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SETTING THE PACE:

INSURTECH TRANSFORMATION

Technology is changing the way businesses evaluate risks, transforming customer interactions and overhauling the purchase process. As traditional insurers strive to overcome legacy systems and practices, how successfully are they keeping pace with new InsurTech entrants?

By Peter Davy, a risk and insurance specialist journalist and former trade magazine editor

Technology is transforming the insurance industry – pushing it towards its "Kodak moment", as George Kesselman, founder of InsurTech Asia recently put it. From peer-to-peer home insurer Lemonade in the US to pay-as-you-go car cover by the hour from Cuvva in Scotland, the industry is in the midst of an upheaval. Big data, cloud, artificial intelligence, mobile technologies, and the Internet of Things are among the technologies already changing the way insurance works, says Neil Cantle, principal at Milliman.

"Even 18 months ago, much of this was only theoretical, but now profound change is a reality. The industry has reached that moment," he says. Already technologies such as telematics are mainstream. Others will follow.

Much of this has been led by the tech-savvy startups. Some, such as Trov, providing app-based, on-demand insurance for personal goods, are backed by major insurers (in its case, AXA). Others have gone it alone, with Lemonade and Hippo prime examples; they set up as licensed insurers in their own right.

"Sprinkling pixie dust" on top of the legacy infrastructure of a traditional insurer would not, the business's co-founder has said, deliver the change Lemonade sought to achieve.

In or out?

Legacy technology is only one of the challenges traditional insurers face, though. A 2016 CBI survey showed many insurers also facing shortages in digital and software development skills to address it. Changing this quickly is one reason many insurers are opting to partner with or invest in technology startups to drive their digital transformation.

"The pace of change threatens to catch out insurance companies quite quickly, and many don't have the expertise needed or the infrastructure to attract people who would typically work in these fields," says Milliman consulting actuary Russell Osman.

There are other factors that argue against developing technology in-house, too. One is the cost, both in terms of the potentially prohibitive upfront capital costs involved in ripping and replacing legacy systems, and the ongoing maintenance and updates for any new systems developed in-house.

As Cantle warns: "If you do it in-house then you've got a wasting asset from the minute you start the project, and your technology is rapidly out of date. That's how fast things are moving." This in part explains the popularity of using cloud services, where managing and updating the system is outsourced.

Outsourcing is not without risks either. There are both practical and legal challenges in entrusting customer data to third parties, made more acute by the General Data Protection Regulation that comes into effect in May 2018. The new regulations introduce fines of up to €20m or 4% of turnover, whichever is greater, for the most serious breaches. At present, the maximum fine the UK's Information Commissioner's Office can impose is just £500,000.

Such threats, together with more general risks to reputation from a poorly implemented digital solution are likely to make some insurers wary of outsourcing key functions.

A third way

As a result, some traditional insurers are embracing a third way: setting up separate organisations, structured and led like startups but owned by the insurer, to drive transformative digital developments.

Aviva's 'digital garages' in London and Singapore are among the most high-profile examples. Aviva's chief digital officer Andrew Brem says the approach is an attempt to "modernise insurance from the inside out", digitising the insurer's offering to give customers one-click convenience and using data and analytics to develop better insights into customers. One notable outcome is the company's 'Ask It Never' concept for policy applications, drawing on council records and mapped flood areas online to reduce the need to request information for home insurance, for example.

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Freedom, not just from legacy systems of the parent insurers but from a traditional business culture, is central to these operations, according to Brem. As he told reporters shortly after Aviva launched the garages: "We're being encouraged to break every rule in the book."

It is not alone. AXA's 'Lab' in Silicon Valley predates Aviva's garages, while Allianz has its own digital accelerator in Munich, headed up by the former managing director of Rocket Internet.

The people problem

The key challenge insurers' must overcome is potentially not their technology, but resistance among their people.

"Failure to focus on cultural change is the number one reason why transformation programmes fail," says Pat Renzi, who leads Milliman's Life Technology Solutions practice.

"If you fail to bring everyone along on the journey, the project will either fail along the way or you will get to the end and everyone will revert back to the way they used to do it. You have to change hearts and minds."

Technology is just a facilitator, she adds; transformations—digital or otherwise—mean significant changes in people and processes.

A 'digital garage' won't alter this challenge; in fact, it arguably adds to it. Developing new, often high-profile InsurTech businesses with distinctive and attractive cultures can lead to resentment if not handled well, says Cantle.

"There's a danger the legacy part of the business can feel disgruntled that they're generating the income to pay for new developments, while effectively being told they're obsolete," he warns.

More widely, he adds, change brings insecurity—particularly where it promises to streamline or entirely remove labour-intensive processes, as many InsurTech developments claim.

"If you want to take a lot of cost out of the insurance business, the place to look is often in servicing. We are looking at a much more industrialised back office," says Cantle.

Charting a way forward

Developing the culture of an organisation so that change is not just accepted but embraced requires at least two key elements. The first is a clear vision from the leadership.

"An organisation wouldn't go through a transformation unless there was a really good reason. The focus tends to be on persuading boards to get funding, but you have to paint the picture for shareholders, sometimes for policyholders, and you have to paint the picture for your employees," says Cantle.

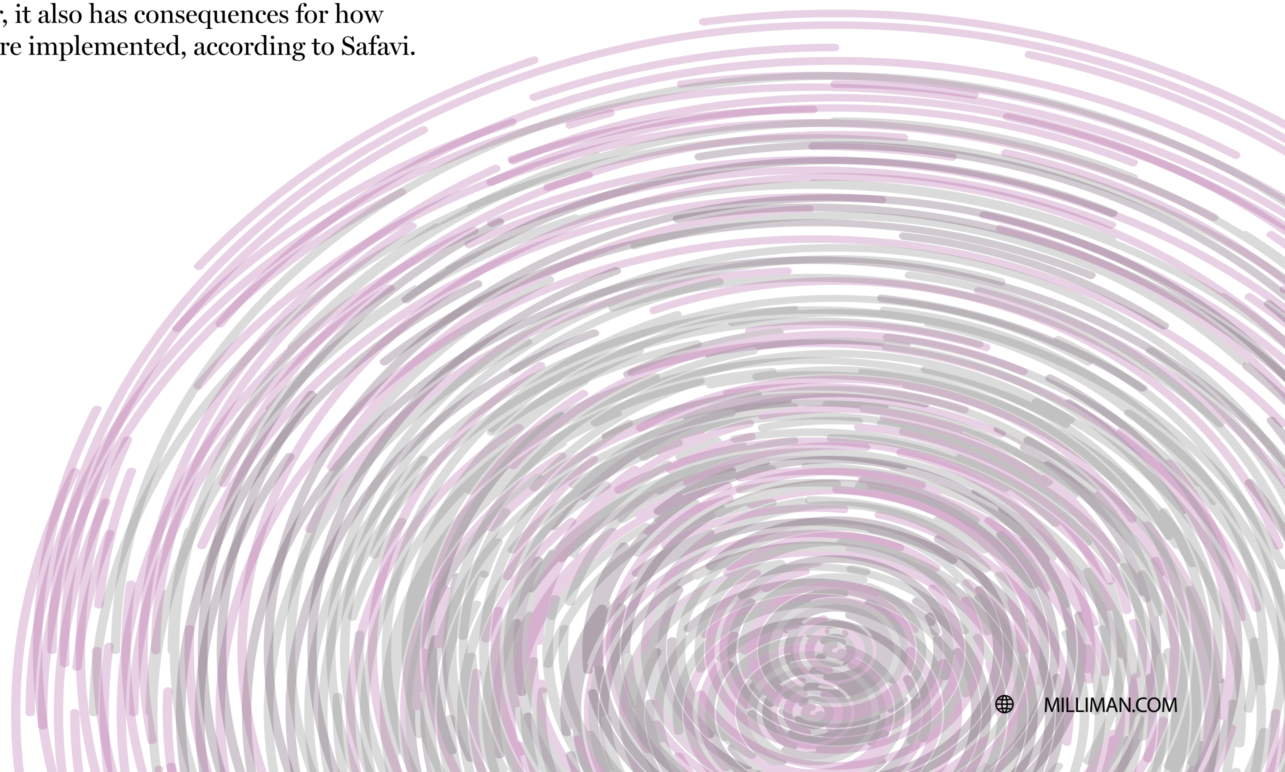
The second is exposure, says Ali Safavi, principal and director for InsurTech at Plug and Play in Silicon Valley. Running an insurance accelerator, the company works with 35 major insurance companies selecting the top few dozen InsurTech startups every six months to offer them a 12-week programme of support. It also helps insurers find startups to match their particular business requirements.

A major challenge for insurers is not finding a firm that has the technology that will meet its needs, but integrating it into how business units work, says Safavi.

"Culture matters. Businesses need to be open to new ideas, especially in an industry as old as insurance, where you have people who have followed the same routine for 30 or 40 years and nothing has changed."

That takes time, but it's helped by exposing individuals to the culture of startups. On the one hand, Plug and Play runs "Silicon Valley immersion programmes", for example, for people from key business units in traditional insurers to help change mindsets.

On the other, it also has consequences for how programmes are implemented, according to Safavi.



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> Ali Safavi, principal and director, InsurTech, Plug and Play

"I strongly believe that part of the strategy should be developed as people get exposed to the culture of startups. Businesses need to be willing to try and fail, rather than strategise for the next 15 years and then find that by the time it has made a decision, it's too late."

The case for agility

Renzi agrees, and argues that there's a strong case for an agile methodology when undertaking digital transformation projects: having a clear vision of the outcome for the transformation, but implementing it through small iterative steps and improvements in functionality.

"It's basically the opposite to a waterfall approach where you spend a year defining the specification in intricate detail, another year building it, and then finding it doesn't meet the requirements of the business anymore," says Renzi. "When you break things down into small pieces, there is almost a constant stream of delivery."

That helps promote engagement and ownership of the change, since employees see the benefits sooner, but also gives time for the cultural change to occur as both the traditional business units and InsurTech teams gain familiarity with each other.

The cultural change is not entirely one-way either. "These projects are a matter of collaboration," says Safavi. "For any kind of collaboration to work, you need to have common ground. Both sides need to meet in the middle. InsurTech businesses also have things to learn about how the insurers work."

And part of that learning should be understanding what controls need to be in place. Cantle explains that as changes come in, and particularly as automation increases the speed of business in insurance, firms will need to rethink their controls. A faster pace might help the business be more efficient and give a better service to customers, but it also increases the scale of potential problems if things go wrong, he says.

"Many control mechanisms currently rely on people having time to look at things. As the velocity of business activity ramps up, there isn't that time, and if you have a systemic error then you're going to make an awful lot of mistakes in a very short space of time."

Insurers certainly have to embrace change, he adds, but sometimes it's right to proceed with caution.

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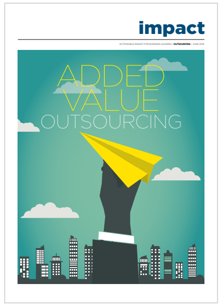

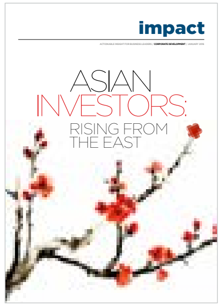

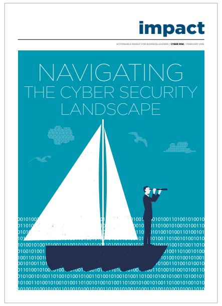

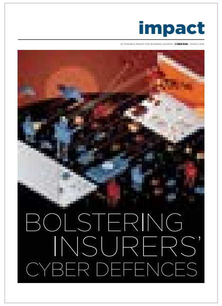

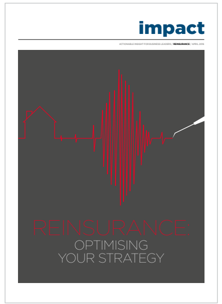

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