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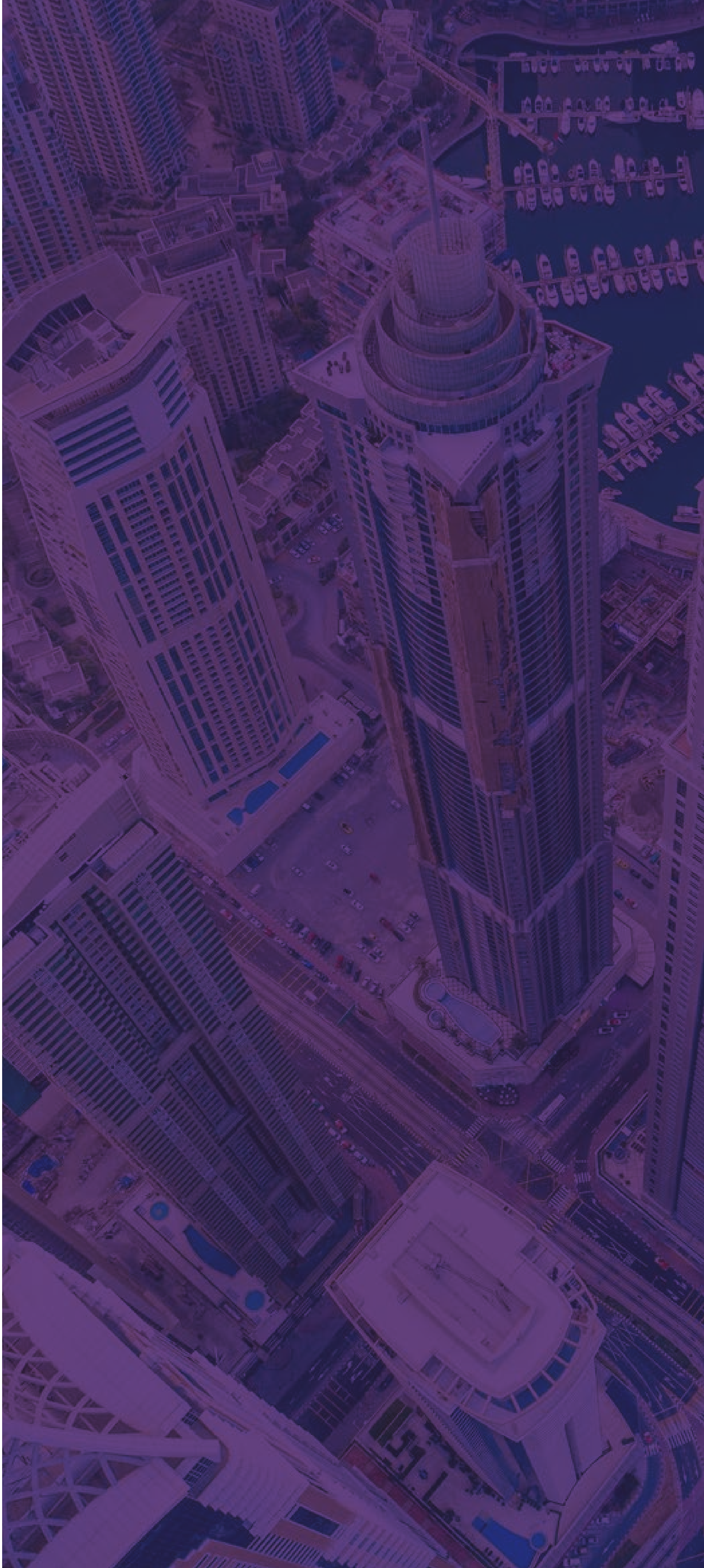

Doing InsureTech Differently

Insurance technology efforts should be about customer-driven outcomes, not just technology-driven solutions. GR and Charles Taylor InsureTech hosted a roundtable debate in Dubai to discuss how insurance firms can do better.

If you want to have something you've never had, you'll need to do something you've never done. This statement applies particularly to the embrace of insurance technology, a source of great and growing investment in 2019 for the re/insurance industry. The speed alone at which IT has gone from a peripheral topic to centre stage focus at the highest board level makes a reality check essential to ensure that the sector's investment is being directed to bring the best return on investment.

The zeal and urgency with which the risk transfer industry is embracing insuretech testifies to the scale of problems faced by the sector. Innovative thinking and cutting-edge solutions are being sought to solve the insurance industry's problems. Insurance firms are increasingly desperate for ways to differentiate themselves from forces of commoditisation and cut-throat market competition, to simplify complicated processes reliant on legacy systems or manual processes, to gain the technical insight to beat deadly rivals, and to cut operating costs and reduce inefficient expense ratios.

Those insuretech investments are proceeding along many roads. The internet of things is providing data from myriad new sources. Artificial intelligence (AI) and machine learning are delving deeper into big data. Predictive analytics are being applied to accurately price complex risks. Blockchain has been implemented for smart contracts that reduce the risk of disputes. Pioneering parametric solutions are changing traditional underwriting. The claims process is being automated through aerial drones, satellite imagery, optical character recognition and robotic process automation. And all of these avenues for innovation require technology to be effectively marshalled as an ally.

The level of success achieved, in exchange for spending much of the sector's treasure on innovative IT, will in large part be defined by relatively human factors. Defining the user experience and making the customer the focus of outcomes will be of critical importance. Relationship skills will be vital as many firms partner with technology service providers. That will largely depend on the quality and direction of leadership and strategy within the organisation. All these factors will be vital within the decision-making processes guiding insuretech from idea to implementation.

Addressing these factors and asking how companies can do insuretech differently, to get the most returns from investment, was the focus of a roundtable, hosted by GR in association with Charles Taylor InsureTech, held during the Dubai World Insurance Congress 2019 (DWIC). Crowded around the table were more than a dozen CEOs from local Emirati and regional Middle Eastern and African insurance companies, as well as regional business heads from international firms active in the region.

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The Middle East is not a region historically associated with technological investment and innovation. "Too many of these companies are still not investing in insuretech," complained one roundtable attendee. "They want returns that are impossible, and they need to make technology investments, even in basic technology within their business."

Other DWIC sessions explored this traditional lack of tech experience and confirmed that cultural changes are afoot. What has become clear is that insurance organisations in the region, as well as globally, are starting to think about execution for technology projects, rather than just conversation, or worse, hiding their heads in the sand.

"Fundamentally, technology is on the board's agenda," says Jason Sahota, CEO of Charles Taylor InsureTech. "The region is getting to a point where they don't just want to learn but to execute.

They're ready to start to implement these types of services."

The London market is also grappling with insuretech and its own barriers, including many legacy systems. "The industry is now adopting technology," says Tony Russell, chief commercial officer of Charles Taylor InsureTech.

"In London, people are realising that much of what they do doesn't give them any competitive advantage. People are thinking about how they trade with their clients and looking to technology for an edge. If you want something you've never had, you've got to do something you've never done."

Customers have changed

Until recently little has changed in insurance since Edward Lloyd first set up a coffee shop exchange in London more than three centuries ago. That this is changing fast is being driven by change on the customer side. Labour intensive, paper-driven processes no longer work for a new generation of consumers, whether buying personal insurance as individuals, or commercial insurance for their business risks.

"We are using technology to change the way we work, to make a more efficient business, so that we can deal with our customers on a 24/7 basis in a simpler way," one senior executive told the roundtable.

"Customers have changed; the way they want to interact with the provider of goods and services has changed. We're no longer measured only against Allianz or Generali, but against Google and Amazon. If we don't compete, we leave the door right open for smaller, more agile businesses to take our space," they added.

Speakers acknowledged a move towards a more customer-focused industry. There is appetite for increased customer interaction to collect data, and which can only happen through harnessing technology, getting away from the old business model when customers were only dealt with when taking out a policy, renewing it, and making claims.

More interaction means having the data to better understand customer needs, revealing opportunities to meet them. Commercial lines have seen much less innovation than personal lines, so far.

"This is because many of the technology people don't understand commercial lines," one senior attendee said. "Young generation entrepreneurs focus closer to the social media environment, so that 95% of the insuretech start-ups are personal lines based."

Many of the interactive applications and beneficial add-ons that technology has brought to personal lines are little to do with insurance itself. Insurance knowledge is often lacking among the tech evangelists penetrating personal lines.

"Nine in ten tech startups are in personal lines, and part of the reason for that is because they lack insurance expertise." says Sahota. "Commercial lines are more complex, and here insuretech solutions have done relatively little to penetrate the market. It's because you need some people with an insurance background and a combination of skills."

Sahota suggests small start-ups are seen as risks by insurers. Expertise is required. "They don't understand the industry and bigger companies don't want to take risks to bring them into their complex environments," he says.

Front office commercial lines business is still regarded as a relationship business. Technology may be used to add insight in the background, but there is hesitation to hand over human relationships to machines, however clever they are.

"For complex clients, the more data you can process, that makes a huge difference by providing for a more bespoke solution, because you're able to sift through data that wasn't available before," one senior executive noted at the roundtable.

Commercial lines insuretech demand is instead focused on the less glamorous middle and back offices. "There is a huge financial prize sitting there, operational efficiency and better customer service," a senior roundtable attendee added.

Pointing towards financial technology in the banking sector, they suggested much innovation will come from within the insurance world. "Fintech was driven by payment processing. After Paypal, most of the innovation and disruption came from the banks themselves, and I

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Jason Sahota, Charles Taylor InsureTech

think the same thing is going to occur within insurance."

The challenge, they suggested, is how to turn an outdated business model that has operated in splendid isolation, but is struggling to differentiate itself against market forces of commoditisation, into a customer-focused digital insurer that can work within an ecosystem of insuretech partners.

"Much of the work operating any business in any industry is non-differentiating, otherwise you're going to keep trying to re-invent the wheel. Looking back, this is exactly what insurance has done," the exec said. "It's a tipping point now, to ask 'how do I make my brand and my differentiation about the customer experience?'"

"Harnessing the benefits of technology is about getting the insurance entities to focus on the unique aspects of their business, rather than focusing on non-differentiating aspects," Sahota says.

Partnering up

Partnering with insuretech providers is increasingly common, as companies discover the costs, disadvantages and risks of trying to develop everything in house, but it is forcing a change of mindset.

"There is a greater understanding now that we don't need to own the technology and we don't need to build the system ourselves," a senior exec at a large global insurer told the roundtable.

"There are better people out there, better placed, that we could work with, partner investing that we could use for the benefit of our company, and they are more agile, they are younger, they can operate in a different way to us," they continued.

There is still some trepidation about working with partners - particularly if they are seen as rivals. "Technology is part and parcel of all core business lines, distribution channels, underwriting and claims management," another senior executive said at the roundtable. "It is a challenge to convert it to work with independent startups, whether seen as collaborators or competitors."

Embodying the grey area between partner and rival is the hybrid approach of the managing general agent (MGA), underwriting on behalf of clients. Many startups have formed as MGAs, suggesting it is an attractive business model.

"Our approach to the carrier relationship is one of true partner," says Ari Chatterjee, chief underwriting officer at Envelop Risk, a start-up cyber underwriting MGA, based in Bermuda.

"We believe in co-branding, joint-ventures, additional services on differentiated products, and dovetailing with the approach of our Re/insurance partners. There is a fundamental difference in culture between insurance industry and technology. It is important to bridge the gap and find the right re/insurance partners who are open, supportive and excited by the opportunity to partner. Re/insurers often sit on the wealth of data, relationships and industry knowledge which is crucial to succeed," Chatterjee adds.

While insurers may worry about insuretechs morphing into full-blown insurers to rival them, the technology being offered, relative to the entry barriers for new players, mean that the partnership model works best.

"Insurance companies have considered acquiring, investing in, or working alongside insuretech," says Sahota. "The reality is that insurance is not the best home for these people. It's better to have an ecosystem."

There is a real sense that disruption will come from outside the sector. One attendee noted that almost all technology companies don't understand insurance and almost all insurance companies don't understand technology.

"What the technology companies today are doing cleverly, is to learn our business from us, and learning our inefficiencies, too," they said. "Once those inefficiencies are understood and some of the insurance people start migrating into technology companies, that's when the real disruption will happen. It may happen in five, ten, 15 or 20 years, but it will happen," they warned.

Another senior business leader replied that, although there are no crystal balls to foretell from which direction new rivals may emerge, their own insuretech relationships are "much more [about] collaboration than competition". The attendee noting that their firm was working with several technology firms to address front, middle and back office functions.

"Collaboration is going to help us improve our products and services," they said. "For example, when we did the customer journey mapping it became very clear where insuretechs are going to come in handy.

"Why build an AI-based chat box, rather than buy it or rent it as a service? If it doesn't work, I'll cancel the contract. Working with several companies, we've been able to differentiate our services much faster than if we were trying to do it all from scratch," they added.

Where to prioritise

Middle and back office products have little glamour, but offer big money efficiencies for commercial lines business. Claims has been a popular entry point for insuretech efficiencies within many insurance businesses, not least because the process has been heavy on manual processes, from checking documents to traditional loss adjusting.

One insurer at the roundtable noted a project to implement AI within the claims business, aiming to reduce headcount for low-skilled roles, shifting the weight of human resources to more sophisticated jobs. Questions about where, when and how to roll out the initiative came to the fore, they noted.

"We decided that motor claims reporting could be a good example to start

implementing this technology within one territory," they said. "We looked at how many people were working in this department, job descriptions and responsibilities, and how roles were related to this department and many other departments."

Another participant echoed the need for limited pilots, to reduce the risk of an expensive flop, if lessons still need to be learned for a successful wider implementation.

"If you want to change something that is quite fundamental about the way the business is run, such as the data and analytics sitting behind underwriting, then choose one line of business, maybe as a test for a smaller sum and then you can go back to the board and say, well we saved 30% on our costs," they suggested.

Big data and predictive analytics are another major focus for non-life commercial lines. Sophisticated risks have traditionally relied on underwriting nous, but this increasingly seen as both insufficient and inefficient: technology can predict more reliably; and humans simply cannot process the quantities of data being produced at the speed of relevance.

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> Roundtable participant

Underwriting using predictive analytics has been a major focus for Chatterjee. He explains the challenge of how to prioritise insuretech investment when so many avenues can be available.

"We use the first-principles approach to break down the various risks and markets with a target to understand the structure and hence offer the correct products and services," says Chatterjee.

Customer facing apps are less important outside personal lines, he notes. "For example, so far we have resisted the temptation of launching app-based consumer products given our analysis that insurance is not a 'nice to have' rather a 'requirement' under contracts and regulations. Hence demand is often well defined, but 80c on a dollar goes to paying claims, so being able to underwrite better should offer a better upside," Chatterjee adds.

Elseco is an MGA focused on space, aviation and energy business. Working with an insuretech partner, the Dubai-based MGA has developed an end-to-end electronic insurance platform to empower underwriters with much greater data analysis. This includes all its processes, from members on-boarding, CRM, compliance, production, big data collection, predictive analytics, claims management, e-commerce to billing and accounting and HR.

"Trying to get various databases to talk together is when problems start. The secret of Atom's success is that it is an integrated solution in a single database," says Laurent Lemaire, Elseco's founder and CEO.

A roundtable participant expressed similar concerns that various bits of technology can be incompatible, limiting their use and creating risks as well as inefficiencies within the organisation. "That's the historical issue, legacy systems things that don't talk to each other is a major issue," they warned.

Lemaire expects to halve underwriting costs and multiply the amount of data made available to underwriters to select their risks. He thinks it's a question of survival in the current market. This requires making the right investments at the right time. He also expects the amount of data available to increase exponentially.

"There will be no future for MGAs if they cannot offer their members better risk selection and lower costs. There will soon be the 'haves' and the 'have nots', in terms of data analytics" he says.

It's all about reduction of execution risks, development costs saving but also timing, he explains. "Starting from scratch is at least a three years journey. We cannot all re-invent the wheel. Let's collaborate whilst preserving our respective IP," he adds.

Sahota emphasises analytics as particularly important to Charles Taylor InsureTech's partnerships particularly with insurance companies in the London market.

"Analytics is the key core for everyone's job because you can get accurate, relevant real-time intelligence," he says. "We're going to have to be involved with organisations and become far more collaborative. Unless we know what users want, how can we deliver a system?"

Customer-focused outcomes

At first glance, this phrase can seem cliché. But in actuality it is at the core of ensuring that insuretech investment does not get misdirected and go to waste. Insuretech projects cannot be the tail wagging the dog, but should always seek to answer the right questions for the business.

"For the client to get the outcome they want, we on the technology side have to ask the right questions," says Russell.

> "There should be a set of strategic objectives constantly in mind, so that everything we do has to contribute to one or more of those objectives"
>
> Tony Russell, Charles Taylor InsureTech

"Customer outcomes play back to strategic objectives. It's vital to understand those outcomes, such as growth and speed to market, so that we're driving to meet them. There should be a set of strategic objectives constantly in mind, so that everything we do has to contribute to one or more of those objectives," Russell adds.

Sahota notes that software vendors have a track record of "just selling products, rather than building transformation programmes", but that this is something the current generation of insuretech investment needs to get right.

"It almost didn't matter what the question was, the software they were selling was the answer. Vendors have been culpable of not getting involved in the DNA of companies to help them overcome the barriers towards transforming user experience," Sahota says.

This is belatedly changing. "The customer journey, customer experience, and the life cycle of insurance are being enabled through data and technology. You're not going to build manual business processes in today's world. Instead, we're using data, analytics and technology, to inform, to simplify, and to automate," Sahota says.

Thinking about how technology is marshalled to meet business aims has to change within insurers, not just their technology partners, one regional senior executive for an international insurer, acknowledged, speaking at the roundtable,

"We see technology as an enabler to get customers what they want," said the senior exec. "It's a tool to be able to offer solutions to problems, to the right people, at the right time, in the right way, and with the right level of information," they said.

Insurance leaders are not expected to be IT know-alls, but insuretech needs to be managed strategically like any other project. Chatterjee has some warnings for the inexperienced.

"Insuretech business models needs to be optimised between technology and insurance business. There are traps that should be avoided under all costs as an insuretech business leader," he says.

Technology still needs to be supported by insurance expertise, Chatterjee notes. "Even though an idea sounds exciting from a technology stand-point, is it feasible given the regulated nature of the insurance business. The insuretechs who stand-out are the ones with superstar teams of technologists and insurance insiders," he adds.

Russell notes companies in the past few years moving away from a software relationships and towards relationships with their insuretech providers, focused on business outcomes.

"They seem to increasingly favour a collaborative and partnership approach. We're talking to onshore insurance companies in Dubai about how to engage with their client base," he says.

"Rather than clients traditionally asking for a back office or a workflow system, people are interested in how their customers are buying and engaging with insurance. Thinking that way is music to my ears, because it means we can work with them." ■


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