FUTURE OF INSURANCE

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FUTURE OF INSURANCE

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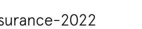
@raconteur /raconteur.net  @raconteur_london

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OUTLOOK

Insurance assesses its post-pandemic future

From business interruption disputes and rising reinsurance costs to dealing with reputational damage, Covid has had a profound effect on the industry. What lies ahead?

Ruth Emery

The pandemic's effect on the insurance industry has been severe, unfolding at a time when insurers were already facing significant changes owing to Brexit.

And while much of the impact was immediate and predictable, Covid's longer-term consequences are worrying insurers.

According to Edward Rushton, head of insurance and reinsurance at LexisNexis UK, business interruption has caused the most headaches.

He says claims will continue to be litigated and arbitrated as courts and ombudsmen work through a backlog of cases. "Beyond the direct claims are reinsurance claims. This is going to get really complicated and I expect Covid-19 reinsurance issues to be the subject of disputes throughout 2022 and quite possibly into the next decade."

Covid triggered a spike in the number of policyholders claiming on their cover, the costs insurers had to fork out and the volume of disputed claims. The Financial Ombudsman Service said it received 90,000 more complaints than it expected to during the pandemic.

Insurance broker Howden puts the insured losses so far from Covid-19 at $44bn (£33bn), representing the third largest cost to insurers of any catastrophe, behind Hurricane Katrina and the 9/11 attacks.

As well as navigating disputes, insurers have had to quickly adapt to the rise of remote working. Digital transformation projects have been accelerated, with more money invested in technology and software. "Digital platforms have helped firms to cope, and we expect more digitisation to come; this is something the insurance industry has not always been at the forefront of," notes Scott Eason, head of insurance at professional services consultancy Barnett Waddingham.

Remote working and digitalisation have also led to an uptick in cyber risk and ransomware attacks, leading to more expensive – and restrictive – cyber insurance. The cost of cover rose 92% in the UK last year compared with the same period in 2020, according to the insurance broker Marsh. Rushton adds: "Professional indemnity lines may also feel a lasting impact as hybrid or home working becomes more common, since the risk profile is significantly different to a predominantly office-based organisation."

Yiu Yu Hoi via GettyImages

Business interruption cover has been one of the most frequently litigated aspects of the pandemic to date. "We have seen a number of judgements across the globe where courts have ruled in favour of business interruption policyholders against insurers," says Eason. "This has generally resulted in an increase in the cost of insurance through higher premiums."

An FCA test case in the Supreme Court last year resolved some key contractual uncertainties and ordered six insurers to pay out for business losses resulting from Covid-19. As a result, many business interruption products have since been withdrawn or curtailed.

Hiscox, one of the insurers in the case, has added pandemic exclusions to its business interruption policies.

Insurers claim it is not possible to insure against a pandemic because it poses a systemic risk. Despite the calls for a government-backed reinsurance scheme to resolve this (just as Pool Re and Flood Re have done with terrorism and flood risks respectively), sources say it is unlikely to be set up any time soon.

"The availability of pandemic cover in future may be very limited unless such a public/private partnership is forged," notes Rushton.

The FCA's test case did not resolve all the issues in policy wording, however, and disputes over business interruption continue to rage.

Last month restaurant company Corbin & King, owner of London restaurant, the Wolseley, won a case against Axa. This win allowed the company to claim separately for each of its premises and for each mandatory closure, rather than claiming for a single loss for all of its premises combined.

$44bn
in insured losses from Covid-19, the third largest cost to insurers of any catastrophe, behind Hurricane Katrina and the 9/11 attacks

10.8%
average rise in global property catastrophe reinsurance rates this year

Reuters, 2022

90,000
more cases than the Financial Ombudsman expected since the outbreak of Covid have led to long waiting times

Financial Ombudsman Service, 2022

"This is seen as a big win for policyholders and will likely result in insurers settling outstanding claims for much greater sums than they would have otherwise," says LexisNexis's Rushton.

Major reinsurers have had large Covid-related losses since the start of the pandemic. "Excess mortality is an ongoing concern for life reinsurers," notes Eason. "On the non-life side, business interruption is a concern where we still do not know the true extent of losses."

While losses are reducing – partly due to higher renewal rates and more restrictive cover – it could take years for the impact on reinsurers to materialise fully.

Rushton explains: "Reinsurers may be entitled to reopen questions as to whether the original insured loss was properly settled. This adds pressure on reinsureds – including direct insurers – to be more stringent in their claims handling, which fuels potential disputes at the direct level."

He says it is becoming more costly for insurers to use reinsurance to protect themselves against future mass claims, especially those arising from any pandemic. "If the cost of appropriate reinsurance is too high, direct insurers will be reluctant to incur inwards liability and, in some cases, may withdraw products from the market."

As focus on the pandemic recedes, other issues are coming to the fore.

"Insurtech" will continue to be a big trend in the post-pandemic world. According to Rushton, insurers and brokers will increasingly look to acquire start-ups to keep pace with innovations in underwriting and claims handling, such as pay per drive insurance or parametric crop insurance. The use of artificial intelligence in underwriting will likely become considerably more widespread.

Meanwhile, insurers must brace themselves for further claims resulting from the Covid-19 pandemic; as already seen in the US, there could be more to come from marine liability and demurrage.

Finally, repairing reputational damage will be a key focus for those in the insurance industry. "Rightly or wrongly, insurers are facing reputational risk due to alleged non-payment of valid claims," Eason says. "This boils down to a mismatch in expectation between what insureds thought they were covered for versus what their actual insurance was meant to do."

PRICING STRUCTURES

Why stopping the loyalty penalty may rebound on consumers

The practice of charging loyal customers higher prices than new customers has blighted the insurance industry for years. But will a ban see prices rise for all customers? And how can insurers restore trust?

Fiona Bond

The Financial Conduct Authority's crackdown on the practice of 'price walking' – also known as the loyalty penalty – promises to create a fairer industry by saving consumers billions of pounds. But questions remain over its long-term impact.

On 1 January, the watchdog introduced new rules banning car and home insurers from quoting loyal customers a higher price for renewing their policy than they would pay if they were a new customer.

While price differences between new and existing customers is a feature of other competitive markets, insurers stand accused of using "complex and opaque" pricing practices that have led to very high prices for some long-standing customers. The FCA found that, on average, new customers paid £285 a year for motor insurance, while existing customers typically paid £370. The gap is even greater for customers in the home insurance market, with new customers tending to pay £130 versus the £238 price tag for loyal customers.

The radical move by the FCA to end this imbalance is expected to save consumers more than £4bn in insurance premiums over the next 10 years. Yet critics have raised concerns that the new regulation will see both existing and new customers face higher premiums as insurers seek to balance sales with margins.

> One way providers can demonstrate their commitment to customers is to start an open and transparent dialogue about the changes

Malcolm Tarling, chief media relations officer at the Association of British Insurers, says: "Everyone will be looking out for any unintended consequences. For example, where different parts of the distribution chain do not apply the rules in the same manner, leading to some customers not receiving the same outcomes as others."

But he says the price of home and motor insurance will remain a commercial decision for individual insurers to take. "Home and motor insurance premiums are calculated by insurers independently, using a wide range of factors," he explains. "For motor insurance, your age, type of vehicle, driving record and claims history will typically be relevant."

Although the new rules are still in their infancy, data so far suggests that insurance customers are already facing heftier premiums as providers jostle to find their place in the new landscape.

Analysis from market research firm Consumer Intelligence showed that 55% of motor insurance brands on price comparison websites significantly increased prices in January. The results were even more pronounced across the home insurance market, with 70% of brands significantly increasing prices.

Consumer Intelligence said the rules had led to the biggest month-on-month increase in home and motor insurance in January in over eight years, with the average premium for home insurance jumping 9.1%, while motor insurance rose by 4.9%.

For Karen Houseago, head of insurance at Consumer Intelligence, the sharp rise in prices suggests the majority of insurance providers made a one-step change to new business premiums in order to be compliant with the new rules.

Houseago says: "It does appear that some providers either over or undershot in their expectations of market-level inflation and have made adjustments subsequent to their initial pricing changes. However, it is still a very competitive market and we are neither observing nor anticipating an upward spiralling of prices at the rates we saw in January."

But she concedes that underlying pricing pressures are broadly upward: "We do anticipate general inflation in prices across both motor and home in 2022."

Indeed, the rising cost of motor repairs and parts, building materials and labour is placing pressure on premiums, with the average amount paid for damage repair to policy-holders' vehicles rising by 59% between 2015 and 2020, according to the ABI.

According to Houseago, the changes will likely have a bigger effect on insurers with larger back books and longer tenure customers than on those with smaller back books. The rules also pave the way for new players and new insurance offerings to enter the market over the next 12 months.

The ban on price walking inevitably raises the question of whether further regulatory intervention is likely.

For Houseago, avoiding further FCA scrutiny will require insurers to be compliant not simply with the new rules, but the FCA's overall 'fair value' principle, which is designed to ensure insurance providers are focused on driving the best customer outcomes through enhanced product governance.

Houseago explains: "One way providers can begin to demonstrate their commitment to championing customers is to start an open and transparent dialogue about the changes and why they're happening. We've seen a small number of brands do this effectively through their customer communications since the beginning of the year, but this is not as common practice as we would have hoped at this point."

One project has seen the ABI, together with insurance firms Aviva, Direct Line Group, Royal London, RSA and Standard Life, join forces with Plain Numbers to help people who struggle with numeracy to better understand customer communications, in an effort to build trust and generate better consumer outcomes.

Phil Jeynes, director of corporate strategy at insurance broker Reassured, says the key to building consumer trust is transparency throughout the underwriting process and clear communication about what the customer can expect in return for premiums.

"Too often this gets muddied by a tendency within the industry to worry about nuances in the sales process which are largely irrelevant to the end consumer – what they care about is clarity and value," he says.

"By sticking to these core principles, consumer trust will follow and it won't be necessary for the regulator to implement further legislative change." ●

2.8% increase in the average home insurance premium in the 12 months to January 2022, currently stands at £154

5.8% increase, however, if you are over 50, when your average home insurance premium is £161

Consumer Intelligence, 2022

INSIGHT

> 'If we don't use what we've learnt to build a risk advice sector, we will have missed an opportunity'

The impact of the Covid-19 pandemic means we will never think of risk management and insurance in the same way again.

There have been very few instances in the last 50 years where circumstances have changed so quickly, and the fragility of our physical and financial health has been exposed so brutally.

The Chartered Insurance Institute's research with consumers and businesses has shown the impact of the pandemic has been very uneven.

In 2020, just over a fifth of small and medium-sized enterprises (SMEs) told us that they had been seriously impacted by Covid-19. By 2021 that figure had only come down to 18%. In contrast, only 17% of SMEs had experienced no impact.

On an individual level, the difference is even starker – around one in 10 consumers told us they had been significantly impacted financially by Covid-19 in 2020 and 2021, whereas more than 47% said they had experienced no financial impact.

Clearly, government measures to reduce the financial impact of the outbreak of Covid-19, such as furlough, have made a huge difference in terms of the numbers of people affected financially.

But, for those affected, the impact, in many case, has been huge, destroying businesses and taking away livelihoods.

As we take stock of both the pandemic and other huge, systemic risks that could affect us, such as cyber risks or solar storms that could temporarily close down crucial infrastructure, it is clear that the stakes are high.

Whether we come through systemic risks unscathed or whether we find ourselves financially far worse off will depend on a complex series of choices that may seem relatively unimportant before the risk becomes real.

The insurance market is changing in the light of these risks. For SMEs, the days when most of the risks they faced were covered by a small number of basic insurance policies are being replaced by a market where large risks like cyber, intellectual property and pandemics are becoming increasingly covered by standalone policies, and are less likely to be incorporated into general policies.

For businesses, preparing for risk is increasingly becoming about assembling a package of different insurance contracts, and, crucially, building a strategy to mitigate uninsurable risks.

Even before the pandemic, insurance brokers were giving risk management advice that went far beyond traditional insurance contracts. Many of them were starting renewal conversations with their clients that talked about uninsurable risks first, and only moved on to renewing existing contracts later.

In the 2020s, insurance is as much about risk management expertise as it is about supplying capital in a crisis.

This is why the Chartered Insurance Institute's new President, Peter Blanc, has put advice at the heart of the CII's work.

This situation is normal in other professions. Accountants and lawyers do not sell anything other than their advice. When we talk to a doctor, we expect the treatment to go beyond products like drugs to more holistic solutions like rehabilitation, lifestyle advice and a wide range of treatments. In the financial advice sector, financial planners have moved their focus purely towards advice, and away from arranging products.

There will always be a place for traditional insurance: pooling capital to prepare for catastrophic events. However, if we do not use what we have learnt over the last two years to build an adequate risk advice sector, we will have missed an opportunity to make both our economy and our society much stronger. ●

Matthew Connell
director of policy and public affairs of the Chartered Insurance Institute

Commercial feature

Dynamic pricing transforms fleet insurance

Data holds the power to enable fairer insurance premiums in the insurance sector by ensuring the price is distributed more accurately and driving vital behavioural change

Fleet owners have long grappled with high insurance costs caused by the archaic way risk is calculated. Though insurance has always been an industry reliant on data, the challenge has been making use of more granular data, across different spectrums in real time, to be smarter and more transparent in distributing cost in a risk-transfer transaction.

Various waves of insurtech have sought to challenge the traditional structures of costing risk, including fractionalising the price through episodic-type insurance, such as toggling coverage in moments when risk exposure is higher. Yet, while policyholders save money, it is unsustainable for insurers, who effectively end up underpricing the exposure significantly.

Transforming the ways in which exposures are quantified and prices are distributed is one part of the puzzle. However, to reduce prices while also keeping insurers in business, there needs to be a way of reducing the exposure – and that can only happen by changing behaviours.

Data comes into its own in the next wave of insurtech by driving smarter decision-making on both sides of the fleet insurance equation. If insurers know what the insurer object is, where it is and what it's exposed to at any point in time, they can distribute the price fairly. And if the insured understand how their actions impact their exposure, they can actively reduce it.

"Fleet insurance today is a 20-year-old product which calculates exposure by assuming next year will be the same as what happened in the last three years," says Mark Musson, founder, CEO and chief product architect at fleet insurtech firm Humn. "Crucially, they distribute price evenly, despite the risk being so unevenly distributed. Some may be parked, others driving, some driven well, others less so, and some driving in more dangerous areas.

"You end up with many vehicles, with differing degrees of risk, sitting under one blanket policy. Data is the key to better fleet insurance pricing, but a pure-play tech solution is not the answer. You need to use data in two ways: figuring out the exposure and changing behaviour to reduce that exposure. The former without the latter fundamentally will not affect the end bill. You'll still pay the same high prices because your exposure is still high."

> You need to use data in two ways: figuring out the exposure and changing behaviour to reduce that exposure

Humn is transforming fleet insurance through an intelligent platform that can granularly understand what's going on across a fleet of vehicles in real time, and therefore accurately calculate exposure. Acting like a gas meter, it is constantly measuring the exposure of each vehicle within the fleet in order to more fairly distribute the price of insuring it against risk.

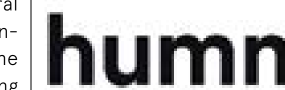
This is complemented by data insights that educate and empower drivers on how their behaviour influences insurance exposure. Both behavioural tools and behavioural psychologists in Humn's team, meanwhile, engage risk managers with the overall exposure, as well as identifying the human, data and environmental ways to reduce that exposure.

When the price is distributed evenly, exposure is calculated accurately across the entire utilisation of the fleet and risk management tools are utilised, the price will typically be lower.

"It's not a discount, it's just a reflection of the reduction in the exposure," says Musson. "That's the power of our platform: the ability to understand and influence what the actual exposure is. The future of fleet insurance is dynamic pricing because it drives benefits for everyone in the value chain: better value for insurers and fleet owners, and safer roads.

"The future of fleets, meanwhile, is about automation, starting with longer-haul routes. We will shortly be releasing the first version of our autonomous vehicle insurance policy, which works on the same dynamic pricing principles. Ultimately, we are attempting to cover the whole supply chain and to do that you have to be able to address both the current, by moving to dynamic pricing, and then the future, which is autonomous vehicle insurance."

For more information, visit humn.ai/times



TECHNOLOGY

Insurtech innovation: 5 trends for 2022

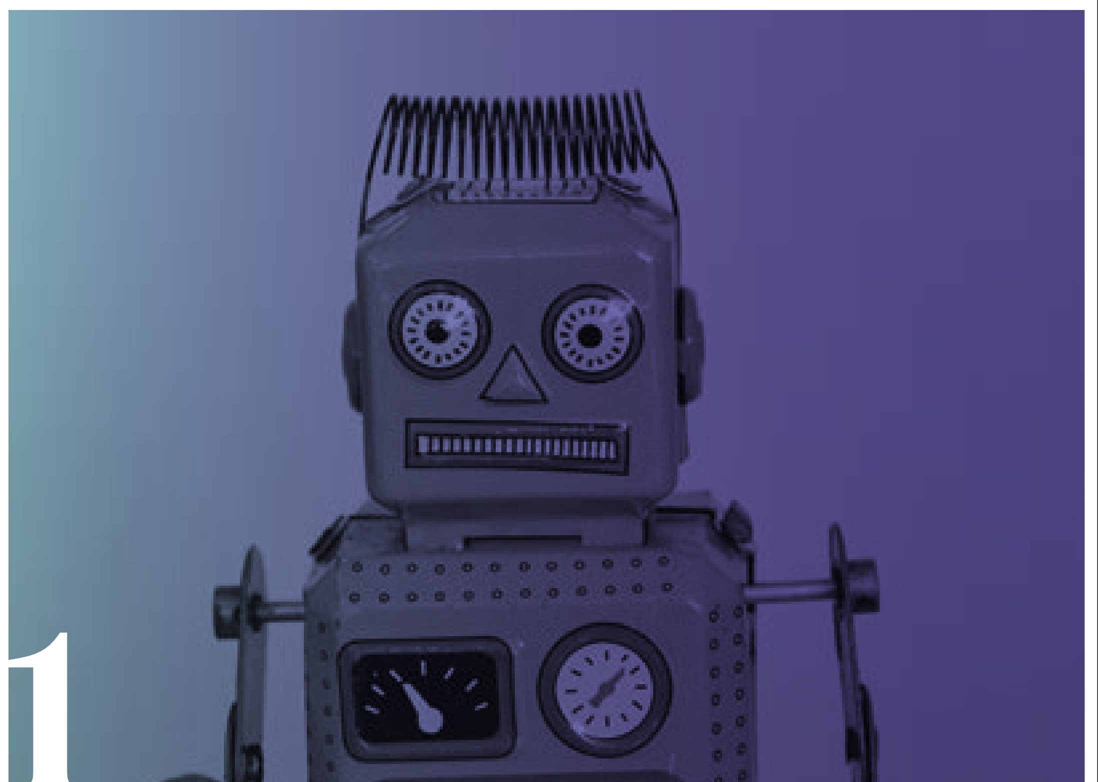
Low-code/no-code development, blockchain and embedded insurance are among the concepts set to transform the insurance industry this year and beyond

Chris Stokel-Walker

Insurtech has become a major part of the insurance market, with record-breaking amounts spent on technological innovations that can revolutionise the sector. It's an area ripe for investment – with more than $1bn (£760m) invested every month into insurtech startups in 2021, according to reinsurance broker Wills Re.

The momentum that carried insurtech through 2021 is forecast to continue throughout 2022, with plenty of areas within the sector ready for disruption. But what should you be looking out for as the next big thing? Here are five technological trends that are set to transform the way we buy, sell and claim on insurance.

> "As the market changes, companies are struggling to adapt at pace



AI-driven cover

Matt Connolly is CEO of Sønr, a startup scouting and open innovation platform targeted at the insurance industry, and his job is to keep track of the latest developments changing insurtech.

He says the most obvious trend involves artificial intelligence and machine learning. However, while the application of AI in insurance policies is becoming much more common and widely accepted, one area that is still ripe for revolution is pricing and underwriting.

"You're talking about culturally a group of underwriters on a global basis being pretty much late to the innovation party and not accepting all the complexity of the changing model of insurance," Connolly says. But slowly, the industry is waking up to the value that AI can provide.

In the past 12 months companies such as Tractable have become insurtech unicorns – companies valued at more than $1bn – for what they could potentially deliver to the industry. Such companies use AI to try and improve the process of not just offering insurance products, but also paying out on claims.

"You might have a car crash and use your smartphone to inform your insurer," Connolly says. AI could then diagnose the cost of repairs by analysing images of the damaged vehicle taken by the policy-holder.

Parametric insurance

First introduced in the 1990s, usage-based or parametric insurance often relied on hardware. "Carriers had to provide the hardware and customers were expected to install it, use it to track their behaviour and then return the device via mail," says Udi Ziv, CEO of insurance software company Earnix. "There was limited value even under the most optimal circumstances."

Things have changed since – and the ability for insurtech to harness those changes has been key to the resurgence of parametric insurance. Almost everyone has a smartphone that is capable of tracking where they are, how fast they're travelling, and where they visit on a given day. While there are obvious implications for car and vehicle insurance, the reality is that the picture painted of our lives and habits by seeing where we go on a day-to-day basis is a boon for insurers in all areas.

It means that it's possible for insurers to more accurately estimate risk against individual consumers, and make changes on that basis. Yet to properly implement that kind of parametric, tailored insurance requires a lot of work within organisations, says Jay Chitnis, senior business consultant at software company Endava.

"To be able to personalise their offers in the first place, insurers need to understand what data is available in their organisation, if it is usable and how to exploit the data to get to the insight within it that is so valuable," says Chitnis. "This is easier said than done as many insurance companies' systems have evolved organically, leading to siloed data islands that are hard to utilise."

Low-code/no-code development

"As the market changes, companies are struggling to adapt at the pace of change," says Connolly. Low-code/no-code development allows insurance providers to create policies and apps using a graphical interface rather than reams of code and teams of developers. This enables insurers to bridge the gap between wanting to launch a new product and actually doing so.

Insurance products and the apps that service them often have to go through significant testing, tweaking and quality assurance processes before they're able to be unleashed on the world. "Low-code/no-code allows them to say: 'Well actually, if there's a new market over here, we want to tap into that, so here's something – let's go,'" Connolly says.

Low-code/no-code demolishes some of the silos that can set back real change in the insurance industry and allow it to adapt to changing methodologies. The risks, however, need to be carefully considered: what may be seen as a speedy way to spin up new branches of a business could be viewed as developing ideas without much evidence of their value – or viability.

Blockchain

You've probably heard the hype about blockchain's ability to disrupt every industry under the sun. But for insurance, it's a true tech innovation that could make a meaningful difference. And that's the reason why storied insurers with long histories are starting to turn towards blockchain. Twenty of the world's biggest insurers, including Zurich, Hannover Re and Allianz, are part of B3i, a blockchain working group for the insurance industry.

Up until now, the adoption of blockchain has lacked a true business case, says Connolly. "Why do we need to use blockchain rather than something else?" is the attitude that many insurers have had. But there are now real opportunities for adoption. "It lends itself to insurance beautifully," Connolly says. "It's just a clean, organised contract." Which is exactly what insurers want, with time-stamped entries to ensure that any organisation overseeing it knows exactly what has happened with a customer up to that point.

The use of blockchain can benefit businesses by increasing speed all around. Not having to pore over disparate details of an insurance policy and prior claims – because they are all accessible on the blockchain – removes delays in assessments and payouts. It also has another benefit: an irrefutable record of a policy and its claims builds trust with customers. "Ultimately, you're going to benefit from a business perspective," says Sønr's Connolly.

Embedded insurance

Perhaps the hottest topic in the world of insurance, embedded insurance relies on the connectivity of companies through application programming interfaces (APIs). It helps to transform insurance from a product into a service. "It will change the course of insurance as we know it as buyers," says Connolly. "We won't be going to an insurance company to buy our insurance."

Instead, customers will go to a shop to buy a particular product, such as a laptop, and an associated insurance cover will be created based on our needs at a hyper-personalised level. Airbnb already embeds host protection insurance, as well as a guest-facing host guarantee, as standard into all the short-term rentals it provides. Similarly Tesla gives tailored auto insurance quotes alongside every purchase of its cars.

Embedded services turn insurance from a bolt-on into something intrinsic, and for insurance companies who manage to lead the market, it is a major flag in the ground for their future.

With certain estimates forecasting that embedded insurance will become a $3trn market by 2023, it is a must-pursue option. There is one major drawback: those brands insurers have spent years building could end up disappearing altogether in the embedded world.

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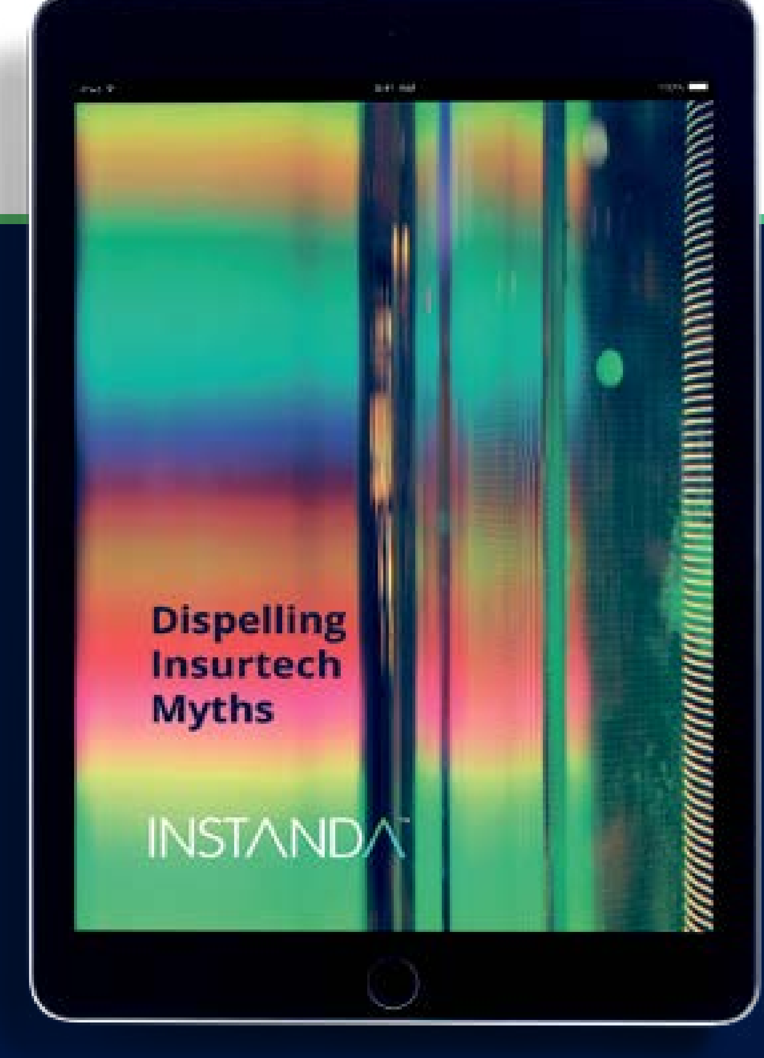

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INSIGHT

Insurers cannot rely on brand loyalty: customers want frictionless, fast solutions

As the financial sector comes close to its 'Uber moment', **Bradley Collins** and **Kristoffer Lundberg** of Insurtech Insights explore the hot topics on the minds of insurtech innovators

Unbelievably it is 15 years since Netflix first started streaming films and 13 years since Uber launched its ride hailing platform.

They were the original digital disruptors of established business models; their platform-based offerings delivered an engaging, frictionless customer experience that set the bar high. Now they, in turn, are being disrupted by younger businesses. The pressure is always on to innovate, differentiate and meet ever-higher customer expectations of positive, enjoyable interactions

The financial sector is close to facing its 'Uber moment'. Last year's revelation that banking app Revolut's value had surpassed that of NatWest was eye-popping but, in a way, not surprising. Revolut, Monzo et al have been nibbling at the lunch of the established banking brands for a while – it was only a matter of time until they took a bigger bite.

These developments should ring alarm bells for legacy insurance businesses to speed up their response to changing customer behaviours before they are outmanoeuvred by the nimble strategies of technology-driven insurance brands like wefox or Zego.

Covid accelerated the challenges facing the traditional insurer. Customers in lockdown wanted quotes and had queries about health, auto and travel insurance – not to mention cover for all those new pandemic pets. Most importantly, they wanted these queries answered as quickly and painlessly as possible.

Insurers operating from physical offices have a heavy overhead to carry and had to try to switch services needing a face-to-face meeting to new channels. Those with a fledgling online presence found that scaled-up demand put systems under pressure and the provision of a customer experience based on joined-up data extremely difficult.

Those counting on brand loyalty to retain business are going to be disappointed. Customers now value speed, efficiency and transparency – no hidden costs or T&Cs please. And they want to be recognised – the frustrations of continuous box ticking and form-filling every time they return for a renewal or to query their new premium won't wash.

Future winners are planning ahead and using tech to reveal efficiencies and get closer to the customer. The wisest know they can't do it alone and are working with partners to navigate all the possible pitfalls of a digital transformation programme.

> Those counting on brand loyalty to retain business are going to be disappointed

Bradley Collins
Chief commercial officer
Insurtech Insights

It's the modern business person's paradox. The more we adopt technology to facilitate remote working and find that elusive work/life balance, the more value we find in face-to-face gatherings where we can network, share knowledge and inspiration and take the temperature of our industry.

At Insurtech Insights we constantly monitor the concerns of all players within the insurtech ecosystem to make sure we have a relevant content programme for our conferences. The topics we found were front-of-mind in the run up to the return of Insurtech Insights Europe (on March 15/16th) can help frame future conversations, thought leadership and solutions.

> It's the modern business person's paradox. The more we adopt technology, the more value we find in face-to-face gatherings

Kristoffer Lundberg
Chief executive
Insurtech Insights

Three of the most pressing issues include:

1. The dynamic relationship between insurtech startups/scaleups and established businesses. The thinking shifts constantly in this area but big players are keen to learn how to spot emerging technologies that will have a future impact on the insurance sector. And, once spotted, they must learn how to evaluate whether to partner or take a stake in an innovative entrepreneurial business versus buying outright before a competitor spots the opportunity? Finally, how can you know which vehicles aid investment? Do you go the way of Willis Towers Watson and launch a specialist division to invest in emerging digital and technology businesses?

2. Embedded insurance. The bundling of insurance cover within a product or service is not new but developments are coming thick and fast, ranging from new distribution channels aided by technology to increasing consumer acceptance of this model. This has a significant impact on future relationships for insurers. Benefits include greater consumer accessibility and lower prices – but there's a fierce debate around surrendering the insurance product to a third party. Ultimately, will direct sell fade away?

3. Automated underwriting. Automated processes are increasingly embraced by the insurance sector but questions remain around how much of the underwriting task to hand to AI/machine learning. Standardised formulas for every eventuality are still difficult to devise, so should automation be a tool to augment human judgment and assessment or is the human element necessary at all?

I am writing before our conference takes place but I hope our attendees enjoyed a successful, inspirational and stimulating event. And that the significant value of face-to-face interactions has been proven once again. ●

Commercial feature

FLEXIBLE COVER AND ANNUALLY RENEWABLE PRICING DELIVERS £3,500 SAVING (23%)

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year 1 … year 25

8.5million
people in UK who have a need for life insurance, because they have dependents, have no cover at all
Swiss Re, 2021

50%
of all UK parents have no life insurance cover

42%
of mortgage holders haven't got protection either

Why 42% of UK mortgage holders don't have life insurance

Rigid, clunky life insurance products are causing an unnecessary £2.4tn protection gap across the UK. The creation of simple digital products, distributed through major banks and financial institutions, will ultimately make life insurance both accessible and affordable

The UK faces a mammoth life insurance protection gap. A staggering 8.5 million people who have a need for life insurance, because they have dependents, have no cover at all, found a research study by Swiss Re.

Alarmingly, according to the Ruth Strauss Foundation, every day 56 children across the country lose a parent who doesn't have financial protection in place. A staggering 50% of all UK parents have no life insurance cover. Another worrying statistic is that 42% of mortgage holders haven't got protection either - it's a problem which warrants urgent attention.

Yet the ultra-traditional insurance industry has not been forthcoming with a solution, largely because the problem lies at its own doorstep. Life insurance is expensive, complicated and inflexible, yet incumbent providers with huge market shares have little incentive to change it.

"Change is long overdue" says Phil Zeidler, co-founder and CEO of insurtech firm DeadHappy. "The industry's failure to modernise means it is no longer fit for purpose in a digital age where customers' needs change frequently."

From getting married to having children, buying a house to changing jobs, it is estimated that various life events cause a typical person's needs to change at least five times between the ages of 25 and 40, yet life insurance policies are sold in a remarkably rigid way in the UK.

Term life insurance is not only archaic but also inflexible. Typically fixed for a term of 23 years, customers have no way of flexing their policy as their circumstances change. As a result, most customers cancel their policy within seven years.

This also means the majority of people are being overcharged for life insurance. By fixing a price for 23 years, insurance providers essentially overcharge customers for the first 10 to 15 years of the term, when policyholders are younger and therefore have a lower risk of death, so they can then undercharge in the final period when there is a higher risk of death.

"As most people don't reach that period of being undercharged, due to the high rate of cancellations, we calculated that customers are overpaying by £1.2bn a year," says Zeidler. "Fundamentally, the product is just appalling. It completely ignores customers and their needs, and for far too long now the industry has simply failed to address these issues."

> You simply cannot, in good conscience, say a fixed, inflexible product meets a customer's need

The user experience when trying to purchase life insurance is equally as poor. On average, it takes over 30 minutes to buy life insurance with a traditional provider, with many people giving up before they reach the end. The vast majority of the time customers must be quizzed by somebody face to face or over the phone, facing upwards of 50 questions.

The severe lack of customer-centricity means most banks, relentless in their desire to provide a seamless digital experience to users, feel less inclined to offer life insurance products, not least because the FCA stipulates products must meet a customer's needs.

"When you combine all of these issues, you can start to see why so many people don't have life insurance," says Zeidler. "You simply cannot, in good conscience, say a fixed, inflexible product meets a customer's need. Hence why many banks opt not to offer such products."

As has been the case in numerous sectors, it usually takes a bold, innovative startup to disrupt the status quo, and DeadHappy has accepted the mission in this crucial space by reinventing life insurance to be cheaper, easier and designed with the customer in mind.

DeadHappy has ripped up the rules of selling life insurance, starting by replacing 23-year fixed term policies with an innovative pay-as-you-go product which only commits customers for one month at a time. Meanwhile, policyholders can flex their payout amounts and monthly payments in line with their life changes as often as they like, and with no penalties.

Each plan comes with a minimum 10-year guarantee. Depending on health status, this can be reset every year. This means a 25-year-old could refresh their plan annually for 25 years, and at 50 years old have an active plan with the 10-year guarantee still in place.

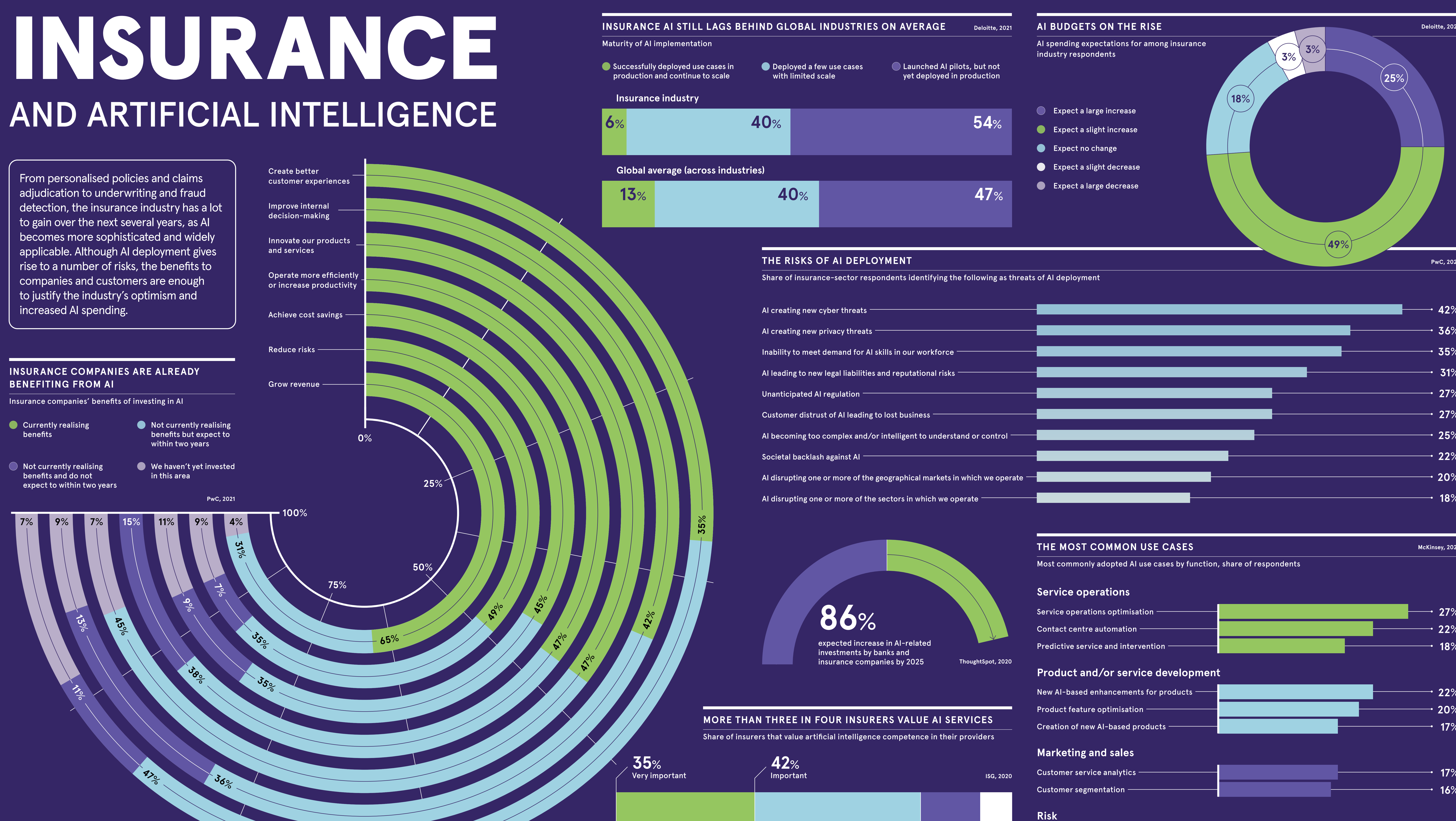
DeadHappy's products are not only cheaper – the average monthly price is £10 compared to £25 for traditional premiums – but far more accessible. As the only mobile-first life insurance company, customers sign up in an average of three minutes. The process is entirely digital and, as such, accessible 24/7, with no requirement to speak with anybody.

This mobile-first approach is expected by millennials and is already introducing a younger demographic to the market.

The onboarding process is so seamless, asking just four medical questions, that the fastest customers have signed up in as little as 1 minute and 34 seconds. And once they are a policyholder, they are able to flex up or flex down their plan within minutes online as well. By setting a new standard for customer-centricity, banks can enter the market with confidence.

"This is a hugely important innovation," says Zeidler. "For the first time, banks and other major financial institutions can access a fully white-labelled solution delivering a truly customer-centric experience. Customers don't suddenly get shoved from the bank's staff to the life insurance company's staff. The product just sits there in that digital environment as an extension of today's brilliant mobile-first banking journeys.

"DeadHappy is totally tailored to the customer, and it's the future of life insurance around the world. As a purpose-driven business we are hugely passionate about leveraging these innovations we're introducing through major financial institutions to close the protection gap which causes so much distress, giving families the protection everyone should have if the worst happens."


INSURANCE
AND ARTIFICIAL INTELLIGENCE
From personalised policies and claims adjudication to underwriting and fraud detection, the insurance industry has a lot to gain over the next several years, as AI becomes more sophisticated and widely applicable. Although AI deployment gives rise to a number of risks, the benefits to companies and customers are enough to justify the industry's optimism and increased AI spending.
INSURANCE COMPANIES ARE ALREADY BENEFITING FROM AI
Insurance companies' benefits of investing in AI
Currently realising benefits
Not currently realising benefits but expect to within two years
Not currently realising benefits and do not expect to within two years
We haven't yet invested in this area
PwC, 2021
Create better customer experiences
Improve internal decision-making
Innovate our products and services
Operate more efficiently or increase productivity
Achieve cost savings
Reduce risks
Grow revenue
0%
25%
50%
75%
100%
7%
9%
7%
15%
11%
9%
4%
65%
49%
45%
42%
35%
47%
47%
31%
7%
9%
35%
35%
38%
45%
13%
11%
47%
36%
INSURANCE AI STILL LAGS BEHIND GLOBAL INDUSTRIES ON AVERAGE
Deloitte, 2021
Maturity of AI implementation
Successfully deployed use cases in production and continue to scale
Deployed a few use cases with limited scale
Launched AI pilots, but not yet deployed in production
Insurance industry
6%
40%
54%
Global average (across industries)
13%
40%
47%
AI BUDGETS ON THE RISE
Deloitte, 2021
AI spending expectations for among insurance industry respondents
Expect a large increase
Expect a slight increase
Expect no change
Expect a slight decrease
Expect a large decrease
25%
49%
18%
3%
3%
THE RISKS OF AI DEPLOYMENT
PwC, 2021
Share of insurance-sector respondents identifying the following as threats of AI deployment
AI creating new cyber threats 42%
AI creating new privacy threats 36%
Inability to meet demand for AI skills in our workforce 35%
AI leading to new legal liabilities and reputational risks 31%
Unanticipated AI regulation 27%
Customer distrust of AI leading to lost business 27%
AI becoming too complex and/or intelligent to understand or control 25%
Societal backlash against AI 22%
AI disrupting one or more of the geographical markets in which we operate 20%
AI disrupting one or more of the sectors in which we operate 18%
86%
expected increase in AI-related investments by banks and insurance companies by 2025
ThoughtSpot, 2020
MORE THAN THREE IN FOUR INSURERS VALUE AI SERVICES
Share of insurers that value artificial intelligence competence in their providers
ISG, 2020
35% Very important
42% Important
15% Less important
8% Unimportant
THE MOST COMMON USE CASES
McKinsey, 2021
Most commonly adopted AI use cases by function, share of respondents
Service operations
Service operations optimisation 27%
Contact centre automation 22%
Predictive service and intervention 18%
Product and/or service development
New AI-based enhancements for products 22%
Product feature optimisation 20%
Creation of new AI-based products 17%
Marketing and sales
Customer service analytics 17%
Customer segmentation 16%
Risk
Risk modelling and analytics 16%
Fraud and debt analytics 14%

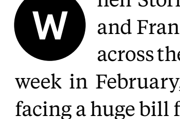
DENIS CHARLET / Contributor via GettyImages

RISK

Climate change: the storm on the horizon for insurers

For the insurance industry, climate change represents a major and immediate challenge. With extreme weather events set to become more frequent, how will the sector adapt its policies, premiums and processes?

Jonathan Weinberg



When Storms Dudley, Eunice, and Franklin wrought chaos across the UK during a single week in February, insurers were left facing a huge bill for the contents and property damage caused to homeowners and businesses.

Soon after, in early March, experts from the Intergovernmental Panel on Climate Change released their sixth assessment report, with IPCC chair Dr Hoesung Lee describing the document as a "dire warning about the consequences of inaction".

Dr Lee called climate change "a grave and mounting threat to our well-being and a healthy planet", adding that the actions we all take today will shape how people adapt to this growing threat.

For the insurance industry, climate change represents a major challenge. Flooding and high winds aren't new, but the potential for more frequent extreme weather events means they must be planned for and mitigated against through stress testing for exposure, a focus on policy availability and exclusions, and the price of premiums.

Chris Bowden, managing director of Squeaky, a B2B marketplace for clean energy, says: "The economic losses to climate-related activities are on track to become the biggest risk in the global insurance industry and I don't think the market is ready for the full consequences that lie ahead."

Bowden cites the 2019 Climate Disclosure Project report, which revealed the world's largest 215 companies potentially face $1trn (£760bn) worth of financial risks due to climate change, from higher operating costs, asset write-offs and falls in demand.

"Many organisations will simply become uninsurable. Historically insurance models were based on paying out periodically on extreme events," he adds. "However, given extreme weather events are becoming more regular, they are having to make more pay-outs.

"To cover their losses, insurance premiums are rising to levels that many just can't afford, and it's only going to get worse."

In the UK, work is under way to counter the threat climate change poses to insurance. For example, Flood Re sees government and insurers work together to provide flood insurance coverage to domestic properties deemed at significant risk.

The Association of British Insurers has also launched its Climate Change Roadmap to explore how the sector can take collective action on net zero while continuing to support policy-holders with their own resilience and risk management.

Ben Howarth, the ABI's climate change manager, accepts climate change will have "a major impact" on all parts of the insurance industry. But while he describes it as a top priority issue with no room for complacency, he also believes the sector's unique role and significant investment capacity allows it to play a key role in helping people adapt to future risks.

"The risks are very significant," he says. "I think the industry is very aligned to that. But I think at this stage, it's probably too early to speculate on at what point those risks would become uninsurable. The key thing is to do as much as we can to mitigate the impacts of climate change."

Howarth suggests the insurance industry should work closely with government, businesses, homeowners and motorists to find ways to encourage them to reduce carbon, take up electric cars and make changes to properties through an "educating and informing role".

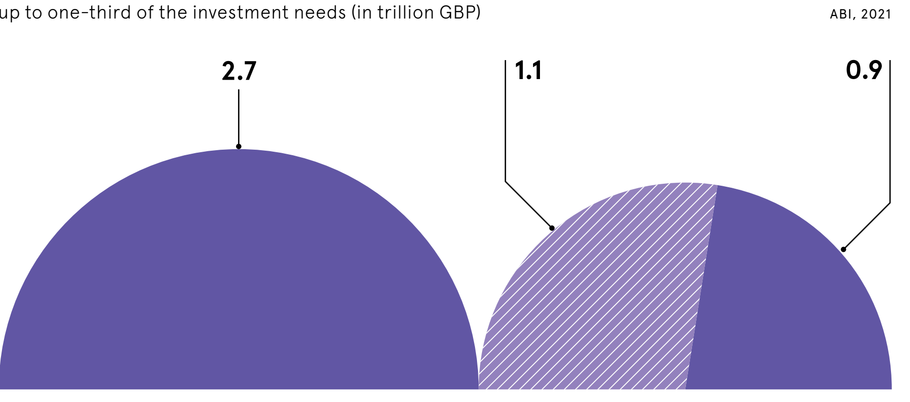
However, while he does not believe we are there yet, Howarth does admit insurers may one day have to state that certain things will be expected to make properties and businesses "more resilient to the impacts of extreme weather and other climate change impacts". This could include, for example, ensuring properties meet energy efficiency standards, and that insurers are notified of adaptations such as electric vehicle chargers or heat pumps.

> "The economic losses to climate-related activities are on track to become the biggest risk in the global insurance industry

INSURERS CAN HELP WITH TRANSITION INVESTMENTS

The Association of British Insurers believes its member investment capacity to support up to one-third of the investment needs (in trillion GBP)

ABI, 2021



The role of stress testing and regulation

Stress testing for climate risks is set to become a key plank of the insurance industry's response to climate change. For example, France's central bank found in 2021 that claims related to natural disasters could rise fivefold in its most affected regions, with premiums rocketing as much as 200% over 30 years.

The Bank of England is now undertaking its own evidence gathering to inform future stress testing, with the results expected in May 2022. This involves banks and some of the UK's largest insurers and could pave the way for new regulation in the future.

Justin Elks, partner in risk consulting at advisory firm Crowe UK, believes 2022 will see the transition to net zero take centre stage for UK insurers, with regulation acting as a key driver.

"With so much regulatory activity, addressing climate change might appear to be a compliance activity" says Elks.

"Progressive insurers are however increasingly focused on sustainability as a strategic goal – considering and capturing the commercial opportunity of the transition to net zero. COP26 has shifted the emphasis from ambitions and commitments to actions and accountability.

"This creates the context for insurers to make a difference to the world in addressing climate change and insuring the transition – helping to build customer trust in financial services."

Simon Crowther, who is more widely known as 'The Flood Guy', is an award-winning civil engineer. He believes that stress testing is set to become of "vital importance to the insurance industry".

Crowther warns that "assessing the risks of future disruption from environmental factors should not be ignored and left until it might be too late. The changing climate is warning us on an ever-more regular basis of what is to come, and the time to act is now."

"That's not a major change," he explains. "In other areas, when people are doing risky activities, there will always be conditions imposed."

And he adds: "I don't think we're at the point yet where we could speculate on whether there will be aspects that simply become too big to insure, but I think if you look at comments industry leaders have made on climate change, it's clear that if we don't do enough, then we will reach a point where certain activities are simply uninsurable."

A greater use of technology could be one way forward for climate change mitigation.

GeoSmart Information has launched FloodSmart Analytics, to enable insurers to accurately assess flood risk depths, probabilities and the related costs, including climate change impacts.

Meanwhile Aspia Space offers satellite imaging that uses AI to help insurers identify and understand trends, predict flooding risks and make faster, more informed decisions.

Simon Lancaster is founder and CEO of SJL Insurance Services, a Lloyd's broker, which insures all types of businesses, from sole traders to corporations, across the world. He believes that the increase in storms and flash flooding has forced insurers to change how they view certain things - and how they underwrite them.

As a broker and underwriter, SJL looks ahead at a shorter time period than insurance companies, which focus on trends 10 years into the future, Lancaster explains. "What SJL does is follow the data, look for trends about one to two years ahead, analyse performance on statistics and adjust our rates and acceptance criteria accordingly."

Lancaster cites the example of flood risk assessment, which had previously focused on a combined flood score. This meant both the result of river and coastal flooding and surface water. Nowadays, a keener interest is instead taken in the surface water score alone, as this is making a larger impact on flood claims.

Like the ABI, Lancaster believes that significantly more can be done internally, by the insurers themselves, to tackle climate change. But he warns: "Ultimately even with the best underwriting and interpretation of data, the sheer increase in storms and flooding will have one end result – claims increase and therefore so will premiums."

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Commercial feature

From payer to partner: transforming the insurance promise

What will the truly transformed insurer of the future look like? That was the question posed to industry experts during a roundtable exploring the technological, cultural, structural and ethical challenges facing insurers

Morag Cuddeford-Jones

Before tackling how transformation should occur, it's vitally important to understand why transformation is needed. According to Roland Scharrer, group chief data and emerging technology officer, AXA, it's because the fundamental relationship between insurer and insured is changing. "You're building a partnership with the client and you shouldn't be seen just once a year." This is part of AXA's 'from payer to partner' strategy.

"The more consumers invest in their connected devices – cars, homes, watches – you're building a partnership with them," adds James Barnard, CIO, Aviva tech shared services and divestments. "Everywhere they go, you're going with them. You're acting like a guardian angel."

There's no doubt that there is certainly much more opportunity through digital transformation to play a bigger role in consumers' lives – increasing engagement and, ultimately, ROI. But it's also a place to tread lightly. "It's important to be led by what the customer wants and where we think we can add value to the process," warns Anita Fernqvist, UK chief data officer and director of operations, Zurich Insurance. She notes that not every step of every insurance relationship needs the 'white glove' treatment. Simple, automated efficiency can add value too.

"That interaction point could be touchless, it could be automated, it could be empathetic – it could be all three," reveals Chirag Jindal, head of insurance, Americas, ServiceNow. "Insurance is a promise and we have to wrap the narrative of the customer journey with that promise in mind. But how you wrap that around technology to deliver it and let the customer choose – that's the problem we are trying to solve." And, he adds, "we have to be cohesive".

Here is the biggest challenge insurers face. The customer has expectations, set not by other insurers but by the likes of Netflix, Amazon and ASOS. They expect the process to simply work. Getting that process to work end-to-end, whatever happens, is far from simple.

"You have a lot of expectations of an Amazon-like digital experience but insurance is a very complex product and you have to serve the client at very specific moments of truth," warns Scharrer. It's something that insurance companies may have been doing for centuries, but while that delivers a huge amount of experience, it also brings with it some significant hurdles.

"For an organisation like ours, the real challenge is updating our core infrastructure, cloud capability, robotics and intelligent automation to bridge what is expected of us by consumers today," Barnard reveals. Being constantly available, leveraging digital currency and providing a seamless transition into what can, quite often, be 70-plus years of legacy estate."

So that cohesiveness that Jindal speaks of begins to seem like a pipe dream, given the scale of the challenge. The challenge of bringing a sprawling, global insurer with decades of legacy systems and customer information into a seamless, end-to-end experience in a single, smooth action.

We have to add to this that the insured aren't just large organisations, they serve a massively diverse audience. "We have very different customer segments and that means one size does not fit all. We have to be really clear about what real-time really brings to customers, for example. In other places, [the importance could be] relationship-led [interactions] with digital interventions, rather than end-to-end," Fernqvist insists.

At times, it can seem that there are hurdles at every turn. Cloud transformation, for example, is seen as bringing major advances in insurers' ability to overcome legacy issues, but it too comes with its own set of challenges. "On the one hand, we need the cloud to provide the elasticity of infrastructure, scale and availability," says Scharrer, "and at the same time you must ensure a high level of data privacy standard." And still, he adds, transform the legacy environment.

How data is treated in the transformation piece is critical. As a heavilyregulated industry, one might argue that insurance actually has an advantage in the face of a data-sceptical public. Its trust is surely baked in as a result of those tightly defined parameters. Fernqvist concurs: "Trust is critical. For us to serve [our customers'] needs, we need their data. We've got to be able to handle it in such a way that we've earned and retain that trust. Regulation helps us protect our customers and make sure that we're building with the customer in mind."

Data governance is, therefore, a key concern and again, due to the often diffuse and complex nature of insurance organisations, not one that is easily managed. "The ethical use of data is very important. We have 18.5 million unique customers and that's a tremendous amount of data. The use of third-party enrichment has levelled up the playing field but with that comes more responsibility," suggests Barnard.

Scharrer adds that building a data-led or data-fed culture is critical. He says it's about bringing "a data-driven culture that's understood from the claims handler to business decision-makers. Bringing the whole organisation behind that, either through incentivisation or governance, so that it's protected and leveraged as an asset."

Of course, it can only be truly leveraged as an asset if the right people can access the right information at the right time. Organising where data is held and how it fits into the multifarious workflows can be a task of mind-boggling complexity, but Jindal has some suggestions which marry closely with how integrating new channels and technologies can work more effectively across the organisation as a whole.

"You need some kind of orchestration layer that can tie the broker experience to the middle and the back offices, and carry that across the value chain," he advises. "At every point of the journey, everyone should know what the status is. How you orchestrate that has been the biggest challenge that insurers are talking about." Specifically from a data organisation perspective, he adds: "How do you present the right data to the right person at the right time? You don't want to overwhelm them. What does a claims agent or customer service operative really need to look at?" Fernqvist agrees, stating: "One of the big challenges with data is figuring out what needs to be centralised but also how we make sure we decentralise to allow innovation."

Innovation in this context is key. The world is moving fast and insurers need to be able to make the most of the latest technologies – themselves highly dependent on quality data – to stay ahead of the game. Scharrer points out the use of AI to be able to ingest other data sources such as documents, photos and satellite technology to speed up and enrich customer interactions but warns about being too hasty and insists on the importance of data quality. "There has been an expectation that AI solves all our problems in databases and customer journeys. But people are realising it's still hard work."

Barnard is, however, undeterred: "Cognitive learning is a really powerful tool. That's where we start unlocking the value of rich data and that's come a long way in the last three years." This whole process, Barnard concludes, "is a really exciting journey that we've only just started."

> At every point of the journey, everyone should know what the status is. How you orchestrate that has been the biggest challenge that insurers are talking about

Panel

James Barnard, CIO, Aviva tech shared services and divestments

Anita Fernqvist, UK chief data officer and director of operations, Zurich Insurance

Chirag Jindal, head of insurance, Americas, ServiceNow

Roland Scharrer, group chief data and emerging technology officer, AXA

To find out how ServiceNow can enable digital transformation and improve experiences in your organisation, visit servicenow.com/transform-insurance

CYBERSECURITY

Is your company at risk from silent cyber?

With cyber attacks on the rise, companies must ensure they have the right insurance policies and business practices in place to safeguard themselves

Alex Wright

d3sign via Getty Images

Technology is enabling businesses to grow further and faster than ever before, accelerated by the need to digitalise in the wake of the Covid-19 crisis. Despite the undoubted business benefits, this period of rapid change has also left companies more exposed to cyber threats than ever.

Many of these cyber risks are so new and complex that most firms aren't prepared for them. Worse still, in the event of a cyber attack, companies' traditional property insurance coverage won't protect them because many of these risks aren't implicitly included or excluded within the policy – a phenomenon known as 'silent cyber' or 'non-affirmative cyber'.

And businesses often only find out they're not covered when it's too late, as evidenced by the WannaCry, Petya and NotPetya cyber attacks of 2017, which devastated everything from shipping ports and supermarkets to advertising agencies and law firms. These attacks can be hugely damaging, not only operationally and financially, but also in terms of reputation. According to IBM's Cost of a Data Breach report 2021, organisations shell out, on average, $4.24m (£3.22m) per incident.

"As a risk, silent cyber still isn't on the radar of most organisations," says Tracie Grella, AIG's global head of cyber risk insurance. "The problem is that they aren't assessing the risk and working out where their exposures are, how their policies will respond and whether they would be covered for an event."

So what are the cyber risks companies need to be aware of and what should they do to mitigate against them? What insurance do they need to protect them if an attack occurs – and how can they plug any gaps?

The fastest growing and most costly form of cyber attack is ransomware. Often originating in nation-states such as Russia and its neighbouring countries, ransomware attacks use malicious software to block access to a computer system and the hacker will then typically demand large sums of money – often in the multi-million dollar region – for the system to be unlocked again.

Phishing or social engineering scams are on the rise too, with victims sustaining $1.7bn in losses from business email compromise alone in 2019, according to the FBI's Internet Crime Report. But the costs go far beyond the initial loss: they extend to business interruption, forensics, recovery and restoration expenses.

To guard against cyber attacks, businesses should try to prevent them from happening in the first place. That requires identifying their key exposure areas to cyber risk, quantifying loss scenarios and appetites, and establishing robust cybersecurity and risk management strategies and controls that everyone in the organisation understands.

Networks and systems should be regularly updated through the latest security software backups on the cloud, patches and upgrades, and tested to make sure they are protected. In addition, companies should restrict systems access only to those who need to use it, particularly when dealing with third-party providers. Firms should encrypt data, adopt virtual private networks and use multifactor authentication.

The key to improving cybersecurity is ensuring staff receive regular training so they can identify suspicious activity and potential problems. This includes not opening unsolicited emails, creating strong passwords and not using personal devices for work.

Should the worst happen, firms also need to have cast-iron incident response, disaster recovery and business interruption plans in place to get back on their feet quickly. Insurers can help both with designing a risk mitigation plan, and providing access to the necessary legal, forensic and claims teams needed post-event.

Insurance policies can help businesses recover their losses after a cyber attack. However, many companies that previously relied on their standard property or liability policies have now found – to their cost – that they're no longer covered.

"Cyber risk has implications across the board," said Rich Sheinis, data privacy and cybersecurity partner at law firm Hall Booth Smith. "When a client suffers an event, whether that be a ransomware attack or a business email compromise, often their policy isn't geared up to deal with the potential losses they will incur, and there's a disconnect between what their policy actually covers them for and the appropriate coverage they need."

A common problem is silent cyber, which means that potential cyber-related events or losses are not expressly covered or excluded within traditional policies. This can lead to unexpected coverage gaps.

There is a solution. Standalone cyber insurance protects companies specifically against cyber attacks, providing emergency incident response and recovery services, ransomware negotiation and reimbursement, business income loss and follow-on liability coverages.

They will help to plug coverage gaps, protecting against losses caused by damage or data loss from IT systems and networks. The policy can also be used to engage a PR firm for managing a cyber incident in the media when reputation is at stake.

If a business has more than one policy, it's vital to check there's no overlap or duplication of cyber coverage.

"In order to ensure the best outcome, it's imperative for businesses to work with a specialist cyber broker to review their coverage thoroughly to see what they need and be able to explain the risk fully to the underwriter," says Kyle Bryant, chief underwriting officer at Resilience.

"There are plenty of innovative solutions out there to meet any company's individual requirements and plug any gaps they may have."

> When a client suffers an event, often there's a disconnect between what their policy actually covers them for and the appropriate coverage they would need

ARE INSURERS TAKING CYBER SERIOUSLY ENOUGH?

Percentage of global insurers who say they expect to increase spending in the following areas in 2022

Deloitte, 2021

Area	Expect a large increase in spend	Expect a slight increase in spend	Expect no change	Expect a slight decrease in spend	Expect a large decrease in spend
Artificial intelligence	25%	49%	18%	3%	3%
Cloud computing and storage	22%	50%	20%	8%	1%
Data privacy	33%	37%	22%	5%	3%
Data acquisition and processing	18%	51%	17%	13%	
Cybersecurity	26%	42%	25%	2%	3%
Data analytics	20%	47%	25%	5%	3%
Robotic process automation	24%	41%	21%	13%	1%
Mobile technology	24%	39%	24%	12%	1%
Blockchain	16%	42%	32%	4%	5%

TALENT

Boring uncles need not apply

Technological innovation is the driving force behind the insurance sector's need to transform its lacklustre reputation, with digital know-how and empathy now topping the list of skills staff need to better serve customers

Maskot via Getty Images

Oliver Pickup

Unfairly or not, the insurance industry has long endured a reputation for being dull. And it has – so the sneering logic goes – attracted similarly uninspiring people. A 2016 Spectator article, in which it was labelled "the boring uncle of the financial services family", encapsulated the general attitude.

In the six years since its publication, though, the insurance industry has been forced to undergo a seismic transformation. As a result, it appears to be breaking free from its avuncular cocoon.

The insurance market has been heavily disrupted following decades – if not centuries – of sticking to the same old business model and broadly similar products. The threats posed to traditional approaches by innovative insurtechs (technology innovators within the insurance sector), allied with the need to provide cover for a rapidly expanding range of emerging tech-related risks, has shaken the boring uncle from his lethargy.

Growing risks faced by the industry include cybercrime, autonomous vehicles and data privacy. Add a potential Third World War, climate change, Brexit and Covid, and suddenly, insurance is a hugely topical and exciting industry.

Many acknowledge, however, that Matrix-style speed-learning is necessary to keep pace with the change.

Indeed, 30% of 975 Chartered Insurance Institute (CII) members admit that, in 2022, "gaining the right skills and knowledge to best serve customers is the biggest challenge they face".

Chief customer officer Gill White says recent CII research, published in late January this year, found that insurance professionals "recognise they need a combination of technical knowledge, skills and behaviour to secure the trust of the customer and help them improve their financial resilience".

Those looking to excel in an insurance career require "a comprehensive understanding of our sector: its fundamental principles, its market and products, and the laws and regulations that govern it," she advises.

And more than ever, leading candidates "need specialist knowledge to provide expertise, especially when technology is reducing the administrative burden, speeding up processing, and freeing up time to focus on more holistic advice and support".

White adds: "Our challenge, as insurance professionals, is not just to understand the risk – and how products and services can transfer, mitigate or manage it – but to apply the right behavioural skill set to innovate quickly and apply the right solutions."

And that's the crucial point: acute situations require empathy. Those armed with compassion, knowledge and the technical ability to use real-time data to offer insights will put the customer at ease.

To stand out in an increasingly crowded insurance market, Cardiff-based Admiral Group, founded in 1993, recruits staff who can follow its "customer-first" philosophy, be sensitive to their needs and use technology to inform interactions.

"As an insurer, we deal with serious incidents and distressing circumstances, so our agents, empowered by the data at their fingertips, provide exceptional customer service," says UK chief information officer Alan Patefield-Smith. "It's not about the system or the data; there has to be a human element to understand the customer need."

The events of the past two years have altered what customers prioritise from insurers, he says, with trust now "the number-one facet, above price, for the first time".

Patefield-Smith identifies a "holy trinity" that can help foster customer trust. "It's about surfacing the right data, then presenting the data to the agent at the right time and the agent having the right philosophy."

Notably, Admiral Group, which has more than 11,000 employees, is the only company to have been named one of the Sunday Times Best Companies To Work For every year since the list began in 2001. With 87% of staff reporting that it's a "great place to work", the company has few issues attracting top talent. But to retain workers, investment has been poured into development programmes to build career paths "with mobility at the core".

Traditional insurers, such as the Admiral Group, must compete for talent with innovative insurtechs seeking to scale at speed, and with a start-up approach that may appeal to younger generations. Anthony Beilin, co-founder and CEO of Collective Benefits, an insurtech company launched in 2019 to build a safety net of cover for freelancers and gig-economy operators, says he wants to employ "creative problem solvers".

"The ability to think as if you are a customer and put their needs at the forefront of every decision you make is crucial to our success," he says. "Ultimately, this requires a blend of a smart, forward-thinking mindset and compassion – skills you may not originally consider when applying for a job in the insurance sector. These softer skills, as well as a firm grasp of the fundamentals of insurance, are vital for career success."

Beilin urges traditional employers to "use the evolution of customer needs and changing markets to think out of the box" in terms of products and skills. "It is time to accept that the tried-and-tested methods are not an effective way to attract emerging talents or to close the widening knowledge gap," he continues.

"For instance, we'd like to see more companies avoid the standard ritual of sending employees on a traditional training course and explore new learning avenues – such as internships with tech companies and trialling new courses to increase understanding of digital-user experiences."

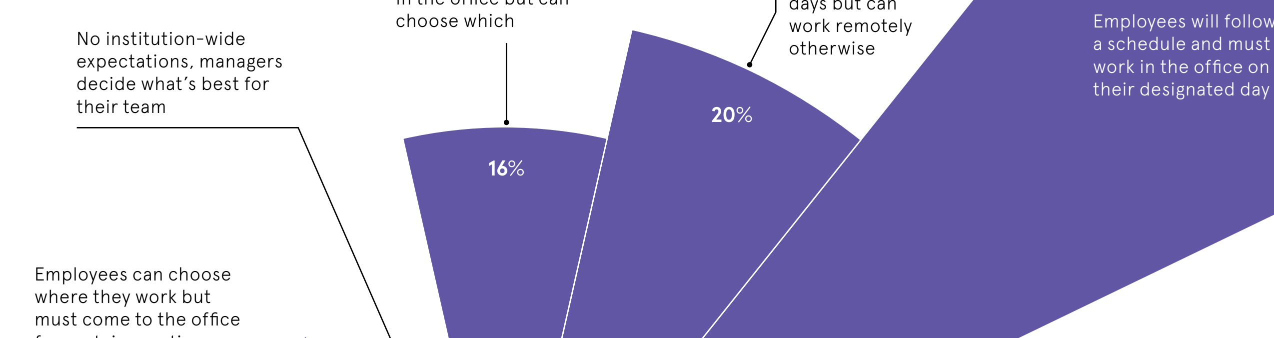
Encouraging employees to extend their understanding of how newer sectors create modern user experiences enables them to develop skills and gain technical knowledge, he adds.

White agrees. To those considering a career in the industry, she says: "If you want to make a massive difference to people's lives, enter the insurance profession. By deepening your knowledge and enhancing your skill set, you can build a highly rewarding career shaped around your talents and pursue an extensive range of paths throughout your working life."

Boring uncles need not apply. ●

IS INSURANCE KEEPING UP WITH TALENT'S HYBRID WORK DEMANDS?

Percentage of global insurers who say they are considering the following hybrid return-to-work options



Deloitte, 2021

Commercial feature

How big data is changing the insurance industry

Data changes at the speed of light, but insurance companies are often sluggish to respond

Over the past century, the insurance industry has adapted quickly to change. From the asbestos crisis of the 1900s, which brought about huge changes in how companies manage capital and introduced a large framework of regulation, to Hurricane Andrew in 1992, which brought the winds of change to natural catastrophe modelling, the insurance industry was nimble in reacting to seismic events.

In recent years, the industry has responded quickly to such major events as the 2016 NotPetya ransomware attack and catastrophic flooding in the UK, meeting the pace of change by increasing insured awareness of both cyber and flood risk.

"The insurance industry changed in response to these crises quite nicely," says Charles Clarke, global vice-president of sales – analytics, at Guidewire.

Yet one change that the insurance industry has been sluggish to respond to is the explosion of big data.

"The human race has generated 90% of all the data it has ever generated in the past two years," says Clarke. One sextillion bytes of data are produced every year, and every bit and byte is an opportunity for insights that can help fine tune insurance products. However, they don't.

"When insurance companies try to do that, they get all sorts of things wrong," says Clarke. Problems include datasets that don't talk to one another. Teams that are dispersed. Data that is stored in long-term projects, which means that by the time it is analysed, it is out of date.

Guidewire's mission is to change that – and in so doing, to change the way the insurance industry works.

"We help insurance companies respond proactively to the change happening around them in the insurance industry, and to help them turn their system of record into a system of insight. This allows them to take advantage of their data in near real time," says Clarke.

The company provides the systems that underpin the global insurance system, with its technology processing hundreds of millions of claims and policies around the world. "There's about a one in three chance that, if you have a P&C insurance claim or you buy an insurance policy, it runs through one of our systems," says Chris Folkman, vice-president of product management at Guidewire Software.

Tens of thousands of underwriters, claims adjusters, actuaries and loss control engineers work on Guidewire systems every day. The company believes that in the US each year it facilitates the administration of 300 million policy sales, price lookups, claims settled and quotation requests issued.

Guidewire is a trusted name to help navigate the world of big data in an industry that needs to be certain that its sums and assumptions all add up – and does so in a way that can keep pace with the speed of change. With massive changes in the risk profile of insured exposure over the past few years, the cost of insuring risk is fast outpacing the prices that can be charged in many lines of business.

> We help insurance companies turn their system of record into a system of insight

"It is portending some very challenging times for insurers," says Folkman. The way to avoid those challenges is by belt-tightening: becoming intently focused on selecting and pricing risk correctly, and being disciplined on avoiding risk that cannot be insured profitably.

"The way that insurers are going to do that in the next 10 years is through the use of advanced analytics," says Folkman. The company's machine learning algorithms, coupled with the huge volumes of data passing through it every day, mean there's an opportunity to rewrite the old ways of operating in the insurance industry to improve performance, while bringing down costs and improving efficiency.

A vast amount of capital is flowing into the insurtech sector. In the past year alone, $10bn of direct investment was ploughed into thousands of startups aiming to reinvent insurance. There are plenty of vendors offering piecemeal approaches that can be put together in a patchwork quilt of providers to bring an insurance offering up to speed.

"But we have a very compelling case for being the platform that powers everything," says Folkman. The Guidewire Cloud platform encompasses everything from analytics to core systems, data, workflows and open-source tooling, that all work natively together.

The combination of all the tools and processes enables Guidewire to rewrite their use of data from a system of record to a system of insight. "We think we can help the insurance industry by helping underwriters and claims adjusters make decisions that help the industry grow and stay relevant," says Clarke. "It's easy for us to deploy the technology and data in the models to people, because we operate with many of the companies anyway.

The potential is enormous, Clarke believes. By using the big-data tools available to Guidewire, the company is able to improve customer engagement by ensuring that automated smart decisions are correct more frequently. This means it is able to pay out claims more accurately and at greater speed, taking hours rather than weeks. It's a virtuous circle that improves with every use and opens up the opportunity for smaller-scale insurance policies that can bring in further customers to insurance businesses.

"No insurance company wants to spend money on acquiring a policy for someone who is only going to drive for two hours on a 10-day holiday because it's so expensive," he adds.

But the interlinked data that drives Guidewire's business – the system of insight, not record – allows it to gather data cheaply and efficiently, and allows underwriters to make speedier, more accurate decisions. That then means greater efficiencies can be generated at scale for insurers, which has a halo effect on the whole industry.

The future of insurance has big data at its heart. "The core system of tomorrow is going to be harvesting data in real time," says Folkman. "We're building it slowly and surely. Tomorrow's underwriters' mental model of what constitutes a 'core system' will be more robust than the simple transactional role that it has historically played."

For more information please visit guidewire.com/products/guidewire-live

REGULATION

Hustle from Brussels: the UK's race to bid Solvency II adieu

Westminster is raring to revoke EU-based rules that have deterred insurers from investing in its flagship projects. Will deregulation put firms and their policy-holders at greater risk?

Peter Archer

The UK insurance industry is poised for a shake-up that's likely to release tens of billions in investment for government projects aimed at building greener infrastructure and advancing Boris Johnson's "levelling up" policy.

Westminster wants to clear away numerous regulatory obstacles – a legacy of EU membership – that have hitherto dissuaded pension funds and insurers from channelling as much money into net-zero modernisation programmes as it would like. Its planned changes would allow more investment capital to shift from bonds to wind farms, for example. Critics of the current rules argue that they make it easier for insurers to invest in coal mining than in renewable energy.

Keen to demonstrate a benefit of Brexit, the government has called for an "investment big bang" and is targeting the insurance industry's considerable coffers. Having discussed the matter for the past year, ministers are thought to be close to agreeing reforms with the sector's regulators, with a focus on maintaining safeguards for insurers and policy-holders.

But this overhaul lags a similar initiative already afoot in Brussels to unlock €90bn (£76bn) in EU insurance assets. The European Commission has adopted a comprehensive review of its insurance rules, known as Solvency II, so that insurers in the bloc can scale up long-term investments in Europe's recovery from the Covid crisis and the impacts of Russia's war against Ukraine.

EU insurers will be incentivised to increase long-term capital investment to boost member states' economies, but at the same time the industry will be better scrutinised, according to the commission.

Westminster is keen to push ahead with its plans, because the UK would be put at a competitive disadvantage if Brussels were to enact its proposed reforms first.

In February, the economic secretary to the Treasury, John Glen, revealed the government's plan to shake off some of the shackles of Solvency II, which the UK had adopted when it was an EU member state. He outlined the proposed changes in a speech at the annual dinner of the Association of British Insurers (ABI).

Glen said that the overhaul would create a more bespoke and dynamic regime, unlocking billions for infrastructure investment. But he stressed that safeguarding the financial stability of insurers and protecting policy-holders would remain a top priority.

British insurers have been subject to Solvency II since it was introduced in 2016 to harmonise regulation across the EU. Glen pledged that this "EU-focused, rules-driven, inflexible and burdensome" body of regulation would be slimmed down and adjusted to better suit the nation's public investment needs.

"EU regulation doesn't work for us anymore. The government is determined to fix that by tailoring the prudential regulation of insurers to our unique circumstances," he said. "We have a genuine opportunity to maintain and grow an innovative and vibrant insurance sector, while protecting policy-holders and making it easier for insurance firms to use long-term capital to unlock growth."

The reform package has been developed by the Treasury alongside the Bank of England's Prudential Regulation Authority (PRA), which has emphasised the need for maintaining effective measures to ensure that firms and their policy-holders aren't exposed to any more risk as a result of the changes.

In December 2021, the Bank's governor, Andrew Bailey, stressed that the PRA's prime focus would be to safeguard their interests. Addressing the Institute and Faculty of Actuaries at the time, he added: "Reforming Solvency II is sensible, because the world moves on – and because it was never well suited to some aspects of the UK market."

Planned reforms include a substantial reduction in the risk margin, including a cut of between 60% and 70% for long-term life insurers and the more sensitive treatment of credit risk in the so-called matching adjustment. The risk margin calculates the reserves that life insurance firms must hold and the matching adjustment protects against price volatility, incentivising investors to back secure long-term assets.

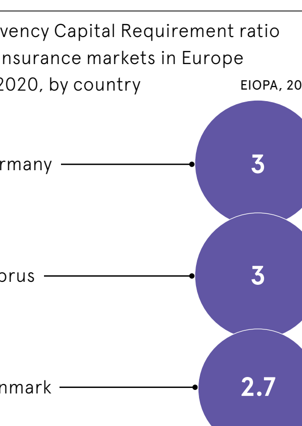
The risk margin and the matching adjustment are two key areas of scrutiny, according to Bailey.

"Public policy objectives like safety and soundness and policy-holder protection are the bedrock of prudential insurance regulation," he said in his speech. "But let's not assume that the answers to the question of how much of it we should have are obvious. That said, I cannot emphasise enough that we must come up with well-considered answers to the question of 'how much protection?' to allow prudential regulation to do its job effectively."

As well as giving insurers more flexibility to invest in long-term assets, the reform package includes reductions in their administrative burden and reporting obligations.

Charlotte Clark, director of regulation at the ABI, believes that immediate reforms to Solvency II are "vital to ensure that we have a post-Brexit regulatory regime that's fit for purpose for the UK and not overly restrictive. It should enable more investment in green infrastructure and the levelling-up agenda. Analysis shows that £95bn could be freed up if sensible changes are made to the matching adjustment and the risk margin, while upholding high levels of protection for policy-holders."

The changes being discussed will not diminish the high regulatory standards that are rightly placed on insurers



Reforming Solvency II is sensible because it was never well suited to the UK market

The government is due to publish a full consultation document in April. This should feature more detailed proposals with supporting analysis.

The Pension Insurance Corporation (PIC), which holds more than £47bn in investments, agrees that the Solvency II framework for insurance companies has hampered the UK's investment in low-carbon projects so far.

In December 2021, the PIC published a research report entitled *Investment Unleashed,* which argued that flaws in Solvency II regulation had incentivised life insurance firms to invest primarily in large, well-funded companies. This had, the report stated, skewed investments towards mature technologies and sectors, rather than helping the government to achieve its goals with respect to building greener infrastructure and levelling up the British economy.

"The government's levelling-up and net-zero ambitions require significant investment if they are to be achieved. Quite simply, the government itself cannot provide this funding," the report states.

The PIC's chief executive, Tracy Blackwell, views the planned Solvency II reforms as a chance to rewrite the script. "We have a once-in-a-lifetime opportunity to channel new investment into communities across the UK, building high-quality homes, decarbonising our economy, creating jobs and levelling up," she says.

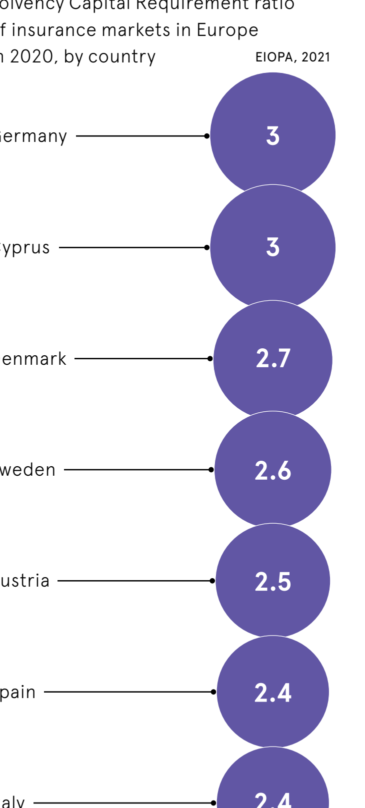
Clark agrees, noting that the ABI has "long been calling for the meaningful reform of Solvency II. The changes being discussed will not diminish the high regulatory standards that are rightly placed on insurers and long-term savings providers. These will retain their ability to withstand a one-in-200-year shock."

"Our sector recognises the crucial role it has to play in tackling climate change" the ABI's Clark continues. "Calling for regulatory reforms to enable more investment in renewable energy, as well as other infrastructure needed to aid the UK's transition to net zero, is just one aspect of the many actions we are taking."

SOLVENCY REQUIREMENTS AROUND THE WORLD

Solvency Capital Requirement ratio of insurance markets in Europe in 2020, by country

EIOPA, 2021



Country	Ratio
Germany	3
Cyprus	3
Denmark	2.7
Sweden	2.6
Austria	2.5
Spain	2.4
Italy	2.4
Poland	2.4
European Total	2.3
Belgium	2.3
Hungary	2.2
Croatia	2.1
Finland	2.1
Luxembourg	2
Portugal	1.9
Slovakia	1.9
Ireland	1.8
Iceland	1.8
Latvia	1.7
UK	1.6

Commercial feature

Insurers need their own Hippocratic Oath

Does insurance have a role to play in setting the ethical standard for corporate ESG and promoting a 'do no harm' philosophy?

Insurers are the doctors of the economic world. They assess and 'heal' financial loss just as a doctor assesses and treats medical need. But, while the medical profession promises 'to do no harm,' the insurance profession has no equivalent Hippocratic Oath. Is it now time for insurers to take responsibility for the risks they insure? Is it time for insurers to make an oath to do no harm?

Some activists argue that it is, and some insurers agree; just look at those that are exiting coal or refusing to insure mining companies. But, says Peter Mansfield, partner at RPC, a UK law firm: "Insurers are only just starting to face up to the growing complexity of environmental, social and corporate governance (ESG) demands. We need a wider debate on what it means for insurers to do no harm."

Doing no harm is the fundamental aim of ESG. The central message is that companies must do no harm to the environment, to society or to a company's own governance. Yet, this interpretation of ESG sits uneasily with shareholder theory, which argues that the only duty of a company is to maximise value for its shareholders. "At the heart of ESG, you have this paradox," says Mansfield. "It is ostensibly about ethics, yet it aligns with shareholder theory, on the back of research that showed that ESG policies generated greater returns for shareholders."

Is ESG about ethics or about profit? This matters because do no harm is already a tricky concept to pin down. To burn fossil fuels is clearly harmful, but to suddenly stop would create a different type of harm. Nor is there universal agreement on the best route to a universally acknowledged good, such as net zero by 2050. "It's not always clear who should make the decision on the best road to take," says Mansfield.

Insurers are only just starting to face up to the growing complexity of environmental, social and corporate governance (ESG) demands

Some would say that insurers should make that decision and should drive the future by withdrawing its support from certain industries. But insurers have traditionally been enablers of the corporate world, leaving it to governments and regulators to make those big, directional calls. Its innovation and creativity have always been directed towards the products that facilitate an industry, without passing judgments on the conduct of that industry.

That is not to say insurers should be blind to cultural change or moral relativity. "Of course, insurers must deal with the world as it is," says Simon Laird, global head of insurance at RPC. "But they must also be cognisant of upcoming change, and it is by understanding the world as it will be that insurers can help smooth the corporate path to cause the least amount of harm."

Perhaps the most appropriate role for insurers, therefore, is to be agents of evolution. While insuring the present, insurers must also create products to insure the future. For example, each stage of the transition to net zero will involve new risks and new products. The insurance of geothermal finance risk, of coral reefs and of solar generation are already coming to the fore. These are new products that will hasten the transition. Those insurers who anticipate our future will benefit not only their shareholders, but their grandchildren.

In this sense, insurers are changing from the reactive industry of old. "By sharing the weight of the changes that are to come and being agile enough to respond quickly with new and innovative solutions to support this changed world, the industry can speed up the process of transition," says Laird. "That's a role that brings insurers on to the global stage, helping companies move forward on issues as complicated but as urgent as climate change."

Should the insurance industry adopt its own Hippocratic Oath? Yes, yes and a thousand times yes. But an oath to do no harm is not the same as making a moral judgment about what 'harm' is. It is the corporate world's responsibility to evolve to meet the challenges ahead and it is the insurance world's responsibility to hasten, and not to harm, that evolution.

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