FUTURE OF INSURANCE

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Contributors

Cath Everett
Journalist specialising in workplace, leadership and organisational culture issues, she also writes about the impact of technology on business and society.

Duncan Jefferies
Freelance journalist and copywriter, he covers digital culture, technology and innovation, and has written for *The Guardian, Independent Voices* and *How We Get To Next*.

Finbarr Toesland
Freelance journalist, he specialises in technology, business and economic issues, and contributes to a wide range of publications.

Mark Frary
Business, technology and science writer with eight published books, he speaks regularly on technology and futurology at conferences.

raconteur reports

Publishing manager
James Studdert-Kennedy

Associate editor
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Managing editor
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Design
Joanna Bird
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Harry Lewis-Irlam
Celina Lucey
Samuele Motta

Head of design
Tim Whitlock

PERSONALISATION

Hyper-personalisation for the next generation

“Pay-as-you-live” policies are set to transform the insurance industry as the sharing of personal data enables insurers to offer more personalised services

Mark Frary

When you walk into your local coffee shop and the barista has your oat milk matcha latte waiting for you five minutes before your train is due, that is personalisation at its best.

In contrast, the barista who targets the average customer might serve up the wrong drink at the wrong time of the day. Many in the insurance sector know just how this feels.

Nigel Walsh, a partner at Deloitte specialising in insurtech, says: “Insurance companies tend to engage with their customers once a year for a short period of time unless there is an event, a claim for example.”

Roy Jubraj, digital and innovation lead for Accenture's UK insurance practice, adds: “The challenge for insurers is how to increase the frequency of engagement.”

Ignasi Barri, who heads up innovation for GFT, a provider of IT services for the financial services sector, warns this lack of engagement threatens the business model of traditional insurers faced with competition from insurtech startups.

Some startups are targeting customers more frequently, offering consumers cover only for the time they need it.

California startup Trov, for example, offers flexible, on-demand insurance for gadgets such as headphones, smartphones and laptops. From the Trov app, consumers can switch cover on and off as easily as they can their wifi connections.

Mr Walsh at Deloitte says changes in the way people live, particularly the rise of the sharing economy, mean insurance also has to change,

“We can no longer afford to or want to own our own assets in the way we always have done,” he says. “I might not own a car, but might borrow my friend’s car for three hours. Why buy an annual policy when you only want it for a short time?”

Startups such as Cuvva and Metromile are targeting these asset-free millennials as a result. Others are aiming to counter the idea that applying for insurance is too time consuming and involved with understanding jargon.

One such startup is buzzvault, which aims to help people build a digital inventory of their possessions via an app on their smartphone and use it to secure home insurance.

Householders survey each room using their smartphone’s video camera which is linked to a buzzvault-certified surveyor.

David Preston/Unsplash

Travel is one sector that could be transformed by pay-as-you-live insurance, that automatically adapts your policy based on your location

Chief executive Becky Downing says: “The customer can then view, update and amend their buzzvault. This way customers can add in anything that’s been missed, make any necessary corrections and, most importantly, decide what they want to cover.

“Using our mobile video survey technology allows us to use granular, validated data to price more accurately. This means that consumers with fewer possessions don’t pay over the odds for their insurance and wealthier households aren’t underinsured when it comes to claim.”

Accenture’s Mr Jubraj highlights Vitality, the health and life insurer which rewards healthy behaviour. “I think you will see that model shift itself into other insurance products,” he says. “The Vitality model has been a win-win. You can have better insights to avoid claims happening.”

The idea of prevention rather than claim can also be applied to other areas. Many insurers are betting on the capabilities of sensors linked to the internet of things to change the way we are insured.

“Exploiting the data from all these sensors will allow insurance companies to be more predictive,” says GFT’s Mr Barri.

A home insurer doing this is Neos, which uses smart devices, such as its LeakBot, to protect homes.

Matt Poll, Neos’ chief executive and founder, says: “Once customers have the tech installed for a couple of months, they report they feel safer and can’t imagine life without it. Furthermore, when the tech kicks in and alerts customers to a threat that could have become a claim, they see the real value of smart, preventative home insurance policies.

“Five per cent of our customers have been alerted to a real threat in their homes, which means customers were saved the headache of a lengthy claims process and the severity of the damage that could have been caused.”

At the heart of all this is data. Mr Barri says: “You need to incentivise your customers sharing data. The value is in being able to customise the products so you can be more accurate on the risk-modelling or the underwriting process and it is quite likely the price is going to be less.”

More insurers are now partnering with other companies, whether it’s Fitbit or Facebook, to gather data.

“With data from these sources you can provide hyper-personalisation,” says Mr Barri. “Rather than just targeting the one guy from generation X, insurers can target the Ignasi Barri who likes soccer, Snickers and gadgets.”

Many insurers are building apps to create direct relationships with the end-customer and cutting out brokers as a result, to understand their customers better.

As we start to have more interactions with our insurers, you can expect other products to change. Take travel insurance. “What if we have travel insurance that recognises where you are, based on your location? If you are in Paris, it can create the nudge to take out insurance,” says Mr Walsh.

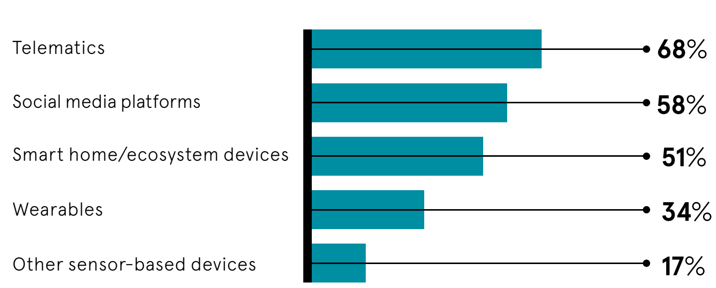
Pay-as-you-use insurance is also going to be driven by changes in the way we live. Mr Barri highlights driverless cars as an example. “If I am not going to be the one driving the car, then maybe the insurance should be provided directly by the manufacturer,” he says.

Ms Downing at buzzvault says: “Increasingly digital-savvy consumers won’t put up with the status quo; they will look for better, smarter, easier alternatives. This new generation of consumers understand the value of their personal data and want to be empowered by it.”

The future, whether it’s your insurance cover or coffee, looks personalised.

HOW INSURERS ARE CAPTURING REAL-TIME CUSTOMER DATA

Percentage of insurers who are at least at proof-of-concept phase



Capgemini/Efma 2018

OPINION

'As AI expands further into our home and working lives, the need for human interaction may in fact equally increase'

In the centuries-old battle for supremacy between man and machine, a cynic might conclude that, in the current climate, the appliance is winning the war against obsolescence.

History records that the Luddites failed to benefit from new technology in the early-19th century, despite their violent protests, though the term lives on for those unwilling to adapt to new technology and ways of working. With some forecasters predicting a legion of job losses in the insurance profession as a result of artificial intelligence (AI), do today's brokers and underwriters have legitimate cause for concern by advancing technologies?

The future of insurance will involve increased automation in the processing of claims, rapidly changing demographics and the challenges and opportunities this presents. The growth and empowerment of a more diverse and inclusive workforce, more reflective of the public it represents, will further drive this revolution.

While it is widely accepted that automation in the insurance profession will drive greater efficiency in claims processing, increasing academic research highlights that social connections in life improve physical and emotional wellbeing.

Insurance is a product which, by its nature, is only invoked after a loss or accident. In order to maintain and grow trust in the industry, it is important that the customers feel empowered during the claims process, especially at what may be an emotive time. Thus, as AI expands further into our home and working lives, the need for human interaction may in fact equally increase.

The demographics of the UK are currently undergoing a seismic shift. With the average life expectancy expected to hit 90 in the coming decades, the insurance profession must, like others, adapt to growing numbers of the elderly. The sector has a historic opportunity to play a leading role in addressing the pressing societal issues of our time, namely Britain's long-term care needs. A generational shift, with individuals supplanting the state in funding care, is already underway.

Technology will assist this transition, from the increasing likelihood of robots in care homes to insurers encouraging healthy lifestyles. Smart watches and similar devices are already playing a role in shaping some health insurance policies, with some providers offering incentives to customers to pursue a healthier lifestyle in exchange for lower premiums.

The future of insurance in the UK is likely to be a more diverse and inclusive profession. The sector has made great strides in improving the number of women, ethnic minorities, LGBTQI+, less able individuals and other minorities in its ranks, but much work is still to be done.

Recent research from McKinsey shows that businesses in the top quartile for racial and ethnic diversity are 35 per cent more likely to have financial returns that are above their respective national industry medians.

The Chartered Insurance Institute has been led since 2016 by the first female chief executive in the organisation's history, and has voluntarily disclosed its gender and ethnicity pay gaps in order to set an example to the wider profession.

We therefore see this as a case for cautious optimism for the insurance profession, but not complacence. No one can accurately predict the future and bold predictions of job losses ultimately rest on speculation. However, we feel that the challenges facing our profession are not insurmountable, but could potentially be enhanced by considered application of AI and other emerging technologies. ●

Dr Matthew Connell
Director of policy and public affairs
Chartered Insurance Institute

Commercial feature

Embracing blockchain solutions to tap new opportunities

Distributed ledger technology (DLT) and blockchain solutions have rapidly evolved from hyped buzzwords to practical tools that can empower businesses in every sector. Insurers can leverage these technologies to address pressing issues, particularly around worsening expense ratios

There are a great deal of frictional costs in the insurance market with even a relatively small improvement having a considerable impact on profitability. As collaboration is vital for survival in the industry, back-office processes need to be perfected to reduce the often high costs of doing business and better defend against up-start competitors.

"As disruptive companies are entering the insurance market, large commercial firms are taking a long time to develop new products. When there is efficiency in the back office, it can increase the speed to market with new products, and improve processing times for claims and premiums," says David Edwards, chief executive of ChainThat, a specialist provider of blockchain solutions serving the insurance and reinsurance industry.

Lloyd's of London estimate there is an insurance gap of $160 billion in emerging nations, clearly showing the potential of more effective insurance products on a global basis.

When the back office becomes more efficient, insurers can focus on making the market, providing risk management services and finding the right source of capital, as opposed to managing the process around the contract, accounting and claims administration.

DLT and blockchain are set to play an increasing role in the global insurance ecosystem, as these technologies provide a platform to share data in a digital format, enabling firms to move away from paper-based systems and guarantee all companies have the same data without relying on a third party.

These solutions also help co-ordinate the data-sharing process. The smart contracts within the blockchain and DLT allow firms to set an agreed process and state rules between the parties, which removes the need for most traditional disputes.

It's clear blockchain and DLT are a natural fit for the commercial insurance and reinsurance industry as the business model sees brokers dealing with reinsurers on a peer-to-peer basis without the need to go to a central service provider for that transaction.

"We've always had technology solutions coming into insurance that don't match the system in place. For the first time with blockchain and DLT, we now have technology that matches the business model and can support processes in a natural way as opposed to having the limitations around a centralised technology provider," says Mr Edwards.

It's not just insurers that can benefit from these advancements with end-consumers of insurance products able to access relevant new products which better meet their needs. By moving away from competing on the transactional side of operations, insurers can use their data assets to create products that have a strong value proposition.

Awareness of the potential applications of blockchain and DLT in the insurance industry has grown in recent years with board executives actively pursuing opportunities in this area.

As the benefits of these technologies in the sector become better known and efficiencies can be seen throughout the value chain, there will be an increased drive to use production solutions, across both the small and big players.

The services and solutions offered by ChainThat leverage new decentralised technologies to enable a fundamental improvement in peer-to-peer processing. Insurers are able to collaborate securely peer to peer with increased speed and greater operational productivity, ensuring they stay at the forefront of a rapidly changing industry.

"If insurers are slow to embrace these powerful technologies, then their competitive edge will disappear. There is a major risk of being disrupted if you're not doing anything in the space and simply watching other firms innovate instead," Mr Edwards concludes.

"If insurers are slow to embrace these powerful technologies, then their competitive edge will disappear

Commercial feature

Rise of the digital broker

Once a community resistant to technology developments, the insurance industry is now racing to digitise operations as brokers keep up with evolving customer expectations

The broker channel may be alive and well, but the insurance community is not exactly known to be a pacesetter when it comes to innovation. As a traditional industry driven first and foremost by trust and advice, concerns that those core attributes of a successful customer relationship may be damaged through digital developments have long defined the sector's perspective of technology.

Historically, insurance transactions have been achieved through face-to-face meetings, dating back to the coffee houses of 17th-century London. An attitude has therefore prevailed among sections of the insurance ecosystem that while leveraging technology may increase efficiency or enable new customer engagement, it also threatens relationships built over many years.

As a result, adoption of technology among insurers and brokers has been slower than in other industries. The reality, however, is that technology in fact enables brokers to provide better advice, be a more trusted adviser and form a closer relationship with customers by enabling the insured to communicate in the ways they wish.

While the broker channel continues to be the primary insurance distribution channel, the industry is being redefined by customers whose expectations are rapidly evolving, driven by the digital interactions they are enjoying other industries such as financial services and retail. While technology is yet radically to change how insurance products are created, it is transforming how brokers operate and providing them with more time to focus on their core attributes of selling and servicing.

"It is transforming how consumers think about their insurance broker and what their broker can provide them," says Jeff Purdy, senior vice president of international operations at Applied Systems. "It's also transforming how they choose their broker. Those expectations are coming from outside, not inside the insurance industry.

"Technology enables the broker to get closer to their insured. When we look at our own customer base, our digital broker offering is our fastest growing offering. It allows brokers to automate operations within their own office for greater efficiencies and to seamlessly connect with insurers to deliver the best product at the best price to the consumer."

The pace of technology adoption in the insurance industry is now increasing dramatically as brokers recognise the need to meet these consumer expectations. The whole life cycle of an insurance transaction is typically over a 12-month period, so it's not a single transaction, and for brokers to be able to drive greater connections with insurers and consumers they need to establish a single view of the truth.

Traditionally, brokers have managed their business across a diverse set of manual documents, systems and insurer portals, which results in often manual, redundant work and does not provide a single view of their customers. Brokers now need a single, open application that provides a complete view of their business across all products, employees and office locations.

Joe Sultana, managing director for broker solutions at Applied Systems, says: "A broker's business is about giving advice and looking after their customers. It's not about being experts in technology, so they need to make sure they partner with the right provider who understands the unique needs of the insurance industry and the software expertise that can push the industry forward with modern, open and scalable technology.

"With technology core to the business and its operations, brokers can have strong growth and efficiency, attract talent to the business and drive better customer satisfaction, helping build even more trust. Technology helps improve the great service and advice brokers provide, rather than replace it. The pace of change will continue far into the future, so brokers need to think of technology not separately from business strategy, but as one single strategy."

Applied Systems is a leading global software company that enables brokers to connect their business digitally, seamlessly connecting customers, broker staff and insurers. By enabling real-time connectivity between broker management platforms, multiple insurers and multiple products, Applied's technology enables brokers to offer the most suitable cover at the best price.

The company's technology also enables consumers to interact with brokers in a similar way as they do with direct sellers of insurance, providing anytime-anywhere customer service and thus allowing brokers to compete on a user-experience level against direct sellers or alternative distribution providers. With a recent investment from Google's parent company Alphabet, Applied is looking to leverage world-leading expertise in innovation, including artificial intelligence, to further enhance the brokers' ability to drive smarter and closer connections.

To cope with the necessary culture change required for a digital transformation, Applied Systems also has a professional services division that helps brokers implement digital technology, train their staff and provide tools for their insured to interact digitally with their broker. Serving only the insurance sector, its expertise is valuable.

"We're extremely proud of our deep domain expertise within the insurance ecosystem," says Mr Purdy. "A horizontal software provider can only go so far and then it becomes very hard because the domain expertise required to enter a market like broker management is so deep. Brokers providing trusted advice require a set of skills that don't diminish overtime, they increase. But in a world that is far more complex than it was just a few years ago, they need a partner with deep expertise as much as their own customers do."

By failing to respond to the changing expectations of their customers, brokers risk falling behind. New start-ups are entering the sector that are entirely digital with the mission to disrupt traditional broker management. Meanwhile, other brokers are now adopting digital technologies in their masses. Brokers that refuse to transform or implement new innovation will lose market share or be forced into other action.

"You see lots of M&A activity in this space because ultimately brokers that are not willing to embrace digital transformation are exiting," says Mr Purdy. "We see more and more brokers adopting digital technology to best position themselves for growth both today and in the future. The broker channel is strong and healthy, as shown by the organic growth of the industry and in equity being put into the channel, like our investment from Google, and we are excited to continue to support broker momentum in this digital age."

For more information please visit appliedsystems.co.uk

> **We see more and more brokers adopting digital technology to best position themselves for growth both today and in the future**

156%
higher revenue per employee is experienced by digital brokers

37%
higher revenue for brokers that provide clients a mobile app

32%
higher revenue per employee for brokers that offer customer self-service

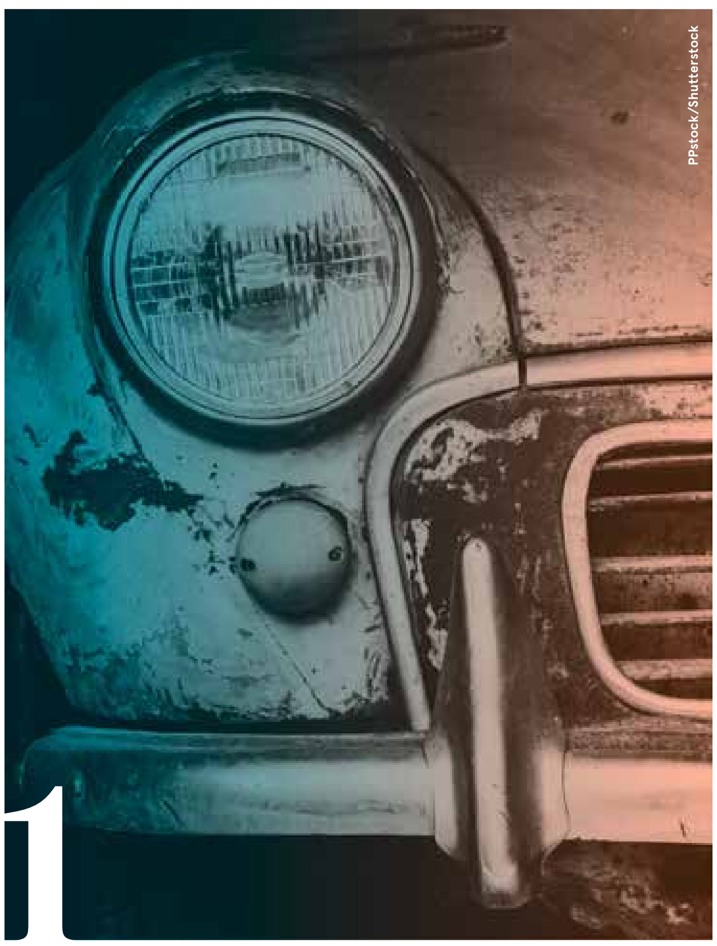
Applied Digital Broker Annual Report 2018

AUTO INSURANCE

Five questions shaping the future of the driverless car industry

From policy prices to insurers' relationships with auto manufacturers, the arrival of autonomous cars on our roads will disrupt the very fundamentals of vehicle insurance

Finbarr Toesland



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Could car insurance rocket if you don't have a driverless car?

Driverless cars may not yet be ready for a widespread rollout, but if the rapid advancements in autonomous vehicle technology continue it won't be long before these vehicles are on the roads. If the safety worries around self-driving vehicles can be allayed, and the number and severity of accidents can be kept low, the cost of insurance will fall. But what will happen to the insurance premiums of those who continue driving cars that aren't autonomous?

"In a competitive market, motor insurance premiums will continue to reflect the risk presented to and determined by individual insurers, and it's unlikely premiums for non-automated vehicles would rise disproportionately," says Tim Marlow, head of autonomous and connected vehicle research at Ageas, a multinational insurance company.

While it's unlikely general car insurance prices will skyrocket as soon as driverless cars are on the road in large numbers, the ability of automated driving systems to prevent accidents will clearly push down self-driving insurance premiums.

Over time, the disparities between the premiums of driverless and non-driverless cars may become extreme, especially as the technology continues to improve and reaches the point where only a few drivers don't make the switch.

Will car manufacturers provide insurance?

In the new insurance marketplace, carmakers are on course to play a much more prominent role in insurance. A number of industrial analysts project that the rise of driverless technology will dramatically alter the sector. Research from KPMG forecasts that the rise of autonomous car technology could reduce the automotive insurance industry by 71 per cent by 2050.

While car manufacturers will vie with traditional insurers for market share, there may be different areas of insurance where conventional insurance products are most suited.

"Alongside original equipment manufacturer (OEM) product insurance required for driverless vehicles, it is very likely there will still be a legal requirement or consumer desire for additional cover over the basic OEM product cover," says Howard Collinge, director at specialist telematics firm insurer Coverbox.

"Policies are likely to focus more on an individual's driving habits or routines, rather than on speed or driving abilities as autonomy levels our driving standards. Converting this data into relevant and actionable insight for insurers, and importantly customers, will become evermore important," says Mr Collinge.

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What role will traditional car insurers play?

There is no question that the emergence of self-driving cars will fundamentally change how vehicule insurance is purchased and offered to consumers, with established car insurers needing to adapt to the new environment they find themselves in.

"I believe there will be a form of product liability insurance that will be offered, via reinsurers, from OEMs for driverless vehicles, similar to third-party cover now. There will still be a requirement for drivers to have private insurance which will be used to top up this base cover to the level of the comprehensive cover prevalent today," says Andrew Bennett, chief executive at Insure Telematics Solutions, specialists in motor insurance telematics.

It may be the case that some insurers are undercut by manufacturers and others decide to transition away completely from offering car insurance.

chrisdorney/Shutterstock

The most successful will develop their offering to meet the evolving needs of driverless car owners.

"Inevitably, deeper connections are likely to develop between OEMs and the insurers that remain around new car purchasing methods and financing models. These relationships will rely heavily on the insurer's value-add with regards to both data translation and internet of things platforms," says Mr Bennett.

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Where will responsibility lie when there's a car crash?

With automous vehicles set to travel on UK roads from 2021, there have been contentious discussions around which party is to be held responsible for automotive accidents. The question of liability becomes even more complex when autonomous vehicles will be on the roads alongside non-autonomous cars, leading to issues around who is at fault.

The 2018 Automated and Electric Vehicles Act sets out that if an automated vehicle causes an accident, the insurer is liable for damages, which includes injury to the person "driving".

"The insurer then has the ability to seek recovery of all or part of their outlay from another at-fault party. This may include the vehicle manufacturer or supplier of the automated driving system, if there was a fault in or failure of that system, or a third-party driver, if their actions contributed to the accident," Mr Marlow at Ageas explains.

Under the Automated and Electric Vehicles Act, whoever owns the autonomous car is responsible for keeping vehicle software up to date and well maintained. For example, if old software is hacked by a cyberattacker and damage occurs directly due to this attack, the insurer may not be liable unless the insurance policy explicitly covers this eventuality.

Is M&A among insurers and car manufacturers set to grow?

According to research from the Boston Consulting Group, the autonomous car market will total $77 billion by 2035, with one in four cars on the road self-driving. It's no surprise that as this market grows, car manufacturers are looking to gain a closer relationship with insurers to offer customers a more holistic service and provide services they don't currently supply.

Mergers and acquisitions (M&A) activity and deals in the automotive industry are set to increase alongside the need for manufacturers to develop a mix of insurance products for the self-driving market. By going down the M&A route, carmakers can quickly gain access to high-level insurance talent and begin to expand their product mix to meet rapidly changing customer needs.

northallertonman/Shutterstock

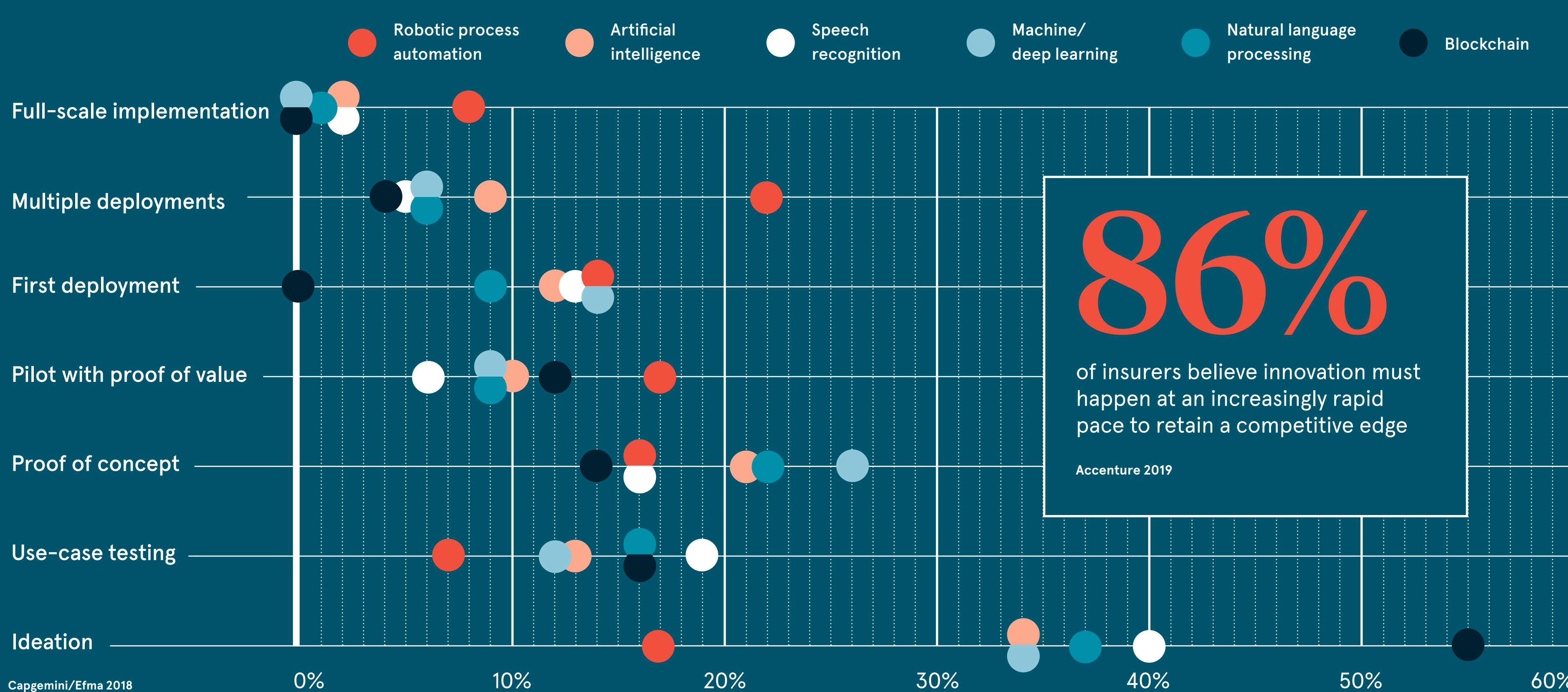
"Auto manufacturers have been focusing on tech M&A in recent years to gain a foothold in the self-driving space, and insurance could well be another sector where M&A is appropriate to retain their market position and open up new revenue streams," says Daniel Ruiz, chief executive of Meridian Mobility UK, a government-backed intelligent mobility accelerator.

TECH DISRUPTION

Rising compet
new services a
is this disrupti

DIGITAL TRANSFORMATION: STAGE OF ADOPTION

Where insurance companies stand in terms of implementing emerging technologies



Capgemini/Efma 2018

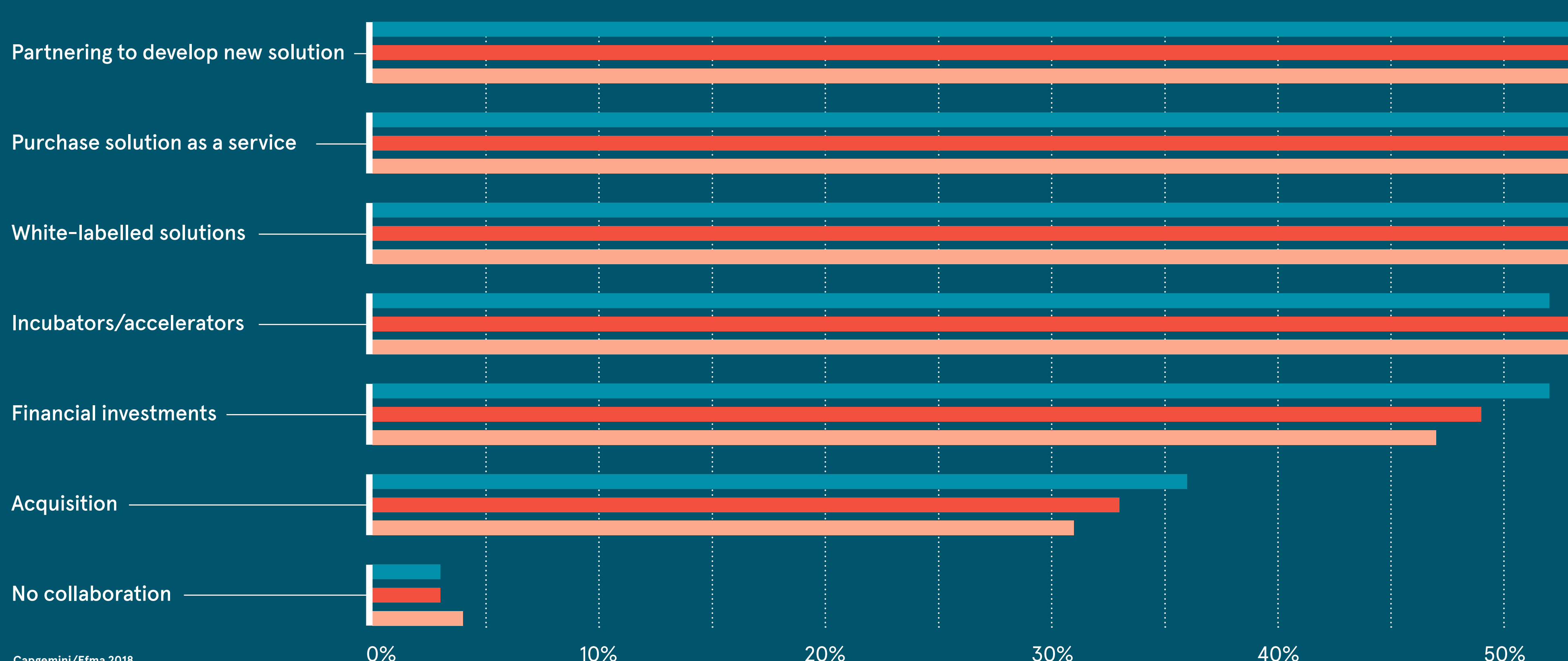
86%

of insurers believe innovation must happen at an increasingly rapid pace to retain a competitive edge

Accenture 2019

HOW TRADITIONAL INSURERS WANT TO COLLABORATE WITH INSURTECHS

Percentage of insurers in each sector who prefer the following approaches



Capgemini/Efma 2018

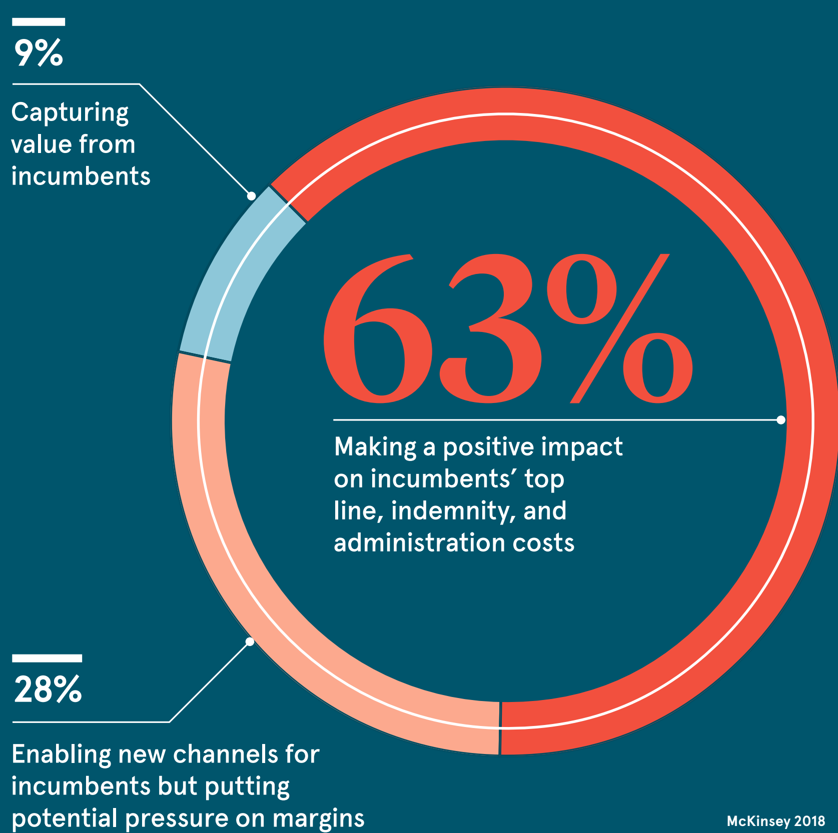
ition is pressuring incumbent institutions to offer and transform entire business models. But where on coming from, and how are insurers reacting?

of insurers think digital ecosystems are having an impact on the insurance industry

Accenture 2019

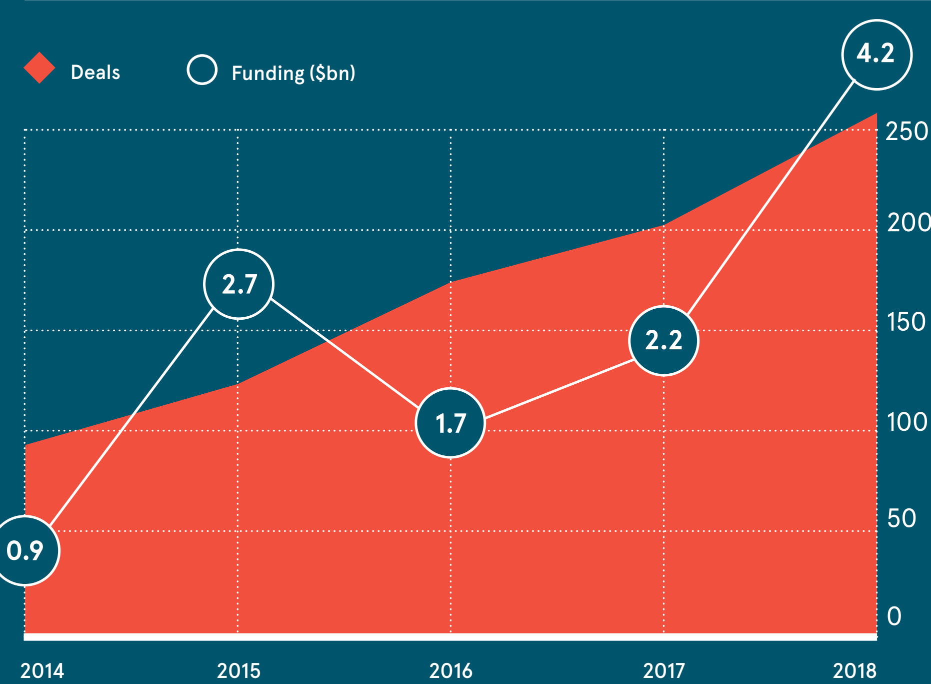
INSURTECH ROLE IN INSURANCE INDUSTRY

Where insurtech companies see themselves



McKinsey 2018

INSURTECH ANNUAL FUNDING AND NUMBER OF DEALS



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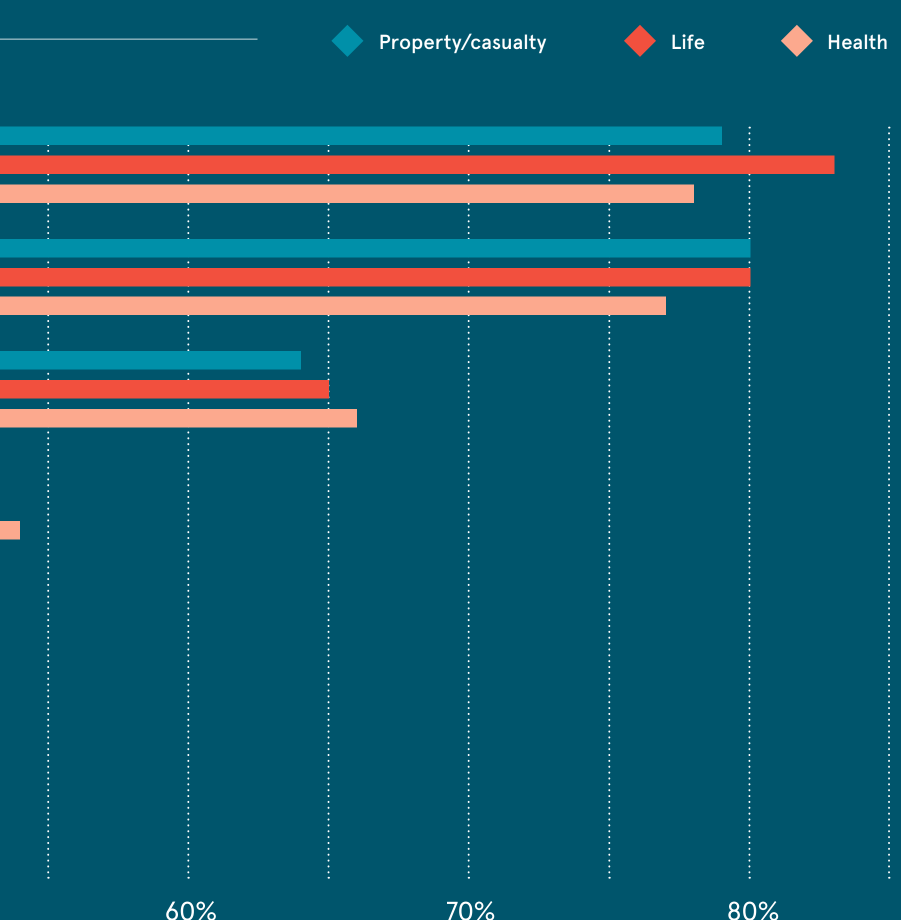
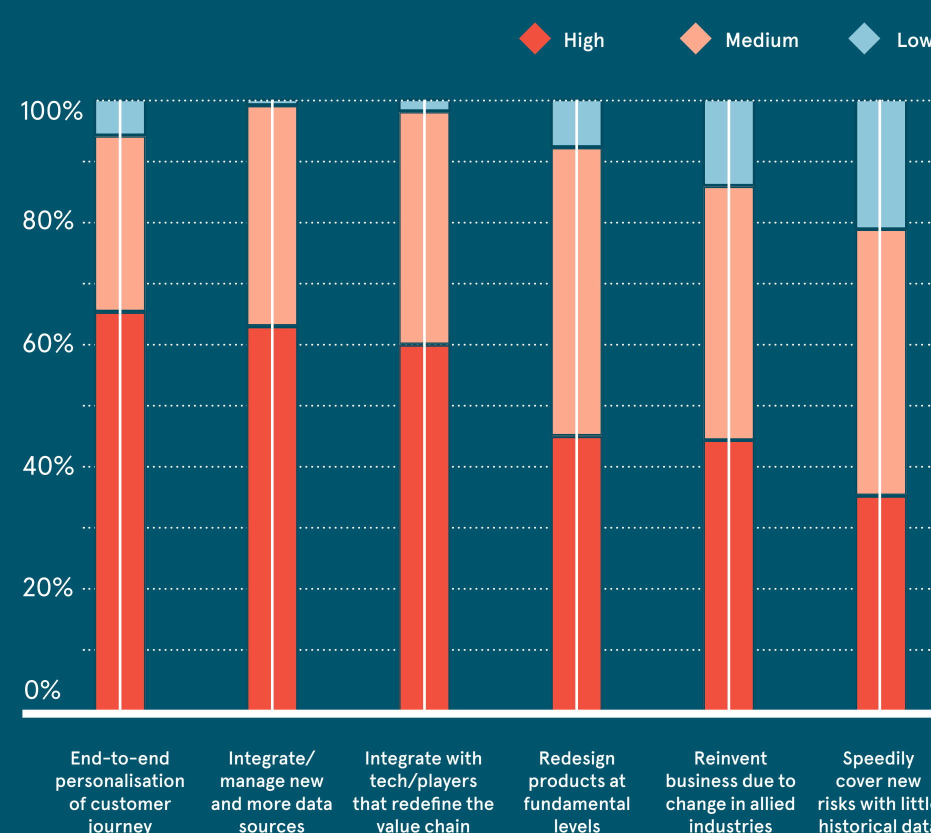


BUSINESS IMPERATIVES FOR THE FUTURE INSURER

Factors where insurers see the biggest impact in the industry



Capgemini/Efma 2018


John Schnobrich/Unsplash

> Insurtechs increase the competition for talent, but they're not necessarily the biggest challenge

PEOPLE

Making insurance the destination of choice for talent

A multitude of factors have created a skills crisis across the insurance sector, as both incumbents and insurtechs face challenges to attract and retain the next wave of talented recruits

Cath Everett

The insurance sector is facing a talent crisis. On the one hand, it has a serious employer branding issue, perceived as staid, boring and lacking in innovation.

As Dave Dewey, managing consultant at Heat Recruitment, says: "The problem with the insurance industry is that it's not seen as sexy or marketed as lucrative. The majority of people don't leave school or university thinking they want to be a claims handler or underwriter and the top graduates don't aspire to work for insurance companies."

Another issue is salaries, which have remained pretty stagnant over recent years, particularly in the non-managerial and technical roles where most entrants start their careers. While the situation has been attributed to growing levels of automation, it is also inevitably having an impact on the sector's attractiveness.

A further contributor to these negative perceptions is the poor customer experience that many insurance companies have traditionally provided. Widespread practices, such as jacking up policy premiums after customers have been with providers for a year in the apparent hope that the increase will not be noticed, have led to low levels of trust, which again has a negative effect on employer brands.

On the other hand, the industry is confronting internal challenges too. Not only is its workforce ageing, but it is also facing a big wave of retirements over the next ten years as more baby boomers, who have been in the industry for most of their careers, start to leave.

Susie Turpin, director at talent research firm Wilbury Stratton and former global head of executive resourcing for a multinational insurance company, explains: "The focus now is on trying to attract and retain the next wave of talent, and how to make the industry a destination of choice. But there's also the issue of dealing with a transient workforce that may only want to stay for five years or so and then move on to gain more experience; it's a very different model."

But a different model as part of a wider industry reinvention is just what the insurance market is likely to have to embrace if it is to withstand the widely expected disruption many other sectors have already gone through. While price-comparison websites have already had some impact on the market, the arrival of real-time, cost-efficient services from a new generation of insurtechs is predicted to make its mark too.

A key challenge for incumbents in this context though, according to Max Richter, managing director of insurance at management consultancy Accenture, is finding individuals with the right qualifications to undertake a role in, say, claims management or actuarial, who are also tech savvy and have enough creative imagination to work out how to do things differently.

"These skills are important for an organisation seeking to transform itself as it's about people knowing enough about the business and technology to do things better," he says. "Having a critical mass of people to do it is also necessary."

Interestingly, Mr Richter does not see the emergent insurtechs as an undue threat in talent terms.

"They increase the competition for talent, but they're not necessarily the biggest challenge," he says. "Insurtechs employ mainly graduates, who are attracted by the startup nature of the company and so tend to choose between them and another form of startup rather than specifically making a career in insurance."

Moreover, insurtechs have challenges of their own, such as having to recruit large numbers of software developers, which are mostly hired on contract rates due to high levels of demand. According to Ms Turpin, this means their talent concerns focus predominantly on how to get hold of sufficient numbers of contingent workers without breaking the bank.

The talent issues faced by incumbent insurance providers, meanwhile, are more about how to become an employer of choice when expertise, particularly of a digital nature, is scarce across all industries.

The talent issue is undoubtedly firmly on the senior executive agenda. However, specific skills or talent initiatives still tend to be limited in scope rather than enterprise-wide.

Nonetheless, at a tactical level, the bigger players at least are now starting to recruit from outside the sector and on a global basis, particularly at the executive level. They are also setting up academies for school and college leavers to ensure a steady flow of skills and support a new-found focus on insurance-based qualifications to upskill both fresh hires and existing staff.

But at a more strategic level, much work still needs to be done. Not only does the industry have to become better at communicating the opportunities available to potential candidates, which include offering them a stable career helping people in need. It must also rethink its employer value proposition and the overall employee experience.

For instance, learning and development possibilities, which include everything from training and mentoring to job rotation, are consistently high on the wishlist of younger workers. However, companies are just as consistently found to under-deliver in this area, creating an opportunity for competitive employers to differentiate themselves.

"Those insurers who proactively transform themselves to have a better talent proposition and embrace technology effectively become more customer centric and will win in the marketplace, whereas those that fail to make any active effort will simply be left behind," Accenture's Mr Richter concludes.

Scarcity of talent

in the insurance sector

Deloitte 2018

28% of millennial employees in financial services expect to stay with their current employer for the next five years

4% of millennials express a desire to work in the insurance sector

86% of insurance companies don't expect to significantly invest in human resources over the next 12 to 18 months

91% rate leadership as a top human capital priority

Commercial feature

Solving for digital outcomes

Very few companies operating in the insurance sector are fully prepared to navigate the dramatic changes taking place in the industry. Not only are insurance customers becoming more sophisticated, their expectations from insurers are also rapidly changing

It's no longer enough just to offer a competitive price as clients now want an insurer that fully understands their business and needs, and offers a personalised, digital experience. They expect their insurer to go beyond traditional risk coverage to a risk-prevention model.

With a softer economy, increasing insurtech competition, rising cyber-risks and expanding regulation, insurance firms are looking to drive forward innovative initiatives and projects to retain a competitive advantage, as well as combat emergent risks.

"It's a perfect storm. Customers are demanding a lot more in a difficult environment for insurers that also need to protect themselves against disruptors," says Sudhir Chaturvedi, president of sales and executive board member at Larsen & Toubro Infotech (LTI), a global technology consulting and digital solutions company.

Through leveraging exponential technologies, such as artificial intelligence (AI), the internet of things (IoT), blockchain and data analytics, insurers can transform the customer experience and ensure they are staying ahead of startup competitors. The current dominant model in the insurance industry where firms offer similar indemnity products and compete primarily on the basis of price is outdated and lacks refinements. It is notably high-touch experience via an omnichannel approach and value accuracy that consumers expect.

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By embracing a more holistic approach, there is a major opportunity for insurance companies to become clients' cognitive risk advisers, to help them across their entire risk portfolio. This shift from offering a simple indemnity product to becoming an integral business adviser can best be achieved when the right technologies are implemented into operations.

"The industry has already adopted telematics successfully, and we are seeing a lot of interest in adopting IoT for insuring smart homes, smart plants and ensuring safety of workers. The adoption will accelerate over the next 18 to 24 months, mainly due to the growth of IoT solutions, IoT networks and 5G solutions. Intelligent IoT devices are becoming cheaper with 5G enabling devices to feedback real-time data, which will be invaluable to insurers," says Mr Chaturvedi.

One of LTI's insurance clients insures more than 2,000 churches in the United States and is making use of the integrated sensor technology programme to better service these customers. The maintenance and upkeep of churches is usually an expensive proposition, due to their typically old age and the fact that they must contend with everything from leaky roofs to subsidence.

In this context IoT devices can enable the transition to a more proactive service, by automatically monitoring environmental aspects such as heat, humidity and water levels. Insurance companies can benefit from a lower number of claims and their customers will be able to better manage their properties.

"We can act much faster when we have access to data in real time. We can actually locate where the problem is much quicker than before, and gain an immediate ability to understand the exact situation the client finds themselves in and help them manage their risks," says Mr Chaturvedi.

Moving away from offering a single product to being vital risk advisers who help manage risks is the next step for forward-thinking insurance companies that want to make the most of the opportunities created by innovative technologies. In an increasingly competitive market, new models need to be developed that more closely match consumer expectations.

In an age of personalised and tailored experiences, the insurance sector can use the details they already possess about their clients to establish a unique risk profile and use AI-backed tools to only offer the most relevant services. There is an opportunity to create a long-term relationship with clients who deeply value the benefits of having an insurer that knows their needs in depth.

"Consumers will always remember a well-handled claim and, if they believe their insurer is proactively offering a service that suits their requirements almost perfectly, they will think twice before switching. And, of course, a loss-ratio reduction by 2 to 4 per cent using cognitive claims is also quite helpful," says Mr Chaturvedi.

AI-backed tools have a tremendous potential for automating claims processes and thereby improving cost effectiveness and customer experience. For example, LTI leveraged its Mosaic AI platform to automate processing of fender-bender accident claims by analysing photos of damaged vehicles to identify the damaged parts and estimate the payment. There is still a central role for the experience and judgment of trained insurance professionals, but their skills can be augmented by these new data insights.

> In an increasingly competitive market, new models need to be developed that more closely match consumer expectations

"The most difficult part of making AI work is to continuously fine-tune models until a desired level of accuracy is achieved. With our investments in Mosaic tools, such as AI Tutor for Insurance, we make it easy to train, test and fine-tune models by leveraging in-built insurance vocabulary," says Mr Chaturvedi.

Recent technological developments will be important in many different aspects of the insurance industry, but one of the easier ways to put the benefits of these solutions into practice quickly is through reducing the administrative burden.

Sudhir Chaturvedi
President of sales and executive board member, LTI

"The opportunities for automation in insurance are tremendous. There is a lot of intelligent automation that can be done, which will actually enhance the productivity of people and keep administrative tasks to a minimum to allow staff to focus on customers and relevant risks. Automation for straight-through processing is a key enabler for improving operational efficiencies," says Mr Chaturvedi.

LTI is working with its clients on some of the exciting solutions to leverage blockchain as a trusted source for certificate of insurance or for premium accounting, assisting a wide range of stakeholders, including brokers, carriers and reinsurers. The company has developed many blockchain-based use-cases for customers, such as smart contracts, proof of insurance, catastrophe bonds and automated payment of claims based on parameterised triggers.

Insurers need a reliable partner with the right expertise to become a data-driven insurer of the future or they run the risk of continuing to lose out to insurtechs that are already taking some of the pie from the traditional players. Gaining access to high-quality technological talent is extremely difficult in the current job market where there is no shortage of attractive job opportunities.

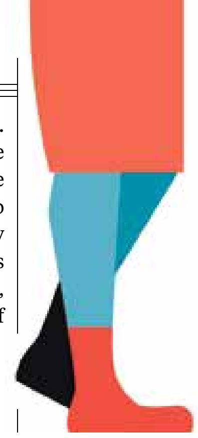
By partnering with LTI, companies in the insurance market can instantly gain access to a diverse range of top-end AI, big data and automation skills. LTI can prove instrumental in unlocking new sources of revenue and establishing future-proof business models that are well suited and adaptable to the often disruptive insurance sector.

For more information please visit lntinfotech.com

ARTIFICIAL INTELLIGENCE

Streamlining insurance with AI

From fraud detection to enhancing the customer experience, experts predict that artificial intelligence could be behind every major insurance decision within the next decade

Duncan Jefferies

The optimal insurance company has three "employees": a computer, a dog and an actuary. The computer runs the insurance company, the actuary feeds the dog and the dog bites the actuary if they try to touch the computer.

This joke has supposedly been making the rounds among insurtech companies, which are shaking up an industry that has traditionally been slow to adopt new technologies. Granted, you can easily compare quotes online these days. But there are still forms to fill in, policies to print out. And for many tech-savvy millennials, the claims process must seem positively glacial unless, of course, they happen to be one of Lemonade's customers.

Open the Lemonade app and a chatbot called AI Maya will kit you out with a personalised policy in just 90 seconds. The company promises no paperwork, and takes a flat fee of a customer's premium while setting aside the rest to pay claims and purchase reinsurance. AI Jim, another chatbot, reviews claims and runs them through 18 anti-fraud algorithms. Simple ones are approved and paid out in seconds; more complicated claims are handed over to the company's human team for review.

"A lot of our customers are first-time insurance buyers," says Yael Wissner-Levy, head of content and strategic communications at Lemonade. "From the kind of feedback we've had, they either felt that insurance was too bureaucratic or they thought it was too expensive. Those are two things that we think we've solved."

Lemonade isn't the only insurtech firm that's built its business around artificial intelligence (AI) and big data, and traditional insurers are also getting in on the act. Recent research by Genpact, a global professional services firm that offers a modular AI-based platform, found that 87 per cent of insurers are investing more than $5 million in AI each year, and more than half are planning to transform many of their existing business processes over the next three years.

"The emergence of insurtechs and changing customer expectations have been key drivers to adoption and commitment of investments in AI and other new technologies," says Sasha Sanyal, global business leader for insurance, corporate social responsibility and diversity at Genpact. "Insurers are using AI to make smarter underwriting decisions, better manage risk, detect fraud and create positive customer experiences."

Berlin-based insurtech company Omni:us works with both startups and traditional insurers. Its products, Omni:us Claim and Omni:us Policy, digitise and analyse complex documents to streamline the claims handling and policy-quotation process. After classifying incoming documents and assigning them to virtual piles, for example health invoices, car repair invoices or theft reports, the AI extracts any valuable data, examines it and passes it on to the insurer.

"Our AI keeps learning through elements like transfer learning [storing knowledge gained while solving one problem and applying it to a different but related problem]," says Martin Micko, chief operating officer and founder of the company. "So even with documents the system has never seen, the AI engine processes them correctly in a similar way to a human being."

According to the Association of British Insurers, more than half a million insurance frauds, totalling £1.3 billion, were detected in the UK during 2017, while in the United States the FBI estimates insurance fraud robs the US insurance industry of a whopping $40 billion a year. AI and machine-learning tools enable insurers to spot and flag unusual patterns that a human might miss, potentially helping to reduce these huge sums, as well as the cost of customer premiums.

Shift Technology's AI-driven fraud detection solution, Force, is already used by more than 70 insurers around the world. It analyses vast amounts of data from multiple sources to generate a fraud score for each claim and has an average hit rate of 75 per cent, higher than many other automated fraud detection systems. "You don't want to falsely suspect claims because you'll annoy your customers and you don't want your fraud handlers to spend time on unsuspicious claims, so it's very important to optimise the hit rate," says Jeremy Jawish, Shift's co-founder and chief executive.

Companies such as Hanzo also offer web-crawling AI tools that can sift evidence of a fraudulent claim from social media accounts, for example from pictures of someone who claims to have been injured in a car accident skiing in the Rockies. Other innovative AI-based solutions include Guidewire's Cyence Risk Analytics platform, designed to help the insurance industry quantify cyber-risk exposure, and Cape Analytics that uses AI and geospatial imaging so insurers can understand the risk profile and value of property assets.

In the future a personal assistant on your smartphone could even alert you when you're about to engage in activity that could increase your insurance premiums, as the insurance industry shifts from a repair-and-replace model to a predict-and-prevent approach.

"Because of data and AI advancing so much in the industry, carriers can now do a lot more for their customers," says Ari Libarikian, senior partner with McKinsey & Company in New York, who leads the company's advanced data and analytics practice in insurance. "They can help monitor risk, they can help predict risk and they can help give advice to customers on how to reduce risk going forward. That means the frequency and severity of losses comes down over time."

Mr Libarikian believes that by 2030, AI will inform every major decision an insurance company makes. But the optimal company will have far more than three employees and they'll definitely be allowed to touch the computers. "There's no substitute for good old-fashioned claims and underwriting experience," he says, "and that will very much still be part of the organisation."

> Because of data and AI advancing so much in the industry, carriers can now do a lot more for their customers

STAGES OF AUTOMATION BY INSURANCE SECTOR

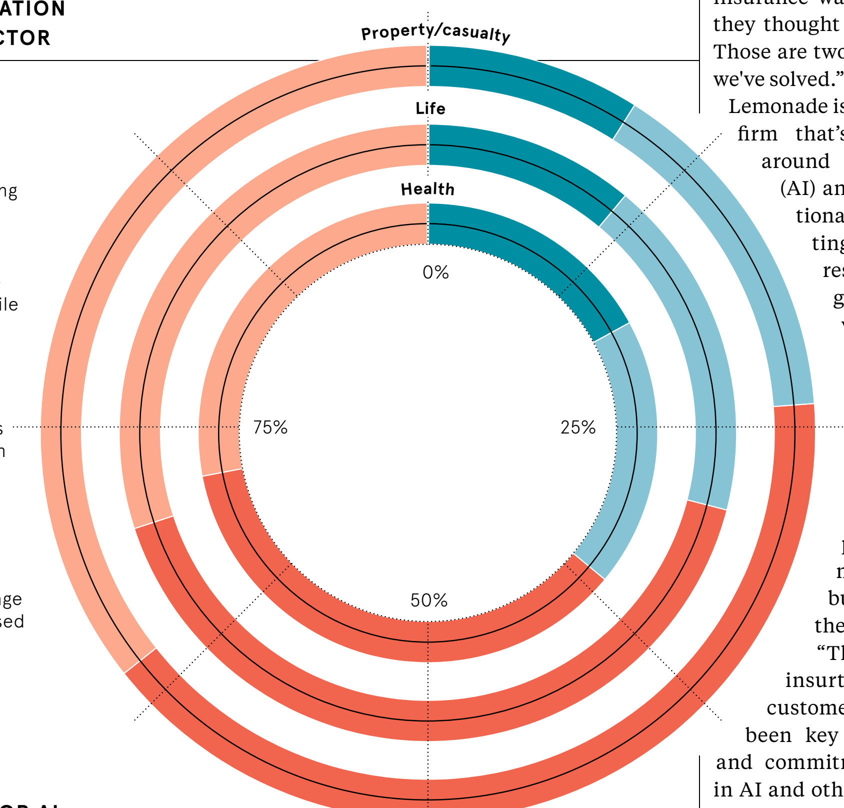
Stages of adoption

Stage one
Automated supporting processes

Stage two
Digitised front office with online and mobile customer interfaces

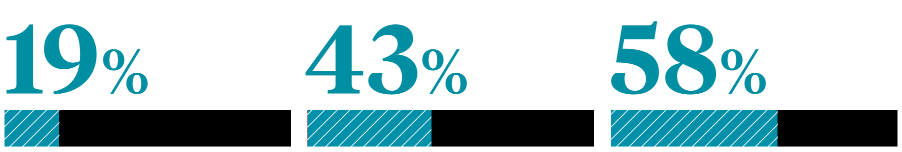
Stage three
Digitised back-end core systems such as policy administration and claims

Stage four
Using AI/automation to design smart processes that manage real-time, personalised transactions



Capgemini/Efma 2018

KEY OBJECTIVES FOR AI IMPLEMENTATION IN INSURANCE



Everest Global 2018

OPINION

‘A digital-only experience ducks the fundamental need for people to interact with well-trained staff’

How many of us, dread contacting a call centre? With few exceptions call centres have evolved into partially automated service points of last resort and customers have low expectations of an effective resolution. Low customer satisfaction ratings remain a huge pain point for the insurance industry and I want to make the case for bringing back human interactions as a way to build profitable businesses with content customers.

In many respects the move to digital-first customer services, supported by answers to frequently asked questions enabled by artificial intelligence (AI) and chatbots, is a welcome change, allowing non-urgent and straightforward service and sales requests to be handled without human intervention from the insurer.

I am a firm advocate of digital business models, however a digital-only experience is not enough to engage many customers and it ducks the fundamental need for people to interact with well-trained staff on complex products such as insurance. The pendulum has swung too far towards these digital-only customer services and people are craving more intimate experiences with the companies they do business with. Human DNA simply doesn’t change as fast as technology. Call centres, as currently architected, do not provide the solution.

Fortunately, if we stand back and recognise the power of human interaction and the new technology capabilities available, we can design and execute a concierge-type level of customer services that can be delivered more cost effectively than ever before.

How? Great customer service begins with accountability and I would start by allocating a named client account manager and a dedicated client service executive team to each customer. Then, deploy a microsite for customers of the client account manager that is a personalised digital shop front, which includes the profiles of the supporting team. The customers can use this digital front in a digital-only mode, safe in the knowledge that when they need support, they can escalate to known and named individuals.

AI-enabled chatbots can indeed be deployed to deal with many of the customer requirements, as long as there is a clear and easy path to get one-click connectivity to a reliable and trusted team.

These benefits extend to the teams themselves, who are empowered with a full view of customer activity that enables them quickly to identify both sales opportunities as well as customer service problems. The customer service teams will be able to refer more specialist inquiries to internal teams, but at all times retain responsibility for solving the customer’s problem. Support team bonuses should be linked to customer satisfaction metrics.

If this seems like a relatively simple prescription, it’s because it is and the technologies are available today. In essence, technology can be used as the fulcrum to filter out the less essential interactions, while at the same time providing a much more personal and accountable level of service.

So why hasn’t it happened already? In the insurance industry, and perhaps more broadly, people have focused on the efficiency of human interaction over its effectiveness. Short-term costs that are directly measurable have been allowed to overtake building customer relationships, even though these same relationships are an excellent source of future sales, whether directly or indirectly via referrals.

My hope is that insurers commit themselves fully to developing customer service capabilities that are digital first with the right amount of human contact. Beyond insurance, I think this is the template for society to move ahead and take full advantage of digital opportunities, while reflecting on the reality that our basic human values do not evolve as quickly as technology, nor do they need to. ●

Hugh Terry
Founder
The Digital Insurer

Commercial feature

Managing data to comply with regulation

The regulatory framework facing insurers is growing increasingly complex with a lack of up-to-date systems and unified infrastructure making it more difficult to meet often challenging regulation

From the new IFRS 17 international accounting standards to the General Data Protection Regulation (GDPR) and Insurance Distribution Directive, insurers need to focus on effectively managing their data to ensure they don’t end up falling foul of burdensome regulations.

“There is more scrutiny from regulators and auditors who are demanding a deeper look into the business, as well as making sure that the numbers being reported externally are correct. They’re not only looking deeper into data, but they want to do it on a more frequent basis,” says Mike Kelly, insurance sector lead at AutoRek, a leading provider of financial, operational and regulatory reporting software.

In a recent conversation Mr Kelly had with a large insurance intermediary, he found that they were having more regular audits. The firm was simply unable to perform audits on a regular basis, due to the huge data and operational challenges, as all data was reconciled manually and all reports were created on Excel.

“It’s just not the right type of environment to be handling such a large and detailed amount of data, especially as the level of audit scrutiny grows,” says Mr Kelly. Long-established insurers that are lumbered with legacy systems are particularly at risk of facing difficulties in meeting regulatory requirements, as they have been hesitant in embracing new digital technologies, and many still use paper contracts and remittance advices to document their business.

The work needed to digitise data can be time consuming and human error during this process can open up insurers to considerable fines for non-compliance, especially around GDPR breaches. One of AutoRek’s clients, a large Lloyd’s insurer, had grown by acquisition and through the launch of a range of products, which had created a patchwork of systems with little ability to reconcile about 30 years of policy data correctly.

“They couldn’t even attempt to reconcile because the data was in such a poor condition. We are working on reconciling potentially hundreds of thousands of policies and uncovering errors to ensure that our client can not just show to the regulator the data is accurate, but actually explain and prove the process,” says Mr Kelly.

Insurers can then use the resulting information to better run their business, as they are well positioned to price risk and make decisions on which markets are the most profitable because the data is far more reliable. The implementation of AutoRek provides a consistent approach to apply the reconciliation framework across the business, and help deliver financial control, robust governance, data transparency and granularity.

“AutoRek is an established software brand that is highly specialised with innovative development and highly experienced delivery teams at its heart. We are continually developing our software by investing in and incorporating innovations such as machine-learning, artificial intelligence and blockchain, all to make sure the solutions we offer better equip our clients to meet regulations,” says Mr Kelly.

When any errors or discrepancies are discovered, they can be addressed in real time and remedied early in the accounting cycle. As AutoRek is a scalable platform, the solution can help future-proof insurers against rising operational costs and improve often tight margins.

With effective data management becoming a key differentiator for insurers in such a competitive marketplace, the importance of adopting a comprehensive platform that has the power to resolve regulatory issues will prove vital.

“To develop these solutions in-house would be prohibitively expensive for most insurers and finding the skilled staff to manage the changes is becoming increasingly difficult. This is our bread and butter, which is why a growing number of clients are looking for us to play a central role in their infrastructure,” Mr Kelly concludes.

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