



Insurance Is NOT a Commodity!



Summary:

Yes, you can go to a website, fill in a handful of fields and get a number of quotes. But are the policies actually the same?

By: Chet Gladkowski

Insurance technology was once the red-headed stepchild of financial technology. But with more than [800 insurtech startups](#) garnering almost 150 deals totaling \$3.5 billion of investment since [2015](#), insurtech is a force to be reckoned with. With this infusion of new blood have come some interesting and provocative pronouncements about this great industry. Some have come from people who are smart, insightful and engaged, while others are just plain arrogant, full of hubris, with their feet firmly planted in the air. Some of these observations have been eye-opening and challenging, others benign, some uninformed, some just plain dead wrong. Of all the things said, one is downright wrong. This pronouncement of misinformation is that insurance is a commodity, that all insurance policies are the same, that there is no real difference between policies issued from different companies. **What is a commodity?** The best [definition](#) of a commodity that I can find reads: a product or service that is indistinguishable from ones manufactured or provided by competing companies and that therefore sells primarily on the basis of price rather than quality or style. The key word in that definition is "indistinguishable." The products or services when put side by side act the same, delivering the same results. A perfect example is a battery. When I need a AA battery, I go to the store and buy one. Now it does not matter what store I go to or what brand I buy. As long as it was labeled AA, I knew that it would both fit and work by delivering just the right amount of electricity (provided I put it in the right way, but we'll save that story for another time). [Has Auto Insurance Become a Commodity?](#) Another example is gasoline for our cars. It really does not matter which gas station I go to, or which grade I select; the gas goes into the gas tank, and the car runs. Yes, we can debate the benefits of different additives and octane grades: regular (usually 87 octane), mid-grade (usually 89 octane), and premium (usually 92 or 93) and their impact on engine knock. But the simple truth is that I put any gas into my car and it runs. In one sense, I understand that insurance can be thought of as a commodity. Go to a website, enter a handful of fields, and multiple quotes are presented for you to choose from. In this narrow and limited perspective, insurance can look like a commodity on the front side of the transaction. But the real question is not if a handful of fields can get you a number of quotes, but if those policies are the same? Do they cover the same things? Will claims be paid



at the same amount? If insurance truly is a commodity, policies will all pretty much look the same, covering the same things. **A Personal Example** I was in Las Vegas for InsureTech Connect when Hurricane Matthew came up the Florida coast. I got a text message from the airline that my return flight to Orlando was canceled, and I would be contacted about rebooking. Quickly looking at the Orlando airport website, I read that it was going to be closed starting Thursday noon and at least all day Friday. Once Matthew passed, airport personnel would assess the damage and then determine when to reopen and at what capacity. I was now in full scramble mode, calling the hotel to extend my stay. The agents was very empathetic and most willing to help. This made me feel somewhat relieved until the agent cheerfully informed me that I certainly could extend my stay another night for \$780! I almost said, "Is that with or without dancing girls?" But remembering that I was in Las Vegas, I found myself wondering if that might be an actual option. Holding my tongue, I thought best not to say anything other than to thank the agent for the kind offer. Yes, I was able to find another hotel room that was less expensive. Hurricane Matthew passed without doing much damage in the Orlando area. The airport reopened on Saturday, and I was able to get home without much trouble. The reason for telling you this story is to use it as a backdrop to see if insurance is a commodity, using perhaps the simplest form of insurance: trip insurance. Go to a trip insurance website, enter four pieces of information, get a bunch of quotes, select one and pay for it via credit card. Very simple, very straightforward. Trip insurance certainly walks and talks like a commodity. The question is, when did my trip insurance start? What was covered? What compensation was I due? How much could I expect? This is where our journey really begins. Trip insurance will run you on average between 4% and 9% of the trip cost. But a survey of 10 different trip insurance policies found that the terms and payments were very different. Also, the most expensive policy did not have either the lowest deductibles or the highest benefits. As a matter of fact, one carrier that was priced around 5% of the trip cost had many of the highest benefits. Here are some details of the [different policies](#).

	Lowest Benefit		Highest Benefit		Most Expensive Premium – 9%
	Premium	Payment	Premium	Payment	Payment
Delay Compensation	4%	Up to \$500	5%	Up to \$2,000	Up to \$1,000
Minimum Trip Delay In Hours	4%	12 hours	6%	5 hours	5 hours
Missed Connection	6%	Up to \$250	5%	Up to \$2,000	Up to \$1,000
Luggage Delay	4%	Up to \$200	8%	Up to \$1,250	Up to \$300

As you

can clearly see, the coverages differ significantly in both their cost and potential benefit. Let's walk through Delay Compensation as an example. One policy costs 4% of the trip and pays as much as \$500 for a delay of 12 hours or more (not even covering the cost of my hotel room)/ Another policy costs 5% of the trip yet pays as much as \$2,000 for a delay of five hours or more. The most expensive policy costs 9% of the trip but only pays as much as \$1,000. Pricing, coverage and benefits are not just mildly different, they are wildly different based on product differentiation and competition. This example is based on a simple trip insurance model. [When it comes to healthcare choices](#), comparing plan premiums and deductibles only scratches the surface of what you should evaluate before selecting a plan this fall. Policy



details can make an important difference in coverage and costs, but it may take some digging to uncover them. This caution also applies to personal insurance sold directly to the public. I'm familiar with one person who selected a personal auto carrier because it was the low-cost policy. However, when he had an accident, he discovered that the policy had no collision coverage. The few dollars he saved on the premium were insignificant compared with the \$3,800 repair he had to pay for. **See also: [A Brave New World: Move Away From the Commodity Trap](#)** Differences in coverage and payment, inclusions and exclusions across different types of insurance are as numerous as options on a Rubik's Cube. There are a number of other ways that insurance is not a commodity.

- *Users* ? a commodity does not care who is using it; it just works. The fuel in your car does not care who is behind the wheel or in passenger seats. Insurance, however, does care who is using it. With insurance, depending on circumstances and policy wording, not all drivers of your car are covered by your personal auto policy.
- *Ownership* ? a commodity does not care who owns it; it works. With insurance, a vehicle may be owned by a company with a commercial auto policy, but that does not guarantee that the vehicle is covered.
- *Termination* ? a commodity works until it stops; the battery runs out of energy, the car runs out of fuel. That's it. Insurance, however, is still in effect beyond its expiration date. Florida victims of Hurricane Matthew have five years to file a claim.
- *Location* ? a commodity behaves the same regardless of where it is used. Put a battery into a device, and it provides energy no matter where you go. With insurance, the location matters greatly. While most states have either two or three years to report a real estate property claim, the timeframe varies wildly from a low of one year to a high of 10 years depending on the state. Also, when you drive your car into Mexico, the gas still works, but your auto insurance stops at the border.
- *Consistency* ? a commodity does what it does; its specifications or requirements do not change over time. A battery is designed to deliver so much power over time based on its design. Batteries can lose their charge, and gas can degrade, but their basic function does not change. The same cannot be said about insurance, even if it is written into policy wording or legislative edict. Two recent court cases have dramatically changed the cost and coverage of workers' compensation policies in Florida. The first removed limits on how many billable hours and cost can be accumulated by [claimant attorneys](#). The second changed the duration that temporary total disability claims are to be paid, from two years to five years. Both these decisions were made long after the policies they affect were sold.
- *Cost* ? when a commodity is produced, its costs are known. You know all the parts of the battery, you source them, assemble the battery, distribute and sell them. The same can be said for gas. With a commodity, costs cannot suddenly go up for products already sold. But when you price and sell an insurance policy, you cannot predict all the costs or even what is to be paid and for how long. Think about the two Florida workers' compensation examples above; policies were priced and sold based on "known" limitations on both claimant attorney fees and temporary total disability payments. Insurance companies will now pay unanticipated claim costs above and beyond what



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was originally covered, even though they were not factored into the original pricing. And there is no way to go back to the customer and charge extra for the added claim costs that are above and beyond the original policy.

- *Importance* ? if a battery fails, you throw it out and get another one. If fuel is old or contaminated, your car may sputter for a while, but that's it. However, insurance is oh so much more important. Insurance gives stability to our financial markets. Insurance encourages entrepreneurial investment and risk taking. Insurance helps people rebuild their lives when tragedy happens.

Insurance is vitally important to our economy. Virtually no commerce is conducted without it. Insurance is also wildly complex, varying from state to state, company to company, policy to policy. It requires attention to detail, rigorous and serious thought. For additional information on this topic, follow the links below;

- [Virtual University](#)
- [Independent Agent Magazine](#)



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