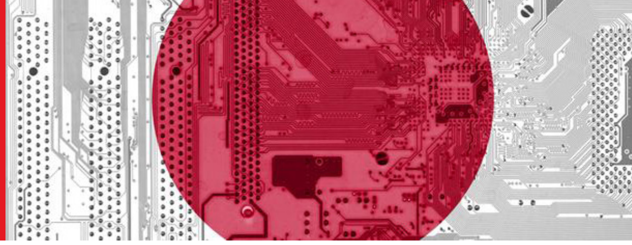

Innovating Within a Technological Revolution

Haruhisa Takahashi
Executive Director
Head of Blue Sky
RGA Japan

What is innovation? Many differ on the best definition. Joseph Schumpeter, the Austrian-born economist, popularized the term "neue Kombination" (new combination) as part of his famed Economic Theory of Innovation. For Schrumpeter, innovation occurs when "the means of production, resources, and labor in the economic activities are combined in a different ways." Wikipedia, a commonly used online encyclopedia, provides an easier-to-understand explanation: innovation is "the result of a process that brings together various novel ideas to create new value… introducing broad changes in… organizations and society."

Either answer could aptly describe the Japanese life insurance industry over the past twenty-something years – and perhaps the industry's future. The rise of "big data" and sweeping technological advances in health and medicine are introducing new investment possibilities and competitive threats. Fortunately, Japanese life insurers have plenty of experience designing – and combining – solutions to address market challenges.

Life Insurance and Insurtech

The pace of change seems destined to accelerate as "insurtech" disrupts Japanese life insurance. Insurtech refers to a family of technologies and can include digitized information, internet-connected devices ("Internet of Things"), wearable technologies, and artificial intelligence and robotics. Japanese life insurance companies have established internal innovation centers or launched business alliances to bring these technologies to the mainstream.

The challenge? Seeing what's next. Insurers must determine how to evaluate success based on an unknown future possibility, factor in the risk of failure, and establish realistic expectations. Innovators fail frequently, and innovations can emerge from entirely unexpected directions. It can be very challenging to evaluate an appropriate return on investment.

Innovation is Life Insurance?

Nomura Research Institute Consultant Tomota Terada suggests a different way of thinking about investment in innovation. For Terada, it should be viewed as a form of corporate life insurance. In other words, investment in innovation is an important component of any growth strategy because it is a way of planning for an unforeseeable competitive threat to survival.

Alternatively, such investment cannot be based on past experience, yet it is often confused with Kaizen, the art of continuous improvement. True innovation is not about incrementally improving efficiencies based on small improvements to existing practices, but planning for an unknowable future.

Healthy Aging in Japan

The Japanese government's emphasis on encouraging healthy aging provides a strong tailwind to support insurers' continued investment in innovation. The "Japan is Back" growth strategy, approved in a 2013 cabinet meeting, revealed a 10-year gap between the number of healthy years and average life expectancy. While many elderly Japanese are living longer, they may not necessarily be living better.

Japan's official healthcare policy sets numerical improvement targets for 2020 and 2030 and refers to "the creation of new industries related to healthcare" and "digitization and information and communication technologies (ICT) related to healthcare and long-term care" as specific initiatives. The policy also targets the "prevention of severe lifestyle diseases" and encouraging wellness. Combined, these goals could support and even dictate life insurers' strategies, encouraging insurance products linked to wellness programs and promoting responsible use of healthcare data.

Big Data

We still have a long way to go, and many uncertainties surround data access for private companies. Still, it seems natural for life insurance companies to use various types of third-party information. After all, in the era of the Internet of Things, more and more information is digitized and more and more devices in our daily lives are connected. This data about our preferences is already flowing freely.

Underwriting advances in the United States may present one path forward. Regular health check-ups arranged by employers for employees are less common in the United States. Generally, fluid tests are conducted as part of a life insurance application process. In recent years, life insurers have replaced such tests with motor vehicle records, prescription drug histories, or individual credit data as a means to gauge risk. Access to this data is granted as part of the application process. Use of this data can simplify the application process and speed the time required to deliver an underwriting decision for both applicants and insurance companies.

Japanese life insurance companies may have to invest more in new ideas and the outcomes will always be uncertain. Still, it is necessary for insurers to proactively invest in innovation to survive.

As Panasonic founder Konosuke Matsushita once said: "*what success means is to keep trying*". ■