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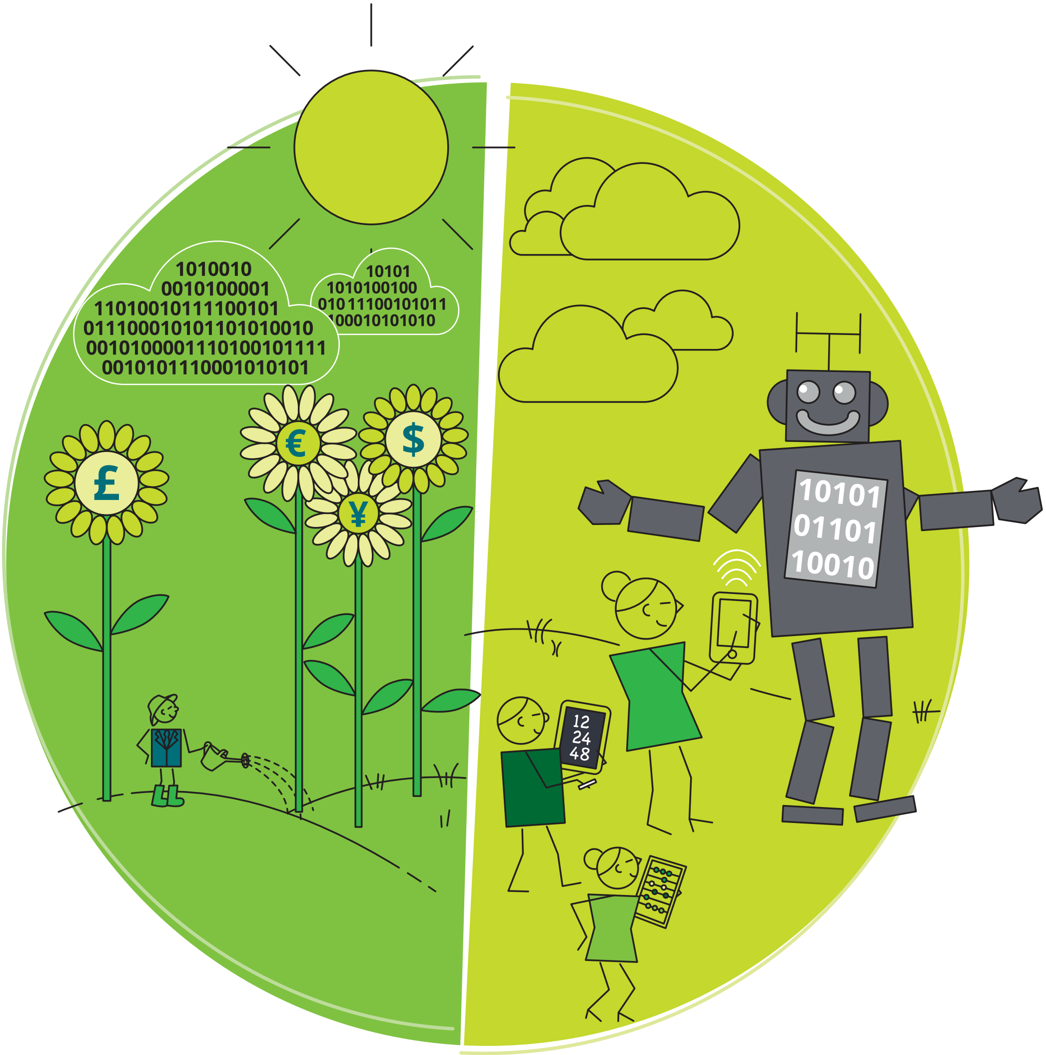


A demanding future

The four trends that define insurance in 2020

Chapter Four: Digital disruption – practical not theoretical

Digital disruption – practical not theoretical

Disruption from new technologies is a given. It wends its way through all the other trends we outlined in this series. But acknowledging it and acting on it are very different propositions. In the fourth part of our new campaign *A demanding future: The four trends that define insurance in 2020*, based on an exclusive survey of 200 EMEA insurance executives, we explain how insurance companies can begin to deploy the right technology for the right purpose to avoid being left behind.

Key findings

Confidence abounds

80%

of respondents believe the insurance industry is moving fast enough to keep up with technological advancement.

Analyse this

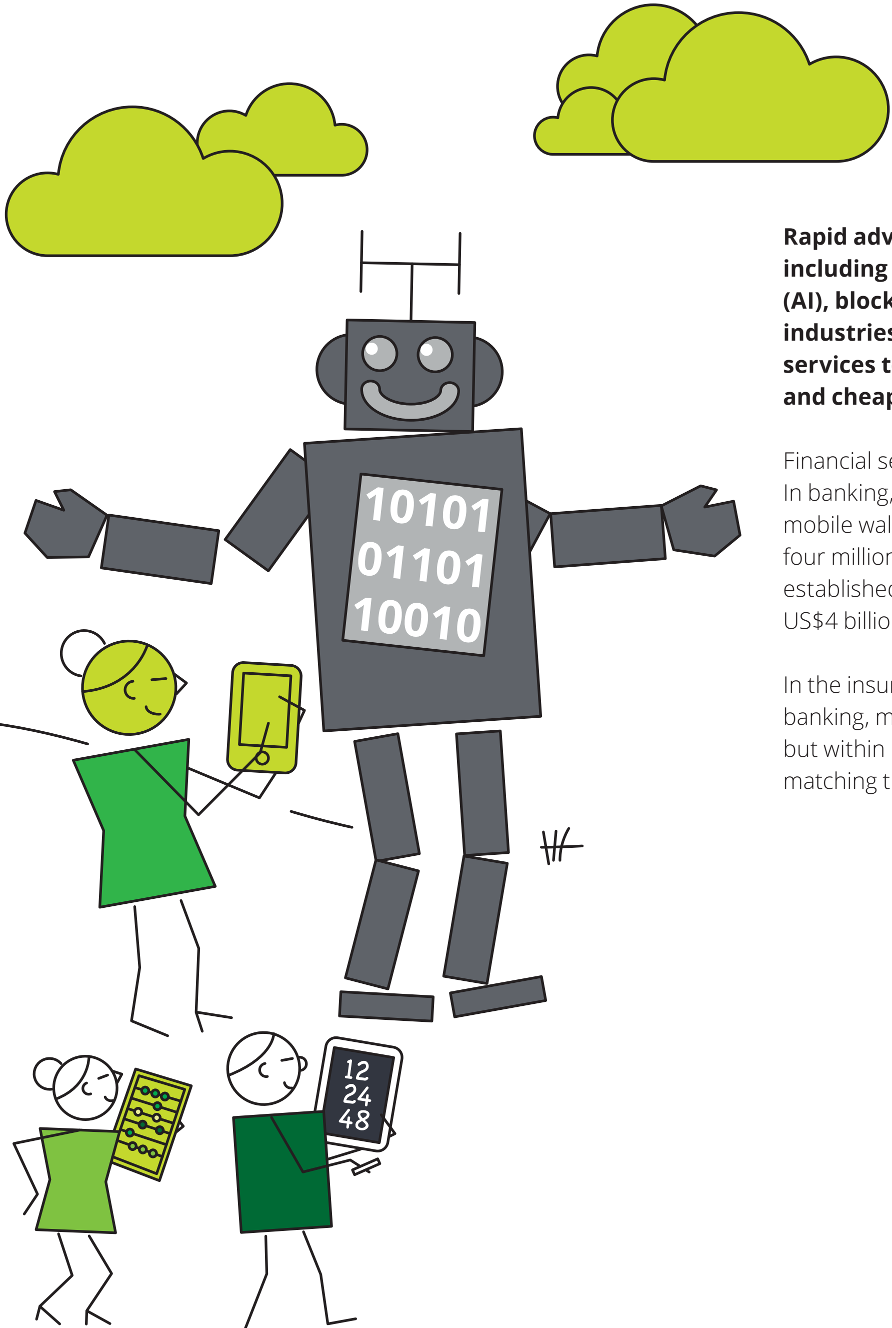
95%

expect the use of advanced analytics to increase over the next three years.

The challenge of compliance

51%

see compliance with cyber and data protection laws and regulations as the top challenge in adjusting to digital disruption regarding technology adoption.



Rapid advances across a whole range of technologies, including big data and analytics, cloud, artificial intelligence (AI), blockchain and the Internet of Things (IoT), are enabling industries as diverse as media, healthcare and financial services to do more for their customers – and to do it faster and cheaper.

Financial services, in particular, are seeing significant disruption. In banking, for example, we've seen players such as Revolut, a mobile wallet that offers a number of banking services, attract over four million customers since it launched in 2015. TransferWise, established eight years ago, now facilitates payments worth over US$4 billion a month.

In the insurance sector, however, disruption has been slower. In banking, many fintechs have rapidly become businesses of scale, but within insurtech lags: no disruptor in the sector comes close to matching the customer base built by, say, Revolut.

Caution appears to be the order of the day. One CTO at a UK reinsurer in our survey comments: “The benefits of innovation have to be measured against the consequences or risk of adopting it and the impact it will have. Hence, the progress of technology within the industry has been slower as compared to others”.

However, according to our survey, the majority (80%) of insurers believe their industry is moving quickly enough to keep up with technological advances. “Insurers have faced challenges with the increased importance of technology adoption,” explains a head of finance at a Russia-based life insurance and annuity company. “But many have incorporated these within the core structure of the business”.

Indeed, some respondents think change has to take place incrementally rather than at breakneck pace. “Developing infrastructure for digital enhancements will take time and investment, but with the constant changes in technology, there are some reservations here,” says an Oman-based CEO of a property and casualty insurer.

Don’t get left behind

However, this is an industry that may have less time to transform than it realises. If insurance executives are measuring their progress in the journey towards digital transformation against their peers in the industry, they are likely using the wrong benchmark. Change will come from other sectors – and soon. Large technology companies, built on their ability to enhance the customer experience, are already cutting their teeth in similarly heavily regulated spaces, including banking. Insurance is a logical next step.

Some are already taking it. Amazon, for example, has invested in insurers, including the India-based digital start-up Acko General Insurance, and has its sights set on the healthcare market (including insurance); rumours abound that it is looking to enter the home insurance market to leverage the capabilities of data collected by devices such as its Echo Dot. Elsewhere, Asian technology giants, such as Alibaba and Tencent, already offer insurance across their apps and have invested in a wide range of insurance companies over the past few years. Compared to these potential new rivals, insurance companies are way behind on technology adoption.

How, then, can companies catch up? What are the practical steps insurers must now take to turn talk of transformation into reality – while remaining conscious of the need for prudent risk management that appears to have held many companies back?

Rethink the business model

Simply adding new tools and technologies to a traditional insurance operation is unlikely to be enough. Instead, insurers now need to rethink their business model. The future of insurance increasingly looks likely to lie in a platform model, where insurers have a means to create and service products from a standardised platform that can generate scale and flexibility.

It may offer both a direct and an indirect proposition – allowing access to the insurers' own products, but also providing a means for others to sell their products, either on a white-label basis or in their own name. Having such a platform will open up a broader set of distribution channels.

The key will be to move away from the silo model. Innovation in too many insurers is currently taking place at the product level rather than the customer level, which misses the point. Customers want simplicity and convenience – for example, a single customer touchpoint rather than a time-consuming process in which they must complete new paperwork for every type of policy they hold each time they want a new product or service.

Aggregators and comparison services provide an example of what can be achieved at the customer level, with platforms such as Flipper and Labrador increasingly automating the process of securing the best policy on a continuing basis across every personal line. Aviva's MyAviva online service is an example of an insurer providing customers with the ability to see all their products, services and interactions through a single point of contact.

In practice, the successful insurer of the future is one that can offer the cake, rather than simply all the ingredients. Waggel's pet insurance offers pet owners a collar that enables them to see whether their cat or dog is drinking, a fundamental question vets will ask. Vitality's health insurance offers free activity-monitoring devices and rewards policyholders who exercise with lower premiums.

Rethink the operating model

With new value propositions in play, it will be crucial to rethink the operating model of the business. Most insurers still operate according to very traditional models, where the business and the IT function operate separately. However, that doesn't provide the agility that insurers now need.

As the head of development and technology at a Finland-based life insurance company says: "We've already made some big investments that need justification in the longer run. The challenge is to work our way through and create services that are strong, easily marketable and supported by a centralised operations model".

The imperative is to move towards a model where product owner and technology enablers are more collaborative – embedded in each other's activities. The product owner is thinking about how to manufacture the product, how to support it and how to distribute it, while simultaneously working with technology specialists on how they will enable these endeavours in a much more seamless and integrated way.

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Head of development and technology, Finland-based life insurance company

Put a leadership model in place to drive change

Without strong leadership, transformation will not happen quickly enough. In our survey, more than a third of respondents (36%) say a lack of leadership knowledge and/or support for technology adoption has been a major challenge to transformation.

When asked who in the organisation takes responsibility for technology transformation, over half of respondents (57%) said the chief technology officer (CTO). But in practice, too few insurers have appointed CTOs to drive their technology strategies – and even with a CTO in place, defining the role will be crucial.

One model is to make the CTO responsible for standardisation and simplification across the organisation – in other words, for building a technology architecture that will make the business easier to change and more agile.

In which case, the role driving the transformation agenda – thinking about everything from what makes the customer tick to what data is required and how – brings in the business owner, the chief information officer (CIO) and the CTO. This is the role that brings it all together, defining the product, the distribution model, the support model and the technology to create the right customer experience at the lowest possible cost in the most flexible way – and that has to be a team approach.

One chief risk officer at a France-based reinsurance group puts it this way: “I anticipate fast changes in leadership models and organisational structures, all in favour of creating workable technological advances”.

Ultimately, however, insurers’ boards must step up and take responsibility – and increase their knowledge base accordingly. That will mean more CIOs sitting on boards, but it will also mean that the board itself should be held accountable for transformation. Where authority is delegated, leaders must be given the power to make things happen.

Focus on cloud computing as an enabling technology

As insurers ponder where to prioritise investment in new technology, cloud computing should be the number one priority. The cloud provides the flexible, scalable architecture that will underpin the organisation's ambitions for what it can achieve with emerging technologies.

Without a clear strategy for cloud adoption, it will be very difficult to progress in areas such as data and analytics, or with the Internet of Things, which essentially serves as a source of new data. A more scalable, flexible, reliable and secure infrastructure is a fundamental piece in the transformational jigsaw.

The good news from this survey is that cloud technology tops the list of priorities for insurers planning investment over the next three years. Some 48% (and 52% of life insurers) pick cloud out.

AXA's 'Move to the Cloud' initiative exemplifies what is possible. It will, according to the company, "Modernise and update our technology infrastructure," and enable it to exploit technology such as artificial intelligence, chatbots and image recognition, which it would not be able to do with "existing systems and processes".

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AXA's 'Move to the Cloud' initiative

Build out data analytics functionality

Elsewhere, 31% of survey respondents intend to prioritise data and analytics (rising to 41% of life insurers and annuity providers). This is important, for insurers now need to do a better job of putting their data in order. For all the talk of acquiring a single view of the customer, most insurers are some way off this ideal. MyAviva provides a rare example of a large UK-based insurer being able to offer a single point of view for the customer of all their products.

One problem has been concern about compliance with cyber security and data protection laws; over half (51%) of our survey respondents cite this worry. For example, a France-based reinsurance group chief risk officer says: "Cybersecurity is a growing concern, given the kind of information we store. Compliance has also become more complicated in the past couple of years".

However, addressing the organisation's data footprint from a commercial perspective provides an opportunity to examine the regulatory issues too – the latter should not be a bar to driving greater value from data. Indeed, strong compliance performance is part of this picture given the reputational damage to those insurers sanctioned for breaches.

With data better organised and structured, analytics is then a tool that insurers can use to remove friction – to create the best possible customer experience, while managing risk and pricing it accurately and consistently. Insurers therefore need to be adopting and embedding analytics in every aspect of their operations.

Many are doing so: 95% of survey respondents say their company's use of advanced analytics has increased over the past three years, including 12% who say it has increased significantly. But insurers must continue to ask themselves searching questions. Does your existing technology architecture enable you to look at your value chain – the fundamental customer processes in your business – and improve it? If not, what functionality do you need to add to reach that point?

The IoT, for example, provides access to new data – and is a priority for 34% of survey respondents. One really exciting application is the way in which IoT can help insurers become proactive rather than reactive – monitoring water usage in a home, for example, to identify leaks before they do damage and give rise to a claim; or in the agricultural sector, monitoring the temperature of cattle to identify health problems before they develop into issues that threaten the entire herd.

Equally, while analytics have a crucial role to play in insurance, it's important that insurers focus on what they want to achieve and use the right tools for the job. AI and advanced analytics, for example, may add little to the distribution process, but could work very well in claims. Right now, too many insurers are doing well in pockets of analytics but failing to tie it all together – and to produce insight around the customer rather than the product.

Explore different routes to acquiring new capabilities

Insurers need to think carefully about the best way to acquire new technologies and intellectual property. Insurers need to decide whether in-house resources, a partnership approach, or an outright acquisition represents the best way forward.

In practice, there is no single right answer. In-house capability is essential for activities that generate competitive advantage, where insurers need to maintain control. Similarly, the regulatory imperative requires an in-house response. But for other types of capability, particularly more commoditised functions, it may make more sense to work with a third party.

Innovation may require imagination. Working with challenger businesses and insurtechs may represent an opportunity to learn from their new types of thinking – new products and new customer propositions may then need to be adapted as they are commercialised at scale. Equally, as-a-service type models can be an effective way to secure access to new capabilities without having to overhaul large legacy technology structure.

Firms should not shy away from bold approaches. For example, this may mean investing in adjacent capabilities and sectors – grabbing an external partner that is passionate about technology rather than insurance and fusing it with an insurance mindset.

However, moving to this more open architecture, based on partnership and collaboration, will also require a new approach from procurement. For many insurers, procurement remains a traditional function ill-suited to new ways of working – this will need to change.

There will be no shortage of opportunities to work with the burgeoning insurtech sector, with innovators emerging at pace. Take Prima, for example, which offers policy management software and has developed a digital platform specifically for property and commercial insurers. German-based Clark has developed an insurance robo-advisor app, which helps customers optimise and manage their insurance policies, in effect providing a platform for insurers to access new customers.

Insurers recognise the need to keep a watchful eye on such start-ups, with 95% adopting a strategy of some kind towards insurtechs. Meanwhile, a third (34%) of respondents have invested in order to access disruptive technologies. The second most popular route (mentioned by 27% of respondents) was partnering with organisations such as accelerators, labs and hackathons, with 38% of reinsurers favouring this as a means of keeping abreast of technological development. Finally, 17% said they primarily made select investments in insurtech start-ups that solve specific problems or open pre-defined opportunities.

Many insurers are taking multiple paths. For example, since 2016, Aviva has set up three ‘digital garages’ to incubate digital innovation in the insurance industry: the company, which also has a venture capital fund, Aviva Ventures, has made a strategic investment in robo-advisor Wealthify; set up a joint venture with investment management firm Hillhouse and tech and investment giant Tencent to “Disrupt Hong Kong’s intermediary-dominated insurance market”; and partnered with the University of Cambridge to develop insurance use cases for data science.

Elsewhere, insurers are beginning to hone their strategies. The venture arm of Allianz, for example, has pulled back from making investments into early-stage companies, emphasising a “Focus on digital investment with strategic relevance for Allianz”. Still, it continues to invest. In 2019, it announced an increase in its fund size to €1 billion, making it one of Europe’s largest corporate digital investment arms.

Insurers should not be afraid of starting afresh. One option is to create a greenfield operation/even a new brand, that operates on a standalone basis from the legacy insurance business.

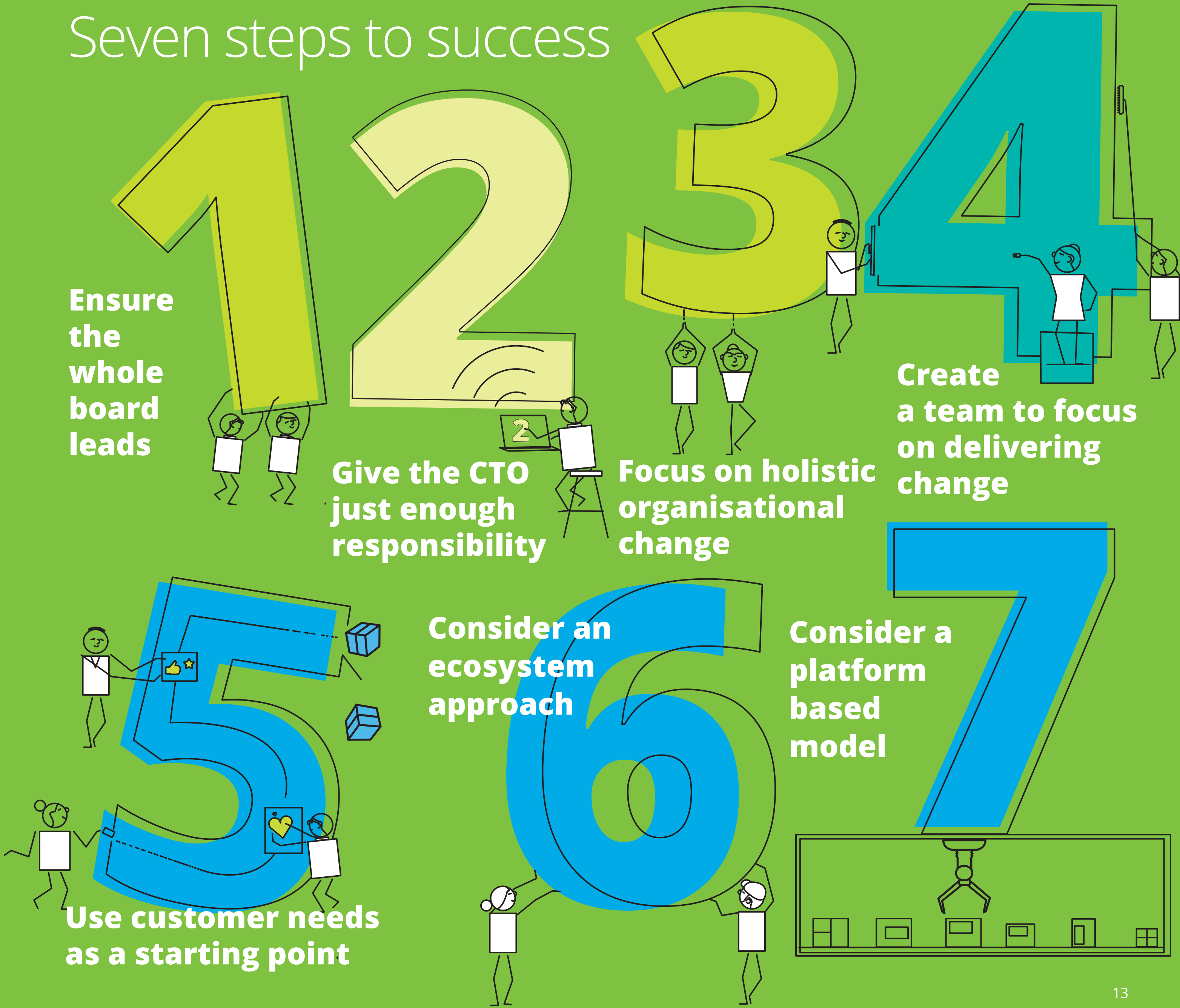
Don't be afraid to consider greenfield ventures

Insurers should not be afraid of starting afresh. One option is to create a greenfield operation/even a new brand, that operates on a standalone basis from the legacy insurance business. It's an opportunity to put new operating and business models into practice with custom-built technologies rather than trying to change what you already have.

If they work, these new ways of operating can be embedded in the original organisation later on, but in the meantime, the business is not encumbered by technology interdependencies, cultural barriers or legacy challenges – it's a safe way to explore transformation.

The Canadian insurer Sonnet, for example, is a 300-year-old organisation that was struggling to transform. It created a brand-new digital-only insurance operation with a completely different business model to its traditional business. This enabled it to enter the direct-to-consumer market for the first time.

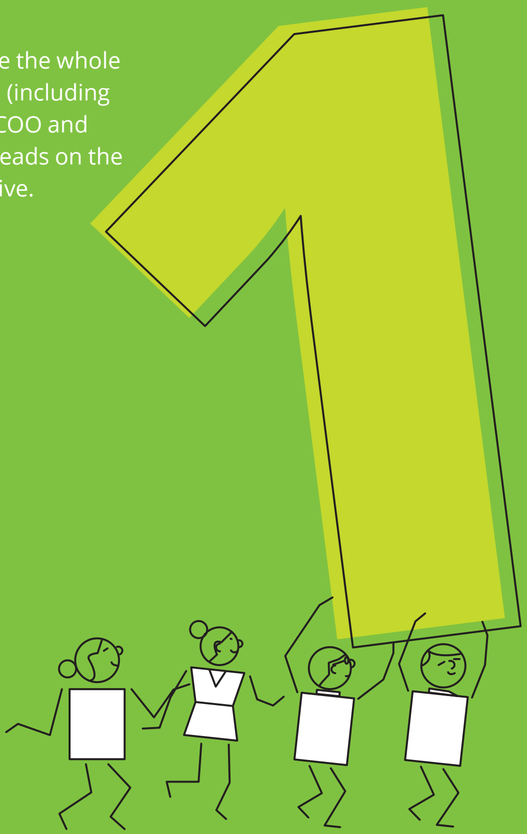
Seven steps to success



To achieve holistic technology and business transformation, insurers will need to:

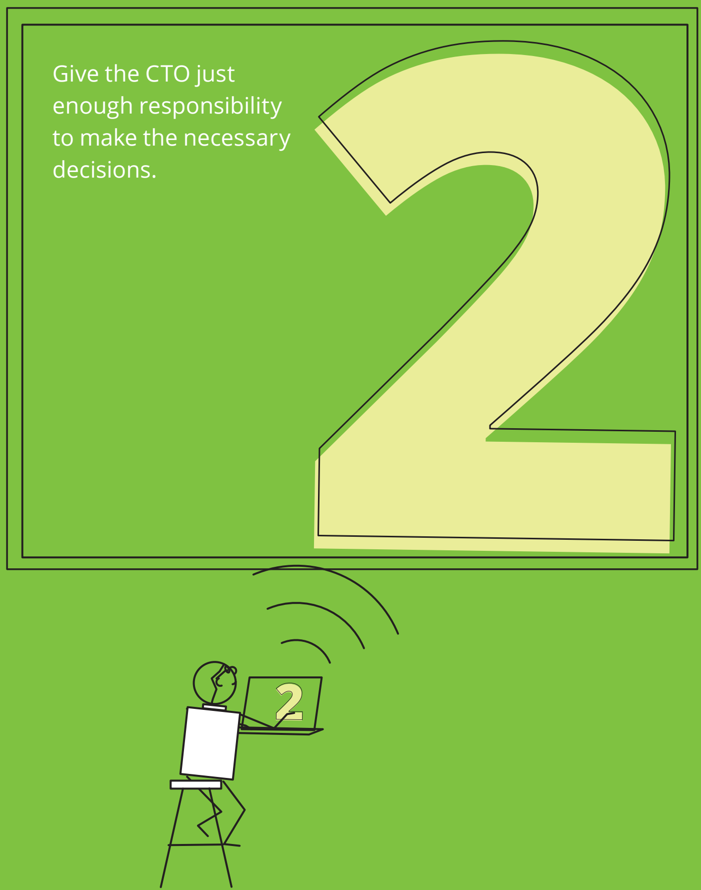
Ensure the whole board leads

Ensure the whole board (including CEO, COO and CFO) leads on the initiative.



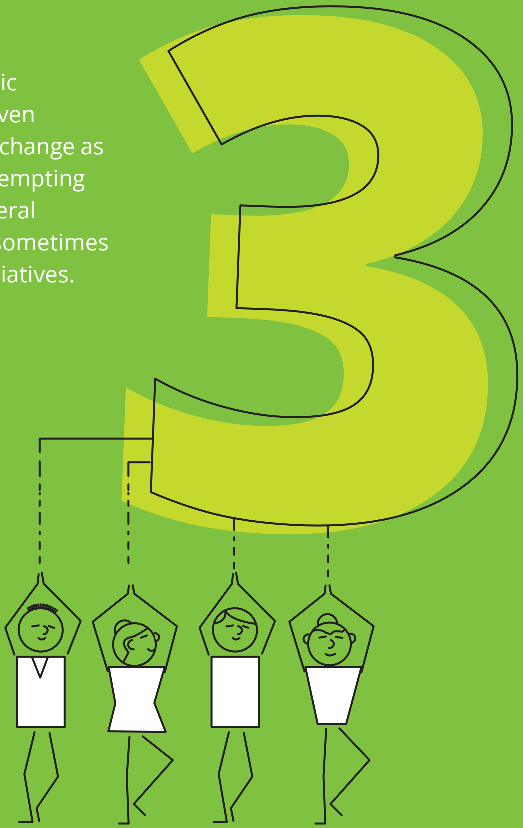
Give the CTO just enough responsibility

Give the CTO just enough responsibility to make the necessary decisions.



Focus on holistic organisational change

Focus on holistic technology-driven organisational change as opposed to attempting to work on several different (and sometimes competing) initiatives.



Create a team to focus on delivering change

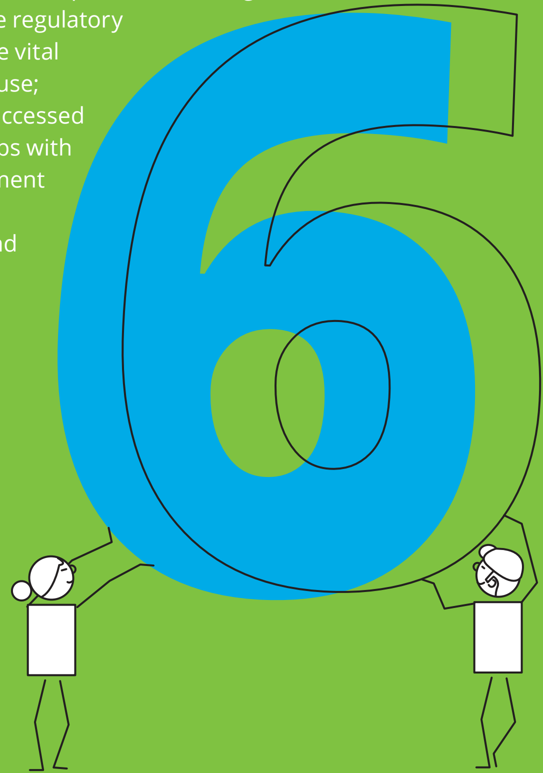
Create a team or pod consisting of people from across different functions with a focus on delivering change throughout the organisation.

Use customer needs as a starting point

Use customer needs and preferences as the starting point. The team can then work through how products and services can be delivered, and through which distribution channels, automating as much as possible to create the best customer experience at the lowest possible cost of operation in the most flexible way.

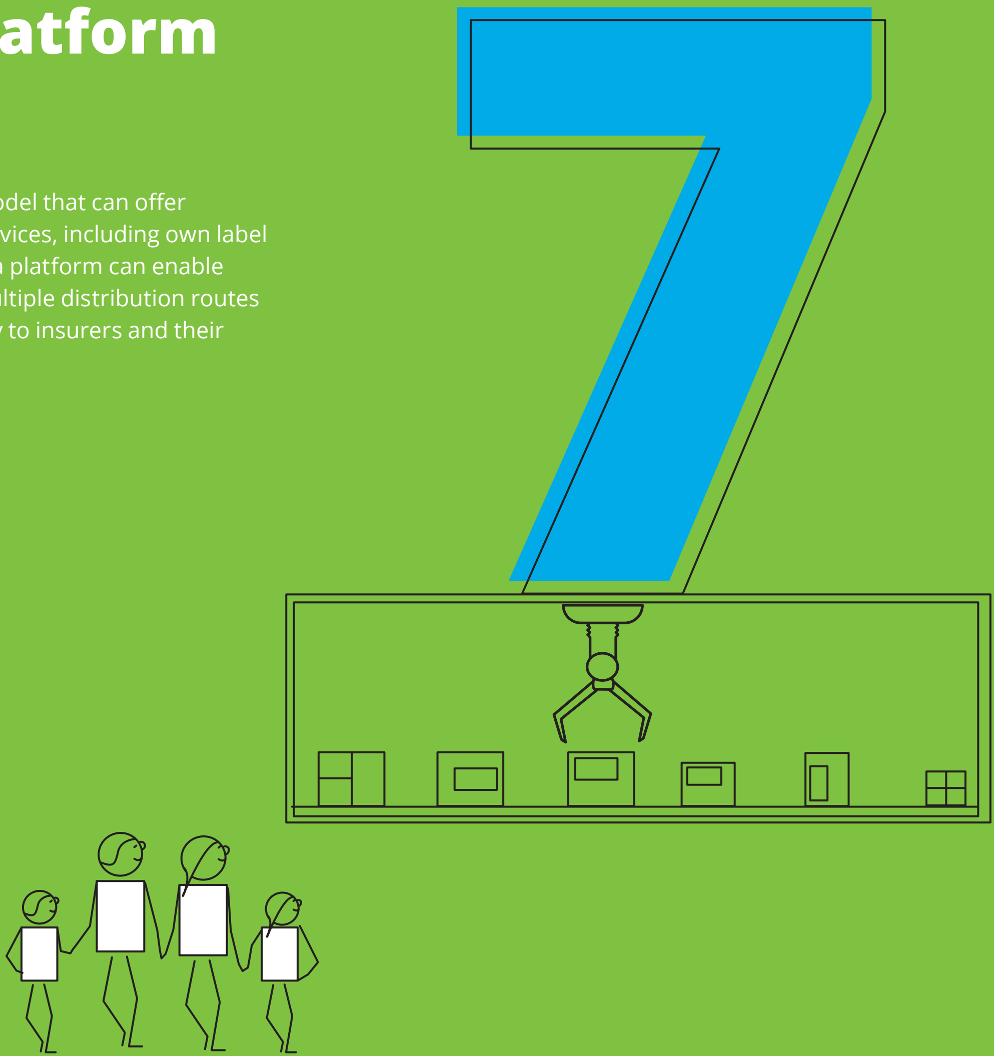
Consider an ecosystem approach

Consider an ecosystem approach to transformation in which: core capability that generates a competitive advantage or areas where regulatory compliance are vital are kept in-house; innovation is accessed via partnerships with and/or investment in insurtech businesses; and open, flexible platform architecture is provided by technology partners.



Consider a platform based model

Consider creating a platform-based model that can offer customers a range of products and services, including own label and those from other providers. Such a platform can enable expansion into new markets across multiple distribution routes at low cost while also offering flexibility to insurers and their customers.



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