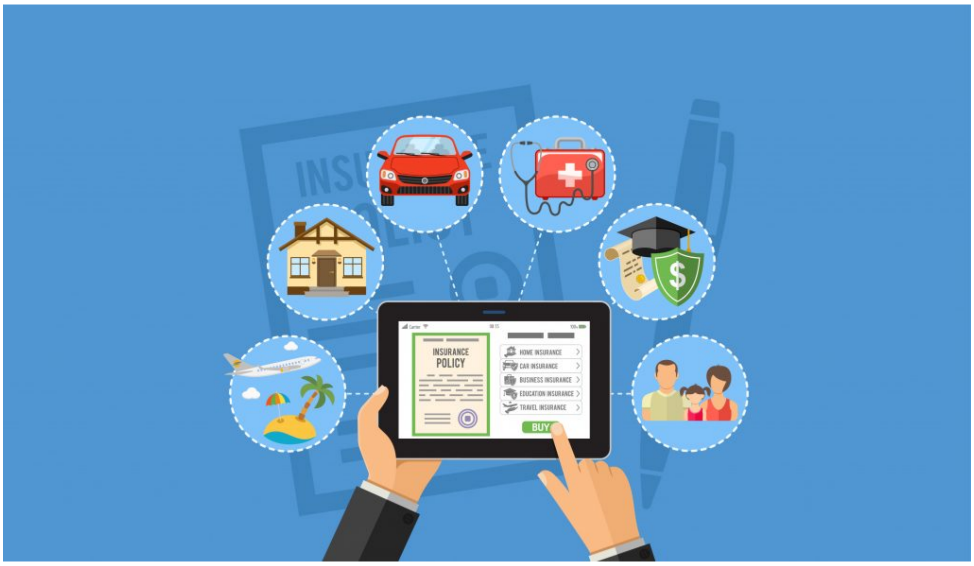

RISK & INNOVATION

Why Collaboration Is The Future Of InsurTech

OVERVIEW

Our day-to-day lives – from how we hail a cab, to how we pay our bills – have transformed in the last few years. The insurance industry – long seen as a traditional sector – is also currently undergoing a significant period of innovation and disruption. Say hello to InsurTech; the catch-all term used to describe this thriving, dynamic space, where the latest developments in machine learning, wearable technology and data analysis are being used to tackle new challenges, improve lives and provide better service in the insurance industry.

So far, thanks to the investment of some $14 billion, there are currently at least 550 InsurTech startups using new technologies, such as drones and artificial intelligence, to make sure that the way we insure our homes, cars and businesses will never be the same again.

One characteristic that marks out InsurTech from other periods of of business disruption is that rather than fierce competition between industry incumbents and upstart startups, there is a level of partnership and co-operation between the two.

So what's next for insurance? How can the industry best take advantage of InsurTech and and venture into new risk territory?

IN DEPTH

Insurance is evolving at an ever quicker pace – from the way people buy their coverage and how information about risk is gathered, to the way investors are engaged. And with a valuation of some $5 trillion, the industry is a valuable prize.

What's driving the change?

- More mobile devices: The proliferation of mobile devices, which has revolutionized the way consumers interact with businesses.
- Increased connectivity: The rise of the Internet of Things (IoT), which allows data to be captured with sensors from more points than ever before.
- Big data and AI: The emergence of increasingly sophisticated forms of big data and machine learning, to digest and visualize information, and to automate ever more complex processes.

At a simpler level, our more connected world and access to technology has brought power to the consumer across all traditional industries undergoing disruption.

Innovation: The Customer At The Center

As the insurance industry is "disrupted" by InsurTech, opportunities exist. Paul Mang, Global CEO of Analytics, Aon, says: "Opportunities presented by 'disruption' vastly outweigh the threats."

An example of this transformation is Australian-based Suncorp, a financial services company with over $97 billion in assets. Suncorp's CEO and Managing Director, Michael Cameron, talks about the importance of creating value for the customer – the increasingly younger customer – and how Suncorp is partnering with innovative startups, which is allowing them to reimagine their product offering: "We know the Millennial generation wants new kinds of services that are on-demand. Through one of our partnerships, we are able to provide instant access to insurance for individual items such as cameras, tablets, and laptops through a mobile app."

It's this growing understanding of customer needs that has rapidly driven innovation for both incumbents and startups – to rethink product development.

As it relates to InsurTech, "analytics coupled with technological innovations, will enable us to address stubborn industry challenges and open new growth opportunities for the sector to tackle evolving risks," explains Mang. Insurers have the opportunity to:

- **Address new and emerging risks:** The same technological forces that are giving rise to InsurTech are also producing new business models that need insuring. For instance, how do you insure a private vehicle being used for commercial purposes — for example in the ride-sharing industry? InsurTech is providing these solutions, in the form of on-demand, pay-per-ride insurance products.
- **Provide increasingly personalized solutions:** Different people pose different risks to insurers. Someone with poor eating habits, or reckless driving habits, is likely to get less favorable insurance rates than a healthy, safe driver. More ways to collect data on consumer behavior in real time from wearables or "black box" telematics and better ways of analyzing that data, will pave the way for personalized insurance solutions.
- **Transform transactions:** The emergence of digital insurance marketplaces will give consumers greater choice about what insurance they buy and how they buy it. Increasing transparency around pricing and data could reduce the role for intermediaries (like brokers) in small-scale products. On the other hand, sophisticated new data tools will expand the power of brokers to build new, innovative products.
- **Reduce friction:** The processes involved in insurance can be costly for companies and complicated for customers. Reducing this friction and improving customer journeys is a big opportunity. On the consumer side, this could include using chat bots. At the backend, it could mean the use of technologies like blockchain, which was originally built to record bitcoin transactions, to handle customer records or claims processing.

To Disrupt Or Transform?

Startups, entrepreneurs, and industry disruptors are impacting nearly every industry. And they will affect risk management as well. Kelly Superczynski, Head of Analytics, EMEA, Aon Benfield, says: "Major innovation in our industry will happen as partnerships that include large organizations, research entities such as universities, and new tech startups create platforms that tackle today's 'stubborn' risk problems, such as cyber and pandemic."

Parr Schoolman, Senior Managing Director, Aon Benfield, agrees: "These InsurTech startups are focusing on transforming certain steps of the insurance process, rather than disrupting the whole industry. They will find that commercial success will involve partnering up with incumbents rather than attempting to bring down traditional organizations."

There are several reasons why the future relationship between established insurance players and the InsurTech startups will not be one of competition, but of co-operation.

Technologist and founder of America Online (AOL), Steve Case, distinguishes three major waves of innovation:

- **First wave (mid 1980s-2000):** The foundation of the internet and personal computing was laid by companies like Apple, AOL and Microsoft.
- **Second wave (2000-2015):** Disruptive companies leveraged these technologies to create new, consumer-facing products and services, such as Google's search engine and Facebook's social network.
- **Third wave (2016-present):** Technology starts spreading to more enterprise, real-world use cases that involve complex regulation and sophisticated value chains.

The type of disruption during the third wave of innovation is different; startups are not likely to create new industries. Instead, they are likely to partner with incumbents to make progress in the marketplace. According to Case, these third wave industries have the following characteristics:

- **Capital-intensive:** Certain industries, such as insurance, require substantial capital on the balance sheet and are not likely to be replicated by startups, with investors that typically favor "capital light" strategies. Even a million-dollar InsurTech startup does not have the capital to underwrite potential losses from a catastrophic claim.
- **Infrastructure intensive:** These industries are typically dependent on complex infrastructure networks that startups cannot easily access alone.
- **Regulation heavy:** Third wave sectors are subject to intense regulation, making entry difficult to navigate for newcomers.

Combined, these characteristics make it unlikely that InsurTech startups will independently disrupt the insurance sector. However, bottom-up disruption isn't the only path for innovation. Innovation in the insurance sector will take place in various networks of partnerships among incumbents and startups – a process defined as "open architecture innovation."

The Collaborative Future Of InsurTech

There can still be radical innovation in collaboration. Blockchain has been seen as a highly disruptive technology, but one of the leading players investing and implementing innovative bitcoin solutions has been R3, a consortium made up of some of the biggest names in the financial sector including Barclays, Deutsche Bank, and JPMorgan.

Consortia and large companies can implement their own accelerator or incubator programs. These give startup teams the opportunity and resources to develop their ideas, and give incumbents easy access to the cutting-edge technology that is developed. Schoolman says: "If an incubator is being run by a corporate firm, senior executives can meet with those startup firms and collaborate with them. It helps some of those startup firms build out a business plan."

"Insurance companies are investing in this space, setting up their own labs, and coming up with different approaches to leveraging this energy."

The insurance sector's version of R3 is B3i , which was launched in October 2016 to look at the implications of blockchain for the insurance business. B3i's founding members include Allianz, Swiss Re, Zurich and Aon, and it has recently released a beta version of a blockchain-enabled reinsurance solution.

In addition to large working groups, there are many individual partnerships between insurance incumbents and startups – particularly when it comes to solving specific issues.

To take just two examples: Allianz recently partnered with InsurTech startup Flock, to develop pay-per-flight drone insurance; and U.K. insurer Aviva teamed up with startup Digital Risks, to develop a brokerage dedicated to supplying startups and SMEs with case-specific, monthly insurance subscriptions.

There are also practical reasons for taking the partnership route. "One company can't do everything at once," says Schoolman. "It's natural for companies to want to develop key technologies and products internally, but they need to be cautious. They might not have the capabilities to do this in-house."

Leaders will continue to ask themselves and their teams: How fast can we develop internally? Do we have the capabilities to develop and execute innovation? And should we be looking to partner with a firm versus compete?

These partnerships will take time to bear fruit. This may be exacerbated by friction between slow-moving, cautious incumbent firms, and "move fast, break stuff" startups.

But if InsurTech, and other disruptive industries are to deliver on their promise of an improved customer experience – both opportunity and risk will need to be reimagined. Mang expands on the how collaboration will be the key to embracing disruption and working for a common outcome: "The true transformation of industries will happen as we reimagine risk altogether, exploring the synergies between evolving societies and technology."

TALKING POINTS

"InsurTech is any new, innovative technology or idea that's set to improve insurance delivery across a business system. Simple as that. What many don't realize is that InsurTech is happening within the traditional insurance channels. Enhancements to the user experience, a keen focus on digital marketing – insurers should apply these technology-based improvements to their own delivery models where applicable" – Ted Devine, CEO, Insureon

"As digital first personal lines platforms become more pervasive, the more complex needs of commercial lines providers will become a key focus area for startups, looking at technology to improve internal processes across the insurance value chain and agreeing that the digital journey and engagement remain at the core of that equation" – Sabine VanderLinden, Managing Director, Startupbootcamp InsurTech

FURTHER READING

- The InsurTech Trends Making The Biggest Impact In 2017 – Bobsguide, September 11, 2017
- Venture Capital Funding In InsurTech – KPMG, August 8, 2017
- NYC Emerges As The Capital Of InsurTech – Forbes, August 30, 2017
- Why The Largest Insurance Companies Are Pouring Into Silicon Valley – TechCrunch, January 1, 2017
- How InsurTech Is Reshaping Insurance – PwC Report, June 2016

AON
Empower Results®