FUTURE OF INSURANCE

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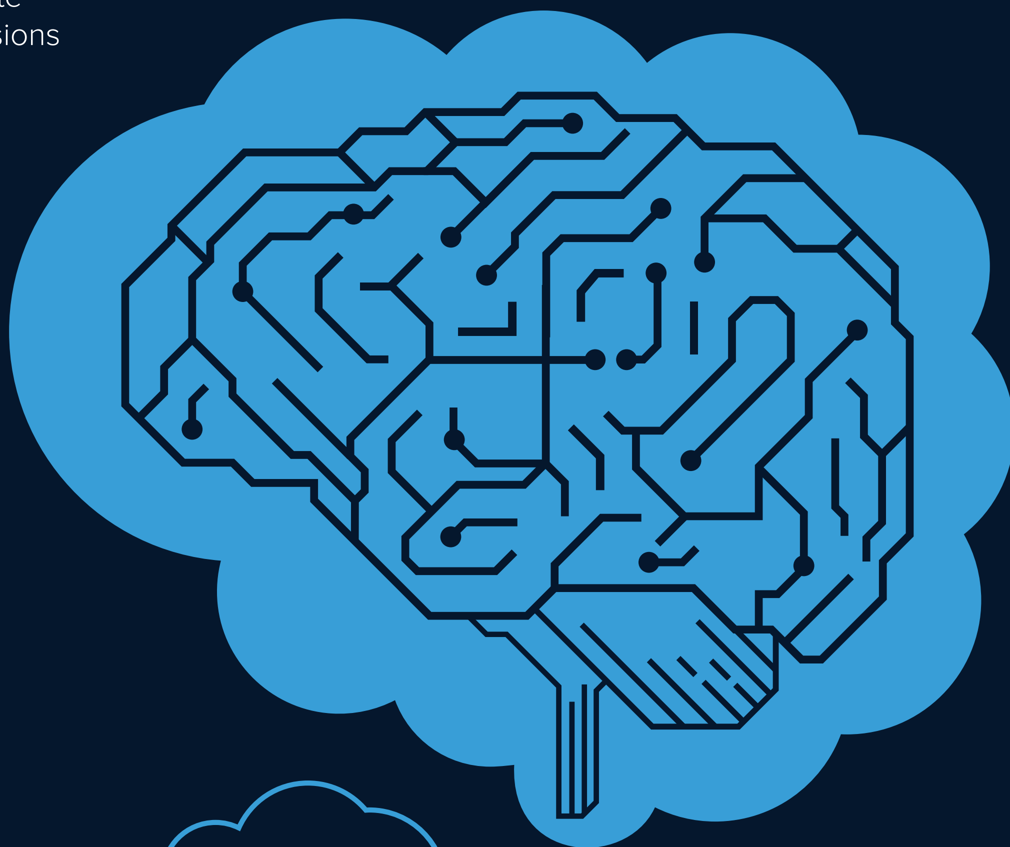

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RACONTEUR

PUBLISHING MANAGER
Misha Jessel-Kenyon

DIGITAL CONTENT MANAGER
Jessica McGreal

PRODUCTION EDITOR
Benjamin Chiou

DESIGN
Samuele Motta
Grant Chapman
Kellie Jerrard

MANAGING EDITOR
Peter Archer

CONTRIBUTORS

ALICIA DIMAS
Formerly a specialist writer on emerging markets insurance with *Latam Insurance Review*, she is now acting editor of *Mena Insurance Review*.

IAN FRASER
Author of *Shredded: Inside RBS, The Bank That Broke Britain*, he was business editor at *The Sunday Times* in Scotland.

CLARE GASCOIGNE
Formerly on the staff of the *Financial Times*, she is now a freelance journalist specialising in City and financial features.

ANTHONY HILTON
Author, journalist and broadcaster, he is a former City editor of *The Times* and managing director of *The Evening Standard*.

GONZALO VIÑA
Formerly reporting at the *Financial Times*, *Bloomberg*, *Dow Jones* and *The Wall Street Journal*, he now works as a freelance journalist covering a wide range of policy areas.

HELEN YATES
Freelance journalist, she was formerly editor of *Global Reinsurance* and managing editor of *Strategic Risk*.

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OVERVIEW

Insurtech is set to take the industry by storm

Disruptive technology applied to the insurance industry is finding its way into the mainstream of a previously traditional business

ANTHONY HILTON

Uber, the biggest taxi company in the world, does not own any taxis. Facebook, the biggest media company, does not create its own content. The biggest retailers, Amazon and Alibaba, don't own any stores. The biggest accommodation company Airbnb has no hotels.

Tech companies succeed when they see the world differently and find new ways to meet genuine consumer demands at a fraction of the costs and with none of the complexity associated with the existing industry players.

This is the allure of technology for the insurance industry. Characterised as it is, though to some degree unfairly, as old fashioned in attitudes, approach and customer service, it is seen both from inside and out as ripe for disruption.

The result in the past few years is that so much technology money had poured into the insurance sector that it has created its own buzzword – insurtech. All manner of innovations, business models and aps are being developed in the hope that they will revolutionise a traditional business.

But while there is money in abundance we still have not seen the vision and no one in the technology industry has yet come up with a fundamentally new way of thinking about the management of risk. What we see instead is the insurance industry trying to embrace technology and in many cases, in the larger firms such as Aviva, creating their own internal tech hubs to drive the process. We see much less of the technology industry thinking it can make money in insurance. There is as yet no sign of the insurance industry's Amazon or Uber.

There is a good reason for this. Much of the effort currently is based on taking what has worked elsewhere in e-commerce and seeking to apply it to the insurance business. But there is a problem. Most of the consumer apps, which have achieved significant success in other areas, provide new and easier ways for people to find, buy and have delivered something they really want. These apps are pushing on an open door.

The problem with insurance is that nobody really wants it. People might understand they would be wise to buy it; they might even as drivers be compelled to have it, but that does not make it a purchase they enjoy. New technology can deliver insurance more cheaply, enable customers to shop around and make the process much faster, simpler and easier. But it cannot overcome this basic antagonism.

Aviva's Digital Garage in Shoreditch, London, is a dedicated tech startup hub driving innovation in the insurance industry

And it is the same with the issue of trust. The caricature of the industry is that when a claim is made, the insurer will try to chip away at the amount and the customer will chuck in a few extra items which were not lost or stolen in anticipation of this. Then there is a negotiation. Technology, in theory, should do away with this human interaction, but in a world where people struggle to come to terms with business where the "computer says no", are they really ready for "computer says trust me"?

That is not to say there will be no benefits. Facial recognition technology already provides as much information on age, lifestyle smoking habits and health as a ten-page medical questionnaire, and without the ability to embellish the answers. Life policies could soon be sold on the basis of a selfie, without the need for the medical.

Insurance could become personal rather than product oriented. If you have three cars, all have to be insured, though you will only ever be driving one at any particular time. But technology will soon make it cheap enough to insure people rather than products, so the customer will be paying only when the product is in use, when actually driving or travelling, or taking on any of life's other myriad risks.

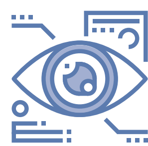
However, it might not all be cosy for the customer. The other side of insurtech is the work being done on data, and the developing ability of underwriters to gather and process vastly greater quantities of information than ever before, in ways which give them far greater insight into where the risks really lie.

The upside is that these greater insights should lead to much keener pricing for the majority. The downside is that those whom the computer says are risky, might find it impossible to get any cover at all, just as flood insurance is hard to come by in some areas. This would also apply in areas of health, where gene sequencing might be used to predict future illnesses and longevity. If this leads to only the good risks being insured, it will provoke an intense debate around the issues of privacy and discrimination.

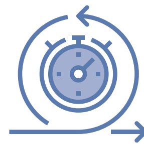
What all this underlines is that selling financial services is far more complex than selling conventional items in retail and insurance is one of the more complex areas within financial services. That complexity lends itself to bespoke operations and tailor-made policies whereas technology thrives on standardisation.

But these problems will eventually be solved and there is no shortage of money looking for the answers. Tällt Ventures, a Bristol-based research group which monitors these trends, estimate $1.69 billion was invested in insurtech in 2016 and that the number of deals done was 32 per cent up on the previous 12 months. The vast bulk of the money – 59 per cent – was invested in the US. However, the money backing UK startups also tripled from the year before though it accounted for just 5 per cent of the worldwide total – the same as China.

What is obvious is that all this money is already having a serious impact on how the industry thinks about itself. No one knows yet quite how the dice will fall, but they have no doubt that when the changes come, they will be fundamental.



87%
of insurers agree that technology is no longer advancing in a linear way, but rather at an exponential rate



86%
believe they must innovate at an increasingly rapid pace simply to retain a competitive edge

96%
think that digital ecosystems are having an impact on the insurance industry

Accenture 2017

COMMERCIAL FEATURE

'The industry has an opportunity to evolve from life protection to life enrichment'

DO INSURERS NEED TO BECOME MORE AGILE WHEN DEALING WITH STARTUPS?

	Retail banks	Insurers
Firms that work with startups or universities on digital initiatives	60%	38%
Firms that provide monetary/non-monetary support to digital startups	56%	26%
Firms that host incubators for digital startups	32%	14%
Firms that have an in-house venture capital fund which focuses on digital	32%	17%

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Insurers must adapt to demands of the information world

New, technology-driven changes in the ways people live their lives are prompting revolutions across industries. The insurance sector must adapt to these changing needs if it is to remain relevant to customers, says **Ross Campbell** at Gen Re

Gen Re

The power and popularity of wearable technology as a generator of health data and the developing potential of genomics are well-discussed issues in the insurance industry. The sharing economy and shifting social factors also mean people visualise risk in new ways.

Insurers want to offer security in ways that appeal to these emerging customer demands. But they are faced with myriad potential practical steps they could take.

The idea of having individuals generate useful health and activity-related data, through wearable technology, is already established in insurance. However, the scale at which highly personalised data is being generated by consumers, whether deliberately or unwittingly, has been growing at a remarkable pace.

Deciding how best to handle issues around data privacy is among the industry's key questions. Some people will not wish their personalised data to be put in the hands of insurers making decisions about policies, while others will want their data to be used to drive down insurance costs.

To understand how the insurance industry, "insurtech" startups, innovation labs and accelerators view these challenges, we spoke to some 75 thought leaders from around the world in a project we called the Incredibly Curious Adventure.

The results of the research are fascinating. Many of those interviewed saw a real opportunity for the insurance industry to evolve from life protection to life enrichment, firstly through more consumer-centric product design, and secondly through the dynamic use of predictive data that wearables, supercomputing power and artificial intelligence make possible.

However, legacy systems present a real challenge to insurers in the adoption and integration of these new technologies. Many insurers underestimate the readiness of the market to embrace the new opportunities and even to take advice from machines.

Another essential issue for the insurance industry is genomics, particularly with regard to its relevance in creating life insurance policies. In spite of early discussions on the subject, in the last couple of years it has been parked mainly out of view and the insurance industry has voluntarily agreed not to use much of the data that is available.

> People are increasingly engaged with the details of how best to manage their health with the help of the digital data they create

But our collective understanding of genomics and its potential relevance to risk assessments has been expanded very significantly in recent years, and it offers the opportunity to do things better with individuals' consent. Personal genomic information is increasingly being taken into consideration by doctors as they prescribe medications and by the pharmaceutical companies who create those products.

For individuals, the deepening of the information about their own bodies, which they can now access and refer to, is radically different from what it once was. People are increasingly engaged with the details of how best to manage their health with the help of the digital data they create. There is no doubt that a time is coming when consumers will wish to see this information made relevant to their insurance.

Given these changes, there must be genomic-themed conversations across a full spectrum of stakeholders around what kind of information should be made accessible to and deemed relevant for insurers.

The rich intelligence on everyday health knowledge gained from consumer genetic tests and much wider use of genomics in medicine could mean people are much better equipped to make personal decisions about their insurability than insurers can. While recognising the ethical responsibility of getting it right, this potential asymmetry of information is especially relevant in a voluntary insurance setting.

There are certainly moral questions that need to be asked before insurers are given a full regulatory go-ahead in this context. But it is clear there are significant potential benefits for consumers who open up access to data on their lifestyles, activity patterns, medical history and their genetic make-up. Importantly, insurers would be able to offer much more personalised insurance policies.

Making the most of data and genomics poses a serious technological challenge. To stay ahead of the competition, insurers must look towards startups to provide support and technical expertise.

Some insurers are in a position to acquire and absorb startups. Many others are not. The chief executives we interviewed said it is collaboration with startups that offers the potential to add value through insight and connection.

At Gen Re, our focus is now on nurturing relationships with startups whose innovations have real potential. We partner with those whose ideas can help insurers be more responsive to the changing dynamics within their industry, whether that is in relation to data analytics, mobile health, artificial intelligence or wearable technology.

Large-scale insurance companies are typically enthusiastic to adapt to change, but are operationally less agile. Insurtech startup companies are helping to change fundamentally the insurance industry and enabling it to meet emerging demand among consumers for greater personalisation.

It is our view that insurers must embrace the changes happening and be part of the conversations going on around these fundamental issues. Now, more than ever, the future is wide open. Our aim as a reinsurer is to be part of that global discussion about what the insurance industry can be and what it should offer.

To find out how to harness the huge changes relating to data and digital technology, and to work with smart startups, visit www.genre.com/futureofinsurance

DIGITAL INSURER

Turning boring into rather interesting

Digital technology promises to transform the insurance industry with better deals and new policies for customers

CLARE GASCOIGNE

It's a sign of the times that BT has just become an associate member of the Association of British Insurers (ABI). In a digital age, the insurance industry's trade body is no longer just the preserve of insurers.

"Historically insurance has been a process of financial compensation when a risk materialises," says Matt Cullen, the ABI's head of strategy, data and analytics. "But the digital world allows a shift away from that to a life partnership – the ability to become real-time consultants. It's a massive, positive benefit for the industry."

The industry has taken its time to embrace the technological explosion that has changed all our lives. Parul Green, head of mergers, acquisitions and innovation at Axa UK, says it is pressure from the consumer that has finally brought about change. "Consumers want digital interaction," she says. "We have access to everything from books to taxis digitally; why not insurance? The digital insurer is becoming inevitable."

The data-crunching capability of a digital world is a game-changer for insurers. With a huge amount of extra information, risk can be more precisely targeted so products become much more personal; the days of a standard contract are over.

But it also brings new services, some of which we didn't know we wanted, according to Aldo Monteforte, chief executive and co-founder of The Floow, which offers insurers data analytics and behind-the-scenes services that help to condition the behaviour of consumers. For example, it can use telematics to monitor an individual's driving and then offer coaching if it detects poor decision-making behind the wheel.

"Sometimes it's only after customers have been exposed to new routines that a need is formed," he says, citing services such as the ability to detect if a car has been in an accident and make an automatic call to emergency services. "People like that kind of help when you most need it a lot."

Digital allows insurers to be proactive with their customers, providing flood warnings, for example, rather than just responding after the event or offering rewards for "good" behaviour. Insurers such as VitalityHealth offer deals on gym membership and operate a points system that exchanges rewards, including cinema tickets, for active behaviour.

"It's always been hard for insurers to find positive 'touchpoints' with customers, who typically only contacted an insurer when they were renewing a policy or making a claim," says Mr Cullen. "The digital world changes the customer's experience of insurance."

It also changes how and where you buy insurance. We already have automated travel insurance, for example; with one click you can buy insurance when you buy your flight and, if the flight is delayed, your claim is automatically paid.

"We are likely to see more and more 'nesting' of insurance in other services," says Hugh Terry, founder of The Digital Insurer, an online forum to discuss these issues. "Insurance is an intangible product so it's easy to digitise."

But not all of it. Pension planning is a far more complex issue than travel insurance and, though pension providers are playing with online, self-directed quizzes or educative tools, there is still a need for advice.

"The question is at what point does the customer press a button to talk to a person?" says Mr Terry. "What is the right amount of human? It's not zero, but it could be a lot lower than it is."

The convergence of all these trends has brought new players into the insurance industry. Disruptors are everywhere; some as standalone companies, others as partners with big brand names, others monetising their customer knowledge to sell extra products. The industry has been flooded with innovative ideas about what insurance is and how insurers connect to their customers, but it's just the start.

As the internet of things becomes commonplace, there will be evermore innovative ways to personalise, reduce prices and offer services. But this depends on digital penetration, Ms Green points out, as not everyone has a smartphone, let alone a smart home. "We are constrained by infrastructure," she adds.

But the trend is clear; one prediction is that by 2020 each of us will have about 27 internet-connected devices. How the insurance industry responds to the digital revolution will be critical to its future.

Insurance companies such as VitalityHealth offer deals on gym membership and rewards for taking exercise

> The data-crunching capability of a digital world is a game-changer for insurers

CASE STUDY

BROLLY: UMBRELLA COVER?

Brolly founder Phoebe Hugh

Startup insurer Brolly is launching this year and calls itself a "personal insurance concierge". It plans to use artificial intelligence and machine-learning to provide a personalised service, offering gadget, travel, home and motor insurance.

According to founder Phoebe Hugh, a former Aviva staffer who became frustrated by the lack of innovation in the industry and set up Brolly with help from the tech venture capitalist Entrepreneur First: "It was categorically not an option to sit around waiting for the existing insurance industry to meet the demands of a rapidly evolving world."

The company's first version was launched on the App Store last August. Brolly plans to offer advice, policies and an online "locker" to store documents; it has ambitious plans to be a broker and a comparison website rolled into one.

In one sense it is turning the clock back to the days of brokers, who offered advice based on individual need. Brolly aims to offer "the same level of advice as you get from a broker", but online, using a range of lifestyle and insurance questions to analyse customer need. It then uses algorithms to locate any gaps in your insurance cover.

It is promising to search the market automatically to find the best deal, but the key is making it easy to find and buy the right insurance rather than necessarily the cheapest. "Brolly is built for the smartphone generation, who expect a fast and frictionless user experience, every time," it says.

UNINSURABLES

Personal data may penalise 'uninsurables'

In a world where personal data-driven insurance products are increasingly tailored to the individual, could some consumers be unfairly disadvantaged?

HELEN YATES

Motor, home and health insurers have never had more access to data about their customers. Thanks to the internet of things (IoT) there is a growing ability to assess how we drive, live our lives, protect our assets and price us according to our own individual risk profile. There is also an opportunity to offer feedback and incentives to insurance customers to encourage better behaviour, thereby reducing claims and enabling insurers to offer discounted rates to less risky customers.

However, by sharing this information about ourselves, could some consumers be penalised for things that are beyond their control, their age for instance, genetic predisposition to disease or even personality? Thanks to the European Union's Gender Directive in 2012, insurers can no longer charge men and women a different price, even if this is based on actuarially sound analytics. But there are many other personal attributes that could be used to determine what individuals are charged for their insurance.

When Admiral was forced to withdraw its plans to partner with Facebook late last year after the social media company said the scheme would breach its privacy rules, it raised an important moral question. Just because an insurance company has the ability to analyse customers' use of social media and to use that information as a rating factor doesn't necessarily mean they should.

"There are ethical issues here and a need for strong regulation in place," says Nicolas Michellod, a senior analyst in Celent's insurance practice. "We carried out some research last year asking consumers what they think about insurance companies using their data on social networks to provide new products or to track them for claims fraud. It's clear there's a big gap between what insurance companies think they should be allowed to do and what the consumers think."

Data has always been a commodity in the insurance business, allowing underwriters to assess and price risk accurately, from motor insurance through to major commercial operations. But as insurers mine data from an increasingly vast range of sources, accelerating the need for artificial intelligence to create meaning from it, they will inevitably gain access to more and more information about their customers.

> "As a society we shouldn't be looking to exploit people who are naive and vulnerable

Regulators are watching carefully as insurers tap consumer data. While the Financial Conduct Authority took the decision to drop its probe into insurers' use of big data last year, acknowledging that it did not want to hinder industry innovation and noting the use of information about consumer behaviour was "broadly positive", it also noted there could be "some risks to consumer outcomes" with some individuals finding it harder to access affordable cover.

In personal lives, the connected car and home, and wearable devices promise increasingly greater levels of insight into a customer's lifestyle, behaviour and circumstances. However, their insurance companies should use this information responsibly, says Andrew Brem, chief digital officer at Aviva, particularly as pricing becomes more tailored to each individual rather than pooled across the entire marketplace.

"Social, public, IoT, genetic and other new forms of data might indeed reveal much greater variance in risk that we can measure today, and the natural implication would be greater extremes of pricing," he explains. "This could raise significant questions about fairness in society, and the insurance industry will need to work with governments and regulators to agree what factors society feels we should, and should not, take into account when pricing risk.

"This is a rapidly evolving area and we continually challenge ourselves as to whether our customers would consider use of these data sources acceptable. Insurance has a social role to play in helping those in danger of falling out from insurance, so we'll need to look at solutions for everyone."

Telematics insurance products are hailed as one example of the industry innovating and leveraging data to cater to the needs of a group of disadvantaged consumers. In return for having their driving behaviour monitored, younger drivers are able to access more affordable motor insurance.

For 18 to 20 year olds, who pay an average of £972 a year for their cover, compared with an average of £367 for other drivers, according to the RAC, this can make all the difference. Sixty two per cent of young drivers see insurance as the biggest barrier to owning and running a car.

Not only does telematics provide young drivers with access to more affordable cover, it is a popular example of how a feedback loop can improve the underlying risk. "Our insurer clients find that only a tiny fraction of customers – typically less than 3 per cent – don't respond to feedback on their driving behaviour," says Selim Cavanagh, managing director of Wunelli and vice-president of LexisNexis. "So there's a massive societal benefit, and it also helps the individual pay less and still be mobile. Feedback is a really powerful tool.

"With telematics, younger drivers pay around 41 per cent less for their insurance because telematics tells them they are being monitored, and most young people are willing to listen to feedback and modify their behaviour."

There are clearly benefits to be gained at all levels when consumers opt to share their personal information with insurers and when this information is used to reduce risky behaviour. However, while certain rating factors, such as driving style, are within customers' control, there is very little that can be done to alter or improve other factors insurers could use to price cover.

In the United States, there has been a backlash against biometric screening as part of corporate wellness programmes. Certainly there is a feeling that it is morally wrong to deny health insurance to individuals because of their predisposition to certain diseases. "Big data and the IoT can be used by the insurance industry as a force for good or a force for bad," says Mark Williamson, a partner at law firm Clyde & Co. "It's about having the right checks and balances in place.

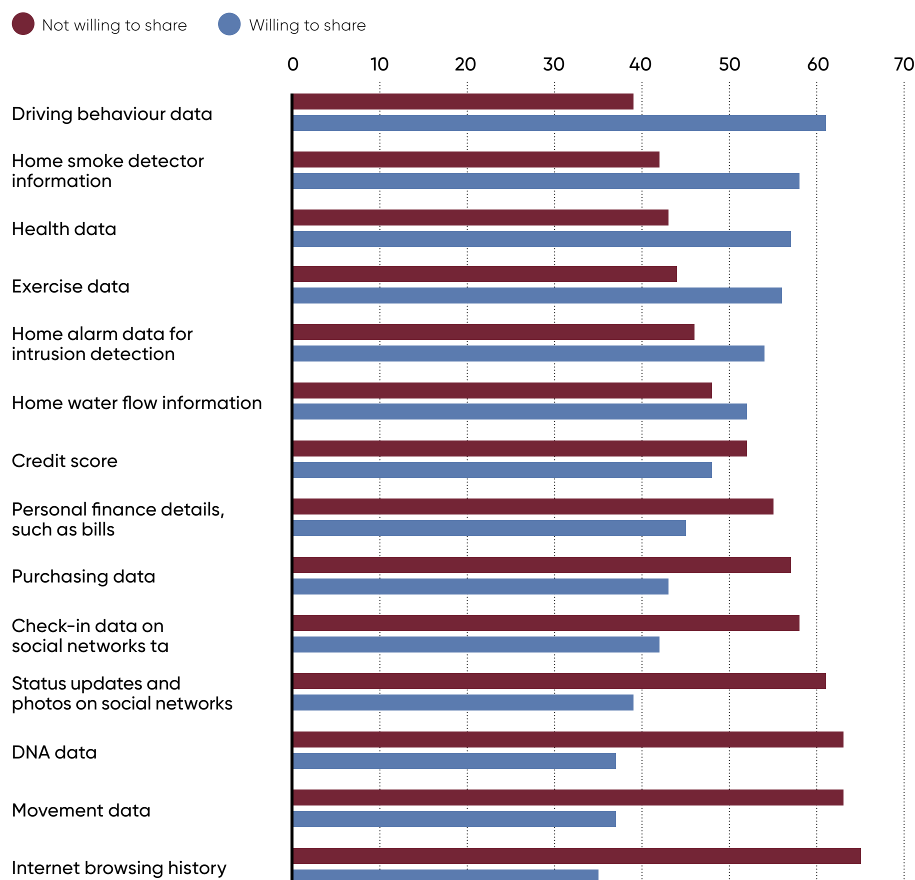
"One of the big concerns is a moral argument around using uncontrollable rating factors. Should an individual be penalised for their genetic make-up when there's nothing they can do about it? These uncontrollable factors might be things individuals are not happy to share or that they may not even know about themselves. Is that morally correct?"

He thinks these issues are now a matter of public policy, with the onus on the industry, governments and regulators to keep up with developments. It is anticipated the EU's General Data Protection Regulation could be instrumental in determining how insurers should and shouldn't be allowed to use customers' data moving forward.

"As a society we shouldn't be looking to exploit people who are naive and vulnerable," Mr Williamson concludes. "And if by drilling down to an individual level, insurers are discriminating against these individuals, is it right for a sector founded on the concept of pooling of individual risks to be doing that or is the government and regulator going to have to do something about that?"

CONSUMER WILLINGNESS TO SHARE PRIVATE DATA (%)

SURVEY OF CONSUMERS IN THE UK, UNITED STATES, FRANCE, GERMANY AND ITALY

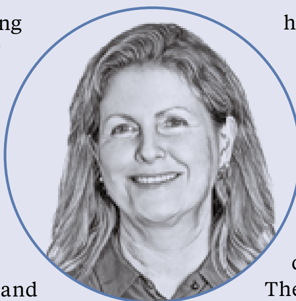


Celent 2017

OPINION COLUMN

'The most important standard is to start with the customer and their needs'

SIAN FISHER
Chief executive
Chartered Insurance Institute



In this fast-evolving world, insurance key players have had to get with the times to innovate effectively and efficiently and keep up with the ever-developing demands of the consumer.

As the millennials and generations after them go through their life cycles, the demand for seamless and intuitive consumer journeys will continue to increase rapidly, and no business will be able to survive if they do not cater for it.

We must embrace innovation and disruption, but the true test of the success will not be in how advanced and impressive the technology is, it will depend on how much it has actually benefited the customer and how "good" the customer outcomes are. For example, advice from health insurers about maintaining mental health is a good example of a valuable and low-tech innovation.

We have a duty to ensure all the fast-moving changes have the public interest at the core of thinking. We must also raise the question of what protections are being put in place to prevent customer detriment and public distrust in insurance.

So there is a unique opportunity to set the standards by which success should be measured and help encourage innovation that leads to the best possible consumer outcomes.

Standards must not be confused with regulations. Standards are in place to complement regulations and form the basis for a progressive, customer-focused ethical approach that is seen as professional and best of breed, rather than an enforced set of minimum requirements.

Innovation will not automatically benefit the customer unless there are clear and defined standards the sector can be held accountable to. We must not limit our understanding of customer benefit to just prices, however. Cutting prices at the expense of bad service would still be very detrimental from a holistic customer experience perspective.

The most important standard is to start with the customer and their needs. The insurance sector and financial sector as a whole has in the past been too product focused. Things have started by creating the product, then wrapping the sales and marketing around it so customers fit the desired demographic.

The profession must disrupt this tradition to start with the customer and their needs, then create products that become the solution.

True innovation starts with a desire to understand customers proactively to gain insight into their wants and needs, and then move to finding ways to achieve that.

Innovation should also change the relationship between sector and customer. It is not just about helping people fill out forms at a time and place which is convenient for them, but it allows insurers to help customers manage their risks.

Innovation is changing the role of the insurer so that they utilise their expertise to get a better deal for their customers. Great examples of this are Aviva's safer driving media campaign, AXA's resilient home demonstration, Pru's Vitality scheme, RSA's Weather the Storm campaign and, of course, there are many more.

The customer benefits by paying less as risks are managed better, and the insurer benefits by fewer claims and creating more loyal customers.

As a professional body, the Chartered Insurance Institute has a responsibility enshrined in our Royal Charter to "secure and justify the confidence of the public" in insurance. One way we can do this is to make sure anyone employed in the profession, who designs or sells services, or advises on insurance products, has the right expertise to do that competently.

But, importantly, it also means we set up and drive an ethical approach for those professionals to sign up to. Our challenge is to make sure those ethical standards remain relevant and meaningful to customers today and in the future, regardless of the technological advances that shape the look of the products and services customers see.

COMMERCIAL FEATURE

Insurtech: data access and choice comes of age

The insurance industry is finally beginning to exploit new technology, but only years after consumers started searching for the best deals online and using apps. It comes at a time of disruption when premiums are under siege, and insurance firms need to become more efficient and lower costs

Now, say experts, insurers should demand the same degree of technological choice and innovation for their own businesses as is available to consumers. To do this, they need to use data and analytics more effectively.

"Insurance companies often invest significant capital, including human and financial, to get the right data, but they can't always deliver that data in a pragmatic way to drive better decisions," says Bret Stone, president at SpatialKey, a one-stop shop for sourcing and delivering insight from industry-leading data providers.

Choice of data is essential, he argues. "The best solution for insight might require multiple opinions of relative hazard from different providers. Choice across vendors gives insurers the benefit of a single, best-of-breed solution that delivers insight. Because it's difficult to consolidate and coalesce disparate data products, insurers may choose to go with one 'preferred' vendor even if it's not best suited to meet their needs," says Mr Stone.

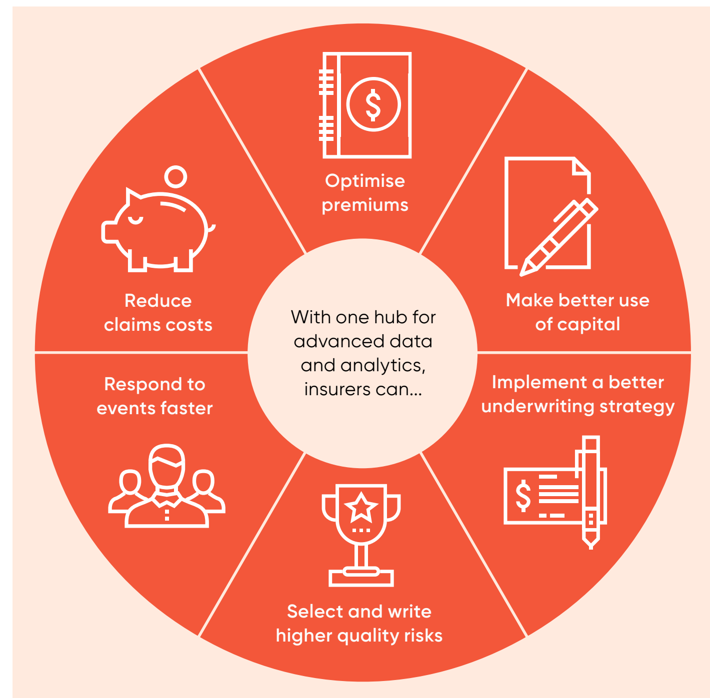
By collaborating with an insurtech provider like SpatialKey, forward-looking insurance companies can access a wide range of data, as well as detailed visual analytics that produce previously unrealised insight. After all, collaborating to access multiple data sources, or to select the right data for a given risk, puts insurers ahead of competitors that struggle to make efficient and accurate decisions. Insurtech companies such as SpatialKey offer an unbiased solution that delivers a single, consolidated view of risk.

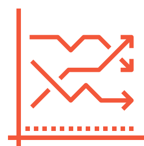
"Insurers are hungry for rapid innovation and transformation within their businesses. Solution providers can deliver innovation with better quality and speed by working together," says Mr Stone. "Time and again, and in multiple market verticals, providers fail when attempting to build one-size-fits-all solutions. Successful solution providers remain focused in their core competencies."

With its successful history in insurtech, more and more insurance companies are turning to SpatialKey, which is becoming the essential insight hub for the insurance industry. Insurers appreciate that SpatialKey's workflows and analytics are tailored specifically for insurers by insurance experts, and in collaboration with its insurance clients.

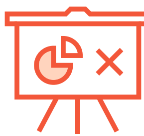
"Underwriters give us one or more properties and we return the relative risk score for each hazard that a property or group of properties could be exposed to, all in one place, with the necessary insight for rapid decision-making," says Mr Stone. "We also help underwriters understand and evaluate risk accumulations against their portfolio, so they can quickly assess what capacity is available and how prospective risks correlate with their portfolio. In this way, we can help ensure underwriters make decisions with a common baseline of understanding that exposure management teams use to manage risk accumulation and inform underwriting strategy."

Finally, adopting new technology can be perceived as expensive and cumbersome, but with a cloud or SaaS solution such as SpatialKey, insurers are realising the benefits of geospatial insurance analytics with little to no support required from IT. These solutions are up and running within a matter of hours – a huge benefit in a market where data is increasingly key to profitability and competitive differentiation.





57% of insurers said they somewhat or strongly agree that their companies are fully realising the benefits of advanced analytics



51% said inaccurate data is the greatest risk

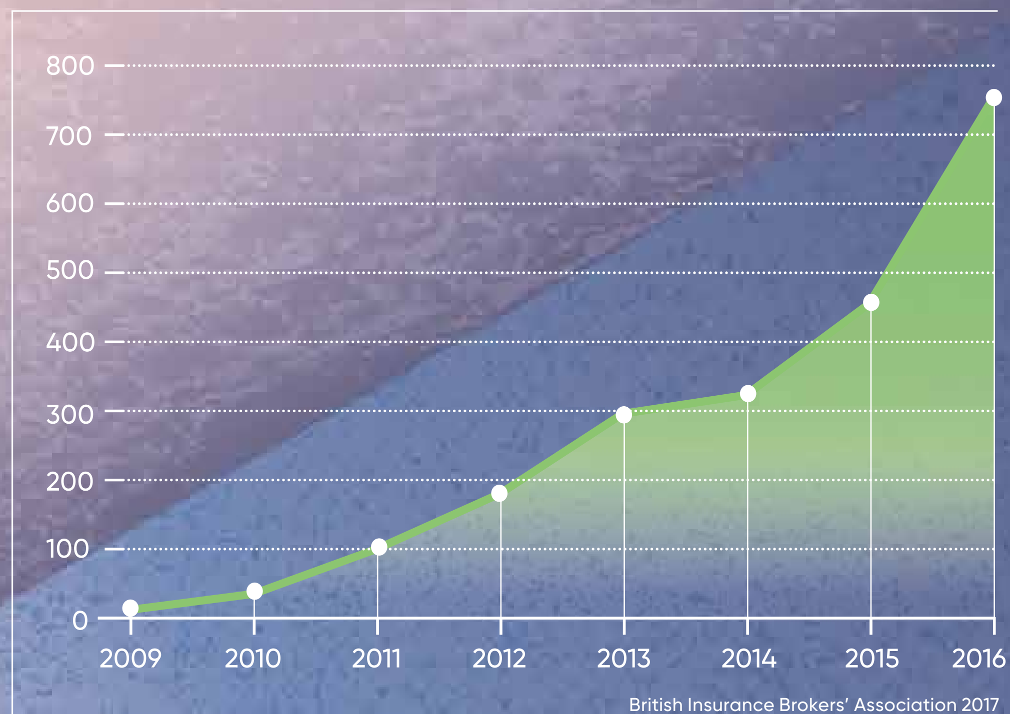
21% cited reduced claims cost as a benefit of using advanced analytics

AA-Insurance, West Monroe Partners

For more infomation please visit www.spatialkey.com

RISE OF TELEMATICS

Telematics insurance, which offers customers personalised policies based on their driving behaviour, has experienced rapid growth over the past few years as motorists look for ways to lower their premiums. Also known as black box insurance, telematics enables providers to track a number of risk factors such as location, mileage and braking to give a more accurate policy price, and can lead to average savings of around £200 a year for younger drivers*



British Insurance Brokers' Association 2017

HOW TELEMATICS COULD RESHAPE THE INSURANCE INDUSTRY

01
Movement towards usage-based insurance models is likely to decrease risk and reduce claim numbers and volume

02
Loss rates should decrease markedly

03
Insurance companies could not only monetise risk, but also work with appliance, automobile and other equipment manufacturers to reduce actual risk

04
Opportunity to develop o price real-tir micro-insura packages to shifting dem

Deloitte Center

*According to MoneySupermarket.com

EXAMPLES OF DRIVING BEHAVIOUR MEASURED BY TELEMATICS DEVICES

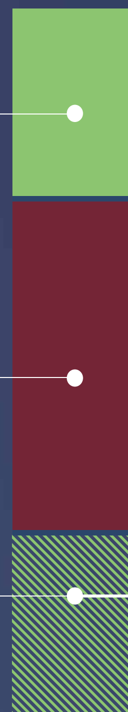
Deloitte 2016

PERCENTAGE OF THOSE WHO WOULD ALLOW DRIVING TO BE TRACKED

26%
EAGER BEAVERS
Would allow monitoring without stipulating any specific discount in return

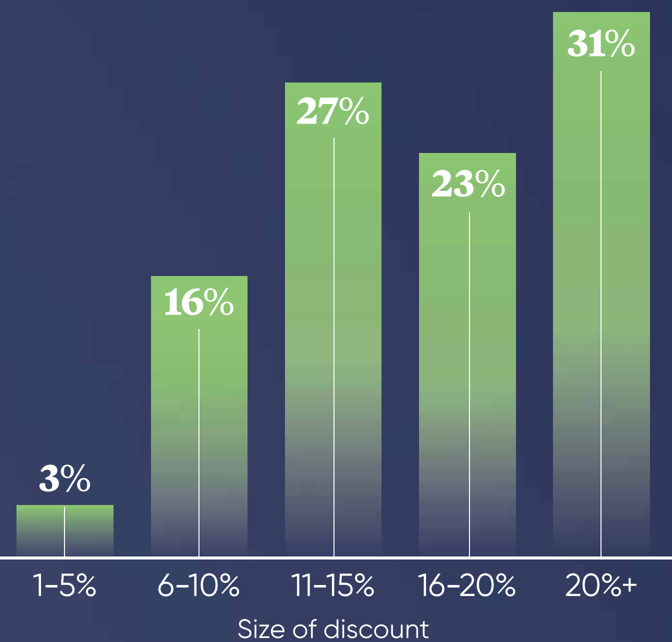
47%
NAYSAYERS
Would not be interested under any circumstances

27%
FENCE SITTERS
Might get on board if given a high enough discount to make it worth their while



SIZE OF DISCOUNT REQUIRED TO ALLOW DRIVING BEHAVIOUR TO BE MONITORED

Percentage of those who are 'on the fence' about telematics



Deloitte 2016

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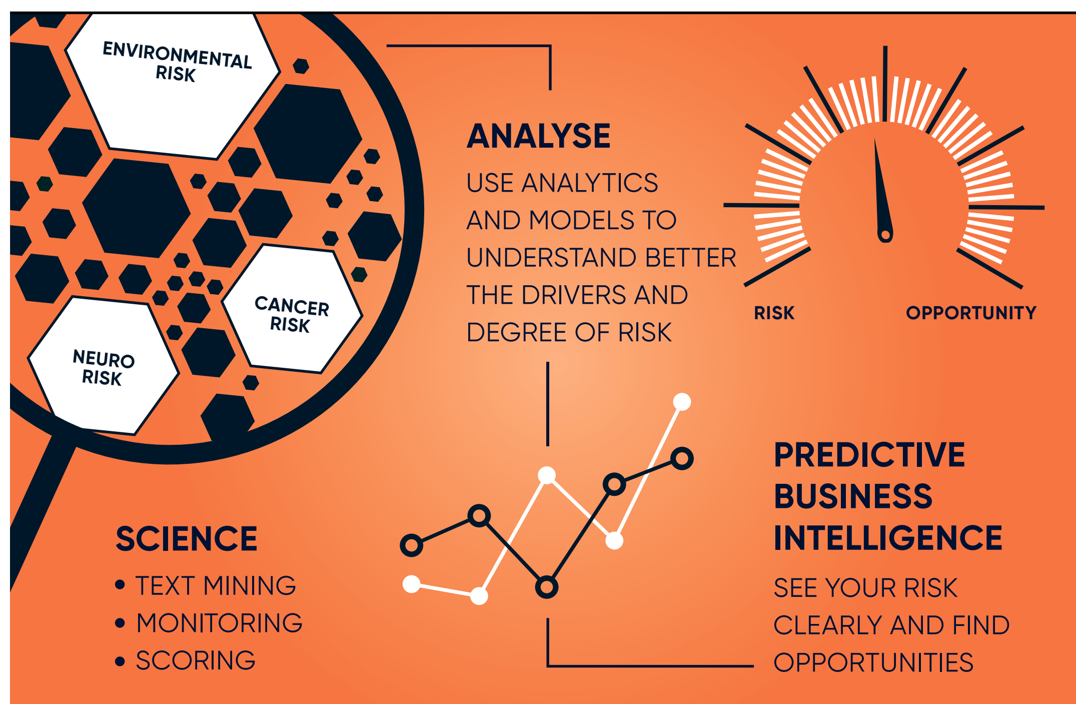
COMMERCIAL FEATURE



Emerging risk can finally be measured

Businesses have always relied on a careful study of information to attempt to predict emerging risks, but the application of big data analytics enables them to understand future dangers scientifically

Emerging liability risks are a constant threat to all industries selling products or services and to the insurers protecting them.

Big businesses and industries worldwide dread another "asbestos situation". The dreadful lung problems caused by asbestos resulted in massive commercial damages in the form of lawsuits totaling more than $200 billion. From a business perspective, risk in new operations and products is enormous, and big companies are constantly watching for the next asbestos scandal among their risks.

But businesses' approach to this issue trails far behind the actual evolution of risk, according to Bob Reville, chief executive of technology firm Praedicat. "Understanding emerging risk is critical to business, but most companies still address it by getting their executives round a conference table and talking about the news they have read," he explains. "This is simply not accurate enough and they miss the birth of major risks."

With the increasing sophistication of big data, machine-learning and processing power, technologists at Praedicat have been able to create systems that scour more than 22 million peer-reviewed science papers to learn new risks. The software then assimilates the data into a simple, but detailed, report for businesses.

The company, which was born out of collaboration between non-profit research organisation Rand Corporation and technology firm Risk Management Solutions, has created a system that reads right across the web for scientific and regulatory papers relevant to the areas in which its clients operate.

The technology identifies early risk trends for a product, company or industry showing up in the scientific papers. It also tracks the development of the literature to see whether a risk is growing. Based on the amount of information and its quality, the system creates a dashboard of accurate emerging risks, their likelihood and severity.

"This is revolutionary for businesses because they can accurately predict the risks that will gain ground in front of them and then they can make much better decisions," says Mr Reville.

Insurers equally stand to benefit, with the system creating detailed profiles on the many risks their clients face. "By extracting all of the hypotheses in the scientific research, insurers can quantify and qualify their clients' risk, and price it with real knowledge," Mr Reville explains.

This also solves another serious problem among insurers – excessive exclusions. Faced with the mass of previously unpredictable new dangers, insurers have favoured exclusions even in the context of losing customers who need the coverage. By accurately understanding emerging risk, insurers can now retain existing business and more safely cover new areas, even when there is no known claim history.

Uptake of Praedicat's technology has been strong. Insurer Allianz uses the system to assess key risks more confidently and identify new coverage opportunities. Swiss Re has a licence to use the company's Oortfolio platform to support underwriting and aggregation for insurance and reinsurance.

Outside insurance, General Electric Environmental Health and Safety uses the technology to predict and prepare for risks across its many areas of operation. And large food and chemical companies are also among those working with Praedicat to ensure they spot future product risks.

As businesses seek to outpace their competition, they need to identify emerging risks as early as possible. Using smart big data enables them to appreciate the real risks they face, while also avoiding overestimating risk in safe areas and hampering good innovation.

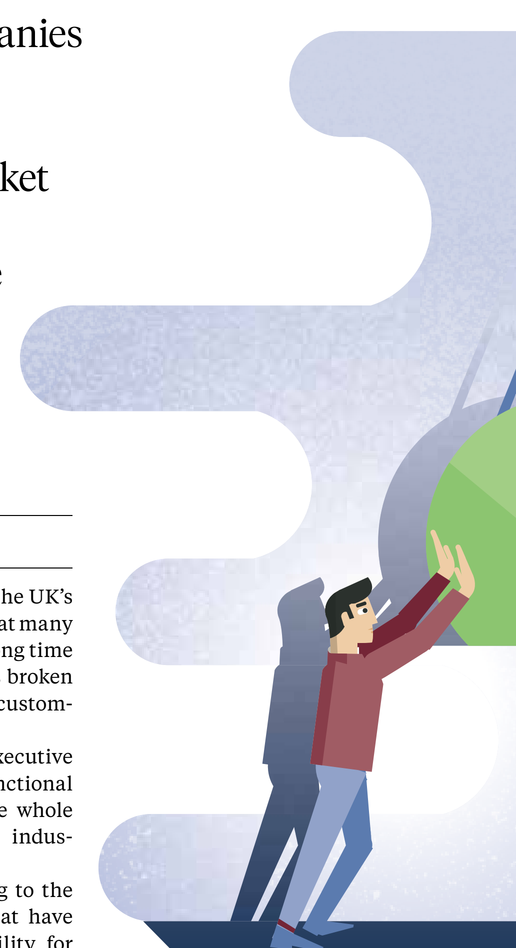
"Companies want to grow quickly and smartly, and their insurers want to properly cover their risk," Mr Reville concludes. "There is a clear need to be able to look around the corner and the only way to do so is with proper data science."

To find out how to manage your emerging risks please visit praedicat.com

PRICE WAR

Competing on

Insurance companies operating in an increasingly competitive market must innovate and be proactive to prosper



GONZALO VIÑA

It took the head of one of the UK's biggest insurers to say what many had been thinking for a long time – much of the industry is broken and neither companies nor customers like it.

According to Aviva chief executive Mark Wilson: "The dysfunctional market is a problem for the whole industry that requires an industry-wide solution."

Mr Wilson was responding to the deep structural changes that have been weighing on profitability for a number of years, particularly the commoditisation of products which have been subjected to unrelenting pressure from aggregator and price comparison websites. His response would be a yet-to-be-specified product that rewards customer loyalty.

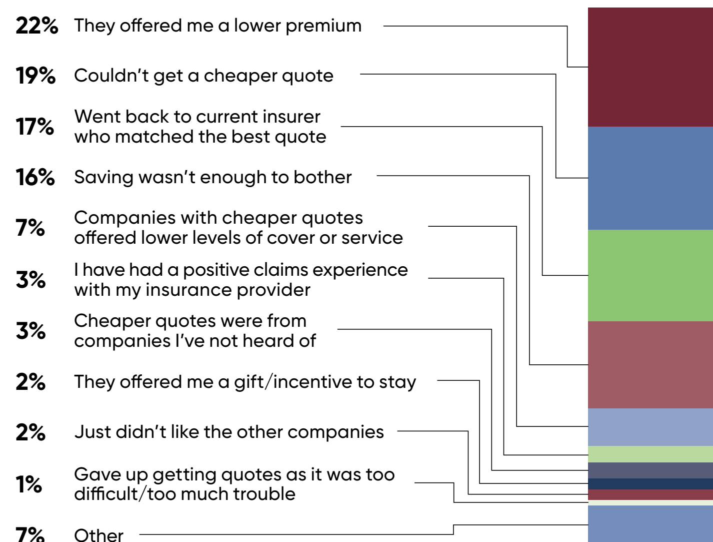
Analysts say that too many parts of the general insurance industry run as high-volume, low-value commodity markets where price, and pretty much only price, determines what policy consumers ultimately choose.

Professional services firm EY predict that home insurers will lose money in 2017, with a net combined ratio (NCR) – an industry measure in which a reading above 100 per cent denotes a loss – of 101 per cent. Premiums will drop by 1.7 per cent, EY says.

Similarly, car insurers will also slip into the red for the second year in a row, with a 103 per cent NCR in 2017, even though premiums will have risen for the third year running or by some £46 on average since 2015, EY adds.

For Nitesh Palana, a financial services regulatory expert at PA Consulting Group, the "three-year model" – when the policy makes a loss in the first year, breaks even in the second and only becomes profitable in the third

MOST IMPORTANT REASONS CONSUMERS STAY WITH AN INSURER



*Numbers do not equal 100 per cent due to rounding

Insurance Times 2015

price and value

year – underpinned the industry long before the likes of GoCompare and Money Supermarket turbo-charged price sensitivity in the industry.

More than any other industry, Mr Palana argues, insurance companies will have to innovate if they are to return to profitability and remain profitable in years to come. Insurance products will have to become both more user friendly and better tailored to individual circumstances.

"It's only through innovation that the industry will survive," he says. "Insurers will either innovate and retain customers or lose out to new companies that do innovate."

That innovation is starting to come through in many forms, says Nigel Walsh, a partner at Deloitte, the professional services firm. While the technology has boosted competition and conditioned many to shop around for the cheapest deal, insurers are looking at ways of "embedding" their services in other products, so the policy is part of a much broader service.

Take the connected home. Mr Walsh says insurers are exploring ways of becoming service providers for a whole raft of goods and services that would have been left to several companies in the past. From smart meters to smoke alarms and burglar monitoring systems, insurance companies "underpin those services and orchestrate the whole thing".

Another development that could become more widespread, Mr Walsh notes, is an insurance policy which is purchased with a car and lasts for its lifetime, such as that unveiled by Tesla recently. Insurers will have to respond to the purported greater safety of driverless cars and provide a more "frictionless" service for their customers.

"It's all about turning from a reactive service to a proactive one," he says. "I am optimistic that we are heading in that direction."

Deloitte estimates that digitally enabled motor insurance, in which data on personal driving habits from so-called telematics equipment is used to calculate individual customer-tailored premiums, could

> More than any other industry, insurance companies will have to innovate if they are to return to profitability

account for 17 per cent of the European market by 2020.

Matteo Carbone, founder and director of the industry think-tank Connected Insurance Observatory, says insurance chiefs in the UK and other parts of the world can learn from the experience of Italy, which currently leads in the use of telematics with 6.3 million policies or 15 to 16 per cent of all motor insurance policies in 2016.

The technology makes for more effective risk selection and helps optimising claims management, Mr Carbone says, adding that the data gathered from the equipment can also help increase frequency of interaction with customers to sell additional services. For instance, insurers can offer "live" concierge services, excess speed alerts, antitheft and a plethora of other services.

"You have to introduce more elements into the equation to increase the value," he says. "You have to exploit the value of data to increase the technical profitability, but it is essential that value is shared. Customers have to see the value otherwise they will simply return to the price comparison sites."

Most experts are agreed that demonstrating value to customers is the only way to break the increasing commoditisation of the general insurance industry, a principle that would hold true in almost any industry.

Only then, argues Matthew Connell of the Chartered Insurance Institute, might insurers start to regain their financial footing.

"It will be enough to return to sustained profitability, as long as customers feel the added value is worth paying for and competitors struggle to imitate the added value service," he says. "Innovative digital tools will have to be constantly improved and enhanced to maintain profitability, before they are copied by competitors or imitated by fintech firms and distributed across the sector. As a result, enhanced profitability is likely to be locked in through a package of tools and services, rather than a single 'breakthrough'."

OPINION COLUMN

'Data will continue to be the source of competitive advantage, enabling new ways of pricing risks'

HUGH TERRY
Founder
The Digital Insurer

Imagine insurance 20 years from now, extrapolated from current trends.

It is already clear that customer data will be the new gold or as *The Economist* recently called it, the new "fuel" running the digital economy. What is true generally throughout society will be even truer for insurance. Data is and will continue to be the source of competitive advantage by enabling client connectivity, consumer insights and new ways of pricing risks.

Technology will allow us all to manage and prevent more and more of the risks that matter to us personally. And this will be the key area of consumer interest ahead of the financial compensation that traditional insurance provides. For most lines of business risk provision alone will be commoditised and accessible via real time, digital exchanges. Core risks will reduce as digital delivers risk reduction, so costs of coverage will also fall significantly.

But risk management alone is not overwhelmingly compelling to consumers and so will be bundled with a whole range of services in digital ecosystem platforms, such as the connected car, the smart home and mobile health. By 2035 most people will have a wearable device designed to monitor and advise on personal health status. The medical evidence supporting preventative analytics will be overwhelming and the supporting medical devices to manage health will be proven. Our homes and mobile devices will together function as a personal healthcare clinic.

In addition, as technology reduces the cost of customer search and distribution, we will see increasing diversity of solutions beyond the "big four" of life, health, car and home insurance. These niche solutions will also be resold by specialist online platforms in much the same way as any retail product.

So by 2035, insurance will be firmly embedded into broader digital propositions that attract and engage consumers. The owners of these digital platforms will be able to deploy sophisticated and integrated marketing propositions and leverage high levels of connectivity with engaged consumers; their distribution economics will be far superior. Some will treat insurance as a profitable niche, while others will use insurance as a scale game. The universal availability of wallets and mobile devices will remove the problem of regular collection of premiums that are present in many countries around the world.

As insurance merges with risk prevention services, customer engagement will rise. A combination of artificial intelligence, chatbots and video on demand will allow the right mix of digital-first, but human-friendly, service to be delivered according to the precise needs of the customer. Purchase, claims and service experiences will be largely automated, integrated to the broader platform propositions and much more convenient.

We can already see some of the likely winners – Zhong An (embedded into e-commerce), PingAn (investments in multiple platforms), BIMA and MicroEnsure (mobility solution for developing economies), Alibaba's Ant Financial services (digital financial services) and the UK aggregators (platforms for risk exchange). Many large digital brands are yet to decide on strategy, so further innovation and change is guaranteed. Banks that successfully transform to digital banking platforms will also be well placed.

What lessons can we learn and act on now? Existing insurers urgently need to partner with or create the ecosystems of the future and truly digital-first insurance companies need to be architected using modern technology stacks. Insurers that have not accessed or created digital platforms will either be consolidated or will have to make a living as lean, vanilla-branded insurance risk factories. We can look already to Asia, with its growth opportunities and generally more permissive approach to management of customer data, as the crucible for the execution of these new platforms.

COMMERCIAL FEATURE

Innovation in insurance: the coming wave of disruptive insurtech

The modern insurance industry has more than 300 years' experience safeguarding others against potential risks and economic loss, but can it protect itself from the biggest onslaught against it to date?

For a trade built on its ability to quantify and price risks, it's startling to see how unprepared the insurance industry seems to be against technological disruption that's attacking its centuries-old business model.

It can't afford to be ignorant. Here's what happened in other industries that didn't adapt to technology changes in time.

Kodak: founded 1888, bankrupt 2012. Cause: digital photography. Borders Books: founded 1971, bankrupt 2011. Cause: online retailing. Ford Motors: founded 1903, disrupted in April 2017 as 14-year-old Tesla surpasses the 114-year-old Ford's stock-market value. Cause: electric cars.

Wilful ignorance of technological change clearly does not lead to a blissful outcome.

To be fair, some insurers and brokers are already using new technology. Think big data, comparison sites, mobile apps, telematics and wearable tech.

New technologies involving incremental changes are, however, relatively easy to adopt. What are harder to soak in are radical technologies disrupting the industry's long-established modus operandi, visible in a slew of new "insurtech" startups.

Lemonade Inc in the United States, Germany's Friendsurance, France's InsPeer and the UK's Guevara are using peer-to-peer (P2P) technology to group peers with a common interest. Their premiums are paid into a claims pool that after adjusting for claims at the end of the year, have leftover amounts refunded to its peers or directed to charity. Guevara says it can save its motorists as much as 80 per cent on their premiums.

To get an idea as to how disruptive P2P technology can be, take a look at Skype Technologies that used a P2P platform successfully to challenge the telecoms world.

Germany's GetSafe, FinanceFox Germany, Clark Germany, Canada's LEAGUE Inc, Knip AG in Switzerland, Embroker Inc, Next Insurance Inc, Oscar Insurance Corp and Trōv Inc in the US are all new entrants simplifying and expediting price discovery, sign-up and engagement for buyers of insurance across multiple devices.

Rather than push underwriter-centric rigid insurance schemes, they use advanced data analytics transparently to create policies customised to individual consumer and business needs. That turns the traditional insurance model on its head.

Whether it's taking out a policy or filing a claim, customers want to be able to interact with their providers and check transactions via mobile devices. They expect their providers always to remember their preferences and personalise their experiences.

The millennial generation particularly likes this do-it-yourself approach, especially when they save money.

Some new insurtech companies go further by also incorporating technology disruption afoot in other industries. Metro Mile Inc in the US and Just Miles in the UK, for example, mesh personalised insurance with telematics car usage, ride-sharing apps and emerging driverless cars. Given that 95 per cent of a car's lifespan is spent parked, not driven, it's yet another example of creating insurance that better caters to customer behaviour, especially if that customer could soon be an automobile.

> With the cost of insurance rising, alternatives to the current system are in much demand

Others such as the UK's PremFina future-proof themselves via their business model and technology. Its software-as-a-service fulfils any customer preference to pay for insurance by instalments. It arranges for the cost of a premium to be paid to insurers upfront and gets reimbursed by those insured for the same amount with interest, paid monthly. The financing occurs regardless of whether insurance is sold via a traditional high street broker, a comparison website or a disruptive new P2P insurer.

In the UK alone that's a £6-billion market, whereby companies other than insurers themselves finance the purchase of premiums. The logic is simple: insurance underwriters are not meant to act like banks and provide loans. Financial regulators create a systemic separation of the two activities for that particular reason. Besides, insurers don't like or want to take on the credit risk of customers whose insurance they underwrite.

Investors are now seeking out the next gorilla of the insurance market, which is worth £3.57 trillion in annual worldwide premiums, according to the world's second-largest reinsurer Swiss Re. Not surprisingly then, more than a billion pounds in venture capital and private equity funds has gone into insurtech startups worldwide in the past five years alone.

Still, the insurance industry is a tough one to pierce. It represents one of the most regulated markets in the world. And it requires lots of capital. Fintech firms can typically get venture capital money to pay for operating expenses, but not to fund its balance sheet.

Many of the new insurtech companies, such as PremFina, therefore act as intermediaries between creditors and borrowers, or the insurers and insured. For new P2P insurers that underwrite risk themselves, there are early-stage limitations because customers need to feel confident the issuer will be around to honour any claims they make.

Startups don't have the track record or brand reputation to instill this confidence. This drawback, plus the absence of machinery, real estate or other significant fixed assets, makes borrowing against assets from banks next to impossible.

These barriers also keep new competitors at bay however, giving those startups that make it a better shot at success. The insurtech firms that are up and running have already begun to garner away market share.

Sluggish technology adoption by incumbent insurers leaves open opportunities that startups are quick to seize. A study by financial software company Target Group revealed that more than 75 per cent of UK insurance professionals believed the industry was too slow in bringing new products to market.

With the cost of insurance rising, alternatives to the current system are in much demand. Insurers should take heed. If not, insurtech firms better at catering to customer needs will usurp their operating models the same way technology-led firms have already jolted many other industries.

For more information please visit www.premfina.com

76% of insurers felt they are too slow at bringing new products to the market

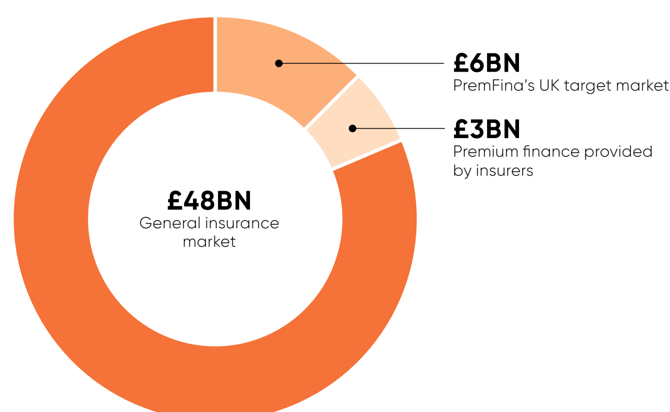
80% is saved on members' premiums by Guevara, a UK P2P motor insurance network

16% increase in car insurance premiums over the last 12 months

£50 increase per year in household insurance costs

£109 extra on average per year for families to pay on their household bills

GENERAL INSURANCE MARKET



PremFina

EMERGING MARKETS: BRAZIL

Tapping the potential of a Latin giant

Brazil's insurance market is open for business in a country ready to capitalise on new technology and sophisticated business models

ALICIA DIMAS

A low insurance penetration rate, large market and growing middle class bring new opportunities for insurers investing in the Brazilian market. The development of information and communication technology in the country is also brightening up the outlook for Brazil's insurance industry, considering it has the fourth highest number of internet users in the world.

"Technology developments have been increasingly meaningful in the Brazilian insurance market. Distribution was mostly affected with product facilities replacing the traditional placing structures, as well as mobile apps that reach brokers and customers in real time," says Angelo Colombo, chief executive of Allianz Global Corporate and Specialty (AGCS) South America.

There is a huge unattended market of low-income consumers widespread throughout the country

Mr Colombo says that on the buyers' side, technology made the supply chain more efficient, requiring different risk transfer solutions from the insurance market. "In the consumer product development field, the insurtechs have been flourishing quite fast, providing telematics solutions for motor insurance and speeding up claims handling with digitised processes."

Renato Rodrigues, country manager for Brazil at XL Catlin, says: "One of the technological innovations that changed the Brazilian insurance market the most was the introduction of the digital signature. This brought a profound change to the insurance industry, as insurance policies are now completely paperless."

Mr Rodrigues adds that insurers in Brazil have a close relationship with their regulator, the *Superintendência de Seguros Privados* (*SUSEP*), which facilitates the understanding and approval of any digital changes in the market.

However, Scott Mangan and Guy Simoes, senior financial analysts on A.M. Best's reinsurance team, consider the regulator spends too much energy and capital fighting fraud.

The international rating agency's experts say the extra layers of bureaucracy, needed to prevent fraud, can deter technological development and ultimately will lead the insurance industry in Brazil to be a follower of the developed markets, as it uses more resources to prevent fraud and is then slowed down by a complex legal system.

As an emerging market, Brazil presents many prospects for insurance companies investing in the country. In addition, with an insurance market growing at a two-digit pace annually, despite the economy's performance, there might be a few lessons to be learnt from Latin America's biggest country.

01
Congestion in the south zone of São Paulo, where only 18 per cent of the Brazilian population has any kind of insurance coverage, according to Luis Gutiérrez from *Grupo Segurador Banco do Brasil e Mapfre*

02
Renato Rodrigues of XL Catlin says the introduction of digital signatures brought profound change to the Brazilian insurance industry

According to Mr Renato, one of the main lessons to learn is the collection and availability of information on the industry. "The insurance market's regulator digitally monitors and controls all insurance transactions and activities. This information is available to the industry and it creates a trustworthy and open market. In many other markets, data regarding the industry's gains, losses and operations is kept secret. Here in Brazil, we can follow our competitors' activities and *SUSEP* can gather up-to-date and complete data on the market," he says.

Luis Gutiérrez, president for auto, general insurance and affinity lines at *Grupo Segurador Banco do Brasil e Mapfre*, adds that the Brazilian insurance market is creative and innovative. He says: "There is a great opportunity to increase insurance awareness in Brazil, since only 18 per cent of the population has any kind of insurance coverage."

Mr Gutiérrez says the insurance group is focusing on a two pillars' strategy in the country, one to develop attractive solutions for insurance consumers and the second to create new products for the majority of the population that does not usually buy insurance. He adds that it is also necessary to facilitate access and payment options available to the new insurance buyers in Brazil.

Mr Colombo, from AGCS, says there are a few key initiatives that will be core for the industry's development, such as micro-insurance. "There is a huge unattended market of low-income consumers widespread throughout the country," he says. "Distribution solutions, whereby insurance could be distributed together with other products, have been implemented over time, but there is much more in the pipeline."

Marcelo Munerato de Almeida, president for Aon Brazil, says the insurance industry has been developing its connectivity, productivity, distribution and compliance. New technologies play a crucial role in this development.

"Last year Aon acquired Admix, a local Brazilian broker, due to their cutting-edge technological solutions area. The company had advanced customer relationship, operations and distribution technologies, and this was crucial to our acquisition decision," says Mr Munerato.

He explains that Aon adapts global technological solutions for its operations in Brazil, but also develops local tools to suit the country's requirements.

With almost 22,000 planes registered in Brazil, of which more than 10,000 are privately owned, Mr Rodrigues says XL Catlin had to develop a new digital tool for aviation liability insurance, to enable brokers to quote and issue standard coverage certificate documents quickly.

The future will bring new requirements and changes for the insurance industry in Brazil. Mr Rodrigues says the role of the underwriter is already changing. "Artificial intelligence has become better at calculating risks than underwriters and analytics are more efficient at analysing data than humans," he says.

Mr Rodrigues believes driverless cars and drones will also revolutionise the industry. "We are already using drones to assess claims, they enable us to assess quickly and efficiently casualties that take place in remote locations," he says. "This is particularly important in Brazil, where we often need to check casualties in the ocean or, due to the country's size, distant and isolated sites."

REFORM

Slow death of tradition in insurance

Insurance is an industry steeped in tradition and breaking free from long-established practices has proved a sometimes painful process

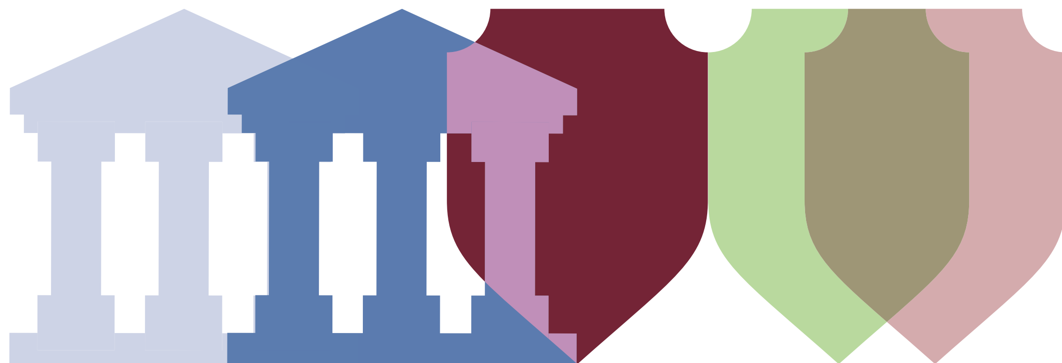
IAN FRASER

POWER OF ACTUARIES

Actuaries may have long been the butt of jokes, but they also have traditionally taken many of the top jobs in insurance companies. However, actuaries, whose day job it is to analyse statistics, including morbidity and longevity, and use them to model risk and calculate insurance premiums, have lately been losing their grip on power. Michael Moss, author of a history of Standard Life, says their comparative decline reflects the changing nature of the products being sold – fewer "with profits" life policies, more mutual funds and unit-linked pensions. Insurance consultant Ned Cazalet says by designing shoddy products, such as mortgage endowments, through their "cluelessness about financial markets", actuaries were authors of their own decline. "They hid behind Grecian pillars and presented themselves as sober, super-smart and conservative. But they were more like the Marx Brothers," says Mr Cazalet. A 2015 paper for the Institute and Faculty of Actuaries said only 18 per cent of life companies' executive directors were actuaries, down from 38 per cent in 1990. The report said: "It can be a concern that actuaries are increasingly being siloed as quantitative analysts."

BANCASSURANCE

Back in 1999-2000, it was the Holy Grail of "bancassurance" that drove Lloyds TSB's £7-billion acquisition of Scottish Widows. Already popular in countries such as France and Belgian, bancassurance involves banks and insurance companies coming under the same ownership to cross-sell each other's products. However, the Lloyds-Scottish Widows deal has already partially unravelled when the insurance company's asset management arm, SWIP, was sold off to Aberdeen Asset Management. Also tougher regulation is making bancassurance less attractive. "Banking and insurance are two different dynamics," Jan Hommen, outgoing chairman of Dutch bancassurer ING, said a few years ago. "Banks are much quicker. Insurance is much slower. Insurance runs on a fifty-year life cycle. Banking runs on a five-year life cycle. The pace is different. The people are different. So why would you put them together? You're just setting up a managerial conflict." Financial historian Michael Moss adds: "In a bancassurance model, the pressure is to make margins, often by flogging things that should never have been sold. It has not been a success. In fact, it's been a disaster."



COMMISSION-BASED SELLING

It once predominated in the insurance sector, but commission-based selling led to mis-selling on a vast scale as it encouraged insurance firms to design products to maximise commission payouts to independent financial advisers (IFAs), irrespective of whether they ripped off customers. "Too many products were designed with the enrichment of salesmen as their raison d'être" says insurance consultant Ned Cazalet. The Financial Services Authority effectively outlawed the practice in December 2012, when under its retail distribution review, intermediaries like IFAs were forced to start charging their clients fees instead and to make these fully transparent. Many IFAs, reluctant to change their ways, annoyed by the newly introduced obligation to pass exams despite decades of experience, gave up the ghost, while many surviving IFAs decided they were now unable to serve anyone with investible assets of £50,000 or less. This has led to what many people in the industry call an "advice gap". According to financial historian Michael Moss: "Many IFAs, as they existed before the review, were not that independent and didn't really offer advice; they were often effectively tied agents, paid by commission which they never told the customer about. That was a bad tradition which has now largely been done away with."

MUTUALITY

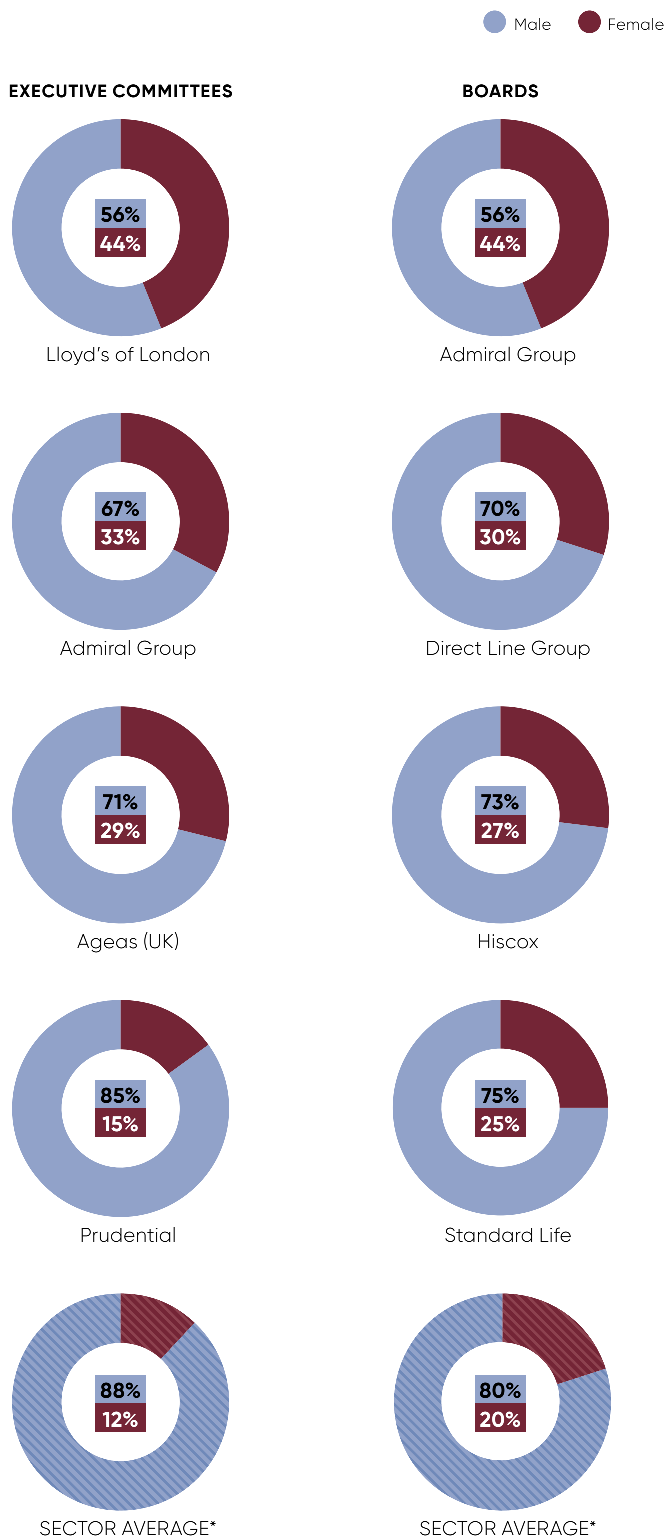
Mutuality, whereby a company is owned by its customers rather than by shareholders, was for a long time the favoured ownership structure in the insurance industry. It's an ownership approach that can work to policyholders' advantage. Since a mutual does not need to pay dividends to shareholders, it should have a larger pot of cash to share among policyholders and it theoretically also give customers a greater say in how it is run. Many insurers, including Standard Life, converted to mutuals between the 1920s and the 1960s, partly to make themselves immune from takeover. However, the pendulum swung back towards stock-market listings between the 1990s and early-2000s. That was because many insurers found themselves strapped for capital and saw conversion to plc status or selling out to banks as their only way of raising funds. "It was a great tradition and led to a quite different culture, as mutual insurance firms were answerable to individual policyholders, not corporate shareholders. Once they demutualised that was lost and they became driven by targets," says financial historian Michael Moss. But research by Professor Robert Carter of Nottingham University found mutuals' products do not necessarily outperform those of listed firms.

SEXISM

Insurance has long been a male-dominated industry, especially in middle management and executive roles. It was only in the 1960s that women started getting promoted to underwriting roles and, even then, they were paid less and offered fewer perks than their male colleagues. After conducting a survey of the industry, Eve Hartridge, then head of insurance and actuarial at Executives Online, concluded: "The insurance industry still has a long way to go in becoming a desired sector for women to work in." Her research, published in February 2017, found that a "drinking culture" was limiting gender diversity within organisations, as was a lack of scope for flexible working which was putting women off. This echoed an earlier report from business services giant PwC in suggesting insurance firms were struggling to achieve inclusive and diverse workforces. At the largest insurance group Aviva, 52 per cent of staff overall, but only three of eleven board directors (27 per cent) are women. Even so, that represents massive progress on a few years ago and came after insurance market Lloyd's of London broke the mould when it appointed its first female chief executive Inga Beale in December 2013. Richard Baddon, insurance partner at Deloitte, says faced with new challenges from fintech players, the insurance industry must look beyond the "conservative, innovation-averse talent" it has traditionally attracted.

FEMALE REPRESENTATION IN UK INSURANCE

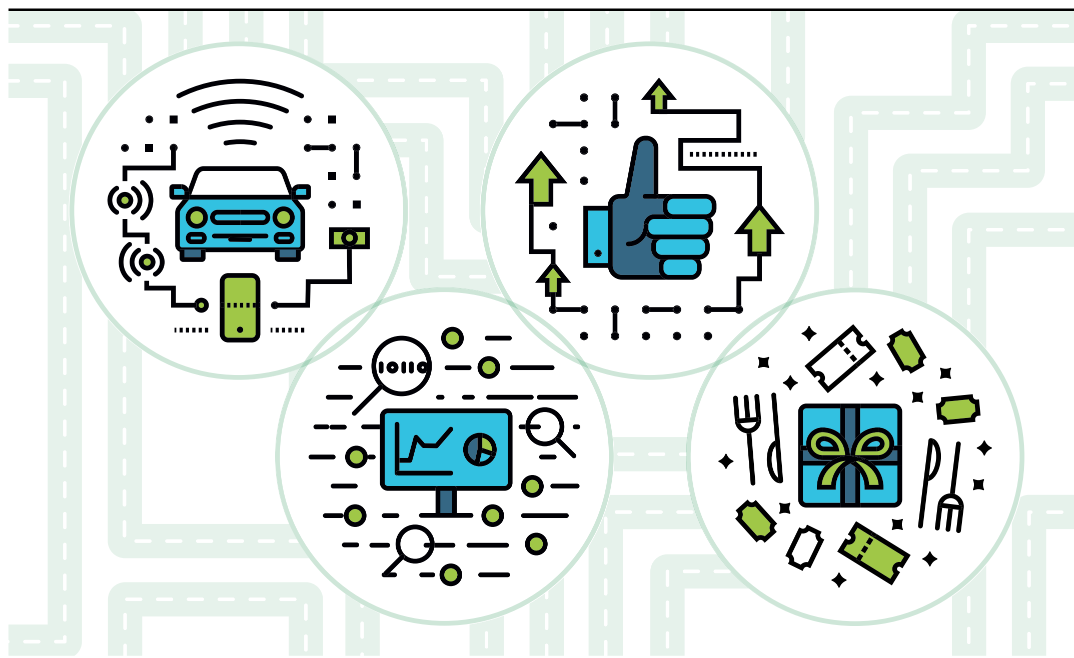
FEMALE REPRESENTATION OF EXECUTIVE COMMITTEES AND BOARDS FOR SELECTED COMPANIES



*June 2016, according to New Financial

Company reports

COMMERCIAL FEATURE



Getting more out of telematics

Telematics has changed car insurance, but by collating better data insurers can do so much more to improve relationships with their customers

Can car insurance ever be made interesting and rewarding for customers? Traditionally, it's always been seen as a chore that comes around annually and requires minimum engagement.

However, a growing number of insurers are realising that to improve their appeal to potential customers in an increasingly competitive market, as well as proving they're offering the best-priced premiums based on the most accurate knowledge of their customers' behaviour, they also need to offer something extra to engage customers more effectively.

The key to pricing premiums so they're both appealing to customers while, at the same time, making commercial sense is to collate data from the widest possible variety of sources, according to Aldo Monteforte, chief executive and co-founder of The Floow, one of the largest independent computer and data science organisations in the global telematics industry focused on individual mobility. The Floow's clients include Direct Line, Europcar and Nissan.

"One of the reasons we founded the company was that we understood the best way to gather this data is to be device agnostic," says Mr Monteforte. "So we now offer insurers the ability to use in-car devices, accessing the on-board diagnostic port or smartphones, or both. In other cases they might use devices already installed in the car and so we have a partnership with car manufacturers such as Nissan, for instance, to collect data from these 'black boxes'.

"The challenge of adopting a device-neutral approach is the scores that are generated must remain very consistent and predictive. This task is the responsibility of our data science team, staffed by actuaries, mathematicians, physicists and computer scientists. We also use complex, but insightful, contextual information to enrich that data, such as road infrastructure and the average behaviour of other drivers in the vicinity."

> These services, with online rewards, are designed ultimately to condition the behaviour of users to encourage them to drive more safely

This wide range of data means insurance company clients of The Floow can ensure their predictions are more accurate than others, which are based on more limited data sets, often gained in isolation, without the benefit of contextual enrichment.

There is growing interest in this more comprehensive approach to creating accurate predictions, and to improving client engagement in the insurance and risk management process. Earlier this year, existing investor Direct Line Group, the UK's leading personal motor and home insurer, as well as leading Chinese investment group Fosun, and United Electronics Co, invested a total of £13 million in exchange for a minority economic interest in The Floow.

"We also offer insurers white-label services for their policyholders, such as emergency assistance, as well as education and advice," says Mr Monteforte. "These services, with online rewards, are designed ultimately to condition the behaviour of users to encourage them to drive more safely."

Insurance companies need to look more widely when it comes to telematics, and to think about how they gather and use the data this technology offers, as well as what else they can present to their customers to increase their loyalty and engagement with the brand, he argues.

"With a traditional policy, most customers just think about renewing it once a year when they're asked to and then forget about it," Mr Monteforte says. "But we're finding more insurers are coming to us because we can help them not just to offer a more accurate premium, but to give the customer better value too, by offering services that have not traditionally been associated with an insurance policy."

This could be an Amazon voucher, cinema tickets or an offer for a meal at a Nando's restaurant, for instance. "These really cool gifts can be tied to responsible behaviour to improve premiums and road safety," says Mr Monteforte. "That's good for the insurer, good for the customer and good for society as a whole."

For more information please visit www.thefloow.com

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