Taking to the Cloud

Insurance Industry Outlook 2019

Faced with competition from new entrants and evolving consumer demands, the insurance industry is sharpening its focus on operational efficiency, productivity, and costs while leveraging new technology and talent to develop innovative products and services in the digital economy.

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Technology is to the fore in Deloitte’s 2019 Insurance Industry Outlook which identifies the trends that will impact insurers over the next 12-18 months. From an Irish perspective, we have experienced a significant ramp up of Irish insurers engaging with us on how technology will be a key enabler driving their business forward, both from a cost out and growth perspective. Unlike 18 months ago, when many insurers were having discussions about the need to invest in new technologies, we are now seeing a move to executing with budgets being allocated and programmes being activated. While spend and investment will continue to be needed to support regulatory and financial standards such as GDPR and IFRS 17, insurers — both at group and local level—are turning their attention to areas such as cloud, blockchain and cognitive applications to enhance speed to market.

**Technology Trends**  
**Cloud is high on the agenda**

In Ireland, as elsewhere, insurance carriers have already embarked on the journey to cloud.

Market pressures on premiums are driving carriers to leverage the power of the cloud to deliver scalable on-demand digital services while reducing time to market. The focus on DevSecOps and cyber means that organisations are really looking at how they can balance the need to get new, more relevant products out the door faster while ensuring they have the right tools in place to secure both development and operations.

Using cloud storage and computer power to deliver business insights and enhance fraud detection, risk modelling and financial reporting will have a significant impact on carriers’ ability to scale to meet the needs of their businesses and customers.
A balanced and considered move to cloud is now a key topic of discussion at Board level. Requests from our Irish clients to present to Executive Boards on this topic have greatly increased in the last 6 months. There is a growing recognition that moving to the cloud comes with many benefits; flexibility, shifting from asset ownership to services and removing legacy and technical debt.

To maximise benefits, carriers should develop a multiyear cloud strategy and give cloud a higher priority when deploying new applications. At the same time, carriers should utilise the advanced capabilities of cloud to gain access to better analytics for business decisions.¹

For legacy systems, carriers should apply scoring rules based on business value, application complexity, and system criticality to identify which applications to migrate to the cloud and when. The result will be a phased cloud migration path based on the carrier’s specific requirements.²

The insurance industry is actively working with Blockchain as a transformational technology to address a number of established issues, pain points and costs.

The general approach is to re-engineer or entirely reimagine broken processes rather than to draw out marginal efficiency benefits. Many of the major carriers and reinsurers are participating in consortia. RiskBlocks in North America focuses on FNOL, proof of insurance, fraud, agent and broker licensing, and regulatory reporting. In another example, B3i in Europe has created a ‘Property Catastrophe XOL smart contract’. Elsewhere, individual insurers are testing a plethora of blockchain innovations in areas such as automated settlement, usage-based motor insurance, KYC, trade finance and much more.

While many value-creating concepts have been demonstrated over the past 3-4 years, the major question facing insurers is what is the right approach to developing Blockchain applications: does an individual carrier have the network of participants required to launch and scale a Blockchain platform, should they join an established consortium, or is there an opportunity to form a new consortium?

2018 was mostly about assessing where the most immediate value of distributed ledger technology may lie for insurers, determining what processes to upgrade initially, and figuring out how to collaborate with competitors. This year will likely see the industry move past basic education and proofs of concept to preparing for the launch of an increasing number of real-world blockchain applications impacting day-to-day operations.

In Asia, for example, AIA Hong Kong launched a blockchain-enabled bancassurance platform allowing the life insurer and its bank distributors to share policy data and digital documents in real time, streamlining the on-boarding process, improving transparency, and reconciling commissions automatically through smart contracts.

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On the property-casualty side, the Hong Kong Federation of Insurers is working to establish a blockchain-based auto insurance platform. In Europe, AXA is offering flight-delay insurance over a blockchain platform with parametric triggers and smart contracts.

In addition, groups of insurers are forming consortiums to share startup expenses as well as enable cross-industry collaboration, open-source agility, and quicker scalability. While we probably won’t see sudden and dramatic implementation growth in 2019, large carriers and consortiums are expected to launch more impactful blockchain initiatives that could change the shape of insurance operations. This could set the stage for much wider blockchain adoption across the industry going into 2020.

Product Development

The insurance industry is quickly becoming the next battleground for new entrants with innovative business models and value propositions that challenge traditional carriers.

Changing consumer behaviour along with the rise of InsurTech, advanced technologies and the gig and sharing economy are disrupting every dimension of the value chain. What we see in the market is that InsurTechs are not seeking to compete with or displace incumbents. Instead, they aim either to solve legacy problems or to enhance underwriting, distribution, and claims functions.

Partnerships between InsurTechs and incumbents can help to build a connected community that is more modular, flexible, and customer-centric. Already, a number of indigenous InsurTechs are partnering with Irish carriers and communities such as the Dogpatch lab in the iFSC. Our EMEA Deloitte InsurTech Leader, Nigel Walsh, is currently increasing engagement with local insurers who are scanning

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the global InsurTech community to collaborate with tech companies that can solve particular challenges and find opportunities across the value chain.

Proposition design now starts with the customers and works back to the business rather than arriving in the market without customer testing.

Incumbents can speed up innovation either by integrating InsureTech’s next-generation technical capabilities and entrepreneurial culture into their existing environment or by establishing a NewCo style InsureTech entity.

The Deloitte 2019 Insurance Industry Outlook shows that personal lines have attracted the lion’s share of InsurTech activity up to now, but more applications are expected to target underdeveloped areas, particularly the small-to-middle commercial markets as well as life insurance, perhaps leveraging the innovations in sensors, analytics, and distribution already deployed in auto and homeowner’s insurance for other sectors. However, while sensor-based telematics policies are poised to become a major force in product development, such programs may yet end up being a major challenge for insurers to implement and market.

**Future of Work**

We are seeing a number of mega trends coming together to create real and lasting disruption on the people side of Irish insurance businesses. These trends impact the work that people do, the make-up of the workforce, and where work gets done. They include:

- Diversity and generational change – millennials now make up most of the workforce, but they are working alongside three other distinct generations. The 50-year career is becoming a reality as lifespans increase.
- Impact of technology – there are 6bn smartphones in the world, creating a “tsunami” of data that enables machine learning.
- Automation – The unit cost of implementing robotic process automation has shrunk from €500k per robot in 2008 to approx. €20k today.
- Jobs and careers – an increasing number of jobs (up to 50% in some analyses) have potential to be automated. In the meantime, the “half-life” of a learned skill is now 4.5 years.

The challenge is to take advantage of the benefits technology and automation can create, while also re-skilling the workforce and appealing to new and diverse talent pools when sourcing the skills needed for a digital, customer-focused world.

Most insurers are decomposing jobs to analyse how work is currently performed, determine which capabilities can and should be automated, and establish what new skill sets may be required to maximise the value employees can bring in the wake of automation. The time and attention of actuaries, underwriters, claims adjusters, and other key players will likely be freed up for higher-level tasks and more strategic responsibilities. Employees should ultimately be spending more time on ideation and decision making - and far less on computation and distillation.

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Beyond technology, insurers are also putting plans in place to respond to broader, fundamental employment shifts as more professionals join the open talent economy—a blend of full and part-time workers, short-term contractors, and freelancers.

We see that organisations are moving towards becoming networked “ecosystems”, where full-time staff, contractors, partners, and machines, work alongside each other to deliver digital products and services in real-time to consumers. This shift is likely to continue to disrupt the insurance sector in Ireland as businesses compete for the skills and mindset of a generation of “digital natives”.

Integration of cutting-edge technology should help insurers attract younger, more tech-savvy workers into the industry. However, this new workforce will likely demand an exceptional physical and digital workspace, as well as an appealing experience that puts employees at the centre, helps them feel engaged, and keeps them in the fold.

While recruitment of new blood is important, insurers should also pay close attention to retraining and retaining Baby Boomers, who typically have irreplaceable institutional knowledge and industry experience. Cross-mentoring between Baby Boomers and Gen Z employees just entering the workforce could benefit both groups.

**Regulation**

Insurance regulators around the globe are broadening their focus from solvency to include market conduct oversight. Insurers are expected to maintain embedded conduct risk frameworks with strong product governance from origination through the sale process to maturity alongside individual accountability and an effective risk management culture.

To enable continuous oversight and management of the sales process, insurers may increasingly look to RegTech.

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The Central Bank of Ireland (CBI) put a strong focus on strengthening consumer protection and resilience in the recently published Strategic Plan 2019-2021 and is asking firms to look at their outsourcing arrangements to ensure that they have effective risk management and governance arrangements in place.

In an Economic Letter on Climate Change and the Irish Financial System, the CBI also recently highlighted its role in ensuring that financial firms incorporate climate change into strategic and financial plans and that consumers have sufficient information to navigate the financial risks posed by climate change.

**Cyber Risk**
In early 2018, one think tank estimated that cybercrime costs the global economy the equivalent of 0.8 percent of GDP, or $600 billion annually. As regulations to reduce the more obvious cyber risks go into effect, insurers may wish to begin preparing now for increased worldwide regulatory oversight (see figure 1).

![Figure 1: Cyber risk management attracts global regulatory interest](image)

The G7 developed the "Fundamental Elements of Cyber security for the Financial Sector" to help bolster the overall cyber security and resilience of the international financial system.


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From an Irish perspective, 2018 was a big year for security and privacy with GDPR coming into full force. The insurance sector invested huge time and energy into identifying and treating risks raised by GDPR.

The 2019 Cyber security threat landscape is ever evolving and so too are the response requirements. Insurers are dealing with a rise in faceless cybercrime such as ransomware and denial of service attacks as well as a rise in reported internal and external data breaches. This is partly due to the increased monitoring the industry has put in place. The associated costs of dealing with a breach have escalated and many organisations are looking to the insurance industry to help them treat the cyber risks they are identifying as an area of deep interest and focus for the InsurTech startup community.

Meanwhile, the consumer expects to rely on the insurance industry in the event of their own crisis and entrusts some of their most personal data to them. It is important for insurers to understand their own cyber maturity posture so that they can treat the security risks identified appropriately and maintain consumer confidence. From the connected car to personalised drug therapies to the smart home, insurance is becoming more influenced by technology on a daily basis. Therefore, it is imperative that the security aspects of new technologies are considered both from a service and underwriting perspective.

For the most part, cyber insurance has yet to live up to expectations of being perhaps the biggest organic growth opportunity for property-casualty insurers. A recent survey by the Council of Insurance Agents and Brokers found that only one-third of the respondents’ clients had purchased cyber coverage, which was the same as six months earlier, with policy limits averaging just $3.2 million - a proverbial drop in the bucket if a major event occurs.8

Insurers are likely writing cyber risk with extreme caution because of the unmet challenge in modelling a moving target, as new threat actors and types of attacks keep emerging. It is also a difficult coverage to mass market because while vulnerabilities may be common, the risks are often individualised to each industry and buyer. There may be hesitance as well because data-rich insurers themselves are prime targets.

As insurers continue to refine their cyber coverages and work on underwriting and pricing this emerging risk, carriers should reexamine existing property and liability policies for “silent” cyber coverage they didn’t intend to write, working with brokers and clients to make coverage explicit through clear revisions of terms and conditions, additional endorsements, and/or introducing supplemental, stand-alone policies. Directors and officers liability is one example of a standard coverage that could face new and perhaps unanticipated exposures for companies experiencing a cyber breach.

**Privacy Trends**
Consumer privacy is an emerging global issue for which insurers need to be prepared or risk suffering serious consequences. It requires involvement of just about all the stakeholders in an organisation, not just legal and IT.

While insurers should work to ensure their operating models address and respect a broader definition of privacy and the management of privacy risk than may have been the standard previously, they should also be thinking about how to capitalise on the new types of data they are collecting via telematics sensors, social media, and other sources.

How might the rapidly expanding universe of alternative data be productively and profitably harvested for the mutual benefit of insurers and their policyholders alike, without running afoul of any regulatory restrictions? The answer to this question could be a differentiator.

**Sustainability Trends**
Sustainability disclosure and risk management regulations may be the next major issues insurers face. More than 200 global regulator members of the IAIS have identified sustainability as a major emerging issue and a focus of the organisation’s five-year strategic plan.

Sustainability exposures the IAIS identified include liability, underwriting, market, investment, strategic, operational, reputational, pricing, and asset risks.

The G-20’s Financial Stability Board Task Force on Climate-related Financial Disclosures has issued recommendations, including disclosure of board oversight and of management’s role in assessing climate-related risks and opportunities. Regulators are also urging disclosure of climate change assessment metrics and risk management strategies, with some calling for climate change risk reporting to be included in the NAIC’s Own Risk and Solvency Assessment.

Disclosure is the core issue for insurers and involves various operational concerns. The task force says, “Disclosure of climate-related financial information is a prerequisite for financial firms not only to manage and price climate risks appropriately but also, if they wish, to take lending, investment or insurance underwriting decisions based on their view of transition scenarios.”

All disclosures should be included in a company’s public annual financial filings.

With the task force proposing a five-year time frame for full implementation of its recommendations, insurers may wish to begin by ensuring appropriate goal setting and oversight at the board level, along with creating appropriate metrics for senior management, reflecting that climate risks are or could be material.

As climate change may be tied to the rise in frequency and severity of natural disasters, this appears to be a core issue for insurers, as well as the broader financial sector and economy at large.

**Accounting Rule Changes**
Significant changes are coming to insurance accounting. The International Financial Reporting Standards No. 17 (IFRS 17), Insurance Contracts, was issued in 2017 and will be effective in most countries on January 1, 2021. At the same time, US GAAP is undergoing changes as the Financial Accounting Standards Board (FASB) recently issued ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts.

IFRS 17 is designed to enable consistent, principles-based accounting for insurance contracts. The new standard requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform...
measurement and presentation approach for all insurance contracts.

For insurers subject to US GAAP, ASU 2018-12 is a significant change that takes effect on a similar timeline to IFRS 17. The ASU is effective for fiscal years beginning after December 15, 2020, for public business entities, and for fiscal years beginning after December 15, 2021, for all others.

ASU 2018-12 is meant to improve certain aspects of financial reporting related to long-duration insurance contracts, including the measurement of liability for future policy benefits related to non-participating traditional and limited-payment contracts, the measurement and presentation of market risk benefits, the amortisation of deferred acquisition costs (DAC), and presentation and disclosures.

**Tax Reform**

We have seen significant international tax reform over the last number of years, as a result of initiatives such as the Base Erosion Profit Shifting (BEPS) project. A number of important actions have arisen from the project such as the introduction of the Multilateral Instrument which has effectively resulted in the amendment of many international double tax treaties and important changes including anti-avoidance provisions being introduced in many countries.

In 2018, we saw the introduction of a new EU Directive (DAC 6) which will require certain cross border transactions commenced on or after 25 June 2018 to be reported to tax authorities. The scope of the Directive is very wide and it can potentially apply where no tax advantage arises. We also saw the Department of Finance publish Ireland’s Corporation Tax Roadmap which flags a number of areas where we can expect change in Ireland’s corporation tax regime in the future.

In addition, a number of the provisions of the Anti-Tax Avoidance Directive (ATAD) were legislated for in Ireland including a new exit tax regime and the introduction of Controlled Foreign Company legislation for the first time in Ireland.

Tax reform is set to continue into the future. At the end of last year the Department of Finance launched a public consultation in respect of the proposed interest limitation and anti-hybrid rules. More recently, we
have seen another public consultation launched by the Department of Finance in relation to amending and extending the scope of Ireland’s transfer pricing regime.

The scale of tax reform and the requirements for increasing tax transparency has meant that tax has become a key focus at organisational and Board level.

While each of the trends discussed in this article is important in its own right, a broader challenge for the industry may be tackling long-standing presumptions about brand strength, data mastery, capital access, and product complexity. The winners in the race to become the insurers of the future will be those with the ability to take advantage of new technologies and data sets, design services and solutions rather than products, transform operating platforms through collaborative initiatives and ecosystems, and do so in a pragmatic and material way. This evolution won’t happen overnight, but it is already well underway. The race is on.

Questions C-suite should consider Cloud

Change the mind-set: Is your organisation ready to move core business capabilities into the cloud? Will you opt for cloud native solutions while migrating legacy systems? Are you starting to adopt cloud when developing new applications? Do you see cloud as a means to gain access to improved analytics and organisational agility?

Let’s get started: Does your cloud strategy include a multiyear, phased integration plan? Have you started to plan and upgrade processes and resources to achieve your cloud strategy? Have you identified the applications and workloads to be migrated to the cloud? Can you tap into an ecosystem of service providers to get maximum benefit from cloud adoption? Have you adapted your security policies for cloud use?

Product development

Change the mindset: Will your organisation respond to emerging consumer desire for increased personalisation and flexibility of insurance policies and services? Are you considering knocking down traditional product line silos to adapt to a changing economy? Is real-time, consumer-activated insurance a potential capability for your company in the near term?

Let’s get started: How will your company alter your policies and distribution system to meet evolving consumer needs and preferences? Will you consider aligning with InsurTechs to introduce new approaches, platforms, and policy designs? Are you effectively bolstering your IoT and sensor-based strategies to modernise current product development programmes?
Talent
Change the mind-set: Is your organisation analysing the changes in employee and management skill sets needed to maximise the value of emerging automation? How might you engage the open talent economy to capitalise on the need for flexible staffing and work environments?

Let’s get started: Are you developing leaders who can guide an evolving workforce to take full advantage of a digital organisation? Does your talent strategy include the capability for ongoing adaptation? What is your plan to attract and retain younger, tech-savvy employees as well as retain experienced Baby Boomers? Are you considering tax, health care, regulatory, pension, and immigration reform to maximise the cost benefit equation?

Regulation
Change the mind-set: Is your company positioned to comply nimbly and efficiently with changing levels and areas of focus for regulatory oversight such as market conduct, cyber risk management, and privacy?

Let’s get started: Has your organisation considered how it will respond if regulatory standards for acceptable producer behaviour change and perhaps differ? Are you reviewing your product design and mix to minimise compliance and competitiveness concerns? Have you examined adopting RegTech to better enable ongoing oversight of the sales process and other compliance challenges?

Cyber risk
Change the mind-set: Are you managing your cyber risk in a way that enables secure innovation? Is your organisation embedding security early on for digital investments and moves to the cloud? Does cyber security permeate every level of the company?

Let’s get started: Do you know where all your data are and what risks attach to that? Is your organisation prepared to properly manage third-party cyber security risks, including cloud adoption and concentration exposures? Do you have business continuity and exit plans in place for your third party provider relationships?

Privacy
Change the mind-set: Are you considering the effect on your operating model if the data you have is no longer wholly yours? Are you prepared or preparing to cope with increased consumer rights to their data?

Let’s get started: Are you taking an enterprise-wide approach to compliance with new privacy regulations where they impact your firm? Is it being driven from the top? Even if not directly affected by new laws, are you preparing to address consumer privacy concerns? Given the spotlight on sharing and using customer data, is your firm positioned to successfully capitalise on the full value of the growing number of sources and volume of information while satisfying regulatory concerns?

Tax reform
Change the mind-set: As new guidance is issued, forward planning and evaluation of tax operating models may help insurers maintain their returns. Are you challenging the status quo in light of the new realities?

Let’s get started: Have you appropriately modelled your organisation’s tax profile to mitigate tax burdens? Is your ERP system tax enabled? Have you reviewed the tax function’s resource model? Have you considered handing off non-core items to outside providers and optimising your technology use to enable more tax function focus on high-value items?

This article is sourced from 2019 Insurance Industry Outlook - Strategies to stay competitive in the insurance market Deloitte.com