LIFE CHANGER

Discovery is disrupting life insurance markets across the world with a deceptively simple idea – stay healthy, pay less. But, as Barry Swartzberg explains, a highly sophisticated approach to intellectual property, technolog y and building partnerships lies behind the group's rapid growth.

WHEN WELLNESS IS WORTH IT

STAY HEALTHY, PAY LESS. On the face of it, it's a simple idea and one that has obvious attractions for anyone buying health insurance or life cover.

For the insurer there are real advantages too. Healthier policyholders are less likely to make claims. That means fewer payouts and higher returns on every policy sold, even when premiums are being discounted.

And there's also a payoff for society. The more people stay well, the less strain there will be on increasingly overstretched healthcare systems and budgets.

This 'shared value' concept has been pioneered by Discovery, the South African financial services group, with its Vitality health and life insurance programme, which is helping the group expand rapidly across Asia, Europe and North America.

"Once the client leads a healthier life, the insurer saves money through better experience which creates value for the insurance company, enabling us to give additional benefits back to our clients," says Barry Swartzberg, the group's co-founder and chief executive of Discovery Partner Markets. "It becomes a sort of virtuous circle and ultimately benefits society."

But if 'shared value' seems deceptively simple in concept, the reality of bringing it to market is anything but.

Supporting Discovery's innovative business model is a sophisticated data gathering and analytics capability, a rigorous system of controlling and enhancing its intellectual property (IP) rights and a complex web of product and joint venture partnerships to help it adapt its model to markets as diverse as the U.S., China, Japan, the UK, Germany, Canada, Singapore and France.

THE TIME HAS COME

Yet it's an idea that looks to have come of age at exactly the right time.

The health and life insurance markets are undergoing significant change. Understanding risk is increasingly about analysing individual behaviour. Technology is playing a much bigger role in monitoring health risks, as wearable devices proliferate.

There is also a clear social trend in many markets towards wellness, with individuals taking greater personal responsibility for staying healthy. And policyholders, especially younger ones, now look for clear evidence that the institutions and companies they buy from are a force for good in society.

All this calls for more sophisticated insurance products than the sort of traditional static forms of underwriting, where risks are evaluated on the signing of the policy, then left to lie.

How much better if policies could take account of the life choices people make, day by day, week by week?

And in a world where people are living longer but healthcare costs are climbing faster than earnings, this combination of demographic, health, economic, behavioural and technological change has created an environment ripe for disruption of the sort now being provided by Vitality.

FOCUS ON THE CLIENT

Barry makes it clear, though, that Vitality's origins lie in an attempt to tackle an altogether different trend – an acute under-supply of doctors in South Africa.

When the group was formed in 1992 it was clear, he says, that the sort of managed care programmes on offer in markets with plenty of doctors and hospitals wouldn't work in South Africa. Instead, it focused on creating a savings scheme to help patients manage their medical costs from year to year.

"Our focus was purely on the client and helping them manage their medical expenses," he says. "We focused our entire business on the demand side initially, on managing and interacting with the patient."

Then five years later the idea morphed. "We realised that once we had got this savings account system in place we needed to be able to help the person to undergo preventative care and to lead a healthier life.

"That's how the idea of Vitality came about. It was only the germ of an idea but, since we launched it in 1997, it's really been our differentiator."

Within a few years it became clear that if Discovery could find ways to encourage clients to take part in an active wellness programme, it would soon be able to distinguish between different clients.

That, in turn, would allow Discovery to stratify the risks, to understand the client much better than its competitors and, from that, to offer clients better pricing on risk products.

"It means you can offer people dynamic underwriting throughout their lives," he says.

A MAJOR TECHNOLOGY CHALLENGE

Finding a way to capture reliable health and lifestyle data is a major technology challenge, increasingly so as the client base grows.

It means clients have to agree to share large amounts of personal data – readings from a wearable device, details of preventative screenings, their diet, if they've taken part in a running or swimming event, or are attending a gym or cycling regularly.

"You've got to collect all that information in real time and put it into one central database and then encourage clients to improve their status within the programme by awarding points for the actions they are taking to stay well, and then, ultimately, to reward them."

Those rewards take different forms. The most obvious is a reduced premium, but they are supplemented with offers on movies and holidays. And the group is now offering more active rewards to encourage a regular exercise regime – a free coffee or smoothie, perhaps, if a client keeps to a plan to exercise three times a week.

"It's the whole idea of being in the moment, providing information and rewards more instantaneously," says Barry. "The technology behind it is quite significant."

A wearable device will collect a whole range of data during a run – heart rate, speed, distance – all of which needs to be collected each time.

"The amount of information you are collecting is just extraordinary. Add in data on preventative screenings, diet and more, and it becomes like a giant electronic patient record," says Barry.

PARTNERING FOR GROWTH

Partnering with key consumer and wellness brands, as well as chosen insurers in key target markets, has been central to Discovery's growth.

To enhance its offer to clients it has teamed up with brands such as Apple, Virgin Active and Weight Watchers. A client could receive an Apple watch to help them monitor their fitness regime. If they keep up the good work, the watch is free. If not, they pay a monthly charge for it.

Such perks have different appeal in different markets, Barry notes. Gym use is a big thing in the U.S. and the UK. In China, there is a culture of giving preventative screenings as a gift, and people tend to eschew gym-going in favour of using wearable devices and mobiles to monitor their exercise.

"We spend quite a bit of time in each market trying to understand how to flex the basic business model to meet different needs," he says.

But to enter those markets in the first place, Discovery has also relied on partnerships and joint ventures, often swapping access to its IP in return for stakes in the venture.

This 'capital light' approach to M&A has seen it form ventures with Ping An Health, one of China's largest private medical insurers, AIA in Asia Pacific, Generali in Europe and now Sumitomo Life in Japan. Discovery has also teamed up with John Hancock in the U.S. and Manulife in Canada, has just moved into Germany, will launch in France in 2017 and has other European markets, like Spain, on its radar.

"We are certainly looking around and interested in expanding the current offering," says Barry. "And we've tried to make the model more adaptable – more of a shrink-wrapped package as opposed to a bespoke offering – so we can move from market to market."

The offer, he admits, is more appealing in sophisticated life insurance markets, where you are trying to differentiate your products, than in an emerging market where people may be buying insurance for the first time. "But really it applies everywhere – I mean everyone wants to lead a healthier life."

Growth brings a range of significant challenges, not least regulatory. The model is all about pricing risk dynamically, and that's not something that regulators in certain markets have seen before. Fine-tuning and improving the technology is tricky too. But the greatest challenge of all is around IP.

"To continually add value to our partners, we have got to be at the forefront of developing and improving our IP – that is the single biggest challenge," he says.

"People think that establishing and integrating the programme in each new market is easy. But we've had years of experience in how to do that effectively."

The constant goal: to work with partners to continuously enhance the offering.

"The reason we've used this model is because we could never do it ourselves in these markets. To establish a life company takes a huge amount of capital, an existing brand and so many other things we do not have.

"The partnership model has worked well to date. We know our place. We are not trying to compete. We are the IP provider and we are trying to add value. It makes for a fascinating enterprise."

BARRY SWARTZBERG
Chief Executive Officer, Discovery Partner Markets

"The amount of information you are collecting is just extraordinary... it becomes like a giant electronic patient record."

PARTNERING FOR GROWTH – A TRICKY BALANCING ACT

As Discovery quickly expands, it needs to manage its intellectual property, a growing network of complex partnerships, and its capacity to handle huge amounts of data with great care. The corporate and legal challenges are significant, says Richard Kim.

AS DISCOVERY BRINGS ITS GROUNDBREAKING IDEA of 'shared value' to new and diverse markets, skilfully managing the IP that underpins its Vitality health insurance programme is a top priority and it's one the group takes very seriously.

As Richard Kim, managing partner of A&O's Beijing and Shanghai offices, puts it: "They are very focused on the value of IP and IP covers the full range of the Vitality offering."

That includes what sort of incentives best encourage policyholder engagement, how to structure agreements with product partners like Apple, what sort of insurance premium pricing models are most attractive to policyholders and how to dynamically adjust premiums based on collected data.

"The end result of getting this all right is a win-win – the policyholder gets healthier, the premium can go down and the insurance risk decreases, ideally by a bigger margin, allowing for a more profitable policy."

But managing that IP among a complex web of partnerships presents some big legal and commercial challenges, says Richard, who has been working with the Discovery group since 2009 and has helped them grow into China, the Asia Pacific region, Europe and, now, Japan.

Discovery creates exclusive partnerships with insurance companies in their home jurisdictions, for example with Ping An Health in China, Generali in Europe and AIA in Asia Pacific.

But these partners also run global businesses. One important issue is how to ring-fence the partnerships to provide each partner with comfort that another partner will not compete in their home jurisdictions using Discovery's IP. For example, if AIA were to compete with Ping An Health in China using the IP, it would be a problem.

"There's been an enormous amount of focus on how best to tackle these issues and how to get the various partners comfortable that their use of the IP in a particular jurisdiction is protected," he says.

And there's another inherent complication in the model, the success of which depends on the scale of data it can gather into its central database from all the different partners.

"On the one hand the partners have traditional life insurance businesses that may be competitive with each other, but on the other hand, in the wellness space they are, in effect, working together through Discovery to drive improvements to a platform that will benefit everyone. There are some interesting tensions there."

There is also some evidence that people may be becoming more sensitive about handing over reams of personal data, particularly health data. Is that a threat?

Again, Richard sees it as a balancing act. "There are concerns among policyholders about how intrusive this is. But it gets balanced out.

"As the technology gets better, Discovery is better able to use its IP to improve the way it gathers data from policyholders, which in turn provides policyholders with more accurate pricing. Ultimately, it's a choice policyholders have to make, but this is something Discovery must manage sensitively."

Data is an issue in another sense – particularly given the group's rapid expansion.

"As we've helped them move into new territories, the infrastructure and workforce they need back at their HQ in Johannesburg to process and manage the data coming from these partnerships is growing exponentially," says Richard.

A major new partnership deal means that potentially millions of people could be added to the system, and Discovery must be sure it has the infrastructure to deal with that growth.

"They are very determined and entrepreneurial but, at the same time, they understand the challenges that come with the pace of growth and the imperative of always being able to ensure they service all their partners effectively."

As the group looks to move into entirely new territories – the Middle East and Latin America remain uncovered, for instance – making sure they have the capacity to manage those partnerships to a very high standard will remain immensely important work.

RICHARD KIM
Partner, Allen & Overy

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