

Advisory topic: Mass Customization

Industry Maturity Index: ‘*Now*’, ‘*Short-term*’ (1-2 years), or ‘*Long-term*’ (3-7 years or more)

Why this is important: The idea or concept of mass customization is not new. However, with advances in technologies in areas such as digital manufacturing, Big Data and even social media mass customization is going mainstream. The ACT Changing Nature of Risk workgroup feels that Mass customization will change many aspects of doing business; Marketing, product development, as well as changing the nature of manufacturing and product and service delivery.

Today’s consumer is demanding products and services that are tailored to their individual needs. Thus, this insurance industry must adapt to this new reality. Insurance products themselves will need to become customizable - no longer does one size fit all.

New business models such as Uber and Airbnb (the sharing economy) are also driving the need for customized products. The focus on differentiating individual markets can result in usage-based products and pricing, allowing companies to price, package and sell in a variety of ways.

What is it? Mass customization is the new frontier in business for both manufacturing and service industries. At its core is a tremendous increase in variety and customization without a corresponding increase in costs. At its limit, it is the mass production of individually customized goods and services. At its best, it provides strategic advantage and economic value. - *Wikipedia*

New business models such as Uber and Airbnb (the sharing economy) are also driving the need for customized products. Emerging insurtech companies are offering usage-based products and flexible pricing, from Lemonade to Metromile.

At its core, mass customization creates tension – between technology and stability, between efficiency and creativity. This is a call-to-action for successful businesses.

Broad Implications / Uses: This has applications across many spectrums of our lives;

- Digital Manufacturing/3D printing - on demand manufacturing
- One to One Marketing
- Big Data
- 3D Printers
- The ability for companies to create the main structure of products, and allow other companies create modules to enhance (think of Google, Samsung, or Apple for smartphones)
- Other examples around Mass Customization for “usage based insurance risks” could include Uber drivers, Uber passengers, etc.

EXAMPLE: Companies like Amazon and Alibaba generate ‘storefronts’ from millions of manufacturers, allowing customized shopping experiences.

Economic Impact(s):

- Empowers rapid distribution by segments of the supply chain.
- Lowers search and overall costs for buyers.
- Encourages superior service.
- May replace the need for some segments of the traditional supply chain such as the Wholesaler and Retailer, by allowing the Customer to connect directly with the Producer.

Insurance Industry Implications: Mass Customization can have positive and negative impacts to many areas of our industry. Mass customization efforts within the Property/Casualty insurance marketplace can be enhanced and refined by utilizing new data sources and applying predictive analytics to improve accuracy in identifying and targeting the most appropriate potential stakeholders for specific types of policies, coverages and endorsements.

- Positive Impacts
 - Done well, Customization drives loyalty.
 - Agencies will have far greater opportunities to specialize and set themselves apart from traditional sales-and-service agencies.
 - In essence, each customer becomes their own market, allowing them to become more expressive on their needs and desires.
 - Creates more demand for a company's products and services and less of a need to market on price.
- Negative Impacts
 - A greater focus and time investments is needed to understand customer expectations, as well as implement responses.
 - There will be a greater need for outside experts with an understanding of the insurance culture.
 - All partners within our distribution channel will need to be able to leverage the background technology platforms
- Indeterminate Impacts (if required)
 - Mass Customization drives far greater segmentation of customers – in essence, almost every customer is their own market. The independent insurance distribution impact has yet to be fully realized.

Recommended Actions:

Agents -

- Review your current customer base for possible impacts – What new products, marketing, and services can you offer? How should they best be offered through your portals?
- Educate on possibilities for marketing & offering additional services in the new economy. It is the concepts behind mass customization that will allow agents to move into a more effective advisory role. By customizing products and services we combat the idea that certain products are commodities. It is mass customization that allows us to provide individualized and unique products tailored to the specific needs of individual insureds.

Carriers -

- Work to develop strategies based on expanding core customer bases; a challenge will be ensuring a clear connection for the customer with the independent agents. Looking towards the ability to bring very specific type of products to market via this path, reducing expenses and providing a better customer experience.
- Understand the possibilities for using predictive analytics, such as used by Airbnb and Uber; the ability to mine data to proactively push more customer-defined customization.
- Ensure clarity around who handles the burden of client discovery; meaning defining the customer, and coverage needs. – this has traditionally been carrier responsibility.
- Carriers will need to be willing to develop coverages for these varying needs.
- While some data can be collected manually/voluntarily via additional questions on the insurance application (e.g. “how often do you advertise and rent all or part of your living space to others, whether privately, or via an online or other type of publication?”), establishing direct data feeds to the carrier/agent from those who have this data would more quickly facilitate the Mass Customization effort. (e.g. If Carrier A has an appetite to extend coverage and target those AirBnB hosts with a mass customization of their homeowners or tenant’s policy, they could get a feed and either provide that information to their agents to include in their marketing efforts to insureds and prospects who are in their area, and include the data in their rating algorithms).

Vendors -

- A primary challenge for technology providers will be to be the enabling point between carriers and agents. Ensure a solid understand of the opportunities to enable connectivity between primary business partners.
- Because Mass Customization of niche submarkets is likely to be driven by “carrier appetite” for those risks, it makes sense to include this in discussions between carriers and appropriate 3rd parties who either directly provide services, or have data about which insureds/prospective insureds may require coverage extensions (e.g. to identify and recommend additional coverages for a homeowner, or tenant who is also an occasional AirBnB host).

Examples/Resources:

- [What is Mass Customization? \(Investopedia\)](#)
- [Have It Your Way: Digital Manufacturing Enables Mass Customization Opportunities and Risks; The Impact of Mass Customization](#)
- [The Era of Mass Customization](#)

Evolving Technology Caution:

Privacy issues may be one of the biggest challenges with regard to acceptance of mass customization of products. All participants will need to ensure we understand the impacts and ensure we coordinate cybersecurity education and preparations.

We must be careful not to judge & predict based on today’s environment – MANY aspects will change. The social landscape is changing and evolving. Like most new technology based change we must be careful not to evaluate and judge the acceptability or possibility of the change on current

ACT Risk Advisory – Mass Customization

standards. The ability to start with a clean slate – and not be tied to legacy ideas, processes and procedures is why InsurTech companies are making inroads.

Call to Action:

- This is a growing area and new to insurance, evolving as other markets reveal opportunities to our distribution channel. Our ACT work group will continue to follow this, and expects that additional industry coverage will emerge as adoption increases.

Authors: J Ted Joyce, Rick Morgan, Bradley Whitley-Williams, Doug Johnston