

Wearable Technology in Life & Wellness Programs

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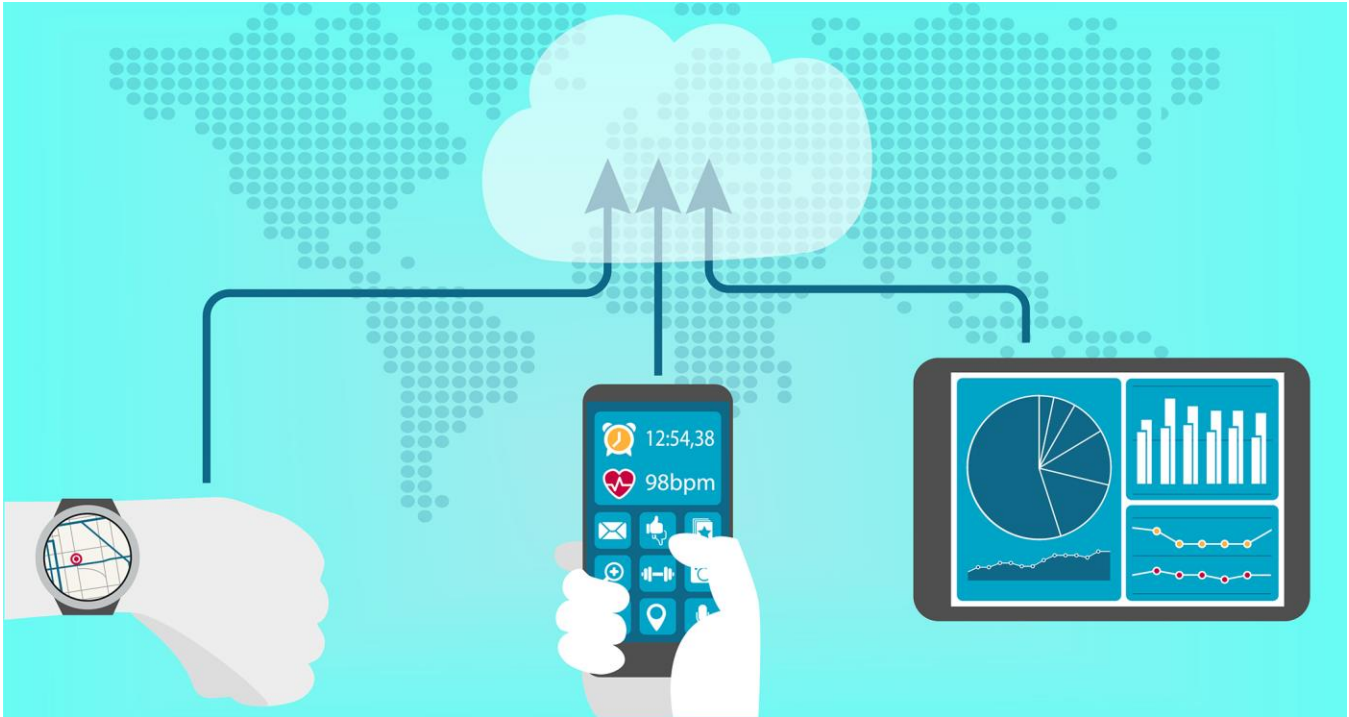
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Introduction



The consumer market for Internet-enabled, sensor-based wearable devices has grown rapidly over the last couple of years. These emerging technologies can collect and transmit all sorts of data on consumers' activity levels, such as calories expended, sleep patterns, etc. All the information available from wearable devices can change the way insurance companies do business in a big way.

Insurance companies can analyze and use the data obtained from wearable devices for underwriting purposes. It also has implications for actuarial practices, enabling dynamic pricing for life and health benefits. Notably, integrating life and health insurance with a comprehensive wellness program could have a positive impact on the industry.

By incorporating wearable devices into wellness programs, insurance companies are more actively involved in their policyholders' lives, encouraging healthier lifestyles and eliciting "good behavior" from them.

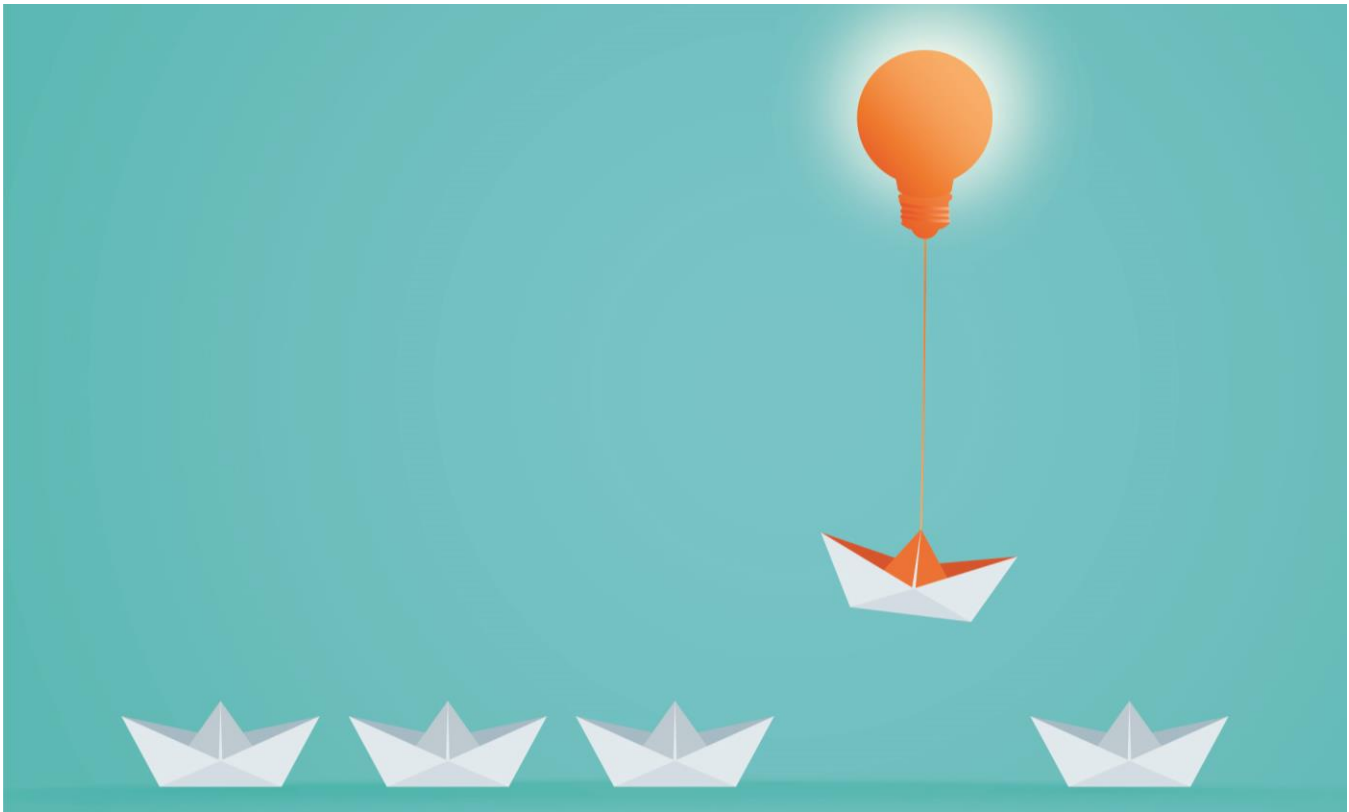
In our research, we are exploring insurance professionals' perspectives on the following factors:

- Opportunities
- Challenges
- Lessons learned to date
- Future

Methodology

This report synthesizes the perspectives of insurance professionals. The secondary analysis in this report uses data obtained by The Digital Insurer, Penn Medicine News, Health Enhancement Research Organization, LIMRA, and LOMA. The report also includes findings from informal interviews with insurance professionals in Asia.

Opportunities



Opportunity 1: Better customer engagement

Internet-enabled, sensor-based wearable devices can potentially raise better customer engagement in life and health insurance, and customer engagement will continue to be very important in the future. Use of these devices represents an inviting opportunity for insurance companies to not only engage but also work along with customers to build a long-term relationship. Lifestyle programs encompassing data from the devices also enable insurance companies to better understand and anticipate consumer needs. Naturally, promoting healthier lifestyles builds positive brand perception, which should contribute to improved customer retention, as well.

Opportunity 2: Enhance underwriting

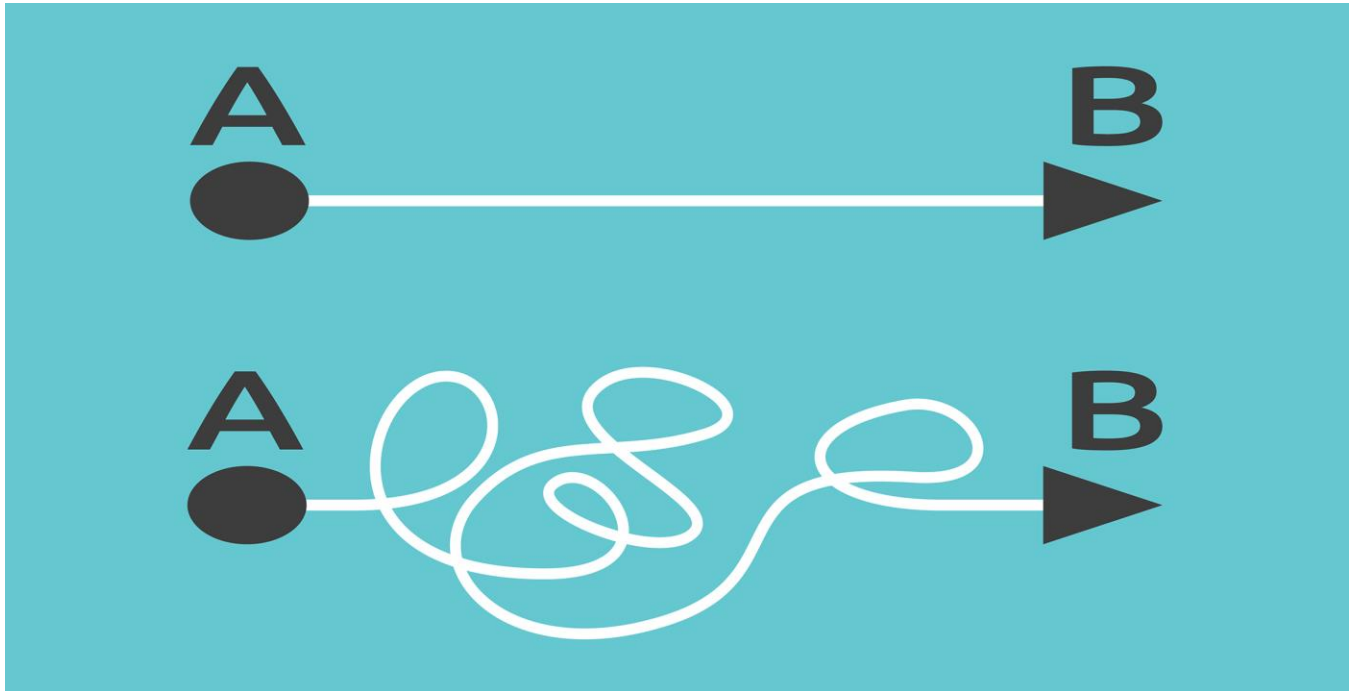
In addition, wearable devices that are integrated into customers' daily lives can provide many useful data. The results of gathering and analyzing critical data could be used to inform underwriting processes. The results could also contribute to increased access to insurance for those who have existing conditions.

Opportunity 3: Reduce costs

Furthermore, in the long-term healthier policyholder lifestyles eventually reduces costs. Although, it is very likely to take time to achieve actual cost reduction, policyholder incentives to live healthier will ultimately reduce claims. As the use of wearable devices becomes more prevalent, implementing an incentive program such as managing a chronic disease could provide real value along with opportunities to achieve actual cost savings.

Challenges

The opportunity to develop and implement lifestyle incentive programs is still in the early stage of development for insurance companies. Most companies would first need to resolve several complex problems.



Challenge 1: Sustain engagement

Sustaining policyholder engagement may possibly be the toughest challenge that insurance companies would face. At the outset, it takes initiative to promote a program, and then it requires additional efforts to convince customers to participate. However, it is even more difficult to sustain constant customer engagement, since research shows that most devices will end up in a drawer after only three months of use.

Factors relating to creating and sustaining engagement:

- Engagement increases when the program incorporates fitness tracking devices or apps that fit seamlessly into customers' daily routines and that they are likely to use on a daily basis.
- It's important to identify a segment of the population that would have sustainable participation (e.g., consumers with diabetes or pre-diabetes).
- Designing an incentive program that will constantly motivate customers is critical. (We will further explore incentive programs in the next section.)

Challenge 2: Trust issues

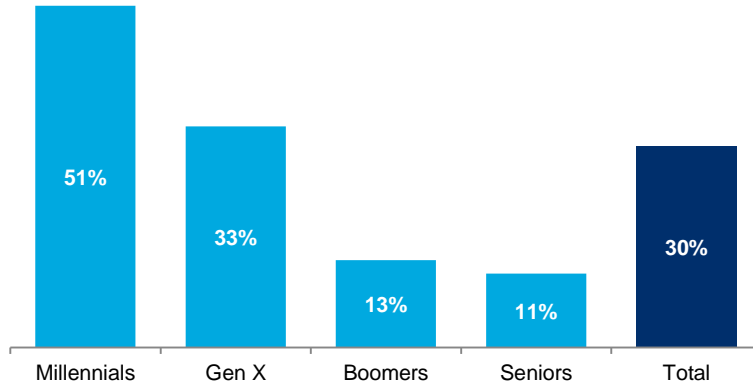
There are two sides of the trust issue to consider; one on the customer side and one on the insurance company's side.

On the customer side, it's necessary to explore the following factors:

- How much information will consumers be willing to share?
- Will consumers be willing to share knowing that the information could be used for underwriting purposes?

LIMRA's recent survey¹ of 2,724 household decision makers demonstrates that some consumers would choose to share. Notably, younger generations are particularly open to the concept.

Figure 1 — Very Likely or Extremely Likely to Wear an Activity Tracker and Share Results With a Life Insurer*



* LIMRA 2016 Insurance Barometer Study.

It is important to note that more than a quarter of total respondents indicate that the potential to build a long-term relationship with an insurance company is a key reason they would consider sharing wearable-device data (Table 1).

Table 1 — Major Reasons They Would Consider It

Age group	Total	Millennials*	Gen X*	Boomers*	Seniors*
The financial savings	60%	57%	68%	58%	58%
I'd establish wellness goals/make healthier choices	57	61	55	45	61
The free advice	48	49	52	43	33
The potential to build a long-term relationship with an insurer	27	33	26	12	22
The interaction with an insurance company	25	33	25	9	15

Source: LIMRA 2016 Insurance Barometer Study.

*Seniors — born before 1952
 Baby Boomers — born 1952 through 1964
 Generation X — born 1965 through 1980
 Millennials — born 1981 through 1998

¹ 2016 Insurance Barometer Study, <http://www.limra.com/barometer2016>.

On the insurance company's side, it's necessary to explore the following factors:

- Can insurance companies trust that the collected data is accurate? Consumers might be tempted to improperly manipulate their daily activities. There is a possibility that insurance companies might have to deal with falsified data, as it can be quite easy to “trick” the devices.
- In addition, determining how real value can be extracted from wearable devices poses a technical challenge, as it is not easy to extract and interpret “accurate data.”
- Finally, it is still relatively unknown how to determine what measures reveal how healthy someone is and how to measure behavioral changes (from unhealthy to healthy or healthy to unhealthy).

Important questions regarding the trustworthiness and value of the collected data remain. Is the technology reliable? What can the currently available, observable metrics of wellness really tell us about a customer's health and lifestyle improvements?

Challenge 3: Cost-effectiveness

Incorporating a wellness program that makes use of wearable devices involves more than processing the information elicited. It also involves developing reliable user interfaces to collect, track, and analyze data and possibly providing wearable devices for policyholders. It further requires internal data analytics resources and talent to evaluate and refine these initiatives. In addition, it also involves marketing and providing incentives to customers such as rewards and/or premium discounts.

Finally, it's important to remember that none of this comes cheap. Since it is likely to take at least three to five years to achieve actual cost reductions hence, some insurance companies may be discouraged from investing. It's a question, as so often, of balancing the initial and ongoing outlay with the return on investment.

Incentive Program

Since the primary goal of an incentive program is to engage customers, it's important to note that a well-designed incentive program will almost always result in maintaining engagement as well — making the effectiveness of the design critical to successfully integrating a wellness program.

Key findings:

- It is important to set realistic goals. Start with a specific, achievable goal then move to larger goals over time.
 - To maintain policyholder engagement, a one-time reward is not effective. Create a program with ongoing incentives rather than a one-time reward.
 - Start with a premium discount to attract customers. Then move to a rewards program, such as converting rewards points to cash. Rewards programs should easily adapt to each individual needs, so customers get what they want (e.g., gym membership, travel products, etc.) and are encouraged to maintain engagement.
 - According to Penn Medicine News², financial incentives — even when amounts are equal — can have significantly different effects on outcomes depending on how they are framed. The results show that the potential to **lose** a financial reward is more effective than the potential to **gain** one, when the program objective is to encourage physical activity.
- Incentive programs should be compatible with consumer needs and adaptable as these needs change.



² <https://www.pennmedicine.org/news/news-releases/2016/february/to-encourage-physical-activity>.

Lessons Learned to Date

What is the level of engagement with wellness? A report³ from Health Enhancement Research organization (HERO) based in Waconia, Minn., presents findings on how employers are incorporating wearables into their workplace wellness programs.

Here is what we learned:

- **Duration of Use** — Of initial users, 54 percent of employers report that more than half of their employees continue use of the wearable lifestyle device after six months.
- **Program Evaluation** — When asked about their program reporting efforts, the most common metrics monitored included number of participants (84 percent), total and average steps (66 percent), and participant satisfaction (57 percent).
- **End-User Perceptions** — When asked about end-user engagement and feedback, 53 percent of employers report high initial and sustained interest in wearable-supported programs, and most employers state they intend to continue to include wearable devices in their lifestyle incentive programs due to favorable employee response.
- **Data Privacy Concerns** — 82 percent of employers report end-users do not raise any concerns regarding data privacy.

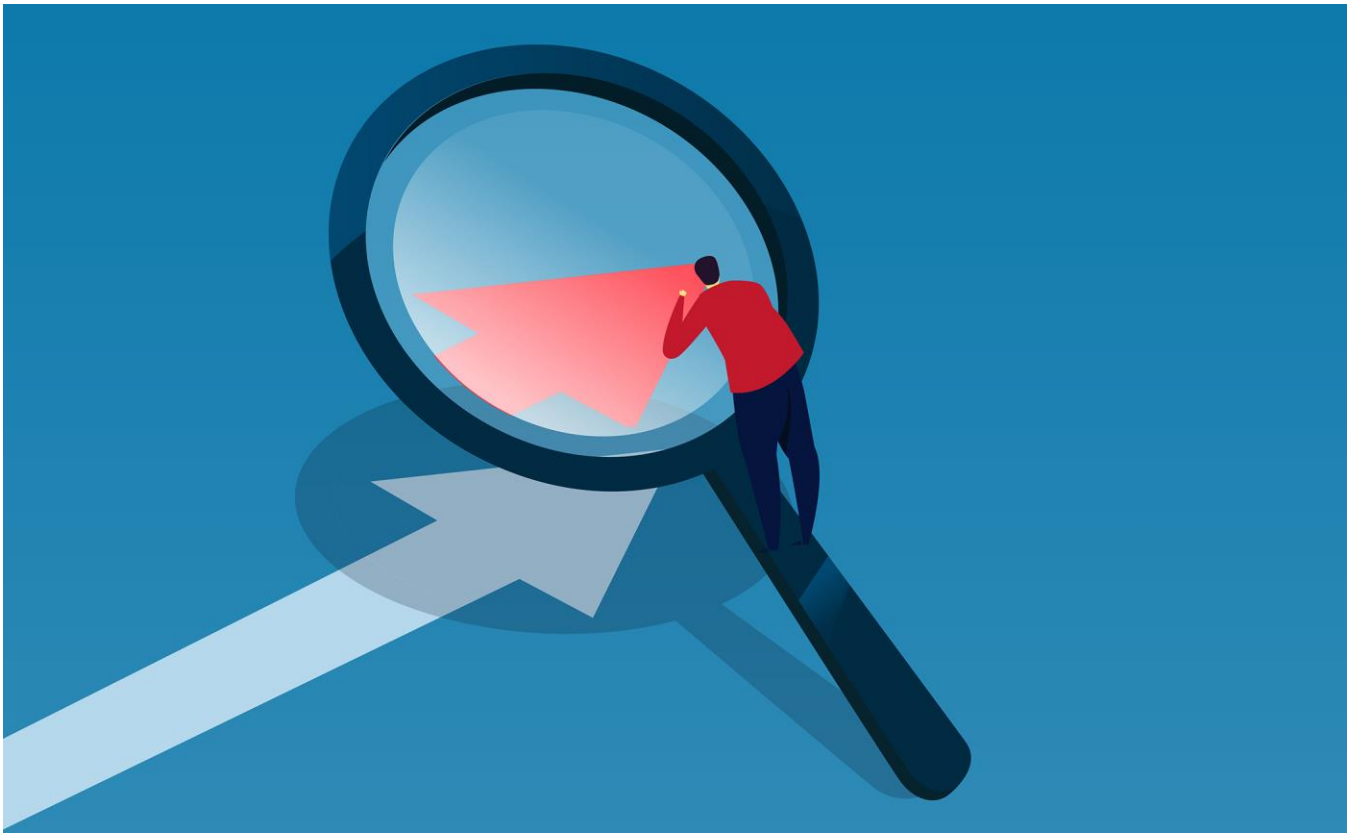


Interviews conducted by LIMRA revealed these additional findings:

- In Asia, wellness programs are still a relatively new concept compared to South Africa or the United States.
- U.S customers have far more homogeneous attitudes when it comes to health insurance.
- Due to the difficulty of sustaining customer engagement, relatively short-term programs of 8 – 12 weeks in length are the most efficient.
- Engagement works better with group policies than with individual policies. A possible explanation of the higher participation is the appeal of group activities combined with the challenge of competition.

³ http://hero-health.org/wp-content/uploads/2017/09/NR_HERO-Wearables-Report_FINAL_050917.pdf.

Looking to the Future



There will be more data and more tools to analyze that data. Lifestyle incentive programs incorporating wearable technology will become more common and accurate as technologies keep evolving.

Wellness programs are needed. They will most likely keep developing, gaining more value over time. In particular, managing specific segments of customers (those with chronic diseases such as diabetes and hypertension) could bring actual measurable results. However, the goal of a wellness program is to solicit a healthier life for all, not only for specific segments of the population with chronic conditions. Finding the right balance between the healthier portion of population and the segment of the population with chronic conditions will remain a key challenge.

In addition, in order to maintain engagement with customers, insurance companies need to constantly improve their programs to be compatible with customer wants and needs.

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