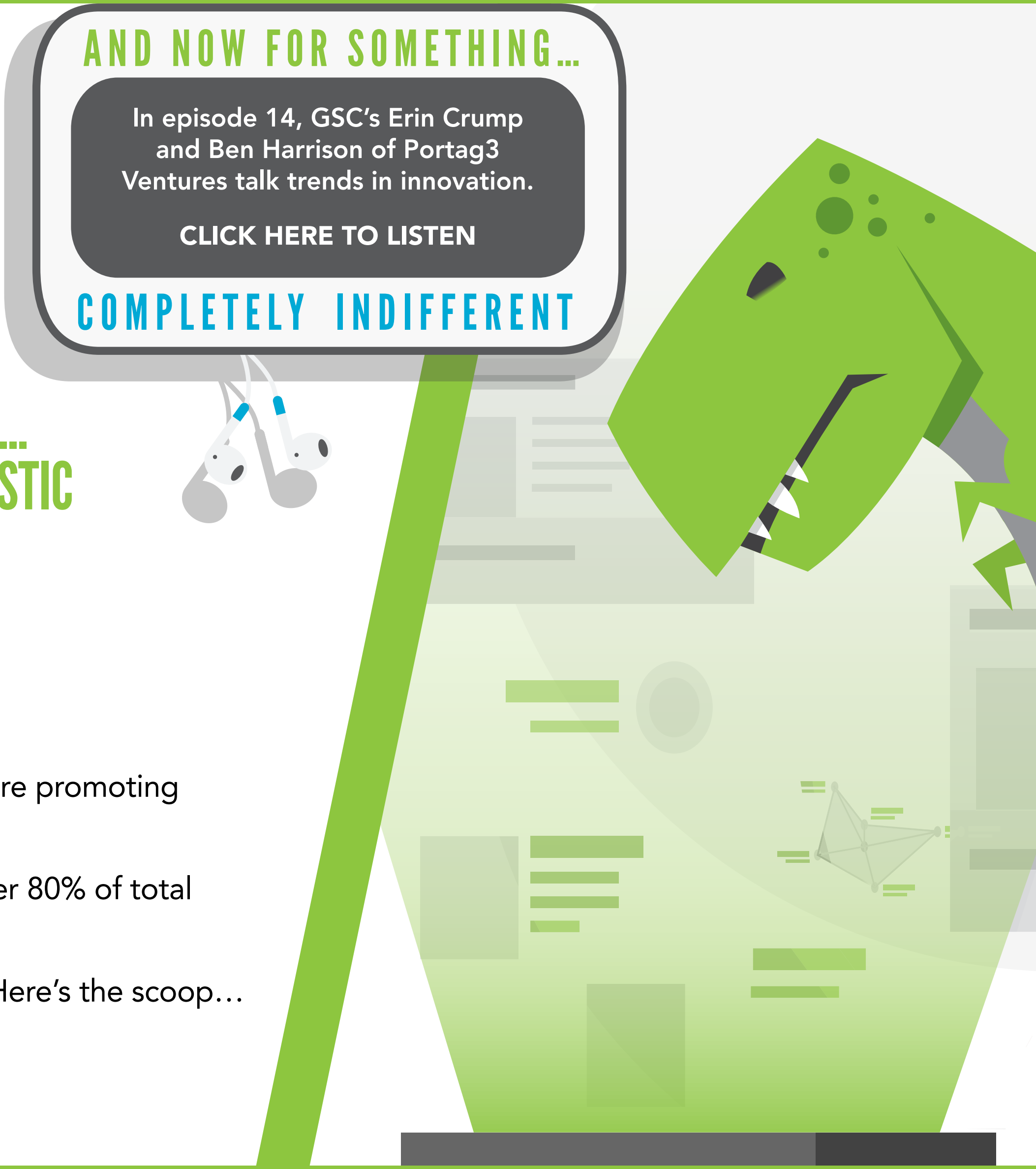
The INSIDE STORY®

DECEMBER 2018



What's Inside

FROM JURASSIC TO FUTURISTIC...

THE INSURANCE INDUSTRY *IS* EVOLVING

The insurance dinosaur—a common image indeed. But what about the buttoned-down insurer brainstorming with the hip and happening tech entrepreneur? Now that's a sight you don't see every day—until recently. Today, innovation titles and teams are popping up everywhere, even in insurance companies—including health benefits providers. But what does insurance industry innovation really look like, and what does it mean for the future of health benefits? As 2018 comes to a close, let's pull out the good old crystal ball (still waiting for the high-tech version) and take a look…

There's fintech… and then there's insurtech

The insurance industry certainly has more than its fair share of headache-provoking acronyms and jargon. However, now there's a buzzword that you will actually want to hear more often because it is all about taking the dinosaur out of the insurer. Insurtech is here and growing… but we're getting ahead of ourselves; to understand insurtech, first you need to understand yet another buzzword: fintech.

As a mashup word, the combination of "fin" and "tech" pretty much speaks for itself. Fintech is when technology is applied to financial services to operate outside of traditional financial sector business models. Why? To improve how and what is offered, as well as to enhance how financial aspects of businesses are managed. And in its most ambitious incarnation, fintech is designed to challenge and potentially usurp established financial service providers.

In its simplest form, using your credit card could be considered fintech. However, given today's rapidly evolving technology, fintech is being applied well beyond just commerce and payments; it's reshaping everything from financial advice and education to lending, borrowing, and investment management to retail banking, fundraising, and cybersecurity to even what we consider money with digital currencies like bitcoin. Then there's fintech that applies technology to improve insurance—hello insurtech!

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SAMPLING OF NEW TECHNOLOGIES APPLIED TO INSURANCE...

- **Health benefits:** League says it's "the future of employee benefits"[4] with everything happening on a digital platform—what they refer to as a digital wallet where plan members can review and pay for coverage, as well as monitor balances.
- **Car insurance:** Nationwide Insurance and Esurance offer what is referred to as usage-based insurance. A device is installed in the policyholder's car, which enables the insurer to monitor driving habits. Good drivers are rewarded by lower premiums.[5]
- **Life insurance:** Manulife offers policyholders the chance to earn "vitality points" by tracking how active they are on a wearable device and by recording healthy habits like eating well and getting regular dental checkups. The higher the points, the more rewards earned, including lower premiums and discounts and gift certificates from various retailers.[6]
- **Homeowner and renter insurance:** Lemonade says it reverses the traditional insurance model by delivering insurance "powered by artificial intelligence and driven by social good."[7] An app customizes each policy and pays claims. And policyholders are grouped based on social causes they are interested in. Then after Lemonade pays the group's claims, any leftover money is donated to the designated cause.
- **Direct health care:** Dialogue says that it offers "a fully-staffed, virtual clinic that fits into your employees' pockets."[8] Live chats with nurses, video consultations with health professionals, specialist referrals, prescription renewals, and assistance navigating the health care system are all done virtually.

With insurtech, the customer is king

The *EY FinTech Adoption Index 2017* study conducted over 22,000 online interviews of people who use the internet, including 1,020 Canadians, and found insurtech adoption doubling since 2015.[1] But why is insurtech gaining momentum? What makes it attractive?

It's because today's customer—who is living in a fast-paced world with a vast amount of information literally just a click away—expects a lot. *A lot* as in customers expect financial services like insurance to deliver the better, faster, cheaper value proposition that they now receive in other industry sectors. As this researcher explains, "Consumers are drawn to [the new] services because propositions are simpler, more convenient, more transparent and more readily personalized. This has a ripple effect across the industry as consumers come to expect these characteristics in all financial products, regardless of whether in retail banking, wealth management or insurance, and of who is providing the service."[2]

Accordingly, technologies applied to insurance that enhance the customer experience will, to use more lingo, act as disruptors. Disruption happens when new technologies alter the way traditional business models operate. As described by this researcher, fintech entrepreneurs have a dynamic duo: "Fintech firms share two core characteristics: a laser-like focus on the customer proposition and a willingness to apply technology in novel ways. These are powerful differentiators in a marketplace where many product-focused incumbent financial services companies struggle to deliver the seamless and personalized user experiences that consumers increasingly expect."[3]

Which raises the question, will some cool new techie start-up swoop in and disrupt the health benefits industry?

The answer is: Not likely. *Yet.* In the immediate future, it's unlikely that an insurtech entrepreneur will enter the market and cause full-on, complete disruption. This is because they will be held back by many of the same barriers that are deterring traditional incumbents from introducing their own revolutionary insurtech. Not the least of which is that insurance products, as well as the regulations surrounding them, are complex (more on that to come).

In addition, research indicates that consumers are not totally sold on using new financial service technologies when they are offered by unknown providers. Study participants indicated that a main reason they are not using emerging fintech is that they prefer traditional service providers.[9] The traditional financial services sector is holding strong as the desired provider of fintech (so far). The study researchers think this attachment to established service providers reflects that many consumers see traditional financial organizations as the safest option, which may be especially important where money and confidential information—like health data—is concerned.[10] Accordingly, in theory, for a techie newcomer to cause major disruption, it would need to build its brand to the point where it can successfully compete in a competitive market of (for the most part) well-respected incumbents.

But that's in theory… because, not surprisingly, the most likely demographic to use fintech are 25-34 year-olds, followed by 35-44 year-olds.[11] Not only are they highly internet and mobile savvy, they are at the stage of their lives where they are hitting milestones that involve insurance, like starting full-time employment, becoming homeowners, and having children. And here comes the kicker, they are the least likely of all age groups to cite a preference for established providers as a barrier to using fintech.[12]

A WAVE OF INNOVATION TITLES AND TEAMS… BUT WHAT DOES IT MEAN DAY-TO-DAY AT AN INCUMBENT INSURER?

To find out, we asked our very own leader of strategic innovation, Erin Crump, to discuss her role.

"My biggest goal is to leverage GSC's existing aptitude for innovation across the organization. This way, innovation won't be developed in isolation in an 'innovation silo.' But rather, the idea is to deploy an entrepreneurial mindset that focuses on customer-centric methodologies across *all areas* of the organization. So for example, although we are piloting new insurtech projects, we are also acting in a consultative role to enhance the culture of innovation. Ultimately, just like the insurtech entrepreneurs, GSC will become totally agile. This is just traditional IT language that essentially means we will have built responsiveness into everything we do."

For more insight, be sure to lend an ear to episode 14 of GSC's podcast where Erin and Ben Harrison of Portag3 Ventures—a venture capital firm focused on investing in early-stage fintech entrepreneurs—discuss trends in innovation.

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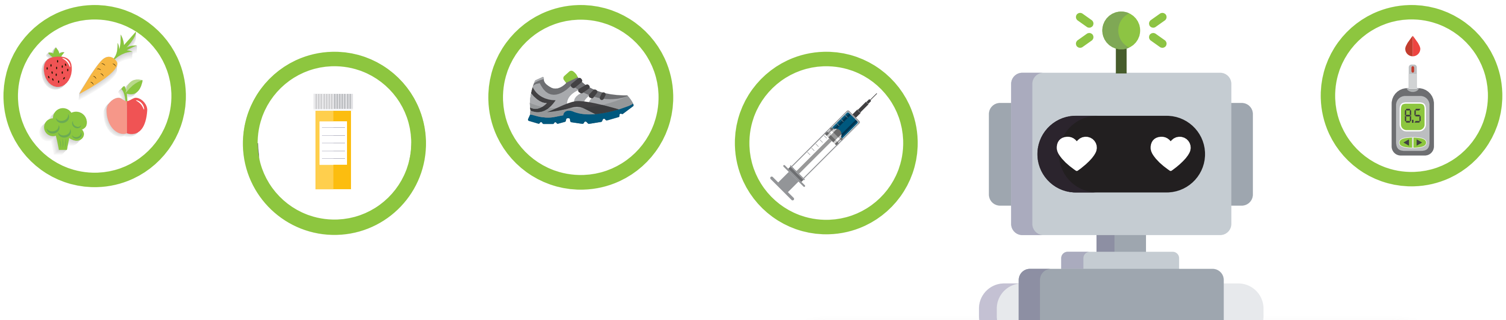

Will an established insurer fly solo and disrupt the industry on their own?

The answer is similar as regarding an insurtech entrepreneur's potential to cause a major industry disruption. It hasn't happened. Yet. But it's coming; it's just that first there are a number of high hurdles that incumbents need to jump over before they are able to effectively harness newer technologies:

→ **Modernize legacy IT systems:** Although health benefit providers have come a long way in terms of embracing technology (those of a certain age will shudder when they think back to manual claims processing), recent technological advancements are moving faster than ever. As a result, legacy IT systems face compatibility issues; simply put, they don't have the flexibility built in that would allow adoption of new technologies.

→ **Figure out how to work within or possibly change regulations:** Who owns the data? What is—and isn't—OK to do with the data? Whether individual or aggregate data, questions like these abound. Accordingly, ensuring compliance with any number of industry and government regulations—and in turn, internal policies—slows down adoption of insurtech. And in some cases, it makes adopting certain innovations impossible (for now).

→ **Recognize the complexity of products:** Needless to say, even the so-called simplest forms of insurance have a myriad of complex features and processes that in turn, make adopting insurtech complex. Health benefits is definitely no exception; if anything, health benefits represent complexity on steroids because almost all aspects of the business involve the human factor. You've got your plan sponsors, plan advisors, plan members, health care providers—all with a variety of needs and wants. Not to mention evolving scientific evidence and approaches to diagnosis—and, of course, big-picture legislation and regulation and smaller-picture internal processes and procedures.

GSC PILOTS COMING YOUR WAY SOON...

→ **Say hello to Dot the Diabetes Carebot:** Dot is designed to provide daily support and recommend GSC programs and tools to plan members who may be at risk for pre-diabetes and those who already have type 2 diabetes.

→ **And also say hello to Ivan, a digital exercise coach:** Ivan is designed to help inactive or barely-active plan members become more active by helping them create a personalized video and action plan. And talk about entrepreneurial; it will allow GSC to collect data and feedback to help drive further innovation.

→ **Plus, for pain management:** The *Manage My Pain* app is designed to help plan members with chronic pain to easily and quickly track their pain and analyze their experience through graphs and charts. They can then share the analysis with their doctors to improve communication and enhance pain management recommendations.

→ **Also, API products:** In tech-talk, API stands for "application programming interface." Now the English version: it's essentially software that allows two applications to talk to each other. So for example, a company can imbed another company's API into their website to gain a new capability. For example, we're developing an API for our SureHealth™ product that other businesses will be able to offer for their plan members or customers to generate quotes.

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The customer consideration

Ah yes, the human factor. Probably the main reason established incumbents are not adopting insurtech innovations more quickly is their responsibility to their customers. The reality is incumbents can't just throw caution to the wind and disrupt away! Essentially, it's a juggling act. Current customer obligations are the priority, while simultaneously, the incumbent gauges evolving customer expectations. And these expectations continue to evolve with the times based on how customers see technology enhancing the offerings and customer experience in other sectors.

And then there's corporate culture. Although incumbents are sometimes innovative, their approach to innovation is often one of the perfectionist. This attention to detail is in direct contrast to most insurtech entrepreneurs who apply an iterative approach to innovation where they basically launch the "best guess" (essentially a pilot) then learn along the way and make continual improvements—in some cases, a total switch in direction. The iterations are all driven by, you guessed it, the customer experience.

Everything the entrepreneur does is driven by the customer: customer needs, wants, expectations, feedback—everything. By contrast, the incumbent's perfectionistic tendencies, established business models, and legacy IT systems means they still have policies in place that are more administrative-centric than customer-centric. It's the entrepreneurial mindset that incumbents are struggling to instil throughout their organizations.

Interestingly, some of the hurdles faced by incumbents have inspired savvy entrepreneurs to develop new products and services specifically to help incumbents jump the hurdles into a future filled with insurtech. For example, insurtech entrepreneurs are now involved in developing the plug-ins, patches, and layers necessary to modernize legacy IT systems. There are even enterprises whose reason for being is to facilitate and streamline compliance with industry regulations via technology-driven services.

But you *can* teach an old dinosaur new tricks

It's unlikely that either an insurtech entrepreneur or an incumbent will be able to disrupt the industry by going it alone. However, collaboration may be the name of the innovation game. What's most likely is that incumbents will partner with insurtech entrepreneurs to leverage what each brings to the table—and ultimately drive change.

Incumbents recognize that the strength of insurtech entrepreneurs goes well beyond just technology expertise. They are creative, nimble, and most important, customer obsessed with a focus on delivering the elusive trifecta: customization, convenience, and flexibility.

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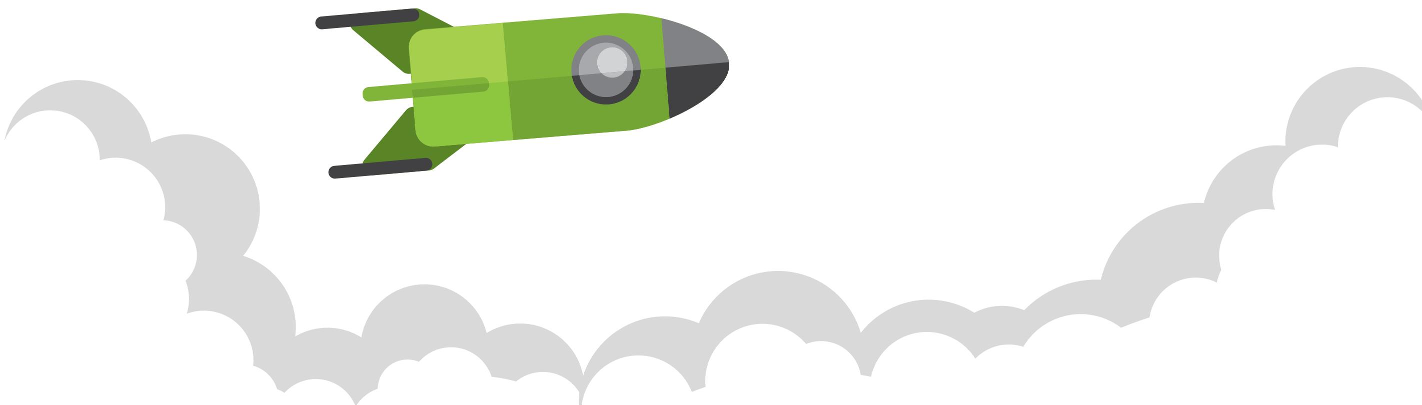

In turn, tech ventures see value in collaborating with incumbents because of their distribution channels and existing customer base, security and fraud protection, regulatory know-how, risk management expertise, and whenever possible, their useable data. This is where incumbents typically get a huge gold star—they are sitting on masses of current data, as well as historical data, definitely a techie's dream come true.

As one researcher put it, "When it comes to banks and fintechs, we're seeing what used to be a competitive mindset turn into a desire to collaborate. It's becoming clear that working for mutual benefit, rather than competing with each other, will result in more meaningful innovations, faster."[13]

Crystal balling it: This dynamic duo of incumbent and insurtech venture could be a match made in heaven as it appears that both camps have a lot to gain and not much (if anything) to lose by working together. And of course, for plan sponsors and plan members, these kinds of partnerships could mean enhancements on many fronts. But what constitutes an enhancement is up for debate.

All systems go… but to where?

Insurance companies are expected to take innovation up a notch. And the business case for collaboration with insurtech entrepreneurs is solid. But what direction do plan sponsors want innovation to take? Just how involved do plan sponsors want to be in plan members' health care? What do they see their role as? And what about plan members; how involved do plan members want their plan sponsors to be in their health care? Although all systems may be a go for increased adoption of insurtech, just where the health benefits industry is headed may circle back to that age-old question: what is the purpose of your health benefits plan?

Sources

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What's UP...

IN THE NEWS: SOME CHIROPRACTORS ARE PROMOTING UNSCIENTIFIC TREATMENTS

An investigation by the Globe and Mail (G&M) reveals that for over 10 years, the College of Chiropractors of Ontario (CCO) has been led by chiropractors who promote unscientific treatments and treatments outside the scope of practice. As a result, the College does not typically take action when it receives patient complaints about unscientific claims or treating children and adults—and even babies—for conditions that have nothing to do with the spine.

The issues that the CCO—and the overall practice of chiropractic—are facing can be traced back to its founding beliefs: that adjusting the spine can remove "subluxations," which are nerve impingements that block the body's healing force referred to as the body's "innate energy." Once the subluxations are removed, the body can (supposedly) heal itself. However, over decades of research, there is no scientific evidence showing that subluxations or innate energy exist.

Regardless of the lack of evidence, what are known as "vitalist" chiropractors—or vitalists—still believe in the subluxation theory for treating, if not curing, a range of conditions like autism, ADD, ADHD, and asthma. Many vitalists also advocate against vaccination. And it is vitalists who have been influencing—if not totally controlling—the CCO. The G&M's review of publications, online information, social media, and conference presentations confirms that of the CCO's nine elected council members, four of them support vitalist chiropractic and promote unscientific treatments. In addition, for nine of the past 10 years, the CCO has been led by presidents who have espoused subluxation-based chiropractic beliefs.

The result?

Instead of protecting the public, the CCO may be unwittingly putting the public at risk. And although more than half of Canada's 8,400 chiropractors are in Ontario, the issues prompted by vitalistic beliefs are not limited to Ontario. The investigation found similar issues in other regions including British Columbia and Nova Scotia where the regulating bodies are led by vitalists.

The Canadian Chiropractic Association (CCA), which acts as a national chiropractic advocate but has no regulatory power, is urging provincial regulators to be more proactive against unscientific claims and misleading advertising. Fortunately, for the first time in over 10 years, the new president of the CCO is considered an evidence-based chiropractor, not a vitalist. In addition, there is a move afoot to modernize the provincial regulators to broaden from a focus on complaints to, as recommended by the CCA, proactively addressing misleading claims and inappropriate treatment.

GSC's take

Most provinces no longer cover chiropractic services; however, many private plans do. Although GSC routinely covers chiropractic, we continue to be vocal about our concerns regarding its efficacy. Remember chiro for babies from our 2014 health study? In fact, for the G&M investigation, the reporters reviewed GSC's health studies and past articles from *The Inside Story*, as well as interviewed Ned Pojskic, GSC's leader, pharmacy & health provider relations, who supports their investigation.

For more information, visit: https://www.theglobeandmail.com/canada/article-chiropractors-at-a-crossroads-the-fight-for-evidence-based-treatment/.

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PRESCRIPTION DRUGS TO MAKE UP OVER 80% OF TOTAL DRUG SPENDING

According to a new report by the Canadian Institute for Health Information (CIHI), prescription drugs are forecast to represent 84.6% of total drug expenditure in 2018. In addition, CIHI expects that for 2018:

→ Total drug spending will make up the second-largest share (15.7%) of total expected health expenditure in Canada of $253.5 billion. Hospitals will have the largest share of spending at 28.3%. Physician services will account for 15.1% and the remaining 41% will be made up of other health care goods and services like long-term care facilities and allied health professionals.
→ Of prescription drug spending, 57.3% will be financed by private insurance and individuals paying out of pocket. The reminder will be financed by the public sector.
→ Estimated annual increase will be higher for drugs at 4.2% versus 4.0% for hospitals and 3.1% for doctors.
→ Growing drug spend will in a large part be due to spending on high-cost drugs. For example, biologics for conditions like rheumatoid arthritis and Crohn's disease are expected to account for the highest proportion of public drug spending (8.2%). Antiviral drugs to treat hepatitis C are predicted to account for the second-highest proportion (5.0%).

For more information and to download the report, visit: https://www.cihi.ca/en/health-spending/2018/prescribed-drug-spending-in-canada.

NEW FLU SEASON, NEW FLU VACCINE. HERE'S THE SCOOP…

It's the 100th anniversary of the flu pandemic of 1918 that infected half a billion people and killed as much as 5% of the world's population. Fortunately, these days we have the flu vaccine. However, each year almost everything about the flu season changes, so here are answers to some common questions.

What will this year's flu season be like?

Although it's impossible for anyone to know for sure, even the experts, the prevailing prediction is that this year's flu season may be much milder than last year.

Will this year's vaccine be more effective than last year's?

Although last year's vaccine did protect against the H1N1 strain and the B strain, it didn't protect very well against the H3N2 strain, which was the predominant strain. Scientists have modified this year's vaccine to hopefully provide better protection. In addition, typically the vaccine protects well against the H1N1 strain and B strain, which are expected to dominate this year.

What forms does the vaccine come in this year?

It is available in three forms: (1) Regular injection appropriate for most people unless they are seniors or have other issues like allergies; (2) Mist as an option for kids who aren't comfortable with injections; and (3) High-dose injection for seniors.

Which regions of Canada offer the flu vaccine for free?

Most provinces and territories publicly fund the flu vaccine for all residents. The exceptions are British Columbia, Quebec, and New Brunswick, which cover flu vaccination for certain residents or under specific circumstances.

For public coverage details, visit: https://www.canada.ca/en/public-health/services/provincial-territorial-immunization-information/public-funding-influenza-vaccination-province-territory.html. For more information about the flu and the vaccine, visit https://www.ontario.ca/page/flu-facts.

December Haiku

Four syllables
Only six syllables
Disruptive haiku

Best wishes for a healthy and happy 2019.

GSC CUSTOMER SERVICE CENTRE 2018 HOLIDAY HOURS

Monday, December 24	CLOSED
Tuesday, December 25	CLOSED
Wednesday, December 26	CLOSED
Thursday, December 27	8:30 a.m. to 8:30 p.m. ET
Friday, December 28	8:30 a.m. to 8:30 p.m. ET
Monday, December 31	8:30 a.m. to 7:00 p.m. ET
Tuesday, January 1	CLOSED

Our regular business hours (8:30 a.m. to 8:30 p.m. ET) resume on Wednesday, January 2, 2019.

FITBIT WINNER

Congratulations to **R. FUDA**, of **WOODBRIDGE, ON**, the winner of our monthly draw for a Fitbit. Through this contest, one name will be drawn each month from plan members who have registered for Plan Member Online Services for that month.

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Windsor	1.800.265.5615	**Vancouver**	1.800.665.1494
London	1.800.265.4429	**Montréal**	1.855.789.9214
Toronto	1.800.268.6613	**Atlantic**	1.844.666.0667
Calgary	1.888.962.8533	**Customer Service**	1.888.711.1119

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