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ACTIONABLE INSIGHT FOR BUSINESS LEADERS / **DIGITAL DISRUPTION** / NOVEMBER 2016

DISRUPTION OR INNOVATION

A DIGITAL FUTURE FOR INSURERS

A technology and data revolution is on its way, but will insurers be the disrupters or the disrupted?

By Stuart Collins

Technology is emerging as a major issue for the insurance industry. Whether it is driverless cars or the Internet of Things, technology has the power to change risks and to turn the 300-year-old insurance industry on its head.

Technology is opening up the insurance market to new players. Many outside the industry now see the business of selling protection as ripe for change, with data and analytics in particular able to generate more efficient business models and new approaches.

"New entrants are unshackled by the past and do not have legacy systems and historical ways of working," says Neil Cantle, principal and consulting actuary at Milliman in London.

The digital world could prove to be "fundamentally disruptive" for insurers, believes Richard Clark, head of business development at Xuber, the software business of Xchanging, part of Computer Sciences Corp. Technology is already encouraging competition from outside, he says, with the likes of Google and Amazon interested in insurance. These companies have expertise in collecting and using data, as well shaping their offerings to meet consumer needs.

In a survey of insurers by Capgemini (2016 World Insurance Report), respondents placed Google as the single biggest threat from a new entrant, with Amazon in third, followed by so-called 'insurtech' startups. Interestingly, insurers said product manufacturers looking to self-insure were the second biggest threat.

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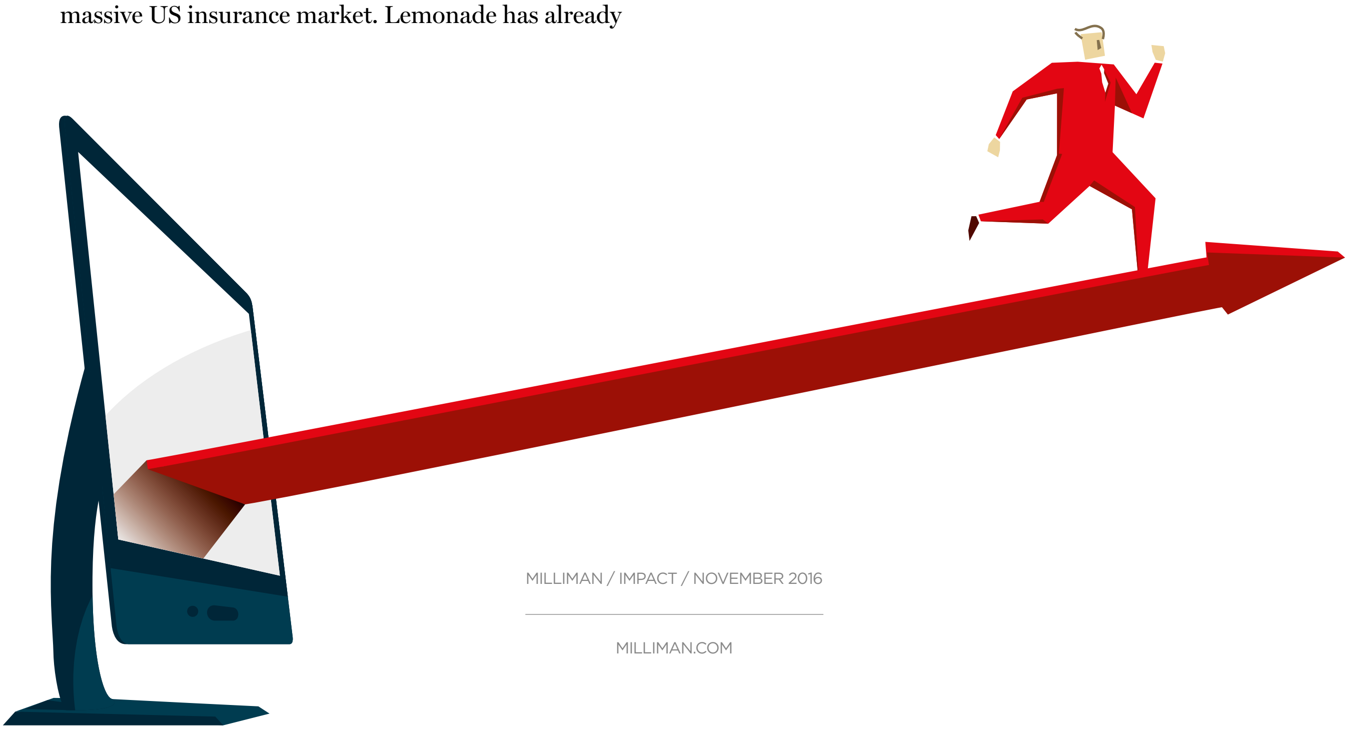
Innovative startup insurers are already using data and analytics to disrupt the insurance industry – investments in such companies more than tripled in 2015 to $2.6 billion, according to CBI Insights.

Peer-to-peer insurers, such as New York-based Lemonade, have promised to bring a new customer experience and business model to break into the massive US insurance market. Lemonade has already received the backing of venture capital firm Sequoia Capital and a group of reinsurers, including Lloyd's, Berkshire Hathaway, XL Catlin and Hiscox.

These types of companies are attracting a wide range of talent, both from within and outside the insurance sector. Lemonade recruited behavioural economist Dan Ariely as its chief behavioural officer, as well as senior executives from insurers American International Group (AIG) and ACE.

Lemonade joins the growing ranks of insurance startups, like Guevara and Friendsurance that help individuals pool their motor and household risks.

In the past two years insurers have also grown more interested in technology and many of the world's largest insurers – including Axa, AIG, Allianz, Chubb, MassMutual, Ping An and XL Capital – have set up venture capital funds dedicated to investing in technology and insurance startups.



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According to CB Insights, insurer investment in technology startups is heading for a record year in 2016. In the first quarter alone there were nearly 20 such deals, compared with just eight in the same period of 2015. Collectively, the insurance industry is believed to have invested more than $1 billion in technology startups.

Some insurers have gone even further and have looked to tap into the innovative spirit of startups by establishing their own in-house technology hubs or arm's length technology incubators. For example, UK insurer Aviva has Digital Garages (in London and Singapore) where it develops and applies new technologies to its insurance business (see box, page 5).

Investing in a startup or an incubator gives an insurer the opportunity to transform its business model and culture and to get to the "substance" of which technologies will make a difference to customers, according to Nichols.

"Startups and incubators help insurers test out new ideas and increase their metabolic rate for the digital age," he says.

Despite all the talk of startups and new technology, for some, disruptive technology for insurers boils down to data. There will be much more data available to insurers on customers and risk in the future. "Most digital solutions rely on some form of data and insight, which enables insurers to better target customers and deliver product," says Nichols. "Innovation will come from knowing more about individual customers," he adds.

The world of data and analytics may be about to reach a "tipping point," says Mark McLaughlin, global industry leader for insurance at IBM. The cost of sensors has been falling and connectivity rising, fuelling the availability in data. At the same time, analytics in the cloud is becoming more accessible to insurers and easier to use.

Developments in data and analytics already seen in telematics will quickly be followed in the home, and eventually in healthcare and business, as hubs and sensors become cheaper, predicts McLaughlin.

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ANDREW BREM, CHIEF DIGITAL OFFICER AT AVIVA, SAYS TECHNOLOGY IS HELPINGTHE FIRM MAKE INSURANCE MORE ENGAGING, AS WELL AS HELPING CUSTOMERS BETTER MANAGE THEIR RISKS

Based right in the heart of London's technology hub, Aviva's Digital Garage is where the UK insurer is looking to reinvent the industry.

"What we are looking to do here is modernise insurance from the inside out," explains Andrew Brem, Aviva's chief digital officer. "We are digitising what Aviva does," he says.

Brem believes that technology can help Aviva provide a much more convenient, efficient and engaging experience for consumers. Something they might not be getting from the insurance industry today.

According to Brem, customer dealings with insurers are infrequent and cumbersome – many only interact with their insurer when purchasing annual cover, and are asked to fill in forms and answer lots of questions.

"Our goal is one-click convenience and an end to form filling, with more digital engagement with customers. It is all about driving customer engagement to help people make smarter decisions," he says.

Digital technology will enable insurers to get closer to their customers and address a broad range of needs across product lines, believes Brem. "In the digital world, it is much easier to bring a composite offering – life, investments, health and general Insurance – to all of our customers, who have needs in all of these areas," he says.

Aviva is also using data and analytics to build a profile of customers and reveal useful insights, says Brem.

"We can use insights to better price per customer, not by product, and this is new for the insurance industry," he says.

Brem also sees an important role for technology in addressing one of the big challenges facing the insurance industry: encouraging reluctant or indifferent individuals to address their risk and protection needs.

"What we do as insurers is important. We are looking after people's property and families, for example helping them provide for later life. But consumers are typically disengaged and sceptical of insurance," he says.

According to Brem, technology could act as an enabler to engage. For example, artificial intelligence and robo advisers can provide consistent and impartial advice to insurers, as well as ask questions to gauge an individual's risk appetite.

Aviva already has experience of using technology to increase engagement and influence consumer behaviours. It was one of the first insurers to use telematics to monitor driver behaviour and give feedback to customers on their driving skills.

"Insurers have long held detailed data on the risks people face in the places they live, like weather, flooding, crime rates, etc., but no one has yet flipped that around to show consumers the data to help them take action. Now we have the analytics ability to do so," says Brem.

"Information on risk, through sensors, medical devices, smartphones, etc., will enable us to measure risk in the outside world in ways that are new and fundamentally different than today," according to McLaughlin.

Growing global connectivity also changes the ways in which companies can present and sell their products, explains McLaughlin. This fact has the potential to substantially change companies' business models. For example, blended models, like bundling insurance with consumer products or services, will be the "business of the future" for insurers, he says.

With a rapidly changing world – both in terms of technology and consumer expectations – the insurance industry must transform its "tried-and-tested" business models, according to Craig Bedell, IBM's global industry executive for insurance.

"The basics of insurance will still count, but the current business model is not enough to sustain the industry in the long run. There is an underlying need to understand customers and operations through data and analytics," he says.

Data skills will become crucial for insurers to develop, says Bedell. "Insurers will need to start thinking in terms of return on information, and whether they can build relationships and get to know customers better. Insurers that build alliances and get closer to the customer can ride out the disruption," he says.

Insurers will also need a different culture and mindset, and one that thinks about data and how it can be used to drive the business, says James Dodge, senior consultant at Milliman.

"Insurers will not be able to do this alone, they will need to think about a wider eco-system that includes data, technology and expertise," he says.

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Insurers will also have to pick up the pace of innovation, according to Bedell. "The idea that you can spend years experimenting with new ideas won't work. It has to be done at a fast pace - the likes of Amazon are innovating and testing every day. That will need to be the thinking going forward," he says.

The digital age will require insurers to think differently, adds Cantle.

"It's hard to be creative if you rely on a 300-year-old business model. If insurers were starting from scratch, what would they do differently? That is the mindset insurers and their leadership must adopt," he says.

"The big disruption in the insurance industry will come from the disaffected chief executive, who is frustrated with the corporate structure but understands consumer needs," he says.

Find out more

Neil Cantle
+44 20 78471537
Neil.Cantle@Milliman.com

Milliman