of old and new.

According to Coverager's research:

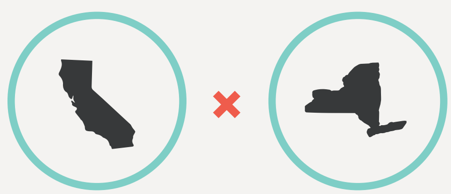
2016

remains a peak year in terms of new insurance entrants

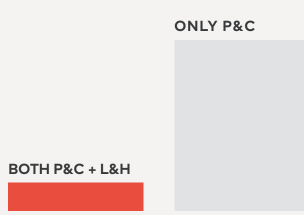
74%



of new entrants are of type "intermediaries"; meaning they are dependent on legacy insurers to carry the risk



California and New York are the two insurtech hubs



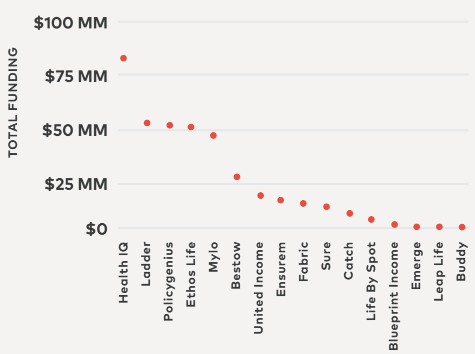
Only 7% of new entrants offer both P&C and L&H products, with the majority of players (74%) offering P&C products only

Source: Coverager, 2018

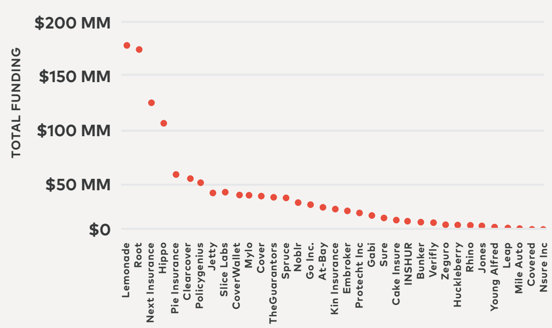
New Players, New Funding

49 percent of the companies we sampled raised a total of $1.4 billion in funding; of which, 75 percent has been invested in companies operating in the P&C space. And when you further break down the total investments by players, it's obvious that this trillion dollar industry isn't comprised of many leaders but rather several smaller players (Coverager, 2018).

Top Funded in L&H



Top Funded in P&C



Source: Coverager, 2018

Established Players, New Brands

The term "several smaller players" can also be used to describe efforts by legacy insurers to stay relevant via direct-to-consumer initiatives. In other words, incumbents aren't sitting idle like a baffled prey. On the contrary, they are launching modern programs to attract modern consumers; primarily Millennials.

To quantify these measures, five of the top 10 P&C writers in the U.S. by Direct Premiums Written (DWP) introduced at least one modern brand.

INCUMBENT	MODERN BRAND
State Farm	HiRoad
Berkshire Hathaway	biBerk, Cinch, THREE
Liberty Mutual	Lulo (defunct)
Travelers	Simply Business (USA), Traverse
Farmers	Toggle

Source: Insurance Information Institute, 2017

Further, two of the top 10 L&H writers in the U.S. by DWP have introduced at least one modern brand.

INCUMBENT	MODERN BRAND
Prudential	Link by Prudential
Mass Mutual	Haven Life, ValoraLife (defunct), Quilt*

Source: Insurance Information Institute, 2017

** Quilt is working to introduce a new fintech product in the coming months.*

Combining Old & New: Additional Initiatives

D2C Initiative	Primary LOB	Incumbent Backed
AmVenture	P&C	AmTrust Financial
Cake Insure	P&C	Pinnacol Assurance
Cerity	P&C	EMPLOYERS
CM Select Insurance Company	P&C	Church Mutual
Cinch	P&C	Berkshire Hathaway Specialty
Gainbridge	L&H	Group1001
Guardian Direct	L&H	Guardian
InsuraMatch	P&C	Plymouth Rock
Intrepid Direct	P&C	W. R. Berkley
Mylo	Multi	Lockton
Our Life Covered	L&H	RGAx
ProSight Direct	P&C	ProSight Specialty Insurance
Simply Business (USA)	P&C	Travelers
Starr Insure	P&C	Starr Companies
TypTap	P&C	HCI Group
Universal Direct	P&C	Universal Property & Casualty Insurance
Vantis Life	L&H	Vantis Life
TypTap	P&C	HCI Group
Guardian Direct	L&H	Guardian

Source: Coverager, 2018

Deeper than Digital

Just as technology companies copy one another's best idea, so do insurers. While "digital" is trending in general, one formula in particular is recurring more frequently:

Convenience *and/or* **Fair** *and/or* **Flexible** *and/or* **Functional** *and/or* **Social Responsibility**

Convenience.

From "instant everything" to "actually simple" and "hassle-free," different brands use different terms - all in the name of convenience - as they look to differentiate their offering from legacy players, e.g. paper-based, agent-dependent models.

Fair.

According to a 2015 study, price has the greatest influence on Millennials' purchase decisions above all other factors, including quality, brand, store, and availability (Blackhawk Engagement Solutions, 2015). This translates to a long list of new entrants that are looking to gain market share on the concept of fair insurance (read: fair price); from pay-per-second, to pay-less-per-sweat (Vitality), to the several pay-per/pay-how/pay-with-peers. Root considers itself "the first insurance company founded on the principle of fundamental fairness" (Root Insurance, 2019) Lemonade says insurance can be fair and charitable (Lemonade, 2006). Trov offers insurance exactly when you want it (Trov, 2019), which translates to consumption-based pricing. In reality, not all players can offer "killer prices" like Lemonade, but all savvy players understand they can't ignore how much of an influence price has on distribution.

Flexible.

Companies such as Traverse by Travelers and Toggle by Farmers are dropping annual contracts in exchange for subscription-based pricing. Often times, you'll find that fair and flexible simply go hand-in-hand, as evident by the value proposition of Hugo Insurance, a new entrant from Santa Monica established in 2016, offering "No downpayments. No annual contract. Just affordable liability insurance, you control," (Hugo Insurance, 2019).

Functional.

While elements of fairness and flexibility typically translate to better pricing, modern players are also looking to add value by adding benefits and perks beyond the conventional coverage offering. Toggle allows policyholders to build credit while paying rent due to its partnership with RentRack (S. Ben-Hutta, 2019). Haven Life goes beyond traditional life insurance coverage to offer a digital solution for creating legal wills (A. Ben-Hutta, 2018) (after all, 78 percent of Millennials do not have a will) (DiUlio, 2017), powered by Trust & Will–a secure online safe deposit box to manage important documents (itself powered by LifeSite, a discount for an at-home genetic health test)–and a 15 percent discount voucher for family health services at MinuteClinic. Outside of the U.S., São Paulo-based digital broker Kakau offers home and renters insurance with up to 35 services to allow policyholders to clean their apartment, replace a lost key, bring in a plumber, or enjoy access to a pet feeding service (S. Ben-Hutta, 2018).

Social Responsibility.

In 2017, Americans donated a record amount of money to charitable causes (more than $400 billion) (Giving USA, 2018). Empowered by online and social giving and emboldened by their own convictions, Millennials are behind this uptick in charitable giving. "Not only did the Millennial generation wholeheartedly embrace online giving, they have pushed other generations to participate with charities and causes that are now readily accessible with technology," wrote Clay Braswell in a 2018 article. (Braswell, 2018). As a result, the insurance industry found ways to incorporate the Millennial sense of social responsibility into their products and marketing. Modern insurers are realizing that one effective way to incorporate a charity scheme is to allow customers to take part in how donations are allocated. Lemonade, the NYC-based Certified B Corp. insurer for renters and home insurance has incorporated a Giveback component into its scheme (Lemonade, 2019), in which any unclaimed money in Lemonade's piggy bank is donated to a charity selected by the policyholders. Cherrisk, the Hungarian D2C brand of UNIQA Group, offers a chatbot named Emma and allows users to collect "cherries" if they take part in risk-reduction games that can later be used to reduce the insurance premium or to support a charity or a community of choice (Cherrisk, 2019). ONE, the Vaduz, Liechtenstein-based digital insurer by wefox, operates a bonus system: anyone who has not caused damage or refers a friend, gets a bonus point that later can be converted into charitable donations, premium reduction, or cash (ONE, 2019).

It would be simplistic to generalize Millennials as the convenience generation and avoid the many other attributes that have merited a reaction by insurance companies. Beyond making insurance "Millennial friendly," there's an ongoing attempt to address very specific traits:

01. **Nearly 60 percent of U.S. Millennials said they have used a chatbot, according to a study commissioned by Retale.** Vice versa, several insurance brands are deploying conversational AI across the insurance value chain. Acuity offers a billing bot. Metromile offers an AI claims assistant by the name of AVA. GEICO offers a virtual assistant named Kate to answer common insurance questions.

02. **Millennials are the most prolific digital assistant users hence the rise of insurers offering voice computing skills.**

03. **Millennials dedicate one hour each week to selfies; this may explain insurers' use of selfies as an attempt to convince Millennials that life insurance is affordable.**

In sum, legacy insurers are driven online–being pushed to accommodate many different consumers; however, what's fashionable isn't always what's profitable.

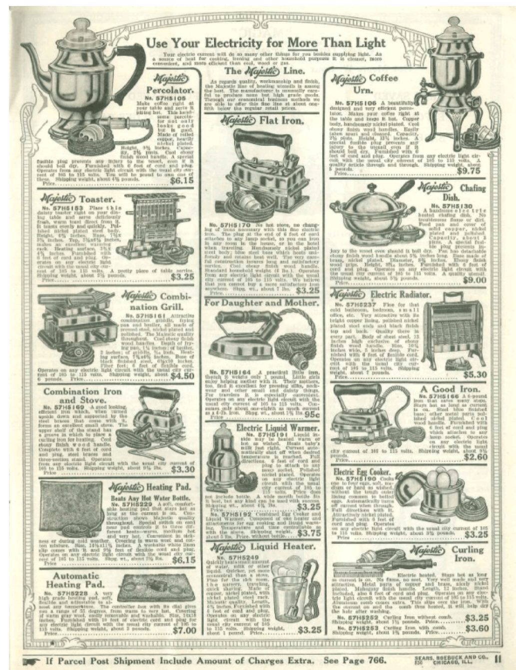
The Convenience Economy

Breaking Down Convenience

Convenience drives innovation. In their 1917 spring catalog, Sears encouraged people to use electricity for more than light.

With nearly 99 percent of urban homes powered by electricity by the end of the 1920s, Sears entered the household appliances market and introduced the Kenmore brand. Their first bet came in 1913, when they introduced the Kenmore sewing machine, but the product failed. Their big breakthrough came more than a decade later in 1927 with the release of their first-ever Kenmore washing machine, selling over 1 million units by 1936 (Sears, N.D).

The failure of the Sears sewing machine can be attributed to a number of factors such as timing, pricing, and marketing.



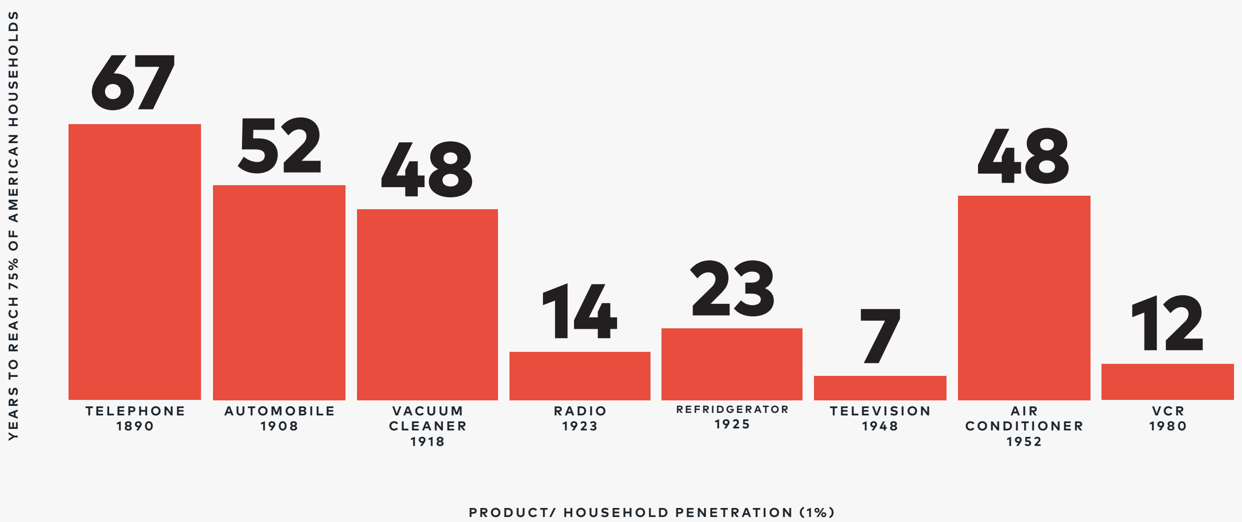
Source: Sears, N.D.

When looking at the nature of the product compared to their successful washing machine, there is one obvious element that stands out–frequency of use. Most people wash their clothes more frequently than they sew new ones or repair old ones. If you look at disruptive companies like Dollar Shave Club, Netflix, Uber, and Blue Apron, you'll notice that they all offer a convenient solution for a service or product of frequent use; people shave, watch movies, take cabs, and eat frequently.

The lesson? Disruption is adoption; to be truly disruptive, a company needs a product that is widely used. Can you Imagine how Uber would look if people only took a cab once a year? This is the essence of convenience–the more you do something, the more valuable convenience becomes.

For more than a century, brands have introduced solutions to make our lives more convenient. In 1908, Ford's Model T was one of the first cars accessible to the masses (Retro Staff, N.D.). In 1953, Swanson & Sons introduced TV dinner, a packaged frozen meal that requires no preparation aside from heating ("Swanson," N.D.). In 2007, Steve Jobs announced the iPhone, perhaps the biggest innovation in convenience since the TV remote control, which brought convenience into our hands.

A look at how long it took different technological inventions to reach 75% of American households



Source: Putnam, 2000

The chicken or the egg is one of mankind's great paradoxes, but not far behind is the convenience vs. quality debate. Facebook offers a convenient way to interact with family and friends, but the quality of these interactions are questionable. Uber is the most convenient taxi service, but rider safety and the professionalism of drivers is an ongoing issue. Airbnb is the most convenient, flexible and affordable alternative to hotels, but the privacy and safety of guests raises concerns. While convenience undoubtedly plays an important role in how consumers evaluate products, there are times when quality matters more. For example, shopping for an engagement ring or wedding dress–things of sentimental value for most people–will result in tired feet and overall exhaustion. However, these occasions are rare and the fact is today's most dominant brands–Amazon, Google, Facebook, Apple, Uber, Airbnb, and Netflix–introduced us to new levels of convenience.

Americans Consume Convenience

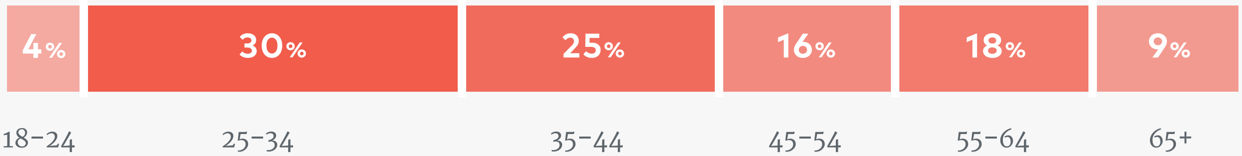
Perhaps the best way to illustrate how much Americans value convenience is in the context of food. When it comes to food convenience is a powerful force–so powerful that Americans are willing to pay extra for it. According to recent research, new food business models capture a five to 25 percent premium for added convenience; on a global level, online grocery commanded a 15 percent premium over in-store purchases, while meal kits were priced 11 percent higher than online grocery, prepared meals cost five percent more than meal kits, and restaurant take-outs were priced 25 percent higher than prepared meals. Most choices we make involve several factors–meal kits like Blue Apron cost more than preparing your own food, but for some, the time saved on grocery shopping and the quick preparation are worth paying extra (Stice and Melnick, 2016).

With an estimated revenue of ~$68 billion in 2018, the U.S. is the largest convenience food market in the world. China and India–countries with a population that's about four times that of the U.S.– take the second and third place with an estimated 2018 revenue of ~$22 billion and ~$20 billion respectively (Statista, 2018). According to Laurie Demeritt, CEO of the market research firm The Hartman Group, "Convenience currently is the No. 1 need articulated by consumers across all eating occasions. American families today spend more hours working, commuting and taking care of children. Even younger generations grapple with stress and anxiety. As a result, consumers are skipping meals, seeking shortcuts and snacking more than ever" (Watrous, 2018).

The story of TV dinners offers a great lesson on how convenience brands reached their peak, eventually loosing to brands that added quality to the mix. When Swanson & Sons introduced TV dinners in 1953, they sold 5,000 meals in the first year and an impressive 10 million meals the year after that (Watrous, 2018). But after 60 years of sustained growth, in 2008 TV dinners began declining in sales. One important reason for this decline is that consumers under 45 are more interested in "freshness." Interestingly, this trend correlates with the rise of new brands like Blue Apron, showing how convenience and quality are stronger together (Ferdman and Quartz, 2014).

Age of Blue Apron Users

The largest portion of customers are in the 25-34 age range followed by 35-44



Based on email survey of Blue Apron account holders conducted in April 2018 with 1,074 respondents

Source: Blue Apron, 2018

Convenience in Insurance

In 2004, GEICO introduced a new way to buy insurance online, making the agent-driven model seem old and less convenient. in 2019, researching and buying insurance online is almost the norm.

Looking at insurance companies as the new threats, however, would be a mistake, as the biggest threat to insurance companies comes from beyond insurance borders. This reality leads to two important questions:

01. **If convenience is the norm, what makes consumers choose one brand over another?**

02. **What happens when brands outside of insurance include insurance in their offerings?**

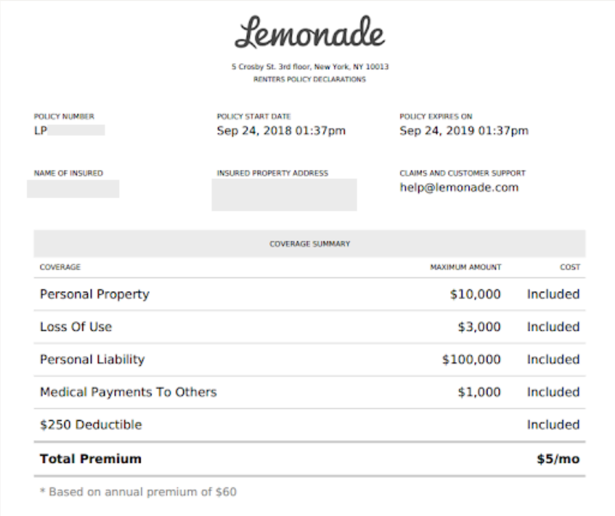
"It All Boils Down to Price"

According to Accenture's 2019 Global Financial Services Consumer Study, which surveyed 47,000 banking and insurance customers across 28 markets in Asia-Pacific, Europe, Latin America, Middle East and Africa, and North America, more than three-quarters of all respondents were willing to share the data required for more competitive pricing. In other words, consumers are willing to give up privacy for better prices.

+75%

of consumers are willing to share data for more competitive pricing

Insurance is a piece of paper with a promise to pay under certain conditions. Some pieces of paper look nicer than others. Some have bigger fonts. And some have more pages.



Lemonade

5 Crosby St. 3rd floor, New York, NY 10013
RENTERS POLICY DECLARATIONS

POLICY NUMBER
LP

POLICY START DATE
Sep 24, 2018 01:37pm

POLICY EXPIRES ON
Sep 24, 2019 01:37pm

NAME OF INSURED

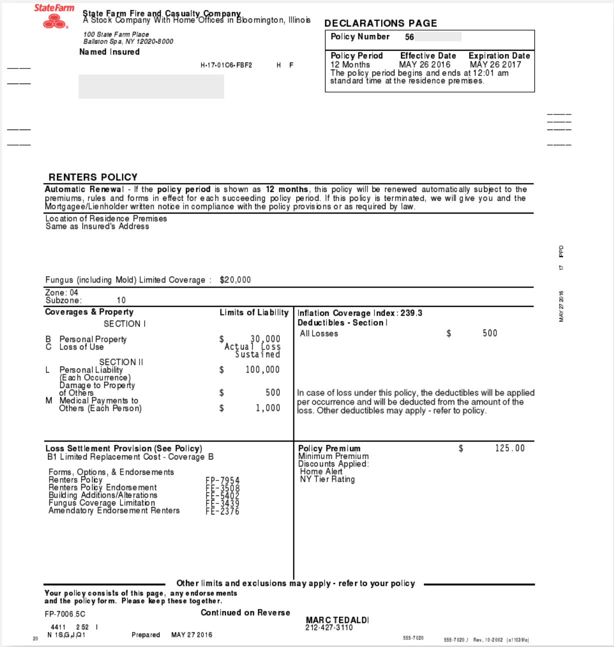
INSURED PROPERTY ADDRESS

CLAIMS AND CUSTOMER SUPPORT
help@lemonade.com

COVERAGE SUMMARY

COVERAGE	MAXIMUM AMOUNT	COST
Personal Property	$10,000	Included
Loss Of Use	$3,000	Included
Personal Liability	$100,000	Included
Medical Payments To Others	$1,000	Included
$250 Deductible		Included
Total Premium		**$5/mo**

* Based on annual premium of $60



State Farm

State Farm Fire and Casualty Company
A Stock Company With Home Offices in Bloomington, Illinois
100 State Farm Place
Ballston Spa, NY 12020-8000

Named Insured

H-17-0106-FBF2 H F

DECLARATIONS PAGE

Policy Number 56

Policy Period	Effective Date	Expiration Date
12 Months	MAY 26 2016	MAY 26 2017

The policy period begins and ends at 12:01 am standard time at the residence premises.

RENTERS POLICY

Automatic Renewal - If the policy period is shown as 12 months, this policy will be renewed automatically subject to the premiums, rules and forms in effect for each succeeding policy period. If this policy is terminated, we will give you and the Mortgagee/Lienholder written notice in compliance with the policy provisions or as required by law.

Location of Residence Premises
Same as Insured's Address

Fungus (including Mold) Limited Coverage : $20,000

Zone: 04
Subzone: 10

Coverages & Property	Limits of Liability
SECTION I	
B Personal Property	$ 30,000
C Loss of Use	Actual Loss Sustained
SECTION II	
L Personal Liability (Each Occurrence)	$ 100,000
Damage to Property of Others	$ 500
M Medical Payments to Others (Each Person)	$ 1,000

Inflation Coverage Index: 239.3
Deductibles - Section I
All Losses $ 500

In case of loss under this policy, the deductibles will be applied per occurrence and will be deducted from the amount of the loss. Other deductibles may apply - refer to policy.

Loss Settlement Provision (See Policy)
B1 Limited Replacement Cost - Coverage B

Forms, Options, & Endorsements

Renters Policy	FP-7954
Renters Policy Endorsement	FE-3508
Building Additions/Alterations	FE-5402
Fungus Coverage Limitation	FE-3439
Amendatory Endorsement Renters	FE-2376

Policy Premium $ 125.00
Minimum Premium
Discounts Applied:
Home Alert
NY Tier Rating

Other limits and exclusions may apply - refer to your policy

Your policy consists of this page, any endorsements and the policy form. Please keep these together.

FP-7006.5C

Continued on Reverse

MARC TEDALDI
212-427-3110

Prepared MAY 27 2016

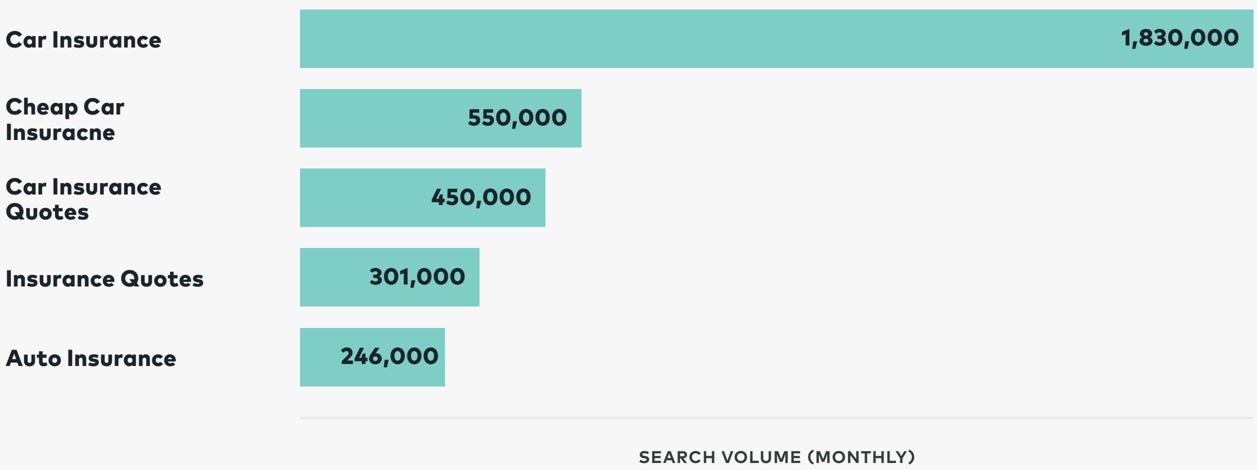
And when everything is essentially the same, it all boils down to price. Spoiler Alert: If the coverage is the same, insurance is the same; price is the only difference. This is especially true since most customers don't get to experience the true value of insurance; between 2012–2016, an average of only 5.92 percent insured homes had a claim.

"When things sound the same, look the same, everything starts to blend in, and when buyers view things as the same, they focus on price when making a decision"

Paul Reilly, President of Reilly Sales Training,
in a series of videos in collaboration with Chubb.

Since price is the most obvious element that stands out, it's no surprise that the most popular Google search terms are either brandless or include the terms "cheap" and "quotes."

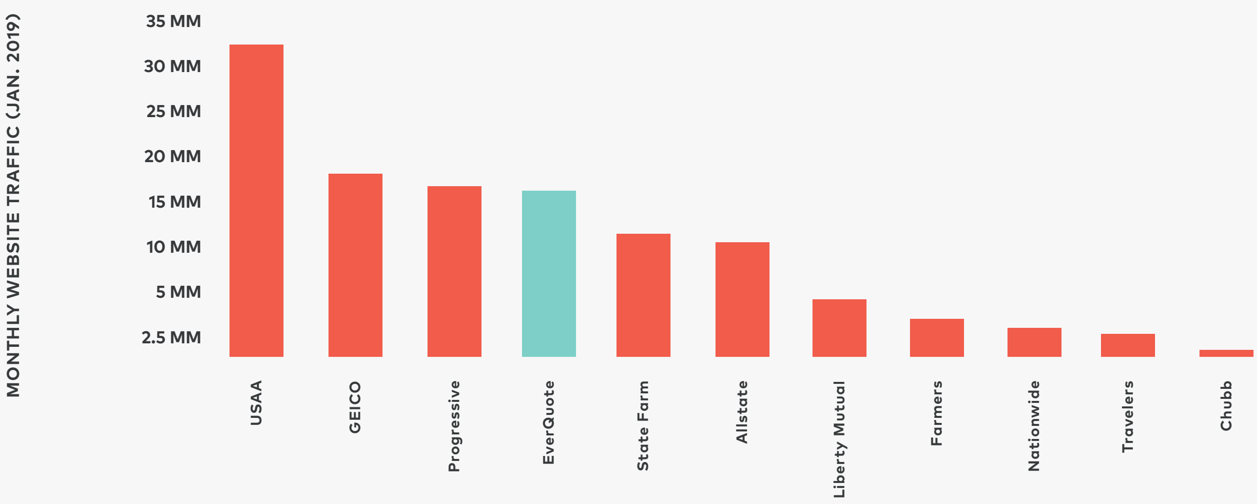
Google Search Volume by Search Term



Source: Coverager, 2018

If that weren't enough, insurance comparison site EverQuote received 15.92 million monthly visits in January, but that alone doesn't tell the whole story. During the same period of time, EverQuote received approximately seven percent of its traffic from Google–where consumers go to search for insurance. This means that approximately 14.8 million visits came from people who were tempted by EverQuote to compare and save (Coverager, 2018).

How EverQuote's website traffic ranks compared to the top 10 P&C insurers in the U.S.



Source: Coverager, 2018

To say that searching based on price is simply a consumer preference is wrong. The top 10 most funded U.S. insurance companies across auto and home deliver a promise to help consumers compare quotes, or save money.

TOP 10

Most Funded U.S. insurance Company Website Taglines

COMPANY	FUNDING	WEBSITE TAGLINE
Metromile	$295.5 MM	Drive less. Save more on car insurance
Lemonade	$180 MM	Forget everything you know about insurance. Instant everything. Killer prices. Big heart
Root	$177.5 MM	Save up to 52% on your car insurance
EverQuote	$121.9 (IPO)	Welcome to EverQuote! The fast, free, and easy way to compare car insurance quotes!
Coverhound	$111.8 MM	Compare insurance quotes today
Hippo	$109 MM	Smart coverage for homeowners. Save up to 25%
Goji	$104.2 MM	Freedom to choose. Finding the right insurance is hard. We make it easy
The Zebra	$63 MM	Insurance in black & white. Compare car insurance from top providers, honestly
Clearcover	$54.5 MM	A smarter choice for car insurance Better coverage for less money
Policygenius	$51 MM	The easy way to compare and buy insurance

Source: Coverager, 2018

But highlighting price isn't a trend just amongst new companies; established ones are also deploying this strategy. Below are Google's first page search results for "car insurance" and "cheap car insurance." Note how most companies use positive terms such as "save" and "discounts" when shoppers search for "car insurance," but use terms related to cheapness when shoppers search for "cheap car insurance."

Meta descriptions of brands that appear in Google's first page when searching for "car insurance"

GEICO	*In just 15 minutes, you could save $500 or more on car insurance. Get a quote! Mobile App*
Progressive	*Get A Progressive Car Insurance Quote & Start Saving! Buy Online Today. Accident Forgiveness. Loyalty Rewards Program. 24/7 Customer Service. Number 1 in Home Quoting. Roadside Assistance. 80 Years of Service. Online Quoting. Snapshot Discount. Safe Driver Discount. Bundle Home & Auto*
Libery Mutual	*Dependable Car Insurance From Liberty Mutual. Get a Free Quote in 10 Minutes! 12 Month Rate Guarantee. Bundle Auto & Home. Convenient Mobile App. Multi-Policy Discount*
Travelers	*With Many Discounts Travelers Could Save You $547 on Avg. Quote Now*
carinsurance.com	*Compare car insurance quotes and find all the information you need to save on your car insurance policy*
Allstate	*Get a free customized car insurance quote today from an Allstate agent. Find auto insurance coverage options, discounts, and more*
Esurance	*Get your free car insurance quote today and see how much you could be saving with Esurance*
The General	*Give us two minutes and we'll give you a free, no-commitment auto insurance quote. Purchase a policy online and we'll provide instant proof of insurance*
State Farm	*Save money with fast free car insurance quotes. Your discounts are calculated automatically, see how much you can save today with State Farm®*
Farmers	*Get a car insurance quote online, or contact a local Farmers agent to learn about auto insurance coverage. The more you know, the better you can plan*
Quote Wizard	*Get the best auto insurance quotes in Queens, NYC. Save up to 40% when you compare car insurance rates in Queens, New York from*
Ratekick	*Find your cheapest New York car insurance rates. Save $540/year when you compare. 60 Second Quote. Fast & Free. Compare & Save 40% Insurance coverage: Auto, Motorcycle, Liability, Collision, SR-22, Umbrella*

Source: Coverager, 2018

Meta descriptions of brands that appear in Google's first page when searching for "cheap car insurance"

Nerd Wallet	*Find the best cheap auto insurance in New York: Compare car insurance companies for free to get the cheapest insurance quotes and*
Value Penguin	*Here are the best auto insurance companies with the cheapest car insurance rates in New York. Click to compare auto insurance rates across companies and*
Nationwide	*Get low rates on auto coverage you can depend on. Learn more about the benefits of Nationwide and get cheap car insurance quotes today*
The Zebra	*Find the best car insurance in New York. Get quotes from the top 20 car insurance companies in New York at The Zebra & save more $ on auto*
Esurance	*Start a free quote for auto insurance in New York, and browse our wide-ranging coverages and money-saving discounts.*
Liberty Mutual	*Cheap car insurance policies help you save in the short-term but they also put you at greater risk for costly out of pocket expenses. Learn more.*
GEICO	*Cheap has a bad connotation. But it doesn't have to be this way. With GEICO, cheap auto insurance means something completely different. It's affordable.*
Merucry Insurance	*Cheap auto insurance doesn't mean you have to compromise on quality. You just need to know where to look and what to look for in an auto policy. Savvy auto ...*
The General	*Give us two minutes and we'll give you an auto insurance quote. It's that easy. Then, if you ... So don't just settle for any cheap car insurance quote*
Ratekick	*Find your cheapest New York car insurance rates. Save $540/year when you compare. Compare & Save 40% Fast & Free. 60 Second Quote. Insurance coverage: Auto, Motorcycle, Liability, Collision, SR-22, Umbrella.*
Progressive	*Use Our Name Your Price Tool To Find The Coverage You Can Afford.*
Insure.com	*Lower Your Monthly Insurance Payment With Cheap Rates From Top Carriers in NY.*

Source: Coverager, 2018

When you take a rarely differentiated product that's sold to a generally indifferent consumer and you highlight price, you can't expect consumers to ignore it.

Price Is a Costly Strategy

When insurance companies advertise price, they set a certain expectation amongst consumers; common things like a rate increase, or better prices by a competitor can get them to switch. A brand must stand for something and that something can't change every six or 12 months.

GEICO's advertising budget and policy growth 2004-2018

Policy Growth

2004 GEICO begins to promote GEICO.com as a new way to buy insurance online.

2007 Broadband internet becomes mainstream with over 50% of U.S. adults subscribing to the service. In 2007 Facebook opened its platform for developers and in July the Zynga Poker game launched and significantly increased the time users spend on Facebook and online. Facebook also introduced Facebook ads – "a new way to advertise online."

2008 Facebook introduces a chat features that helps increase the time users spend on the site and online.

2012 Americans ages 12 to 34 are spending less time watching TV, as they spend more time online.

2017 Nearly half of Millennials and Gen Xers don't watch any traditional TV. Desktop and mobile ad revenue surpasses TV for the first time. 95% of every dollar advertisers spent online went to Google and Facebook.

2018 The 2018 Oscars ratings hit an all-time low, since Nielsen started tracking Oscars viewership numbers in 1974.

Source: Coverager, 2018

Insurance Is Going Behind the Scenes

In a perfect world where all insurance companies are convenient, most consumers will choose a company based on price. But we don't live in a perfect world. We live in a world where digital brands are going beyond their core offerings. We live in a world where adding new features and services mostly requires writing new lines of code.

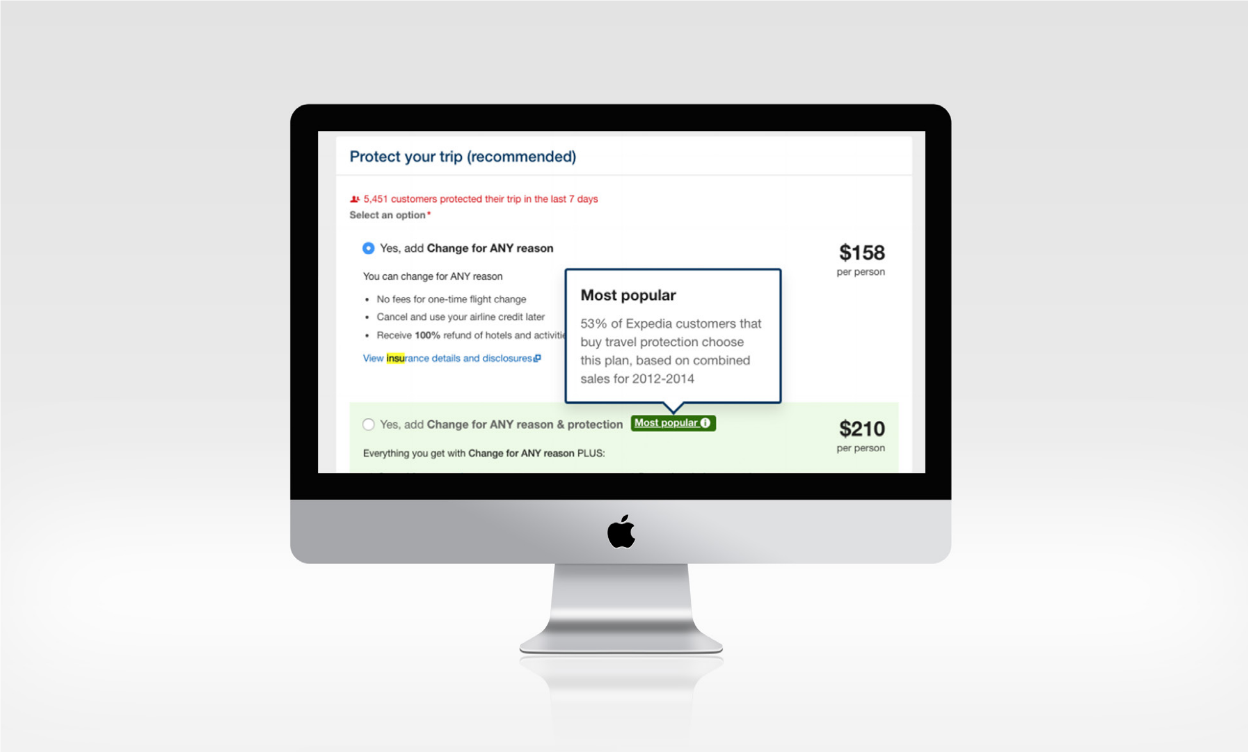
We have discussed how convenience drives innovation and is the foundation of today's most dominant brands. We highlighted how Americans love convenience, especially Millennials, and how its value is most apparent when dealing with products and services of frequent use. But when it comes to convenience, there's more: there are also different levels of convenience to consider.

In 1994, Blockbuster was acquired by Viacom for $8.4 billion and at one point had more than 9,000 stores; twenty-five years later there exists just one last store in Bend, Oregon (Brito, 2019). An estimated 7,795 U.S. retail store closures were announced in 2017, surpassing the previous all-time high of 6,163 store closures in 2008 (Kelley, 2018), the year of the financial crisis. And yet, despite these store closures, we continue to watch movies and shop, as the internet, and more specifically Netflix and Amazon, have presented us with more convenient options.

In the digital race for convenience, insurance companies are lagging far behind. At its core, the insurance product is not a product of frequent use–it was designed to be used in emergency situations only. This means that convenience doesn't deliver a strong effect for insurance as a standalone product, which creates an opening for outside brands to add insurance products to their existing offerings and provide consumers with a level of convenience insurance companies alone can't match.

Last year, Expedia Group selected AIG to become its global travel insurance provider. "Our work with AIG will help more people go places with confidence and with the knowledge that we are looking out for travelers," said Aman Bhutani, President, Brand Expedia Group. "Travel can have disruptions, and together with AIG, we are creating real-time, hassle-free solutions aimed at delighting travelers" (Expedia, 2018).

While buying travel insurance online is a convenient solution, adding it while booking your travel is even more convenient, since you can do it with a click of a button. Literally.



For Expedia, a company that in 2017 spent $5.3 billion on marketing (52 percent of the group's revenue) (May, 2018), offering insurance is a logical move as it provides another source of revenue and a more holistic experience for customers. For AIG, this is a huge win as Expedia claimed a 27 percent share of the U.S. online travel market in 2017 (Schael, 2018).

But Expedia isn't the only one entering the insurance market. More companies are going beyond their core offerings and insurance is a hot commodity. Better, the digital mortgage lender backed by Goldman Sachs has established an insurance agency and so did its competitor, Blend. Yardi, the leading property management software has integrated LeaseLock's alternative for security deposits into its platform, while its competitor, BuildingLink, has a partnership with Lemonade. More auto manufacturers are opting for subscription programs where insurance is included for the duration of the program. Smart home providers are partnering with home insurers and it's obvious which side owns the data. So while insurance companies make their process more convenient, insurance is most convenient when integrated with other products and services, and that's a challenge because there aren't enough partners out there for everyone.

> ***"It's foreseeable that insurance is a much less consumer-facing industry in the future."***
>
> *David Ross Keith, assistant professor of system dynamics, Massachusetts Institute of Technology (Tulis, 2019)*

With all the buzzwords in insurance, every day that goes by companies are losing the right to be consumer-facing brands. In today's age of distraction, you can't compete for consumers' attention with a product that lacks the five basic human senses, isn't meant to be used on a regular basis, is driven by price, and is being cannibalized by major platforms that are looking to please their customers and increase profits.

The Ultimatum: Be the Platform or Get on One

So where does that leave the insurance industry? If convenience won't cut it, and other industries are beating them to the punch, what then? In a digital world ruled by platforms with multiple offerings, insurance companies are left with a clear choice–be the platform or hope to get on one.

> *"There's a tendency, I think, for executives to think that the right course of action is to stick to the knitting–stick with what you're good at. That may be a generally good rule, but the problem is the world changes out from under you if you're not constantly adding to your skill set."*
>
> *Jeff Bezos (Lyons, 2009)*

In the past year, we've seen several insurers add to their skill set as advised by the wise Jeff Bezos. KBC, the Belgian banking and insurance group now lets users buy train tickets, pay for parking, and rent bikes– all through the app. Tinkoff, the Russian bank and provider of insurance products, gives users the ability to use the app for everyday services such as buying tickets to movies and events and it's building an ecosystem of services that include mortgages, car loans, investments, and travel booking. The Belgian insurer Belfius has launched Jaimy, an online marketplace for finding home improvement professionals. OCBC Bank, the Singapore-based provider of banking and insurance products, has launched mumstruly.com, an e-commerce platform targeting mothers and mothers-to-be (OCBC, 2019).

> *"Many say the tech giants are eating our lunch. With mumstruly.com, we intend to wrestle back our share of the pie."*
>
> *Dennis Tan, Head of Consumer Financial Services at OCBC (OCBC, 2019)*

Living in a Digital World

We discussed the different aspects of convenience and how when it comes to insurance, price is still the main driver. We showed how insurance companies are looking to be more convenient, and how some are going beyond insurance, as outside players make their way into the industry. Now it's time to look at the customer.

But before we get into the characteristics of Millennials, we should look at the world they live in–a digital, effortless, and emotionless world filled with temptations where they are kings of the castle.

> *"Understand that Millennials are the ultimate day traders, and that's what's driving changes in food, restaurants, travel, insurance. They're trading up and down and brands don't matter. If your brand isn't unique, you run the risk of being traded out for private-label or a low-cost alternative."*
>
> *Jeff Fromm, co-author, Marketing to Millennials (Pasquarelli, 2017)*

The Digital World: Leveling the Playing Field

In his book *Hit Makers*, Derek Thompson illustrates how distribution has changed. In the 1890s, he explains, a single museum had the power to set an artistic canon. In the 1950s, a handful of television channels had the power to brighten every living room with a vision of the president. Those days are long gone. Today, more people are cutting the cable cord and relying on the internet for information and entertainment. This has created a landscape with so many distribution platforms that can't all be controlled by a select group. "The gatekeepers had their day. Now there are simply too many gates to keep," he concludes (Thompson, 2017).

In the spring of 1996, the Society of Actuaries brought a few panelists to discuss how technology will impact the distribution of insurance and financial services. Michael Levison, one of the panelists, shared his view:

> ***"The impact on the financial services industry I think is going to be particularly significant in a number of ways. One is that it really levels the playing field. In many respects, the Internet is a great equalizer. Small players can be every bit as impressive, available, and visible as large players. If you have good content and good functionality in your site, you have just as broad a reach as a Fortune 500 company, and that has very significant implications. It [the internet] eliminates all geographic barriers. What keeps companies focused on a particular geographic region now because of just the sheer economics of broadening your distribution doesn't apply when it comes to doing business over the web, and so there are going to be many more choices available to consumers" (Levison, 1996).***

Levison was right. On April 25, 2018, micro-investing app Acorns announced the launch of Acorns Later, "the simplest way to open and fund a retirement account" in 60 seconds (Acorns, 2018). By the end of May 2018, the company founded in 2012 announced that 100,000 retirement accounts were opened. During this timeframe, Acorns, which had 3.5 million users, added just 10 employees (Shieber, 2018). On the other hand, in September 2018, Prudential, the 143-year-old company serving ~50 million clients in 40 countries, announced LINK by Prudential, its first direct-to-consumer initiative. "Given where the investing world is going, this makes sense," said Sandler O'Neill analyst John Barnidge, noting that the service is just one piece of Prudential's multifaceted business. "Millennials and other younger people have large purchasing power," Barnidge said, adding that they do not value insurance agent relationships as much as previous generations (Barlyn, 2018). And yet, LINK by Prudential, which offers personalized financial planning and recommendations for insurance, annuities, and investments, is in a major decline when looking at its monthly web traffic (Prudential, 2019). In December 2018 ,the platform received ~143,000 visits, compared to ~11,000 in the month of February 2019 (Similarweb, 2019).

This isn't to say that Acorns, which is valued at $860 million (Rooney, 2019), is anywhere close to Prudential's market cap of ~$42 billion (Prudential Financial, Inc. (PRU), 2019). However, it does show that Acorns is winning the battle for the next generation of customers–Millennials. When launching the retirement feature, Acorns benefited from a wide user base that interacts with their app frequently–sometimes several times a day. And if reviews provide any indication, Acorns' iPhone app has a 4.7 star rating from 370,000 reviews (Acorns Grow Incorporated, 2019), compared to Prudential's 3.0 star rating from 50 reviews for its retirement iPhone app (Prudential Financial, Inc., 2018).

The Digital World: Users > Customers

On May 18, 2012, Facebook held its initial public offering and, at the time, it was the largest technology IPO in U.S. history, raising just over $16 billion at a price of $38 per share. However, many questioned the company's business model. In an article he wrote for Quartz, journalist Christopher Mims asserted that Facebook would never be able to make a significant profit, calling out the company's high expenses compared to low revenue per user, which in 2012 was $5.32 worldwide with approximately 1 billion users, resulting in a net income of $53 million. Mims writes:

"It's hard to explain Facebook's current business model, but here's a reasonable analogy: Facebook is a large, inefficient engine for transforming electricity and programmers into a down-market place to sell low-value advertising. Most of the numbers in its recent earnings report indicate that the company is in a race against various forces merely to maintain its current advertising revenue, and there is little to indicate that the company is going to come up with any fundamentally new sources of revenue anytime soon" (Mims, 2013).

Mims was wrong. In 2018 Facebook's revenue per user was $24.96 with approximately 2.25 billion monthly active users, netting ~$22.1 billion for the full year and trading at a price of ~$167 per share (Facebook, 2018).

In his book *Users, Not Customers: Who Really Determines the Success of Your Customers*, Aaron Shapiro, the former CEO of the digital agency Huge talks about today's most powerful growth engine–users. It took Google approximately three years to turn a profit. It took Facebook approximately five. Instagram, despite zero profits and with a team of just 13 employees, was sold for $1 billion. And WhatsApp, back then a five-year-old money-losing company with 55 employees was acquired for $19 billion (Shapiro, 2011).

What do all these companies have in common? Users. It's important to understand the difference between users and customers. Not every user is a customer and vice versa. Google has more users than customers who enjoy free services like Gmail, Google Maps, Waze, and the use of its popular search engine. Spotify is in the same category–in May 2018, it had 170 million monthly active users and 75 million paid subscribers (Welch, 2018). Amazon and Apple took it a step further by creating paid products (iPhone, Kindle, Alexa) and services (Amazon Prime) that serve as ecosystems to additional products and services. For example, there are customers that buy Amazon Prime just to access Prime Video, but these one-dimensional customers present Amazon with additional revenue sources such as commissions from premium content sold on the platform and having them as an audience for its advertising business. There are additional examples such as Google's Pixel phone, which may be the only money customers will ever pay to Google, but Google will profit from these phone users in other ways. The conclusion is clear: generating users is a long-term strategy that pays off even when financial results suggest otherwise. If the Facebook story wasn't enough consider this: between 2013-2017 Allstate's net profit ($12.25 billion) (Allstate Corp. (ALL), 2019) almost doubled Amazon's ($6.27 billion) (Amazon.com Inc. (AMZN), 2019).

In a digital world where consumers control interactions with a click of a button, acquiring customers is a difficult and expensive task. As previously highlighted, Expedia, which has customers, spent 52 percent of their 2017 revenue on marketing (May, 2018). On the other hand, Facebook, which has users, spent 18.5 percent of their 2018 revenue on marketing (Facebook, 2018).

The Digital World: Effortless & Emotionless

The biggest insurance disruptor is not insurtech, it's the internet. With American adults spending over 11 hours per day listening to, watching, reading or generally interacting with media, companies need to find ways to stand out in a competitive landscape where consumers are in complete control. Kirk Mcdonald, CMO of AT&T Advertising and Analytics explains what this means for marketers:

“I’ve been in the industry long enough where consumers weren’t driving the conversation, the publishers were driving the conversation, distribution controlled what you saw and when you saw it. We’ve watched that change. Now, whether you say the change took place 10 years ago or 15 years ago, some people mark it to the birth of the internet, digital content, the reality is, today, as we engage with consumers it is an engagement. We no longer tell them what to watch, when to watch, or where to watch. We no longer tell them what to read or when they should read it. We actually now engage in a dialogue as that consumer participates in embellishing the content in their own unique ways and they actually filter for the things that are most relevant to them. There is almost infinite information fighting and competing for finite human attention” (Beet.TV, 2018).

It’s important to understand the main differences between online and offline shopping. Offline shopping is all about effort and emotions. For the most part, we shop at select stores near us because we are too tired or lazy to explore further. We shop brands because a brand is a guarantee in a world without online reviews. We may think twice before entering a store just to look around because we know the salesperson might give us an attitude, or even worse, pressure us into buying something. Online shopping on the other hand, is effortless and emotionless. Stores are just a click away. Free shipping, free returns, free trials and online reviews give us a guarantee. And when it comes to emotions, leaving an ecommerce store without making a purchase leaves us feeling guilt-free. Consider this: in the first three quarters of 2018, the average conversion rate of online shoppers in the U.S. was approximately 2.6 percent (Statista, 2019).

2.6% *the average conversion rate of online shoppers in the U.S in the first three quarters of 2018*

Now, let’s talk about loyalty. To return an item we bought offline we have to go back to the store, talk to an employee, and often argue when we are offered only store credit. But when we buy online, all we need is a printer, packing tape, and to take a short walk to the post office. Some retailers even allow scheduled pickups right from our homes. The result? In 2017, customers returned $351 billion of all purchases–brick-and-mortar and online (Appriss Retail, 2017). That’s about 10 percent. But when you look at online purchases only, return rates jump to about 30 percent. For example, Revolve, the online clothing seller, made $400 million in net sales in 2017, but paid out an almost equal amount of $385 million for returns. (Pandey, 2018). As the saying goes–easy come, easy go.

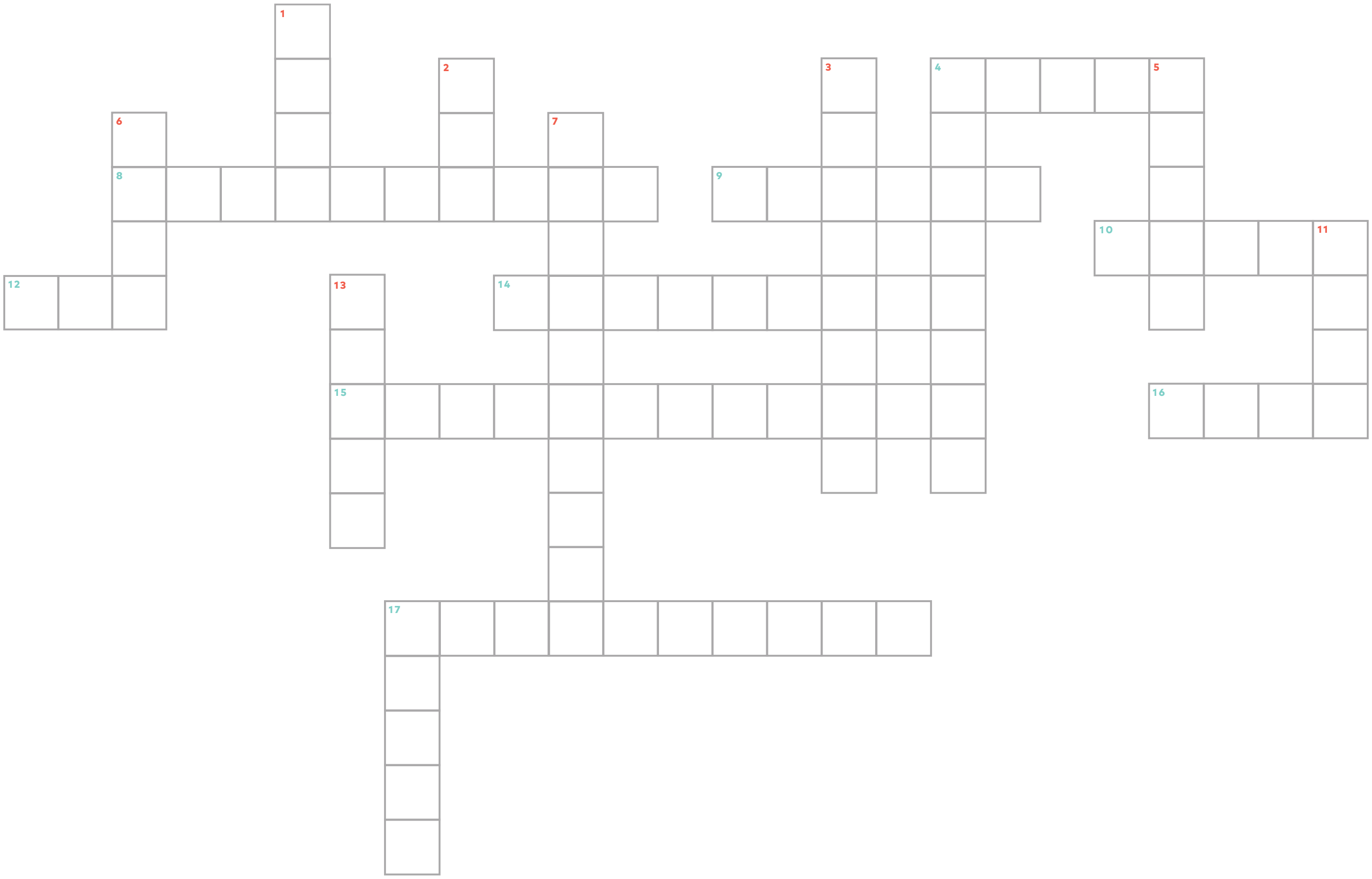
There are, of course, more options on the internet. When shopping offline, more options require more effort like spending more time, or driving further, so unless we’re shopping for a special item like a wedding dress, or a diamond ring, most of us would limit our options. When shopping online, more options are just a click away, and with so many great ones, decisions become harder.

In a study cited in Barry Schwartz's book, *The Paradox of Choice: Why More is Less*, researchers set up two displays of jam at a gourmet food store for customers to sample and try. Each were given a coupon for a dollar off if they bought a jar. In one display there were six jars of jam and in the other 24. The result? 30 percent of people exposed to the smaller selection bought a jar of jam, compared to only three percent of those exposed to the larger selection (Schwartz, 2004). Perhaps this can help explain low ecommerce conversion rates. But even if we do overcome the "paralysis" and make a choice, as Schwartz puts it, we end up less satisfied with the result of the choice than if we had fewer options to begin with, as the abundance of choices makes it easier to imagine we could have chosen better. Maybe this explains why American workers are quitting their jobs at the highest rate since 2001 (Hess, 2018). Sure, you can blame this on ungrateful, spoiled Millennials who can't commit to anything, but Millennials, currently the largest generation in the U.S. labor force (Fry, 2018), are simply taking advantage of convenient options around them that weren't available to previous generations.

"We're seeing high worker confidence in their ability to strike out and find a better job opportunity elsewhere," says Dr. Andrew Chamberlain, chief economist at Glassdoor (Connley, 2018). Do you remember how miserable your job made you feel but you were afraid to quit? Afraid of not finding a better opportunity, or even an equal one fast enough to pay the bills? In the old days people had to mail in their resumes. They had to find time for in-person interviews. With today's technology and options, people have more confidence that they can do better. And as people catch up with technology this reality impacts everyone–young and old–as pointed out by Brian Kropp, VP at Gartner: "Younger employees have always quit at a higher rate. That was true when Gen Xers were in their 20s. That was true when Boomers were in their 20s. That's just a fact. What's interesting, is that we are now seeing employees who are more established in their careers also quitting at higher rates" (Hess, 2018).

Mike Tyson famously said that everyone has a plan until they get punched in the mouth. Unlike Mike Tyson's powerful punches, insurance companies weren't hit with force. But as more consumers start their insurance quest online, and as more platforms make their way into insurance, those little punches will soon have an impact. So what's your plan?

The insurtech tagline crossword puzzle



ACROSS

4 Renters insurance you can customize.

9 Insurance, reinvented to reward you.

8 Simple, smart insurance.

10 Save up to 51% with a new kind of car insurance!

16 Car insurance that fits your life

15 The easy way to compare and buy insurance

14 Life insurance that's actually simple

12 Insurance built around your life

17 Compare with confidence. Purchase with ease

DOWN

1 A new perspective on insurance. Digital. Flexible. Affordable.

2 Home insurance built for You.

3 Car Insurance...Your way.

4 Cover what you love. Pay for nothing else.

5 Insure your life. It's never been easier.

6 Instant, hassle-free insuranec.

7 A smarter choice for car insurance

11 Save up to 52% on your car insurance

13 Smart coverage for homeowners. Save up to 25%

17 Get insurance in a snap.

Designing Insurance for Millennials

Going Beyond Digital

The digital revolution has had an obvious and enormous impact on how businesses operate, on how goods and services are bought and sold, and on consumer expectations. As the generation to come of age alongside the internet, Millennials occupy a unique space in this new world order.

They have both been shaped by and themselves shaped the digital world we now live in. Getting it right with Millennials–the 23 to 38 year-olds who are now the largest generation in the U.S. Labor Force and, in 2019, are set to surpass Baby Boomers as the largest U.S. population group (Fry, 2018)–is essential. And the time is now.

For too long the insurance industry has either ignored Millennials, or worse, bought into stereotypes about Millennials–that they are lazy and entitled, that they are technology obsessed, that they are immature and don't want to grow up. This way of thinking has left insurance lagging woefully behind other industries when it comes to creating compelling solutions and capturing the loyalty of Millennials. And even now, as the insurance industry realizes its mistakes, its still limited understanding of Millennials has lead it down the trap of believing the solution resides purely in technology.

While digital transformation continues to be a worthwhile endeavor, the insurance industry can no longer assume that a digital experience is a differentiated experience. For Millennials (as the generations that succeed them), it is increasingly difficult to differentiate a digital experience from any other kind of experience. This is both because digital experiences have become so ubiquitous, and because the lines between digital and non-digital continue to blur.

In short, when it comes to designing modern insurance that resonates with Millennials, digital is not a differentiator. In the same way that convenience and good prices (both of which can be attributed to what digital made possible) are non-negotiables in this day and age, digital, too, is simply table stakes.

There are a few basic criteria every modern insurance product must meet to be functional and have any hope of succeeding with Millennials. Note however, that meeting this criteria is simply a means of ensuring that a product lives up to the basic expectations of consumers, not a recipe for success.

01. It's seamless and digital.

I can pick up the phone if I want to, but I definitely don't have to. I can do everything I need to on the app or in the web browser.

02. It's convenient.

I can purchase, cancel, make a claim, and get reimbursed online, preferably from my phone and within a few seconds or minutes. I never have to go out of my way.

03. It's affordable.

I don't pay more for this than I would for another kind of insurance offering the same type of coverage.

The digital revolution has shifted the power from companies to consumers. And when consumers have an endless number of choices, and all of them are digital, convenient, and affordable, how do insurance companies stand out?

Differentiating Through Value

As it stands, the industry is not meeting Millennial expectations. According to recent Bain & Company Research, 80 percent of Millennials say they would move their insurance business to new entrants that are capable of creating and delivering more value than incumbent insurers (Brettle, Darnell, Naujoks, Schwedel, and Singh, 2018). To differentiate themselves with Millennials, insurance companies must find ways to deliver more value to Millennials.

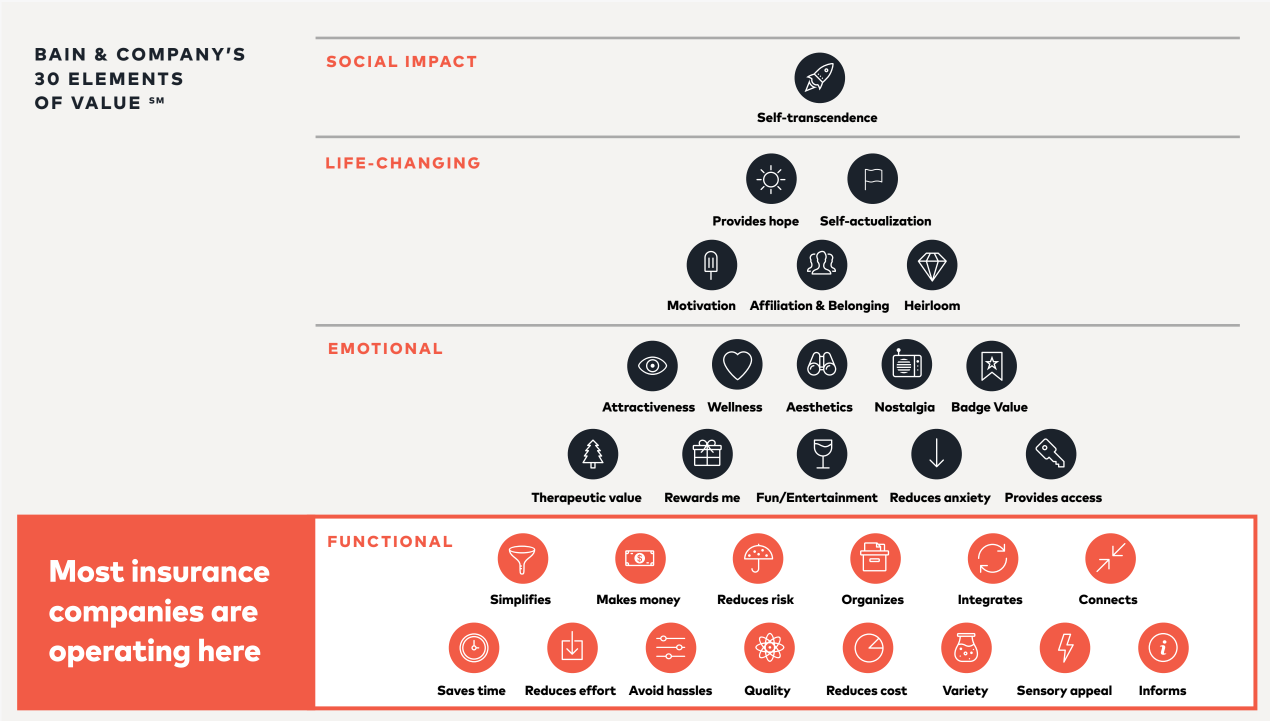
It's a problem the retail industry is grappling with now, as Amazon has made purchasing goods online easier and cheaper. Retail brands and other ecommerce platforms that want to compete with Amazon realize either that they simply can't or that they must figure out a way to offer value beyond price and convenience. To succeed with Millennials insurance companies will need to do the same.

What We Talk About When We Talk About Value

But what is value? Bain & Company's Elements of Value framework helps answer this question.

According to Bain's framework, when consumers are evaluating products or services (choosing between the endless choices now made available to them through the internet) they are going to look at price and perceived value. What does it cost and what do I get for my money? Companies, according to Bain, tend to focus on price as this is something they can easily understand and control. What consumers attach value to, and how much value they attach, on the other hand, is more difficult to quantify.

To help companies better understand the different elements of value and how they are perceived by consumers, Bain identified what they call the 30 Elements of Value and mapped them to four different categories in a Maslow-style hierarchy–functional, emotional, life-changing, and social impact (Bain & Company, 2016).



Source: Bain & Compamy, 2016

The lowest level of the hierarchy (functional) includes value elements that, like Maslow's basic needs, must be met before higher-order values can be accessed. The functional level includes qualities like avoids hassle, simplifies, organizes, saves time–many of the value elements you might associate with convenience. Currently, this is where most insurance companies are focused–on trying to make their products more functional. Some more advanced companies and insurtechs may also operate on the emotional level, offering incentives and rewards, focusing on design and aesthetics, and maybe improving wellness, while very few companies, if any, operate at the highest levels of value–life changing and social impact. To differentiate themselves with Millennials, insurance companies must consider how they can deliver value at these highest levels.

Throughout the past year, Cake & Arrow has done a deep dive into understanding Millennial behaviors, mindsets, needs and values, our goal being to help the insurance industry move beyond digital, convenience, and the functional level of value to design and innovate insurance products that provide more value to Millennial consumers. In undertaking this study, we have surveyed hundreds of Millennials, conducted multiple research events with Millennials in locations across the U.S., and prototyped, designed and user tested insurance product concepts with Millennial consumers. Armed with the knowledge gleaned through this research, our hope is that the insurance industry can create more innovative products and experiences that change the way Millennials think about and experience insurance.

From Research to Innovation

Scope & Methodology

Between May 2018 and January 2019, we conducted five rounds of Millennial research, in three different phases, each with its own explicit goals.

Three Phases of Research

For all three phases of research we recruited Millennials living in the U.S., and borrwing Pew Research's definition of a Millennial, we recruited participants born between the years 1981 and 1996 (Pew Research Center, 2019). For each phase of research, we aimed to recruit a survey panel generally representative of the Millennial population in the U.S., particularly concerning race and ethnicity, age, and gender.

PHASE 1

Survey - Quantitative

PANEL

304 surveyed

Born between 1981-1996

50% female, 48% male

52% urban, 34% suburban, 14% rural

RECRUITMENT METHOD
Survey Monkey, Social Media, Individual Networks

PHASE 2

Workshops - Qualitative: Generative

PANEL

3 workshop groups

1. Austin, Texas
Forgotten Millennials
10 participants,
25-33, no 4-year college degree

2. Orange County, California
Aspiring Millennials
10 participants, 23-29, 4-year college degree or higher

3. New York City, New York
Lampooned Millennials
10 participants
Aged 30-37, 4-year college degree or higher

RECRUITMENT METHOD
Respondent.io

PHASE 3

User Testing- Qualitative: Evaluative

PANEL

26 participants

Ages 23-36

16 women/10 men

From 17 states across the U.S.

RECRUITMENT METHOD
Respondent.io

TESTING METHOD
Remote Moderated User Testing

What We Learned About Millennials

Key Findings: Research Phases 1 & 2

PHASE 1

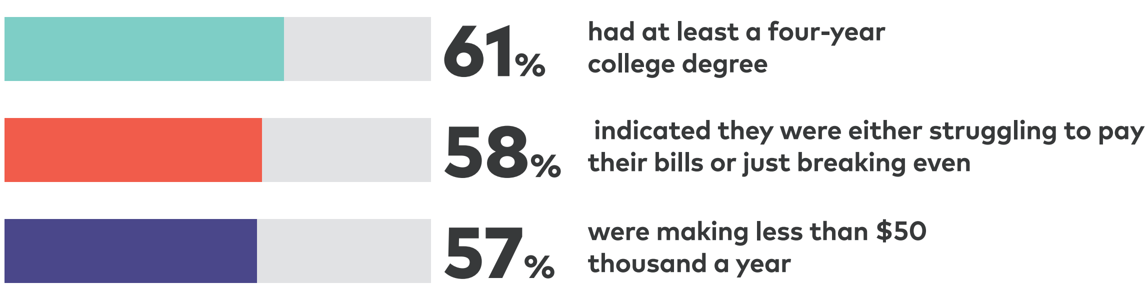
The Insurance Value Gap

For the first phase of research, we conducted a survey of about 300 Millennials. The results challenged many of the presiding stereotypes that the insurance industry and society at large hold about Millennials–painting a more complex and nuanced picture of Millennials to reveal the financial instability, anxiety, and more traditional values that underlie some of the more stereotypical Millennial behavior.

We learned that Millennials:

01. Are highly educated but struggling financially

While Millennials are the most educated generation on record (Pew Research Center, 2019), they continue to struggle financially; a college education not necessarily translating into financial stability. According to our research, nearly the same percentage of Millennials who reported having a four-year college degree also reported either struggling to pay bills or just breaking even (Cake & Arrow, 2018).



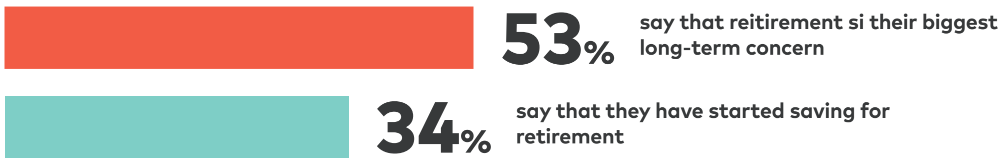
Source: Cake & Arrow, 2018

02. Live in the present but worry about the future

In ranking what they were most concerned about in the short term, the Millennials we surveyed ranked work-life balance the highest trailed by career success. This suggests that while Millennials care about their careers, especially as a means to financial stability, they are reluctant to sacrifice their happiness and wellbeing in the present for the certainty in the future.

For example, 53 percent of the Millennials surveyed reported that retirement was their biggest long-term concern, while only 34 percent reported having any retirement savings, again demonstrating a disconnect between the present and the future (Cake & Arrow, 2018).

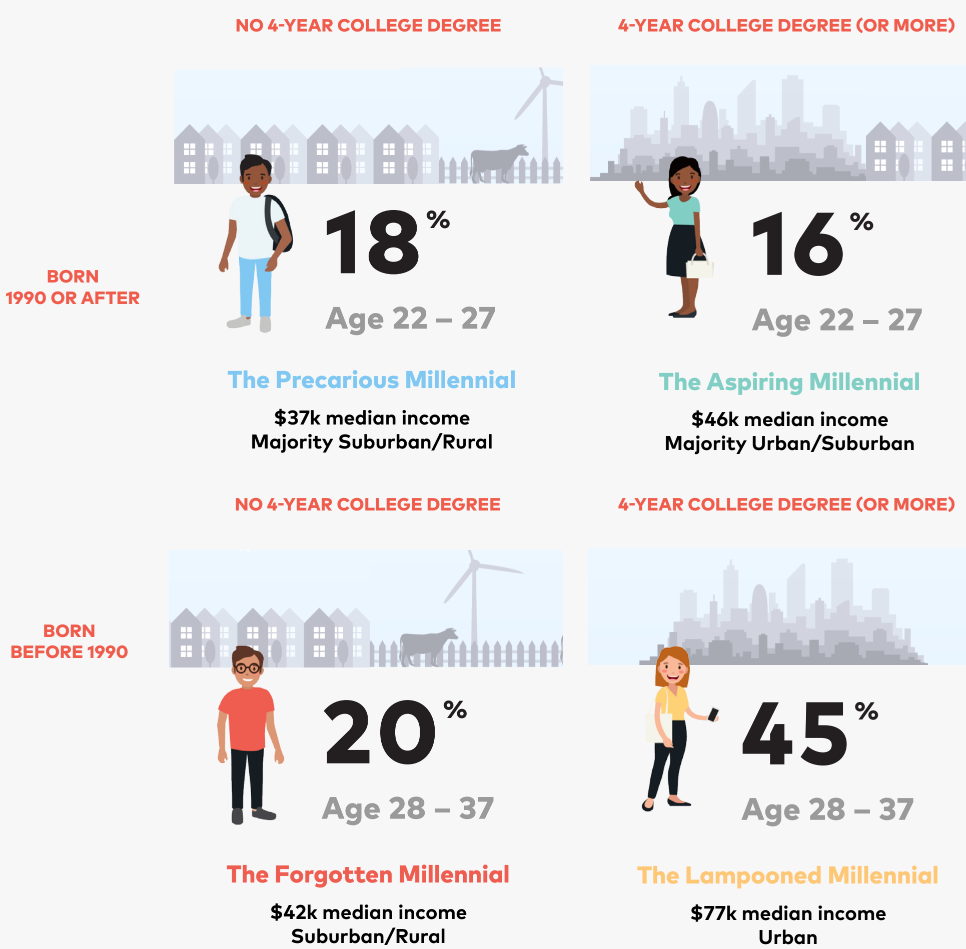
The Savings & Retirement Intention Gap



Source: Cake & Arrow, 2018

03. Are largely differentiated by their age and level of education

Although education is no guarantee of financial freedom or career success for Millennials, our research found that it makes a tremendous difference in their economic situations. One of the most prominent patterns observed in the data was the difference between Millennials of different age groups (those born before 1990 and after) and of those with and without a four-year college degree. Older and more educated Millennials, for example were much better off financially than their less educated peers of the same age group and than younger Millennials with similar educations (Cake & Arrow, 2018).



Source: Cake & Arrow, 2018

04. Hold traditional values but operate on untraditional timelines

As Millennials age into adulthood what we thought we knew about them may not be true anymore. Millennials are waiting longer to get married, have children, and own homes, but it is not because they don't value these things; it's because they cannot afford them (Cake & Arrow, 2018).

When asked what the biggest barriers to achieving their goals in life were, the highest percentages named student loan debt and income, suggesting that the reasons to delay more conventional life milestones may be more about finances than about preferences or convention.

05. See themselves as unique from their parents and other generations

Although Millennials share many of the same values as previous generations, not only are the ways in which these values play out in their lives different, but Millennials perceive themselves as very different than their parents and other generations. While, like their parents, they may value marriage and family or owning property, these things may not yet be a reality of their lives or may look different for them than they did for their parents. They may get married later or for different reasons, for example, or they may choose to buy property in cities rather than suburbs (Cake & Arrow, 2018).

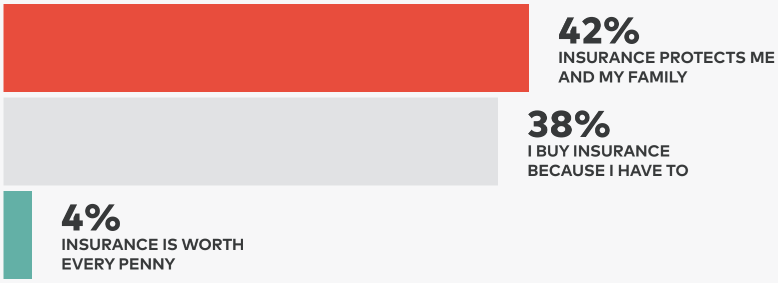
50% *identified where they live as a key difference between themselves and their parents*

KEY INSIGHT

Millennials understand the value of insurance, but they still don't want to buy it.

While popular wisdom says that Millennials don't care about or understand insurance, our research found that insurance is very relevant to the needs and challenges facing Millennials today, and that they are acutely aware of the relevance of insurance to their lives. As a concept, insurance directly addresses some of the key challenges we identified through our research, notably Stability and Financial Security and Uncertainty in the Future. Although insurance addresses these key challenges, our research revealed what we termed "the insurance value gap"–that is, the distance between what Millennials want and need from insurance and the perceived value it delivers.

Percentage of Millennials who agreed with the following statements



Source: Cake & Arrow, 2018

KEY CHALLENGES FACING MILLENNIALS

Stability & Financial Security and Uncertainty in the Future

PHASE 2

Diagnosing Digital Fatigue

Our first round of research left us with more questions than it did answers. In the second round of research the key question we wanted to answer was: *What opportunities exist for insurers to create more value for Millennials, making insurance something Millennials want to buy, not something they have to buy?*

To answer this question required further research. We already knew from Bain & Company's research that meeting the functional elements of value (ie. avoids hassle, simplifies, organizes, saves time) was a part of the equation, but that for insurance to really resonate with Millennials it not only needs to be functional, it needs to be emotional, life-changing, or it needs to create a social impact. Where were the opportunities to do this?

We had a hunch that the key to understanding value might lie in better understanding Millennials *values*–that is, the important and lasting beliefs that influence their behaviors, attitudes, and priorities.

To get to the heart of Millennial values we conducted three 180-minute in-person workshops with various Millennial groups across the nation. The point of the workshops was not to generate data points, but to get qualitative data and co-create with Millennials to solve real problems that we could then test and validate through further research.

RESEARCH APPROACH

Workshops

Each of the three 180-minute, moderated workshops we conducted consisted of the following:

CARD STORMING

A brainstorming activity to find out how participants think about and plan toward achieving their life goals in the immediate, short, and long term.

ALIGNINGMENT

A mapping activity to gain insight into how participants' life goals align with their stated values and priorities.

REFLECTION

Facilated discussion allowing participants to share and reflect on the previous activities and identify how they feel about their progress toward reaching their goals and planning for the future.

CO-CREATION

Group brainstorming, discussion and sketching to help participants identify barriers they face toward meeting their life goals and ideate solutions.

Through this series of activities, we identified three prominent values amongst the Millennials we spoke with:

CORE MILLENNIAL VALUES

COMMUNITY & AUTHENTIC CONNECTION

INTERDEPENDENCY & SOCIAL GOOD

TRANSPARENCY & AUTONOMY

COMMUNITY & AUTHENTIC CONNECTION

Urbanization and social media are Millennial trends that have atomized communities and trivialized relationships. Despite being hyper-connected digitally (through Facebook, Instagram, email and other digital platforms), many of the Millennials we spoke with reported feeling lonely, isolated, and lacking more traditional support networks. They were looking for more authentic ways of connecting with their communities.

INTERDEPENDENCY & SOCIAL GOOD

While Millennials reported feeling isolated and disconnected from their communities, they viewed giving back to others and supporting their communities not only as a means of dealing with burnout, but also as a way of feeling connected with others.

TRANSPARENCY & AUTONOMY

It's not just institutions and businesses that have lost Millennial trust, but technology too. Our research found that Millennials want more transparency into and autonomy over how their data is used, where their money goes, and how their attention is spent. They want to take back control over their digital lives and in turn, their futures.

KEY INSIGHT

Millennials are suffering from burnout and digital fatigue.

Digital plays a paradoxical role in Millennial lives. While it has enabled unprecedented productivity, convenience, and connectedness, it has also left Millennials feeling overwhelmed, overworked, and disconnected from authentic communities and tangible support networks. By the time Millennials reach their thirties, they feel burned out. They are overwhelmed by technology, by the pace of life and the speed at which things change, by feelings that they must do and experience everything, and are overcome by feelings of inadequacy, as if they are not "far enough along" in their lives. In the haste to keep up, their personal lives are taking a toll. Their relationships, their mental health, and their general sense of wellbeing are all suffering.

"It's hard for me to plan for my life beyond five years from now. So much of my time and attention is spent just trying to get through the day."

Jonathon, 31, Cake & Arrow Workshop Participant

Hypotheses Formed:

Given what we learned about Millennial values and about the key challenges facing their generation, we formulated four key hypotheses around their values to inform our design process and validate through testing in phase three of our research.

01. Joining affinity groups based upon values, lifestyle, risks, or interests to purchase insurance will make Millennials more excited about insurance and make them feel like they are a part of something bigger than themselves.

02. Millennials are attracted to the idea of shouldering costs when others are in need if it means they will be taken care of when they are in need. They are accepting of the underlying principles of insurance – that pooling risk is a mechanism not only for keeping costs down for them, but for creating social equality.

03. Giving Millennials a role in defining what they want covered by their insurance will give them a sense of agency and control over their lives and their futures.

04. Giving Millennials insight into exactly how their insurance dollars are being put to use will build trust in insurance and make them feel like their money is being well spent.

Shifting the Paradigm

Solutioning

PHASE 3

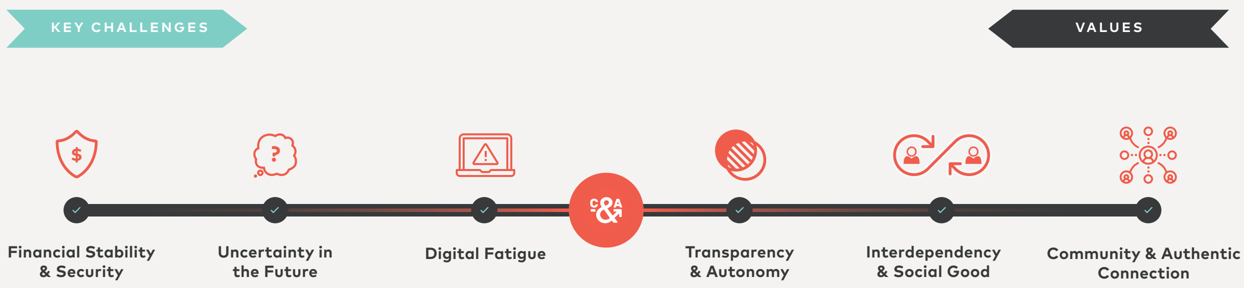
Helping Millennials Think About Insurance in a New Way

Phase three of our research was about designing insurance solutions to validate our hypotheses formulated in phase two. To do so, we needed to design products around the values, challenges, and needs that we identified in phases one and two.

Ultimately, we found that by designing insurance products that not only met the material needs of Millennials, but that also resonated with the values we identified in phase two of our research, we were able to shift Millennials' mental models around insurance to help them think about it in a new way.

Drawing a Line Between Value and Values

Using what we learned in phases one and two, our research and design team set to work solutioning concepts that we could test and validate in the third round of research, with actual users. We wanted our product concepts to solve challenges identified by Millennials, but also to connect with their values:



Surfacing the Community Aspect of Insurance

Using the data we collected during the first two phases of research, both anecdotal and quantitative, we conceived of two insurance products centered around the key challenges and values we identified. More important than the products themselves was how they actually worked. We found that people don't like insurance partly because the security and stability it promises doesn't feel worth the money until something bad happens and the policy pays out. In other words, until something bad happens, insurance feels like a waste of money.

Given what we knew about Millennial values around community and interdependency, we hypothesized that one way we might make insurance more worthwhile in the short term would be to actually show people how the money they pay in claims is used to support other people, even when they aren't submitting claims themselves.

At its basic level, insurance involves groups pooling their money together via an insurance carrier to reduce risk and protect against losses. But in today's model, policyholders are typically unable to see how their premiums are being used to support others in their network. In this sense, insurance appears to be a two-way transaction between a consumer and their insurance company. The consumer pays the insurance company a premium, and if something bad happens, the insurance company pays the consumer money to cover the loss. If nothing bad happens, insurance is a one-way transaction, in which the consumer pays the insurance company and gets nothing in return.

INSURANCE TODAY

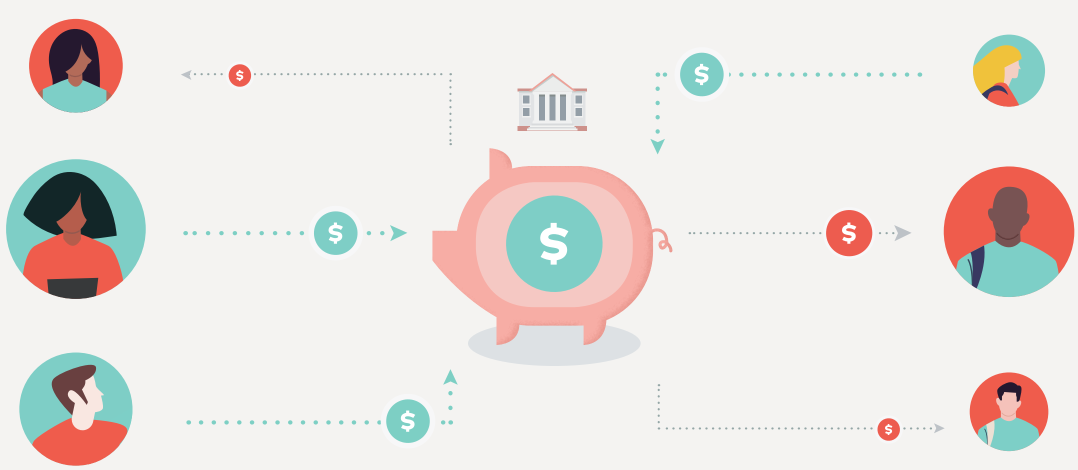
WHAT PEOPLE SEE...

A customer pays a premium to their insurance company, and if something bad happens their insurance company pays them money back. If nothing happens, they see nothing.

...WHAT'S REALLY HAPPENING

A customer pays a premium to their insurance company. The customers money goes into a fund that the carrier redistributes amongst customers as bad things happen.

INSURANCE IN THE FUTURE



WHAT IF INSURANCE WAS MORE TRANSPARENT?

Rather than paying money to their insurance company, customers pay a premium into a fund (managed by the carrier) that everyone in the network can see. Customers can watch money go in and out of the fund, and see how their money is being used to support others in their network.

We wanted to design insurance products that surfaced this community aspect of insurance, making it visible to policy holders. By showing customers how the money they pay in premiums is going to support other members of their "community" (ie. resonating with their values) we hypothesized that we could make insurance more valuable to Millennial consumers, and thus something they don't just have to buy, but something they want to buy.

We wanted whatever concepts we designed to meet the following criteria:

- [x] *Help Millennials in a tangible and material way, even if nothing bad happens*
- [x] *Surface the community aspect of insurance, showing Millennials how the money they pay in premiums is going to support others in their community*
- [x] *Provide flexible coverage for what Millennials really need covered, not just what insurance companies say the need covered*
- [x] *Create value for Millennials by tapping into their values*
- [x] *Turn Millennial customers into Millennial users*

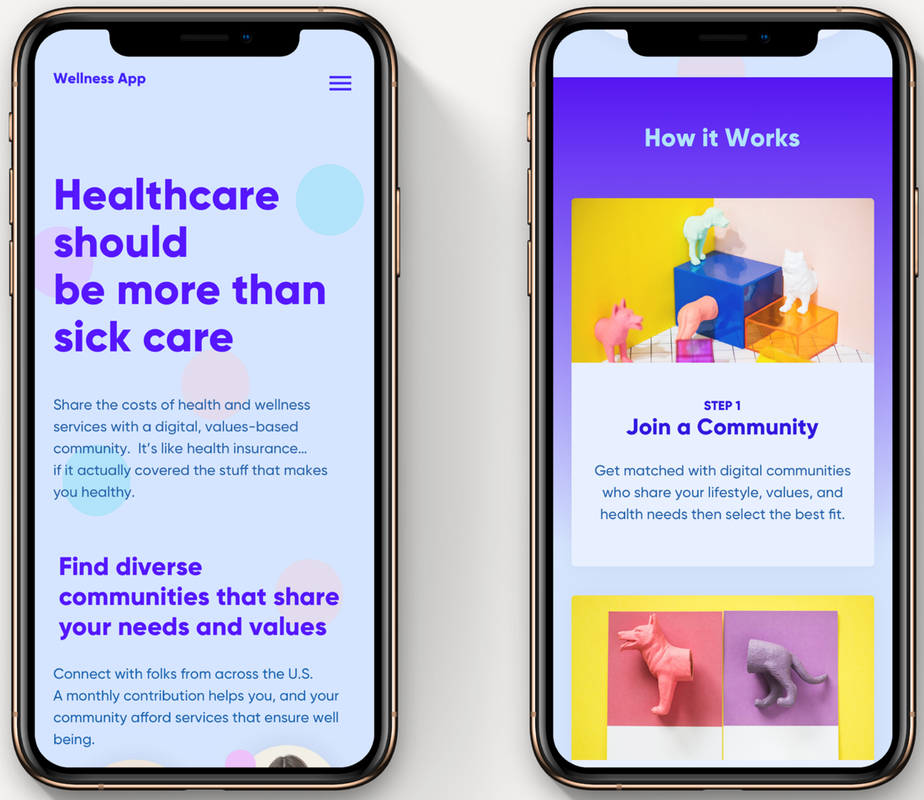
We eventually landed on two insurance concepts to test with users. Each concept addressed a different Millennial pain point identified in our research, but both concepts functioned in the same community-based way, organizing customers into community groups based on values and identities to pool and share risks.

Millennial Insurance Concepts

Wellness App

During the workshop phase of the research, a frustration with accessing mental health services arose repeatedly, even amongst participants whose insurance policies covered such services. Participants felt that what they actually wanted or needed wasn't covered, even though they paid for insurance. This attitude extended beyond health insurance to color participants' attitudes about other kinds of insurance. Furthermore, the prevalence of discussions around wellness and mental health during the workshops made this an interesting area to explore as we ideated and landed on product concepts to test.

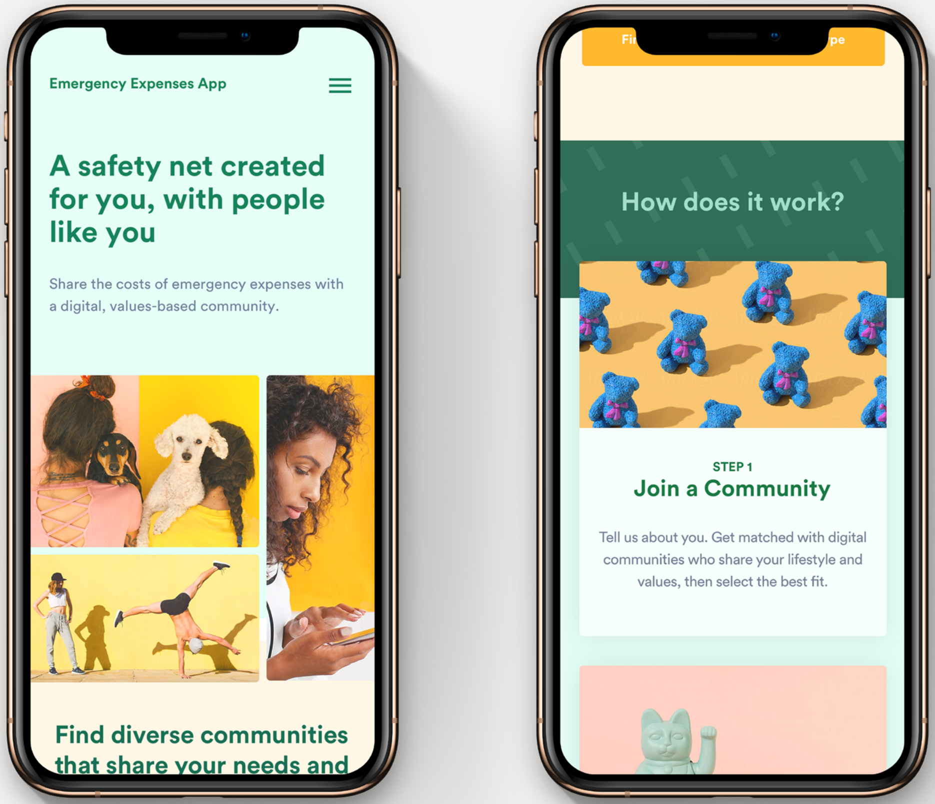
Given what we learned about wellness, mental health, and frustrations with insurance, the first concept we designed was a wellness product intended to make alternative health and wellness services not always covered by insurance more accessible to Millennials–things like mental health services, nutrition services, and naturopathic medicine.



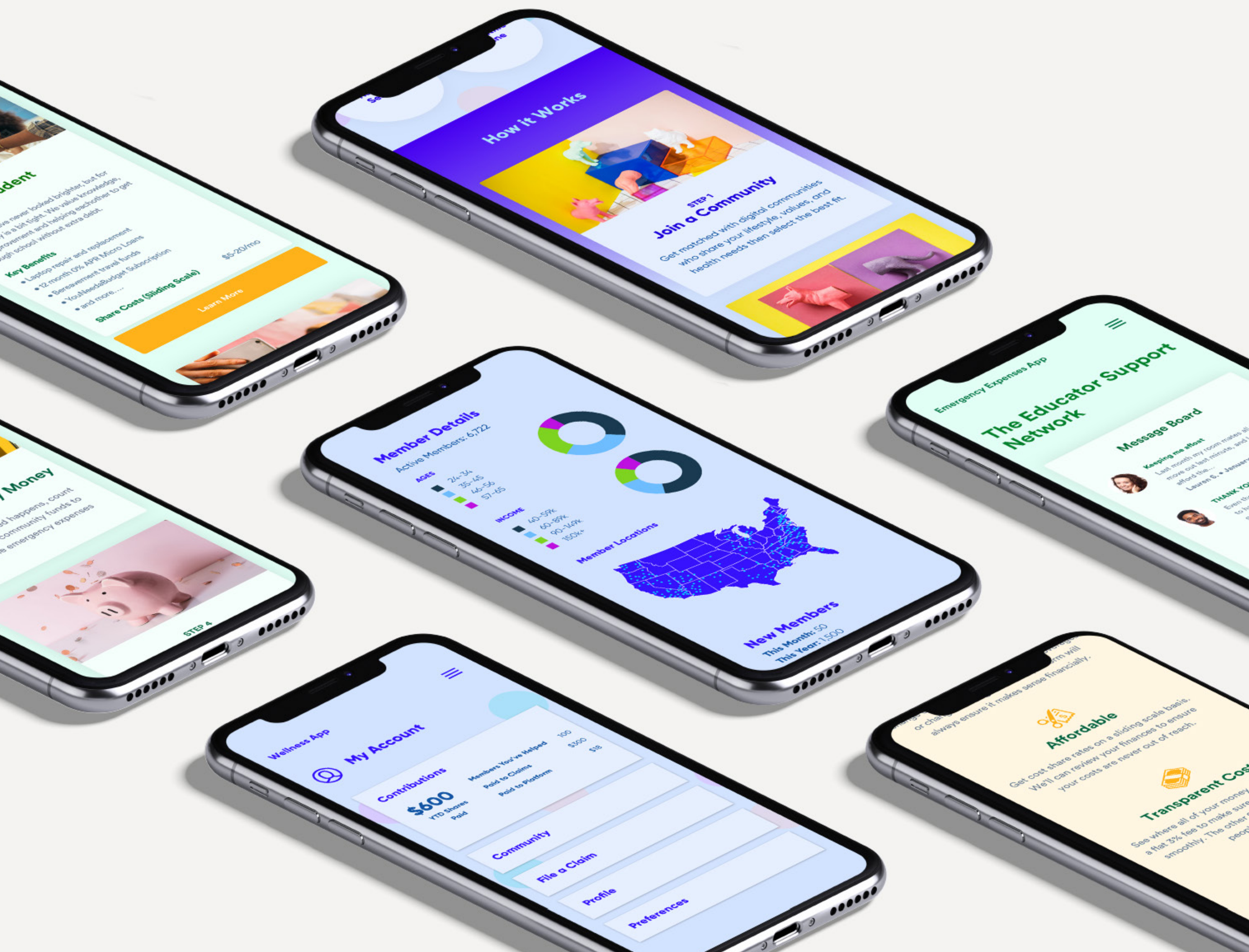
Emergency Funds App

Another issue that arose both in the workshops and in our quantitative survey involved financial stability. Many survey respondents and workshop participants expressed difficulty saving money and planning financially for the future. They often cited unexpected expenses as a key barrier to saving for the future. These findings are backed by a 2017 Federal Reserve finding that 40 percent of adults in the U.S. don't have enough savings to cover a $400 emergency (Board of Governors of the Federal Reserve System, 2018).

Given Millennials stated difficulties when it comes to saving for the future and covering emergencies, the second concept we tested was an emergency funds app, designed to give people access to quick money when unplanned expenses arise–things like bereavement travel, broken phones and laptops, and car repairs might be covered.



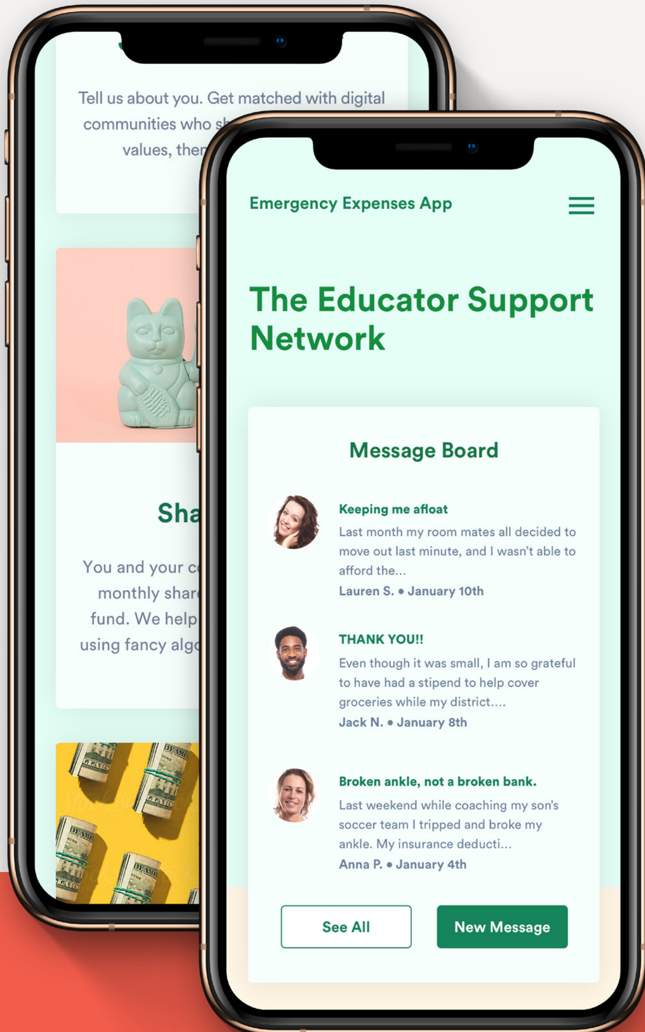
What We Learned



1. Values must be more than a message. They need to be core to the product.

Millennials are skeptical of marketing messages. It's easy to say that a product is community based or peer-to-peer, but until proving it to customers, it's fake news. We created experiences that showed the impact of participation by sharing member stories and exposing the number of members their individual contributions had helped. In this way the community became real for our research participants.

> *"When I first saw community I wasn't sure, but seeing all of this really makes it feel real— like I'm really helping."*
>
> *Cake & Arrow User Research Participant*



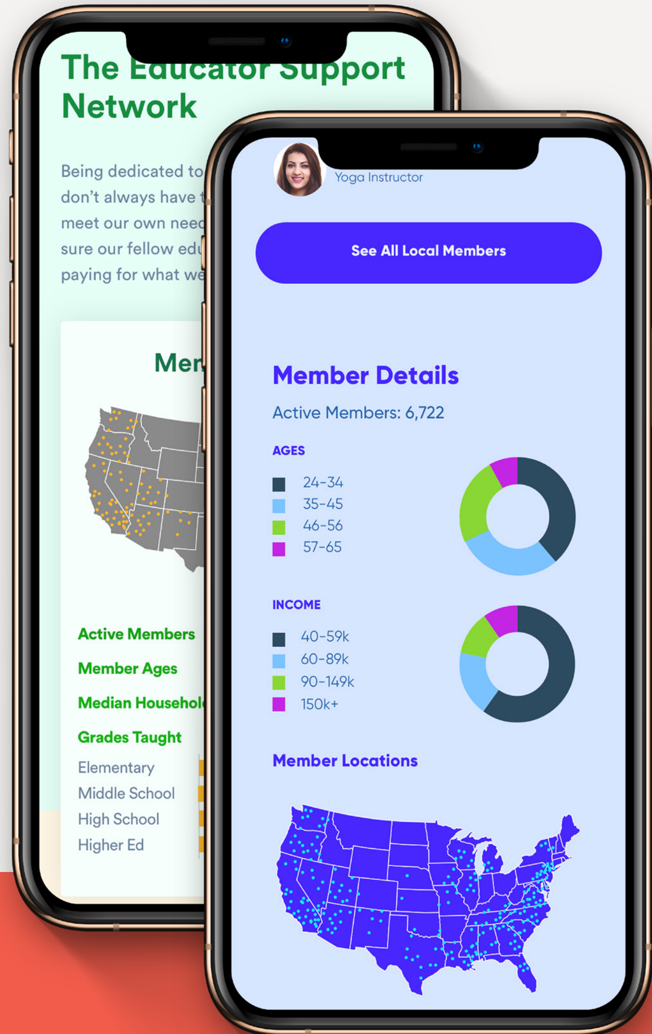
FINDING

Many participants were skeptical of the idea of community at first. Reading community funded was not the same as seeing the community in action. Seeing the impact of their contribution made the service come to life for participants, proving that the community was real, not just a message.

2. Trust is earned, not assumed. Millennials need proof that data sharing is safe and worthwhile.

Millennials are increasingly wary of surrendering data and personal information. To access Millennial data, companies need to first earn their trust, not only by making data sharing valuable to customers, but by giving customers control over how their data is used. We created experiences that made sharing personal information valuable to customers and to the community at large while also providing users options to engage with the experiences without surrendering their privacy.

> *"Can I decide what people see? I'd want to look around and try it out before giving away a lot of personal details."*
>
> *Cake & Arrow User Research Participant*



FINDING

Participants wanted detailed information on privacy controls prior to signing up. Once they saw the value of sharing data and personal information and realized that they were in control of what was shared, they were happy to exchange information, and enjoyed the insights provided by the community.

3. Shared identity is a basis for trust.

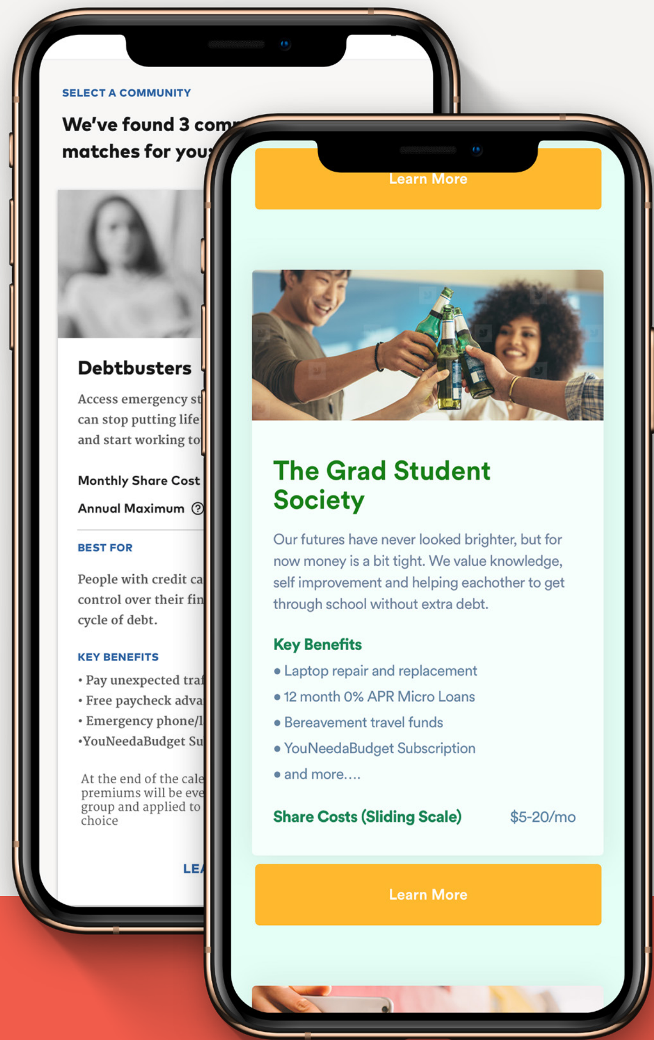
Millennials are more willing to share costs when they know their money is going toward people who share their values. The more we connected products and services to aspects of a customer's identity, the more people felt good about sharing costs with others in their community group.

"I would definitely trust other graduate students to use this responsibly."

Cake & Arrow User Research Participant

It's cool that you can customize it toward the group. If you're going to be part of a group it can't be generic. People have their own sets of problems and needs."

Cake & Arrow User Research Participant



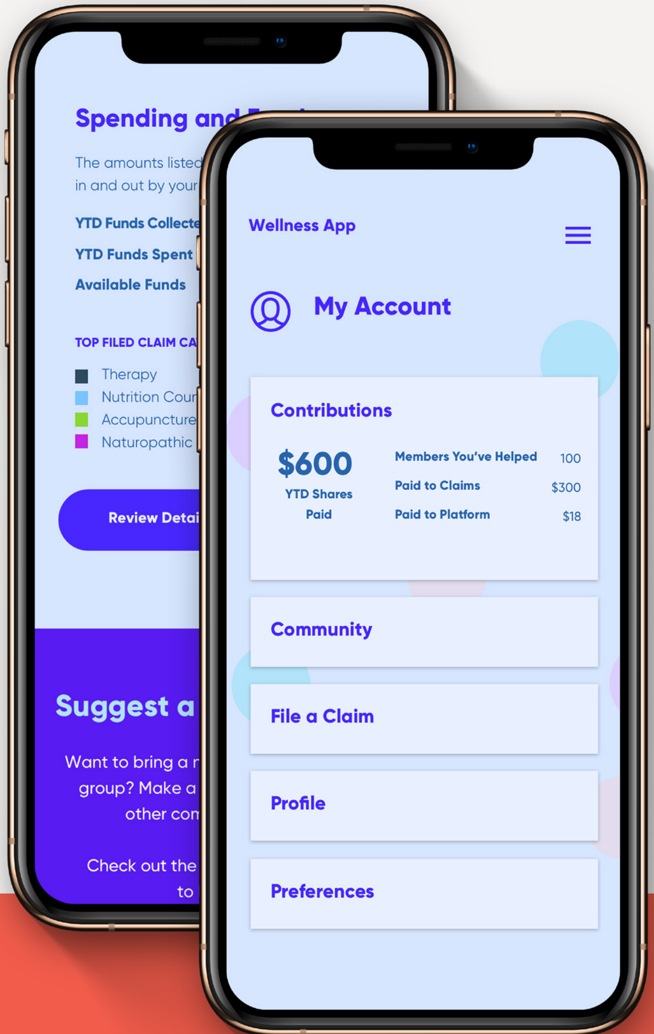
FINDING

In our first round of research, communities were based on benefits for specific financial profiles. This type of community did not resonate with our participants. In our second round of research we customized the communities to connect more deeply to values and identities. Participants were engaged, excited, and overwhelmingly more positive.

4. Helping others makes insurance feel more worthwhile.

Millennials find value in helping others. Traditionally, insurance only delivers value when something bad happens. By surfacing the community, insurance "pays out," whether something bad happens or not. In the experience we designed, the more users were able to see how their money was being used to support the specific needs of others in the community, the more positive they felt about the product.

> *"It's the fact that you can see the number of people you've helped... That helps with the difference between the money you've put in and what you needed covered throughout the year. Just knowing that you've been helping that number of members makes it more worth the money."*
>
> *Cake & Arrow User Research Participant*



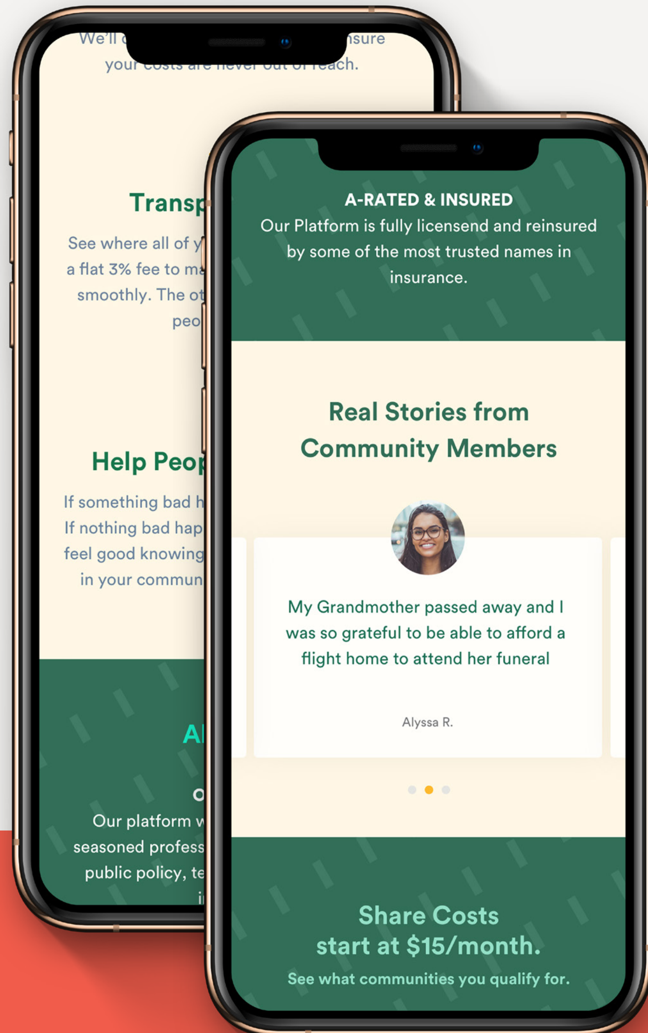
FINDING

Participants saw value in helping others, even if they weren't going to use the coverage themselves. Helping others made our participants feel good, and that provided value in and of itself.

5. Sharing with others combats digital fatigue and makes Millennials feel more connected.

While intended to combat loneliness, digital connectedness makes Millennials feel isolated and alone, oftentimes trivializing their connections to other people. Having a community with shared values that depends on you in a tangible way, and one that you depend on in return, tethers you to the real world and makes you feel like you matter.

> *"This is interesting because it's not all about you. It's good because it lets me help others even when I don't need to help myself."*
>
> *Cake & Arrow User Research Participant*



FINDING

Knowing they were making a material impact on their community helped participants feel more connected and less self-absorbed and gave participants a sense of solidarity with the community members.

Ultimately our research confirmed that by finding ways to connect with the higher-order values held by Millennials – community & authentic connection, interdependency & social good, transparency & autonomy–we were able to climb Bain's values hierarchy and in turn make insurance more valuable to Millennials. When we designed insurance to be community-based, it provided value beyond peace of mind; it became an empowering means of engaging in community, making people feel both important and suppoted–changing the way Millennials thought about insurance.

"This is a very cool idea. It's like modern-day insurance."

Cake & Arrow User Research Participant

"With the community aspect and the ability to make your voice heard in regards to what's covered, it's really unique. It's not something I've seen before."

Cake & Arrow User Research Participant

Modern Insurance: Macro, Meso, Micro

Conclusion

As insurance companies continue their journey toward making the unprecedented convenience and competitive pricing enabled by digital technology the status quo in insurance, they will be compelled to find new ways of differentiating themselves, particularly with Millennials and future generations. While technology will continue to be an essential tool for doing so, it cannot be an end in and of itself.

From a technological standpoint, there is little that will impress Millennials. Coming of age alongside the internet, they have seen the world completely transformed by technology, and they expect that this transformation will be ongoing. With so many companies, apps, and devices competing for their attention, many are disillusioned by technology and suffering from burnout and digital fatigue–making the transformation work of insurance companies, who are already lagging behind digitally, that much more challenging.

To capture Millennials, insurance companies must abandon the idea that the key to unlocking the Millennial market lies in technological innovation. Instead, they must look to better understand the cultural, social, political, and economic context in which Millennials have come of age and create experiences (not simply products) for Millennials that deliver value at the highest levels - emotional, social, personal/interpersonal, and life changing.

To do so, however, first requires that the industry works harder to meet the basic expectations of Millennials. This means ensuring that the products they they sell to Millennials actually work–claims get paid and coverage is reasonable. It means that these same products truly address the real needs and lifestyles of Millennials, whether this means enabling options like on-demand pricing on existing products or designing entirely new products around emerging risks. Finally, it means ensuring that all experiences Millennials have with insurance are empowered by modern, best-in-class technology to ensure seamless, effortless user experiences. Meeting these basic expectations is the foundation of modern insurance, and a prerequisite for any insurance company who seeks to go beyond the status quo to truly differentiate themselves.

For companies who want to change the way that Millennials and future generations think about and experience insurance, consider the following:

01. Macro.

In the old days there were boundaries. Car manufacturers would sell cars. Banks would stick to pure banking products. And one of the first online book stores just sold books. But things have changed. Car manufacturers now offer insurance via subscription plans. Digital banks offer new products and services to help people and businesses manage their money and reach their goals. And the online book store offers a lot more than just books. To stay competitive in a world of diminishing boundaries, insurance companies must explore new products and services beyond insurance.

02. Meso.

The online insurance landscape is uber competitive with very little to distinguish one company from another. One way to stand out is to stand up for something. Following the Vegas shooting in 2017, Daniel Schreiber, the CEO of Lemonade, took to LinkedIn to detail how the company planned to revise their insurance policies to take a stand for stricter gun control, excluding assault rifles from coverage, and adding additional requirements around the storage and security of other weapons. Speaking out on the issue of gun control was a surface way to garner the support of a certain type of customer, but actually revising their coverage demonstrated a commitment to a certain set of values, and offers an example of how companies can secure customer loyalty. The following page illlustrates this, showing the company's most popular LinkedIn posts to date.

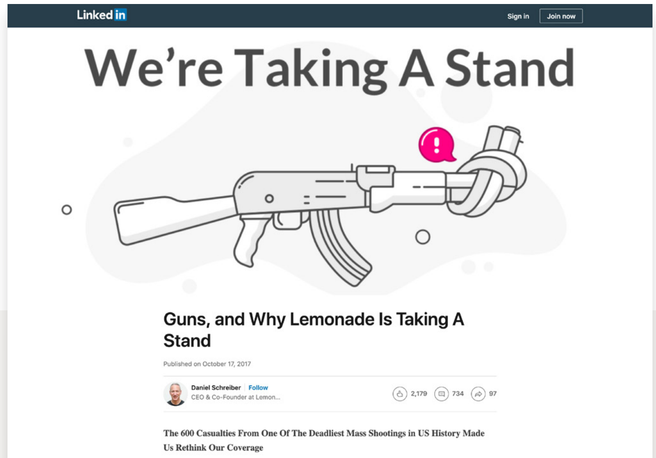
03. Micro.

Personalization in insurance is witnessing an upgrade. Several new entrants start out as specialists; they target a micro-audience; insurance for concert goers, good drivers, the health conscious, first-time renters, moms-to-be, professional freelancers, yoga instructors, skiers, etc. Clearly, this is personalization that goes beyond conventional segmenting. In sum, digital means one thousand ways to package and sell a product, and if there's one thing to learn from Tiffany & Co.–it's how to package a product. And while packaging is of the utmost when it comes to acquisition, when it comes to loyalty what's inside the package is what really counts. Insurance companies need to figure out personalized ways to package products, while also finding ways to personalize the products themselves, making the experience of the product, not just the packaging, feel autentic.

Lemonade's Most Popular LinkedIn Post to Date

The Most Popular Post

10/17/2017
GUNS, AND WHY LEMONADE IS TAKING A STAND
2185 Likes
735 Comments



Other popular posts

1/5/2017
LEMONADE SETS NEW WORLD RECORD
4958 Likes
314 Comments

12/20/2017
THE WORLD IS FLAT. INSURANCE IS ROUND
1302 Likes
113 Comments

5/16/2018
WORLD'S FIRST OPEN SOURCE INSURANCE POLICY
1108 Likes
113 Comments

6/7/2016
FACEBOOK EATS INSURANCE
681 Likes
90 Comments

1/8/2018
WORLD'S FIRST OPEN SOURCE INSURANCE POLICY
942 Likes
51 Comments

6/20/2017
LEMONADE'S CRAZY MARKET SHARE
643 Likes
96 Comments

9/5/2017
WHO'S THE #1 LEMONADE COPYCAT?
789 Likes
52 Comments

4/3/2018
PRECISION UNDERWRITING
439 Likes
13 Comments

12/8/2015
LEMONADE: THE FIRST P2P INSURANCE COMPANY
164 Likes
59 Comments

11/29/2018
EUROPE, WE'RE ON OUR WAY!
315 Likes
37 Comments

11/14/2017
LEMONADE'S THANKSGIVING 2017 TRANSPARENCY CHRONICLE
307 Likes
22 Comments

2/16/2017
LEMONADE: SAVING 80% IN 90 SECONDS?
260 Likes
25 Comments

7/11/2017
TIME TO GIVEBACK!
239 Likes
24 Comments

3/8/2017
WHY I TIED MY HANDS
227 Likes
32 Comments

2/24/2016
THE HONEST TRUTH ABOUT DISHONESTY
99 Likes
35 Comments

1/24/2018
2017 EDITION TRANSPARENCY CHRONICLE
187 Likes
11 Comments

9/20/2018
TWO YEARS OF LEMONADE: A SUPER TRANSPARENCY CHRONICLE
178 Likes
15 Comments

1/12/2016
IT TAKES OXYMORONS TO MAKE AN A-TEAM
68 Likes
24 Comments

5/17/2016
WORLD'S ONLY PUBLIC BENEFIT INSURANCE COMPANY
105 Likes
16 Comments

Source: Coverager, 2018

About the Authors

CAKE & ARROW

About Cake & Arrow

Cake & Arrow is a customer experience design and innovation company that works with organizations in the insurance industry that are striving to create authentic and meaningful relationships with their customers.

To learn more about how Cake & Arrow can support your initiatives, visit cakeandarrow.com or email biz@cakeandarrow.com.

coverager

About Coverager

Coverager is the go-to source on insurance innovation that both creates and curates coverage on the most pressing topics relevant to insurance executives, focusing on areas such as technology, strategy and alternative distribution by offering custom research and analysis with a creative tone for companies that want to learn from the past and understand the present to better bet on the future.

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