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FUTURE OF INSURANCE

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SMALL BUSINESSES

How insurers can tempt back SMEs

With costs rising dramatically after the Covid lockdowns, many small businesses have cut back on their level of insurance cover. Can they be persuaded to return?

Emma Woollacott

According to the Federation of Small Businesses (FSB), SMEs represent more than 99% of the UK business population and account for around half of turnover in the UK private sector.

But SMEs have been a difficult market for the insurance industry to access. Legally, SMEs only need employer's liability insurance and motor insurance if they have staff and company vehicles. Those that do have extra requirements aren't always easy for insurers to cater for, as risk levels vary and budgets are generally tight.

Insurance takeup by SMEs has always been low and has been lower since the pandemic, when small firms cut all expenditure to the bone. But, as we slowly return to normal, many businesses have not yet reinstated their previous levels of cover.

This is partly due to the difficulties SMEs experienced when making claims during the pandemic, says Kristina Grinkina, insurance policy lead at the FSB. Many decided that insurance simply wasn't worth it.

"A lot of businesses had a problem with business interruption insurance," she says. "When the pandemic began, we started hearing reports of businesses not being able to claim on it or insurers turning them down," she says. This came to a head in a major test case in the Supreme Court in January 2021. The court sided with small businesses, so insurers paid out on Covid-related business interruption claims. But doubts had been sown about the value of insurance.

Grinkina notes that the costs of insurance have spiralled, with three in five small businesses reporting that their premiums have risen in the past year. Half of these say that their costs have increased by 11% or more.

"There has been more hardening in the public indemnity insurance sector of insurance premiums and other wider cost pressures," she explains. "Insurers are pulling out of the market and premiums are getting high."

Research from Aviva into its customer base shows that around half of businesses are underinsured and that 40% of policies covering buildings have at least one premises suspected to be underinsured by 20%. Persuading customers that they need to take action means showing an understanding of the exact requirements of each business, says Jason Chambers, head of underwriting transformation at Aviva.

"We work with trusted third parties to get a holistic view of the customer, from the type of roof and the number of square feet of the premises, to the risks of flooding and subsidence," he says. "It helps to establish our credibility and we can present this information in real time when the business is talking to their insurance broker."


10'000 Hoursvia Getty Images

Many insurers took a flexible approach during the pandemic, comments Simon Parrish, head of SME underwriting at Allianz Insurance.

"We accepted changes in business description driven by the business's need to adapt. We also relaxed our underwriting stance on businesses with adverse financials as a result of the pandemic," he says.

"We eased our position on unoccupancy, maintaining full policy coverage for longer vacancy periods and relaxing the need for properties to be inspected where it wasn't possible because of lockdown. Some inspection conditions were extended because of the scarcity of workforce."

And now, he says, insurers need to maintain that flexibility as demanding economic conditions mean that customers continue to struggle.

"When our team become aware that a customer may be vulnerable, we will be flexible to achieve a good outcome," he says. "This includes the opportunity to defer payments, following an underwriter review."

Unfortunately, though, policyholders might not be aware of that degree of flexibility. Seven in 10 small businesses buy their policy through a broker but FSB research has found that small firms can find it hard to understand their policy, even with the help of a broker. According to Chambers, brokers play an important role in making sure that a customer gets the best policy possible. "Our underwriters are working with brokers to proactively identify which of their SME customers are at risk of underinsurance, while our Commercial Insurance Tool uses data analytics to help identify where a business may be underinsured and potential gaps in cover," he says.

Another key factor in increasing SME insurance takeup is to improve customers' understanding of the level of cover that they take out, for each of their business risks and activities. "During the pandemic, a lot of SMEs made a claim on their insurance but discovered their cover was less than they thought and their claim was therefore ineligible," says Grinkina.

"We're recommending the industry and government work together towards understanding these issues, either through codes of practice or by helping to disseminate that sort of information." The FSB is also calling for the insurance industry to work more closely with small businesses to clarify policy wording, for example, and include a clear breakdown in the policy of the assets and risks covered.

Fundamentally, though, as the world lurches from one crisis to the next, flexibility will continue to be key in persuading SMEs to insure.

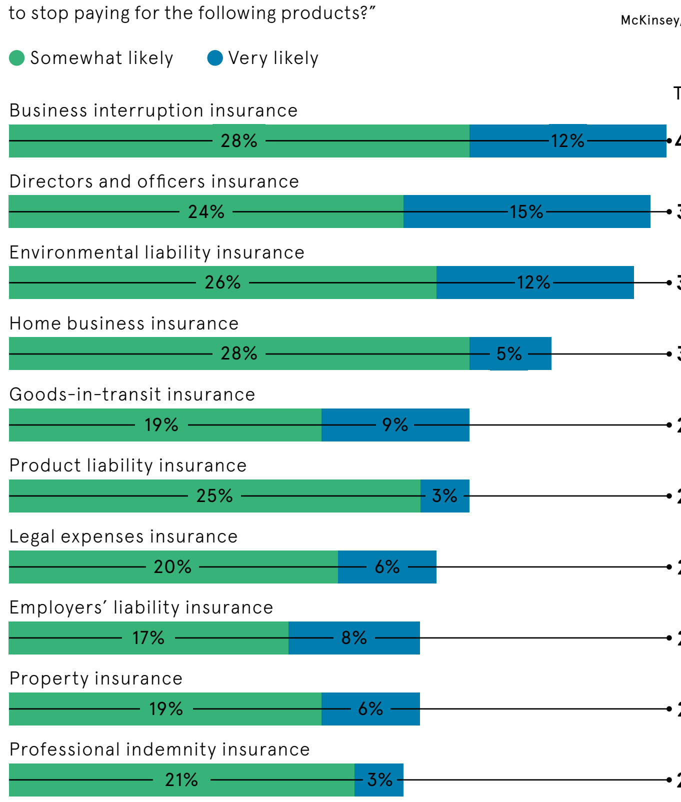
"'SME' is a diverse classification for a group of businesses that are entrepreneurial by nature and highly individual," says Parrish. "There isn't a one-size-fits-all approach, and insurance products targeted at this sector need to be flexible enough to be right for the needs of each customer.

"This absolutely should include the capacity to make amendments as the business's operations and insurance requirements change."

FOR INSURERS, COVID WAS A LESSON IN THE IMPORTANCE OF OFFERING GOOD VALUE

Survey of SMEs, "Given your financial situation during Covid-19, how likely are you to stop paying for the following products?"

McKinsey, 2020



GROWTH STRATEGIES

One click and you're covered

Embedded insurance is catching on fast, driven by better technology and an improved customer experience. How far can it go, and is it a threat or an opportunity for the incumbents?


Warchi via iStock

David Stirling

Damaging your power drill can be a frustrating experience for any DIY enthusiast. But if you make your living from such tools, it can also be costly and potentially ruinous.

It is surprising, then, that of the 3 million tradespeople in the UK, more than half are underinsured for tool loss, theft or damage. "Every 19 minutes there is a tool theft in the UK," says Devin Chawda, co-founder and CEO of insurtech group ARMD. "But, like most of us, tradespeople find buying insurance a frustrating experience. It's a grudge purchase. They don't want to talk about insurance; their passion is their tools."

Chawda believes that embedded insurance – the integration of insurance within the purchase of a product or service at point of sale – could be the answer. He has even launched a trial offering product insurance to tradespeople when they buy tools via ARMD's online store. At checkout, customers simply answer a few questions such as their name, vehicle registration and previous claims record. "They don't have to start a separate insurance-buying journey. They simply walk away with the tool and the coverage," Chawda explains.

But it is not only the electricians and plumbers of this world who are choosing to buy policies via embedded insurance. According to InsTech London, the global embedded property and casualty insurance market is set to reach $722bn (£607bn) in gross written premiums by 2030 – that's six times the figure it is today.

"This isn't a new concept. Many of us have bought travel insurance and event cancellation cover on a website as part of a separate transaction," says Robin Merttens, co-founder and executive chairman of InsTech. "But what customers want are more relevant and personalised products and a better, simpler buying process which is matched to their time of need."

Examples of embedded policies in action include global insurtech firm Cover Genius, which offers Ryanair customers travel protection when they buy plane tickets. Its other partnerships include Amazon, where warranties for products such as sofas are integrated in the buying journey. Food delivery app Deliveroo has also embedded insurance for its couriers; as soon as they clock in for work, they are covered for any accidents.

Embedded insurance has flourished on the edges of major economic changes in recent years, including the rise of the gig economy and online shopping. But now it is being driven by technological advancements, such as new application programming interfaces (APIs) that connect insurance providers with distributors such as online retailers, banks and carmakers.

According to InsTech, these distributors have long understood the potential of embedded insurance but were held back by "the nightmare of trying to integrate an insurer's old legacy technology into the seller's own delivery platform".

Many of these constraints remain, meaning that it is new digital entrants who specialise in providing intuitive customer journeys which are filling the gap. This includes technology-enabled brokers known as managing general agents (MGAs), which can leverage the capabilities of the new APIs to help them handle the whole process from distribution, application and underwriting through to policy management and claims.

"It's about making the process seamless and transparent for customers," says Chawda. "The claims process is also handled digitally, boosting turnaround times."

That will please traditional insurers, who see embedded offerings as an opportunity to reduce the insurance protection gap and lower distribution costs. Indeed, according to the *Open & Embedded Insurance Observatory 2022 Report*, 50% of insurance providers see embedded insurance as a way to increase margins and grow profits. But to take advantage, they need to upgrade their legacy technology or secure partnerships with the digital MGAs.

Dan Martin of Altus Consulting thinks traditional insurers need to be "smart" about this. "They will be left behind if they think they have a better way of doing things," he says. "If motor manufacturers go down the embedded route, using an MGA, customers will look to them to get coverage, and they'll get a deeper and richer purchasing experience than they would from an insurer's call centre. But if insurers can deepen their relationships with manufacturers instead, they can secure the customer data and combine it with their understanding of risk and pricing."

Otherwise, there is a risk that these digital MGAs, retailers and manufacturers will effectively become insurance companies themselves. As Chawda puts it: "We know which tradespeople have which tools. We are almost better positioned to make judgements on claims than RSA. We are not there yet, but there is an opportunity to bypass the traditional insurers."

> **If motor manufacturers go down the embedded route, customers will look to them to get coverage, and they'll get a deeper and richer purchasing experience than they would from an insurer's call centre**

The incumbents are taking note too. Earlier this year, Admiral struck a partnership deal with travel inspiration app LuckyTrip to offer its users embedded travel insurance as part of their purchases.

Allianz X, the digital investment arm of the Allianz Group, is taking a different approach. In September, it bought a 100% stake in embedded insurtech simplesurance, having been an investor. Simplesurance has provided embedded insurance via an MGA and as an insurance-as-a-service platform, since 2016.

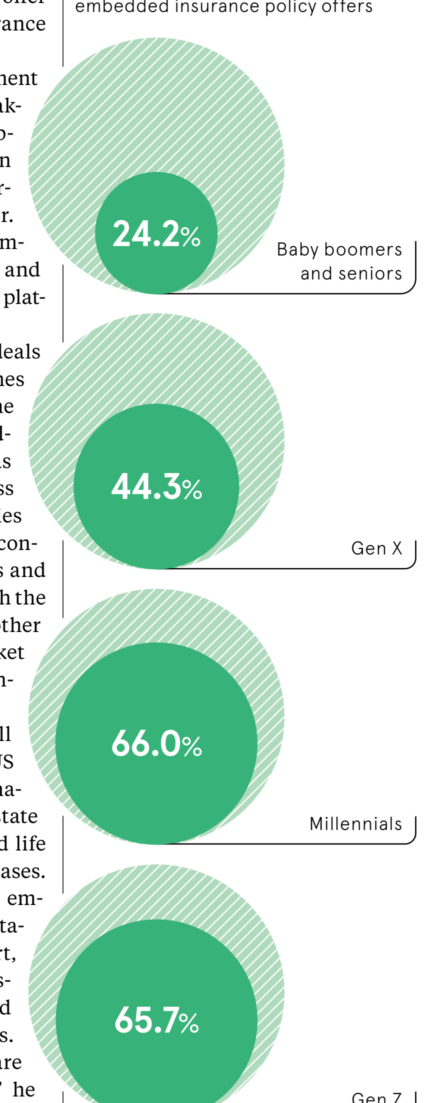
The size and scale of future deals will depend on whether new lines of embedded insurance come into play. The Open & Embedded Insurance Observatory has highlighted the SME, business software, telecoms and utilities markets as growth areas. "The continued rise of cryptocurrencies and digital assets such as NFTs (with the associated cyber risks) is another example of an emerging market that is prime for embedded insurance," it said.

Life and health insurance will likely feature more strongly. US insurance group Bubble is enabling mortgage and real estate companies to embed home and life insurance into real estate purchases.

But Merttens cautions that embedded insurance has its limitations. "For the most part, products must be simple, transparent, easily understood and have a simple claims process. You need to recognise that you are in a regulatory environment," he says. "But customers love it. Embedded is the hottest topic in town." ●

EMBEDDED INSURANCE IS A YOUNG PERSON'S GAME

Survey of consumers, % "very" or "extremely" interested in receiving embedded insurance policy offers



Cover Genius, June 2021

INSIGHT

'The Consumer Duty is about avoiding harm, not liability'

Alan Vallance, chief executive of the Chartered Insurance Institute, explains why the FCA's new guidelines mean insurers need to step up and meet their professional responsibilities

In July this year, the Financial Conduct Authority (FCA) announced its flagship regulatory reform: the Consumer Duty. It's a crossroads moment in the way insurance regulation works in the UK.

There are not many new rules under the Consumer Duty, which came into effect at the end of October. Instead, it lists four outcomes against which firms should judge their impact on consumers. These are: price and value; consumer understanding; products and services, which includes checking that products are designed properly for their target market; and consumer support, which means ensuring, for instance, that those customers making a claim don't face unnecessary barriers.

One thing that makes insurers nervous about outcomes-based regulation is the thought that it could be interpreted differently over time. What is normal and acceptable now might look very different in 10 or 15 years' time. To see how much standards can change in the course of a career, we only have to remember that cars used to be built with no rear seat belts and that passengers were once allowed to smoke on the London Underground.

As a result, a lot of the debate around the Consumer Duty has focused on who is liable if outcomes are not met. However, I think this misses the point of what the regulator is trying to achieve with the Consumer Duty. The FCA is trying to find a way to stop poor practice from taking place without imposing a kind of *Minority Report* regime that tries to punish firms for actions they have not yet taken.

I would use a comparison with driving, and it's 'reading the road'. As drivers, we have to follow rules such as speed limits, and if we don't we can be liable for accidents.

But we are also taught to anticipate and mitigate risks, even if we haven't created them. For example, if we drive by a school as students are spilling out at home time, we don't barrel past at 30 miles per hour, saying, "I'm obeying the speed limit – whatever happens isn't my fault." Instead, we would cut our speed right down and give a warning beep to children who are playing too close to the road. We don't do this to avoid liability, but simply because as responsible drivers we don't want harm to come to anyone.

I think professionals are in a similar situation. As people who understand financial services better than anyone else, we should be aware of situations where people frequently misunderstand products or underestimate risks, and work hard to help them avoid harm, through better communications, better products or more responsive service.

Firms' senior managers should be curious about the outcomes that consumers are experiencing and should be able to show that they have thought about any problems and are genuinely looking for solutions.

Under the new Consumer Duty, the FCA has the power to challenge firms' right to participate in particular markets if they don't show this kind of curiosity.

By taking action early against firms that don't take on their professional responsibilities, the FCA can prevent regulatory costs and reputational damage from being dumped on well-run, highly professional firms.

Of course, this can't happen unless the regulator has a clear sense of what to look for in well-run, professional firms, and it is here that I think professional bodies as well as firms can help to signal where the real problems lie, through regular dialogue and the exchange of meaningful information – not just through ever-longer compulsory regulatory returns.

By working together in this way, I think the insurance profession can take back control of its own destiny, focusing on its job of serving customers rather than ticking boxes. ●

Alan Vallance
CEO, Chartered Insurance Institute

Unlocking the power of data and analytics for all

For Guidewire, turning systems of record into systems of insight is the future of the insurance industry

Data has become the lifeblood of most businesses – an essential tool for unlocking savings, improving efficiencies and ensuring longevity. For the insurance industry, it is an integral part of how firms operate, yet the sector has not changed the way it uses data, even as more data, and more types of data, become available. "There's little effort made to do anything other than traditional things with traditional data," says Charles Clarke, global vice president of analytics at Guidewire.

The handling of analytical tools is similarly stuck in a bygone era: businesses hire vast teams of engineers to wrangle analytical insights, but still these tools remain detached from the coalface where they are most needed and necessary. Analytical solutions are frequently brought into companies at year end – and at great expense – to handle one-off analyses of data that are quickly forgotten once the annual renewal process ends.

Too often, insightful data is misused or not used at all. And other, very powerful data sources, are overlooked. "The industry majors on property data, minors on casualty data, and often misses data that describes intangible assets like reputation and IP," says Clarke. Missing these intangible elements is a concern, he explains, because the insurable world is morphing as macro trends force change – like the shift from PAYE to gig work, remote working due to the pandemic, and autonomous driving.

Clarke suggests that, rather than treating data and analytical tools as resources to be leveraged occasionally and only by back-office experts, both should be available to and used by everyone in the organisation. The insurance industry runs on knowledge, so every insurance worker should have access to informative data and easy-to-use analytical tools.

This is the mission of Guidewire, says Clarke. "We want to turn every system of record into a system of insight. We are embedding data and analytical insights into core system workflows so everyone has instant access to the information and can subsequently make smarter decisions that improve business outcomes. What we deliver is like really, really advanced plumbing for insurers, brokers and reinsurers."

Data should be thought of like a strategic adviser, argues Clarke. "Insurance companies need to think carefully about what they're gathering data for – and why they use it," he says.

Of course, he recognises that this is easier said than done. Data is a capital-intensive industry if not done right, and the barrier to entry is high. "Legacy core systems and infrastructures aren't set up to leverage real-time data from disparate sources," says Clarke.

But Guidewire's data and analytical tools can help. The company facilitates and administers billions of transactions each year in the US alone – all of which can be infused with analytical insights to improve outcomes. "We have a cloud-native insurance platform that is upgraded continuously and features integrated core systems, data and analytics, and digital capabilities," says Sumeet Johar, vice president of analytical advisory at Guidewire. "Our platform allows insurers to think about how to unlock the reams of data that are generated, instead of letting it sit in a data warehouse somewhere, unharnessed and unanalysed. Take usage-based vehicle insurance: companies can take electronic data feeds from cars that inform insurers about drivers' driving behaviour – and therefore more accurately price that customer – but they can only do this if that data is available and actionable in the company's core system of record.

"Our system of insight allows data and analytical outputs to be at the fingertips of claims adjusters and underwriters, rather than locked away in the back office," says Johar. "It allows underwriters to make decisions based on a breadth of real-time data and analytical assessments without opening another screen or leaving their desktop."

But it's not just insurers that benefit: it's the industry as a whole. "What is particularly exciting at the minute, is the realisation that others in the industry, like brokers and reinsurers, want to join us on the journey of transforming systems of record to systems of insight as they transform their own revenue streams," says Johar.

> **Too often, insightful data is misused or not used at all. And other, very powerful data sources, are overlooked**

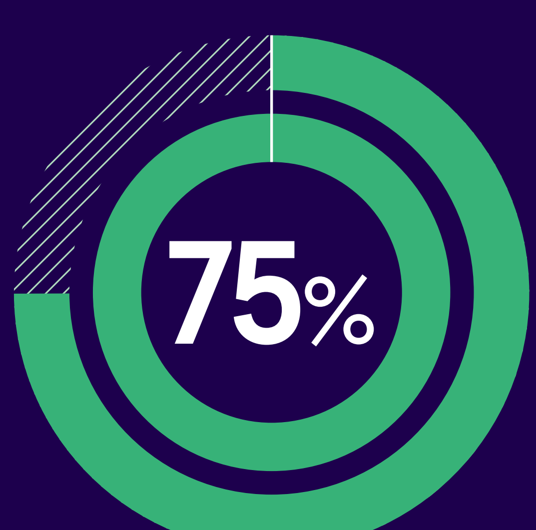
INSURING AGAINST CLIMATE DISASTERS

The climate emergency may hit vulnerable populations hardest, but the insurance industry is right there on the front line too, with insured losses from climate-related natural disasters rising by an estimated 7% each year. The challenge for insurers, then, will not only be adjusting portfolios and repricing premiums to address the rising level of risk, but also bracing for the likelihood of market failures in the regions facing the brunt of the climate impact, as well as finding ways to help customers mitigate their exposure to climate change-related disasters. In this case, time is literally money – and lives

2.2 billion

people worldwide are affected by flood risk

7% of all economic losses from flooding in emerging markets over the past 20 years were insured



The increase in areas burnt by wildfires in Europe this summer

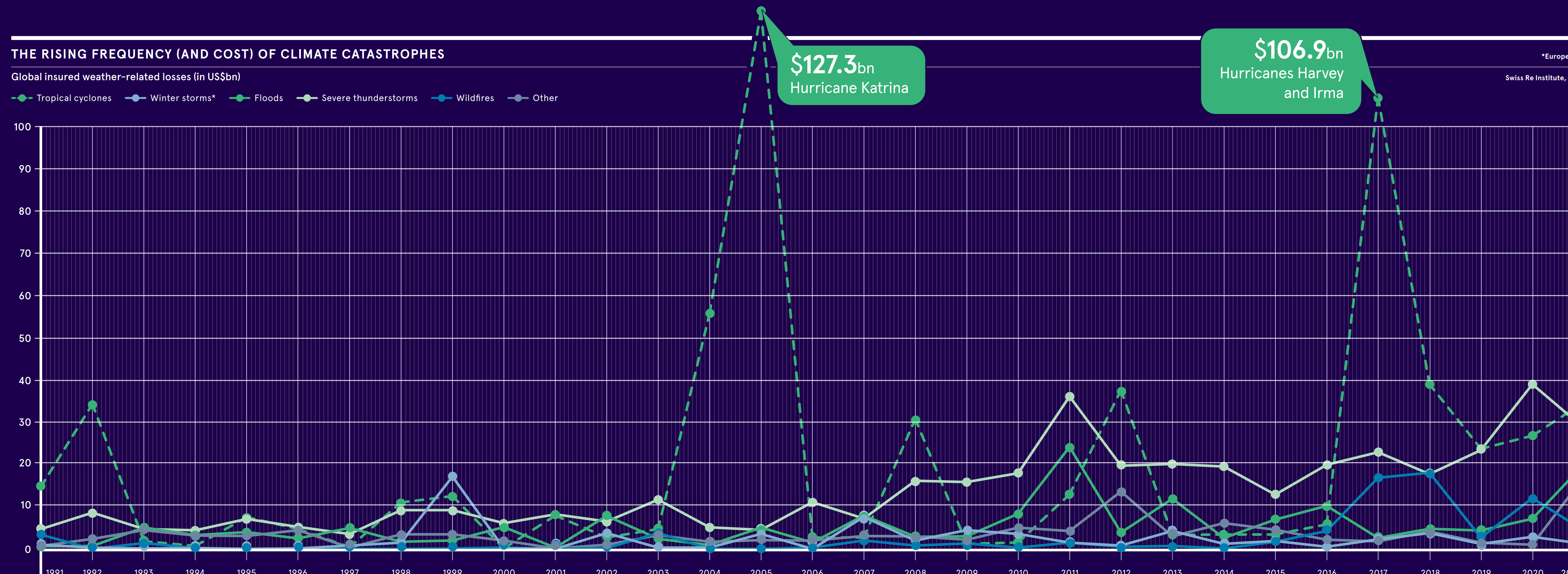
Swiss Re Institute, 2022

THE RISING FREQUENCY (AND COST) OF CLIMATE CATASTROPHES

Global insured weather-related losses (in US$bn)

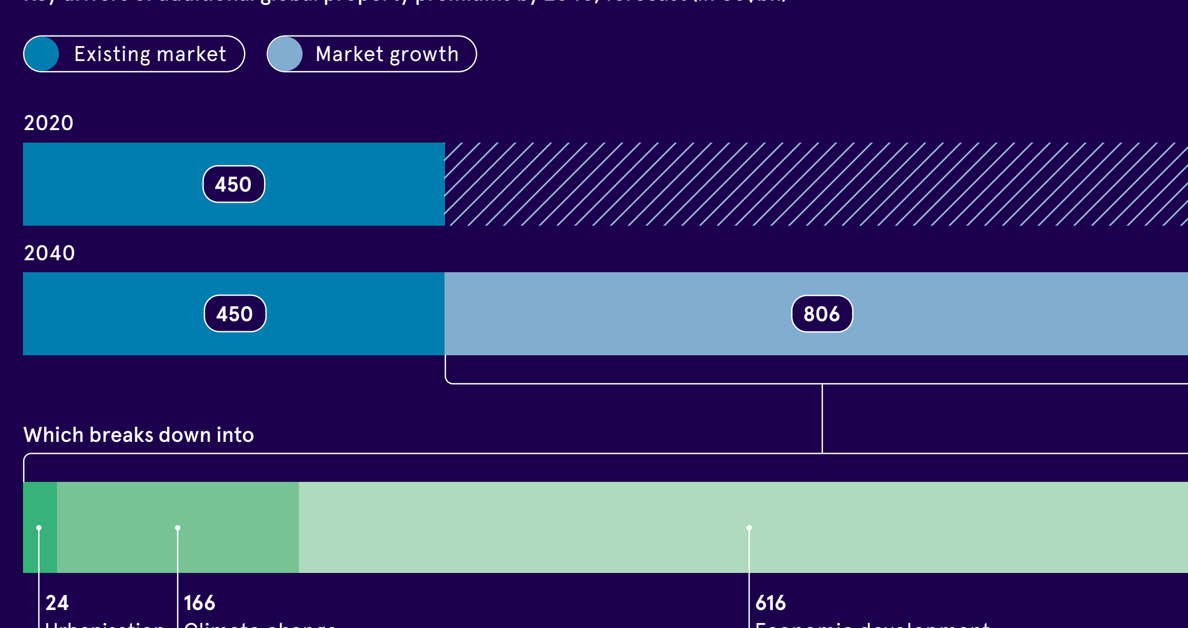
*Europe only

Swiss Re Institute, 2022



CLIMATE CHANGE WILL ADD SIGNIFICANTLY TO PROPERTY INSURANCE PREMIUMS

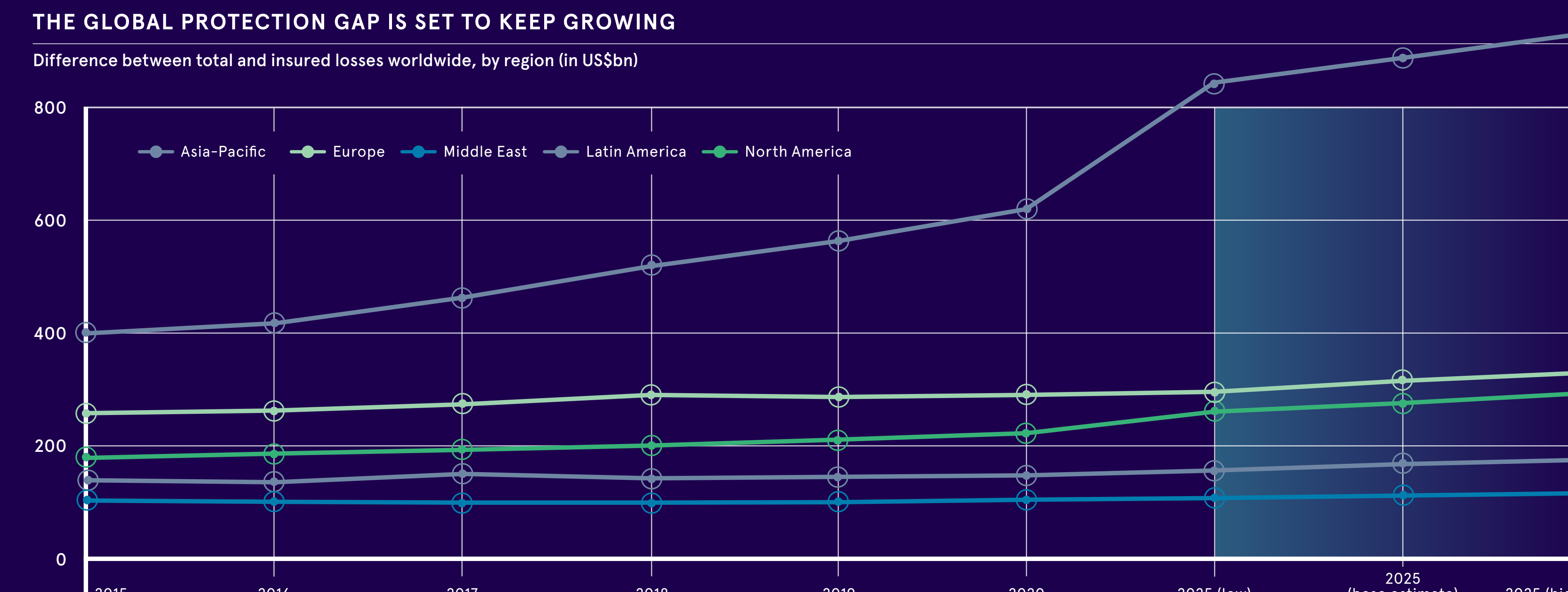
Key drivers of additional global property premiums by 2040, forecast (in US$bn)



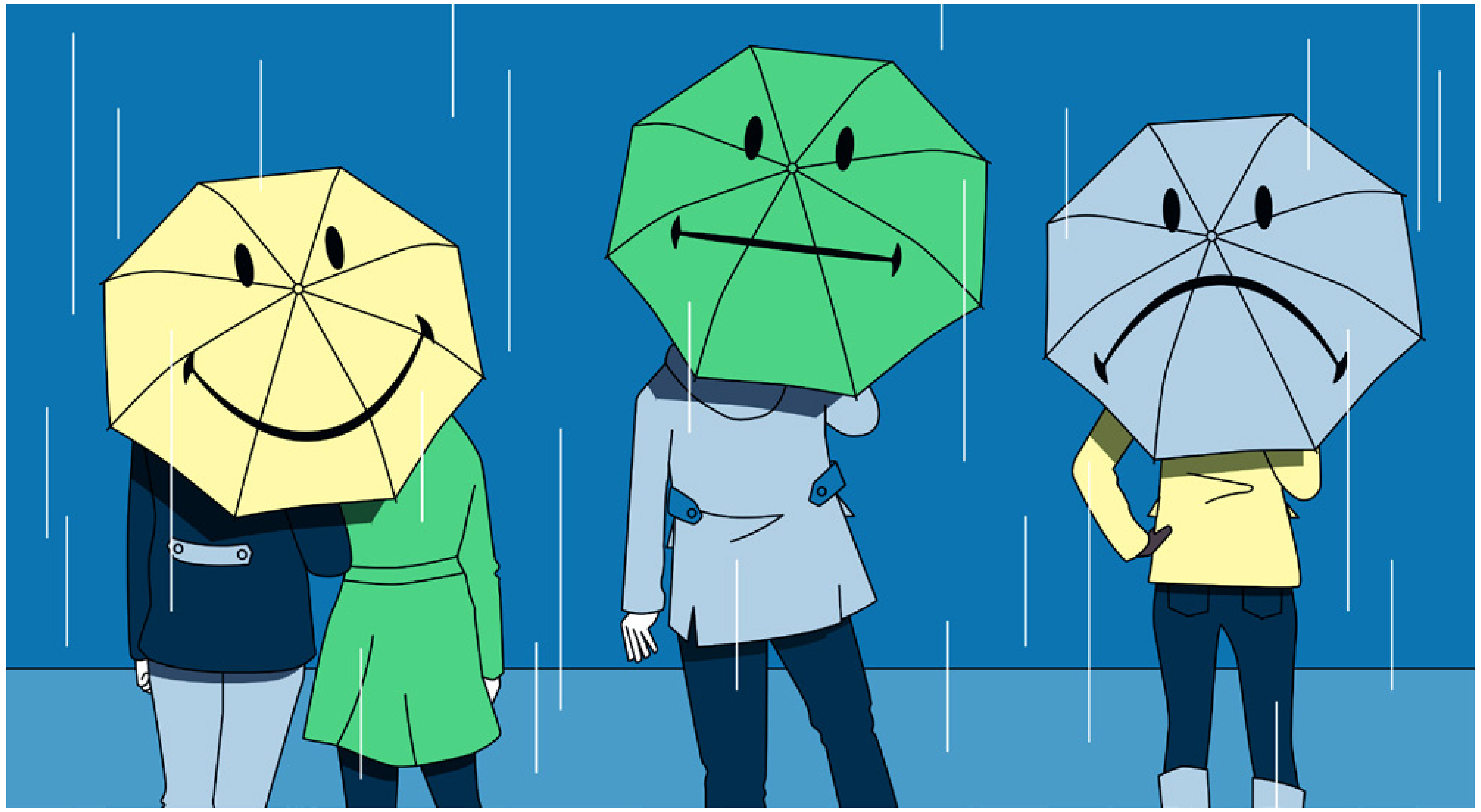
PwC Market Research Centre, Swiss Re Institute, Reuters, 2022

THE GLOBAL PROTECTION GAP IS SET TO KEEP GROWING

Difference between total and insured losses worldwide, by region (in US$bn)



PwC Market Research Centre, Swiss Re Institute, International Monetary Fund, 2022



CONSUMER TRENDS

Regulation brings the customer experience into focus

A new wave of regulations from the FCA has changed buying habits. It could be a game-changer in how insurers offer value for money

Matt Scott

The insurance industry has undergone a revolution of late. New regulations from the Financial Conduct Authority (FCA) have changed not only the way that insurers price their products, but how consumers are buying their policies.

The first of these was the General Insurance Pricing Practices (GIPP), which came into force at the beginning of the year. GIPP effectively banned the practice of price walking. This was where insurers would offer introductory discounts for new customers before increasing premiums at renewal to claw back first-year losses and turn a profit.

Price walking was particularly prevalent in the home and car insurance markets. This resulted in many customers looking for cheaper premiums on price comparison websites when their policies came up for renewal.

The introduction of GIPP then triggered the largest single-month price rise on record for new insurance policies, according to data from Consumer Intelligence, but prices for renewals largely stayed the same or even fell slightly.

This has prompted a radical shift in customer buying habits, according to Consumer Intelligence's head of consumer strategy, Catherine Carey. Data from the insight firm shows that the number of people shopping around for their insurance at renewal has hit historic lows since the introduction of GIPP.

For insurers, this means that the way they interact with their customers is changing.

"It could be argued that brands no longer need to put as much effort into delivering a great experience if their customers are going to stay put regardless," Carey says. "On the flip side, though, a poor experience could be the trigger that pushes a customer back out into the market."

But Dan King, co-founder of market intelligence firm Insurance DataLab, believes that customer experience has never been more important for the insurance industry. "With insurers no longer able to compete as effectively on price, customer experience and the value of these policies could soon be the defining factor in choosing an insurance provider," he says.

Charlotte Rae is head of customer experience at LV= General Insurance and agrees with this view. She says the new regulations should act as a catalyst for insurers to improve their customer experience. "If insurers want to attract new customers, they can't rely on discounted price messaging, but rather must enhance their customer experience to rival their competitors," she says.

In addition to GIPP, the FCA has introduced two other new regulatory initiatives this year: Consumer Duty and Fair Value. Both require insurers to monitor their policies' value for money, as well as the customer experience on offer. It all returns the focus to keeping the customer happy.

What's more, King points to Amazon's entry into the insurance market as a potential sign of things to come. The internet giant now offers insurance products from three providers via its UK website. Users can compare the value and service levels of the different policies, not just the final price. This isn't a common feature on price comparison websites and could "be a game-changer for insurance," King says.

But James Daley, managing director of consumer group Fairer Finance, fears the new regulations may not have the effect the FCA had hoped for, of driving increased consumer value. "Without the same pricing flexibility, I think we'll see insurers continue to hollow out their products – looking to increase margins by reducing cover levels and increasing excesses," he says.

Daley thinks this is a concern for the insurance industry, with customers frequently not understanding the exclusions and restrictions that will apply to many of the policies they buy.

"Good customer experience in insurance has to start with setting customers' expectations in the right place," he says. "Firms need to get better at explaining exactly what's covered and, more importantly, what's not covered when customers are taking out the policy."

For Daley, this means that insurers need to stop listening to what customers are asking for and focus on what they need. "Customers just want their cover to be set up as easily as possible and have the peace of mind that if they need to claim it will be quick to process," he says. "But firms need to be aware that what customers want and what they need are not always the same thing."

Instead, Daley says that insurers need to stop fixating on speed and look to improve the customers' understanding of the offer. "Firms need to communicate clearly – through the application journey, through the policy documentation, through the letters and emails they send to customers," he says. "That means eliminating jargon and using plain language.

"Given that this may be the only time when you have your customers' full attention, it's right to ensure that they understand what they're buying and what they're not buying.

"If firms manage all of that, they will create the conditions to surprise and delight their customers, rather than baking in guaranteed disappointment for a significant minority," he adds.

But while Daley may be an advocate of providing what customers need, as opposed to just what they are asking for, Carey says it is still important that insurers listen carefully to their customers.

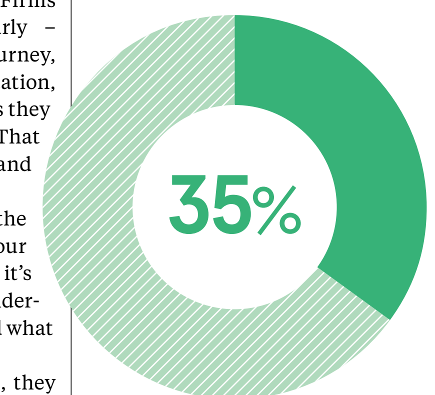
"It often seems as if there's a disconnect between what customers want from their experience and what insurers think their customer experience should be," she says. "At their most vulnerable, consumers want reassurance through human connection, whether that means a friendly voice on the other end of the phone or an empathetic exchange on live chat.

"In contrast, there is a focus within the industry on moving towards automation and online claims handling. It's important to find the right balance."

One thing is certain, though. With the FCA increasingly focused on the value offered to customers, insurers need to make sure the customer is at the heart of what they do. If they don't, they not only risk losing loyal customers at a time when new business is increasingly hard to win, but they could also face some tough questions from the regulator.

And neither of those outcomes will be a good experience for anybody.

> With insurers no longer able to compete as effectively on price, customer experience and the value of these policies could soon be the defining factor



of car insurance customers whose policies were up for renewal in Q1 2022 switched provider

That's down by 6 percentage points since the introduction of GIPP

£4.2bn

The expected saving to UK customers over the next decade through banning price walking

Consumer Intelligence/FCA, 2022

Are insurers becoming lifestyle brands?

An insurance policy has never been the most exciting of purchases. Recently, insurers such as Vitality and AIG-linked startup Yulife have been looking to change that by advertising themselves as lifestyle brands.

But will insurers ever truly become a key part of their customers' day-to-day lives?

Fairer Finance's Daley is a firm believer in the partnership approach. He says that insurance needs to change its relationship with customers and that insurers should be seen as partners in risk, rather than at odds with them.

"There is an inherent and inconvenient conflict between shareholder and customer for most insurers, and firms need to find ways to better align these interests," he says. "It's crucial that insurers keep the relationship alive after a policy is bought. Too often they just disappear into the background.

"They can do this via more frequent communication by email and SMS, and integrating reward schemes and offers into their proposition so that customers engage with them on a more regular basis, providing more opportunities for those important messages to be disseminated and understood."

Ultimately, though, it should all come down to the value offered by the interaction, not whether it makes for a nice advertising gimmick, according to Charlotte Rae, head of customer experience at LV= General Insurance.

"What has always been important, especially for time-poor customers, is that every interaction with their insurer must be quality over quantity," she says. "This doesn't mean there aren't opportunities to surprise and delight customers – which we take pride in doing – but the objective is to understand customers' needs and how, what and when they want us to help."

Commercial feature

Insurtechs deliver smart results in cyber

Corvus Insurance's CEO **Madhu Tadikonda** explains how insurtech, and more specifically insurtech 2.0, will be critical in building the cyber-safe companies of the future

Cyber crime is relentless – and growing. In the first nine months of 2022, the number of attacks in Europe were already double the number Moody's had reported for the whole of the previous year. That's not including the 38% of all attacks that were related to Russia's invasion of Ukraine.

Another significant change is the choice of target. In years past, sophisticated attackers would focus on large-scale organisations. But, as the tools available to carry out attacks have become more widely available, criminals are turning their attention to small- and medium-sized enterprises (SMEs). They're particularly ripe pickings, since they often rely on outdated software and infrastructure while struggling to find skilled staff to manage their security.

Increasingly, SMEs are turning to their insurers to provide the solution, but not necessarily in the expected ways. Instead of being there to pick up the pieces after an attack, enterprises are looking to their insurers for ongoing preventative action. Indeed, according to research by BlackBerry, while SMEs are less likely to have cyber coverage than larger enterprises, the need is quickly becoming more apparent.

"A lot of SMEs don't have a CISO or web security department. This is where insurance companies can be a helpful partner. We have the data and we know at a granular level what makes a particular company more - or less - safe," reveals Madhu Tadikonda, CEO of Corvus Insurance, an MGA offering AI-driven smart cyber insurance. "Providing this support and counsel is how the insurance industry should work."

This shift from insurers acting only as a financial stop-gap to acting as a trusted partner in building a cyber-secure business would not be possible without the involvement of insurtechs.

Today, a new generation of insurtechs – "insurtech 2.0" – is focusing on emerging risk areas, including categories like cyber. While the initial "insurtech 1.0" entrants often relied on a growth-at-all-costs model borrowed from the software market, they lacked an appreciation of the nuances of the industry. As a result, little of the hoped-for disruption actually occurred. Insurtech 2.0 firms are much more targeted, narrowing in on areas where traditional solutions are not meeting customers' needs. Cyber insurance is a perfect example, where success hinges on leveraging new data sets, security expertise, and a novel engagement model with policyholders.

"Cyber insurance is a very new type of risk," says Tadikonda. "You need different types of data to underwrite it and you really need to be engaged and closely linked to your enterprises across the 365-day term. Because attacks are developing all the time, you need to know what software your enterprises are running, and then you need to be able to quickly interact with them to provide remediation and response services."

Corvus's proprietary IT scan analyses enterprises' systems to understand what IT assets, security systems, and cloud providers they use. This is not information that is typically used in the traditional underwriting process, nor is it a process that can be undertaken using incumbent insurers' legacy technology.

Unsurprisingly then, we are starting to see established insurers partnering with companies like Corvus to boost their cyber offerings in an effort to deliver a much more forward-thinking approach to insurance. This trusted partner approach, where insurers share their expertise and services to build organisations' cyber-preparedness, will be more than just a distinctive customer proposition. In the near future, SMEs may find it difficult to operate effectively without this kind of support.

"If you want to work with another company, or already do work with a large financial institution, they will likely demand you have a cyber policy in place. It doesn't just mean that there is some kind of liability protection, but it means they also know your business has a certain level of cyber hygiene that's been required by the insurer," Tadikonda insists.

"This is no longer a case of crossing your fingers and saying 'cyber crime happens to other people'," he warns. "There's no safe business of any size anymore."

But, it's not all doom and gloom. Viewing cyber crime preparedness through the enterprise lens, as a risk management strategy, is an exercise in creating future cyber safety. "It's about making you safe beyond your policy," Tadikonda concludes.

> A lot of SMEs don't have a CISO or web security department. Insurtechs can help because we have the data and we know what makes a particular company more - or less - safe

To learn more about how Corvus Insurance can help keep your business safe from cyber risk, visit corvusinsurance.com

CORVUS

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TECHNOLOGY

Doubling up: how digital twins are changing the insurance sector

The advent of detailed digital models promises to put insurers on the front foot, predicting losses before they occur and revolutionising the underwriting process

Nicola Smith

"Insurers shouldn't be spending 80% of their time doing administration and looking for data," says Anthony Peake, co-founder and CEO of Intelligent AI, an insurtech startup which looks for ways to enhance commercial property underwriting and risk management. "They should be spending 80% of their time working with clients to mitigate risk and help clients improve their profitability and continuity."

It's hard to argue with that sentiment, particularly in the wake of devastating events like the Grenfell Tower fire and with the ruinous impact of climate change looming on the horizon. Perhaps it's no surprise, then, that insurance companies are looking to improve their methods for predicting and evaluating risk.

Digital twins, or computerised representations of buildings, are one possible solution, helping insurers achieve more accurate underwriting and risk mitigation, faster claims processing and more effective fraud detection. Created using multiple data sources, these digital models allow for the simulation of all the movements, forces and interactions that a building might experience in the real world.

It all begins with images. As Jakub Dryjas, CEO of insurtech Tensorflight, explains, combining aerial photography, satellite and ground-level images can produce a digital twin that details key property attributes such as a building's footprint, roof pitch and geometry and the number of storeys. This process can also identify the presence of aluminium composite panels, the layer of highly combustible plastic which was identified as "the primary cause of the rapid fire spread at Grenfell Tower", Dryjas notes.

And, most excitingly, this technology has the potential to flip the insurance industry on its head, enabling policies based on predictive rather than historical data.

> If you look at a large commercial submission, it can often take days or weeks to get an answer as to the insurability. If we can obtain that automatically, everyone wins

One key advantage of digital twins is the accuracy of the data they hold. Alex Taylor is the global head of emerging technology at QBE Ventures, the venture investment and development arm of QBE Insurance Group. He explains that insurance quotes are based on accurate information. "When that information isn't accurate or isn't available, those prices build in an element of uncertainty," he says. "As the quality of information improves through technology like digital twins, many customers will get a better outcome."

That improvement won't just be reflected in the price, but in reduced tension at the time of underwriting. "For a large commercial submission, it can take days or weeks to get answers to some of the questions in the underwriting process," says Taylor. "If we can obtain that automatically, everyone wins."

Zurich UK is also using digital twins to make risk mitigation more efficient. "We will go to a site and consult on what we perceive the level of risk to be, taking into account geography, location and so on," says head of innovation Mark Budd. "Working with a digital twin could help us make a lighter-weight digital assessment without sending a human being to the site."

This reduces costs for both the insurer and the customer. "It allows us to make better decisions about where to deploy resources," says Budd.

Digital twins are helping to address fraud too. If a property owner claims their roof has been damaged by hail, for example, data from an Internet of Things feed could show if the temperature around the property dropped in a way that's consistent with hail at the alleged time of the incident. "If it did, that lets me just pay them rather than sending a loss adjuster," says Peake. "Or you can say, 'Hang on – is there fraud going on here?'"

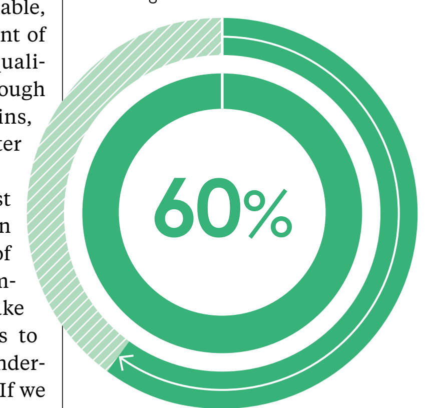
But for Krista Griggs, head of financial services and insurance at Fujitsu UK, there's a much bigger opportunity here. An effective digital twin strategy, she argues, is a chance for insurers to go as far as predicting potential future losses by comparing their informed view of an individual claim against their ongoing assessment of the risk.

"Notifying the insured party of potential losses means the asset holder can take precautionary measures. Preventing a loss in this way may not be purely financial because loss can relate to life, properties, potential income and goods," she says.

By 2027, the digital twins sector is expected to be worth

$73.5bn

That's a growth rate of



marketsandmarkets.com, 2022

Digital twins may already be having a positive impact on the most forward-thinking segments of the insurance industry but many believe it will be at least five years before this technology reaches mainstream adoption. Several key challenges remain.

This technology's reliance on multiple data sources is one issue. As Budd explains, many insurers hold a lot of the data themselves and simply need access to the missing pieces, so they are often reluctant to migrate everything to a provider's new platform. The necessary data is often unstructured too, held in documents and spreadsheets, for example, and frequently siloed. It might also be incorrect, incomplete or simply out of date. "To create an effective digital twin, data needs to be classified and stored in compliance with several rules to provide legal, timely, relevant, accurate and actionable insights that can be trusted," says Griggs.

Regulation must also keep pace with the technology to protect both the industry and its customers. "An element of conservatism is warranted as we collectively explore the ways that we can deploy some of this technology," says Taylor. "And that means the legislative and regulatory environment needs to evolve and move in lockstep with us to make sure we remain protected."

A data standard for digital twins would certainly help. As Budd explains: "Currently, there is no agreed pattern or data model for a digital twin, so we all have slightly different views about what should be in it and the tolerances – in effect, what good looks like."

Even so, there is certainly value in working together to hasten the adoption of this potentially transformative technology. There may be an opportunity here for an insurer to obtain a competitive advantage by creating an open digital platform which is attractive enough for others to join and use.

As Budd puts it, the key lies in finding a way "to partner better".

Commercial feature

Q&A

How tech can help fix the UK's broken insurance market

David McMillan, chief executive of esure, discusses how better use of digital and customer data can help transform the UK insurance market and win back trust from consumers in the process

Q You want esure to be a 'game-changer' in the insurance market. Why?

A We believe that UK consumers have lost trust in the insurance industry. When I came on board as CEO in 2019, we looked at the industry and found that customer trust levels were worse in the UK than most of Europe and many other economies. This was borne out of a combination of shabby practices and poor processes, from price walking [where loyal customers are charged higher premiums than new customers] to honest customers being treated like fraudsters. We felt there was a sense that the industry had lost sight of the people it is trying to serve, which is why the mission for our company is to fix insurance for good, using a combination of deep expertise from multiple industries, empathetic customer service and cutting-edge technology.

Q How are you using data to change the market?

A Our frontline teams did some in-depth customer research to better understand customers' wants, needs, expectations and frustrations. That highlighted everything from indecipherable policy documents to contact centres that don't answer the phone, to us not understanding the customer's history. We feel that where we can make a real difference is through people from many different industry backgrounds working in an agile way to progressively solve these issues.

Customer research and data are the bedrock of esure, and we want to turn that feedback into real change very quickly. The insurance industry is no stranger to data – it has been central to insurance for 200 years. What has really changed is the scale of the data that's available and the processing power. So it's not just addresses or car registration numbers – we are capturing data on every second that the customer is in our customer journey. It's huge.

Q How important is the right technology platform, and what does it enable you to do?

A When customers think about what a 'good' digital experience looks like, brands like Monzo and Netflix spring to mind. We felt that we needed to build something that could deliver that degree of personalised, seamless and intuitive customer experience.

But the typical insurance company's technology stack does not provide a unified view of the customer's data. Instead, it's still disparate and inaccessible. A lot of these platforms are really glacial, expensive and inflexible, making it difficult to connect with newer digital partners and insurtechs.

We are building a platform that allows us to react quickly and dynamically. We have built a fully cloud-based platform with technology architecture that is flexible and scalable. We are the first UK player to deploy EIS insurance software, and we're using Amazon Connect [a provider of cloud contact centres] extensively. It allows us to have a real-time, single view of the customer across all channels, enhancing our ability to seamlessly service customer requests.

At the moment, we've got more than 30,000 customers on the new platform. It's early days, but our Net Promoter Score from those customers has already doubled. The next step is to get all of our remaining 2.5 million customers onto the platform.

Q What does this mean for customers?

A The exciting thing is that this gives us the ability to release functionality really quickly, to continually enhance the customer experience. And it's not just about the technology – we have multi-disciplinary 'customer squads' with people from the front end of the business, plus marketing and tech resources, able to make changes to the customer journey in a matter of hours. We are changing pricing on a near daily basis as well.

> We are using machine learning to set fairer, more accurate prices, to detect fraud and triage more complex claims to specialist claims colleagues

By partnering with Amazon Connect, we've fully integrated our customer support channels in our online portal, combining chatbot, live chat and voice in one place. So if a customer needs to switch channels – moving from live chat to speaking to a colleague on the phone – all of the customer's request and history is retained in-journey, removing friction and making it simpler to quickly resolve customer requests.

Ultimately, we want to be in a position where we give customers a huge amount of flexibility and have propositions that are designed around them. We also want a model that is lower cost, which can be fed back into a lower price for customers.

Q What role is AI and machine learning playing?

A We've got around a dozen machine learning models in operation, and that is probably about a quarter of what we would like. We are using machine learning to set fairer, more accurate prices, to detect fraud and triage more complex claims to specialist claims colleagues – so pretty much all of our customers will be interacting with AI in some form. Our use of machine learning is delivering better outcomes for customers, and we're already seeing quantifiable commercial benefits, which will only grow as we deploy new initiatives.

Q What other changes do insurers need to make to improve the market for customers?

A The practice of price walking has left a real scar on the industry. That was a difficult problem for individual insurers to fix because of the structure of the market, and the regulators have really helped us. Over time, I think that will do a lot to restore trust in the industry.

We also need to improve the transparency of documentation; we've got to make things clearer for customers and use less jargon. We have done a lot of work in terms of just chopping down our policy documentation, and we use customer testing to ensure everything we produce is as clear, useful and accessible as possible.

It's also about recognising what we can all practically do on the environmental side. For example, as part of our focus on reducing carbon emissions, all of esure's branded body shops will be carbon neutral by the end of 2022, and we're one of the leaders in the market in terms of using recycled, reconditioned non-safety parts.

By maintaining our focus on eradicating customer frustrations, fuelled by smart use of data, rapid customer testing and the flexibility of our tech platform, we're confident we can fix today's broken sector and deliver the insurance that tomorrow's customers expect and value.