INSURERS MUST SURF THE INSURTECH WAVE TO SURVIVE

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frazerwalker

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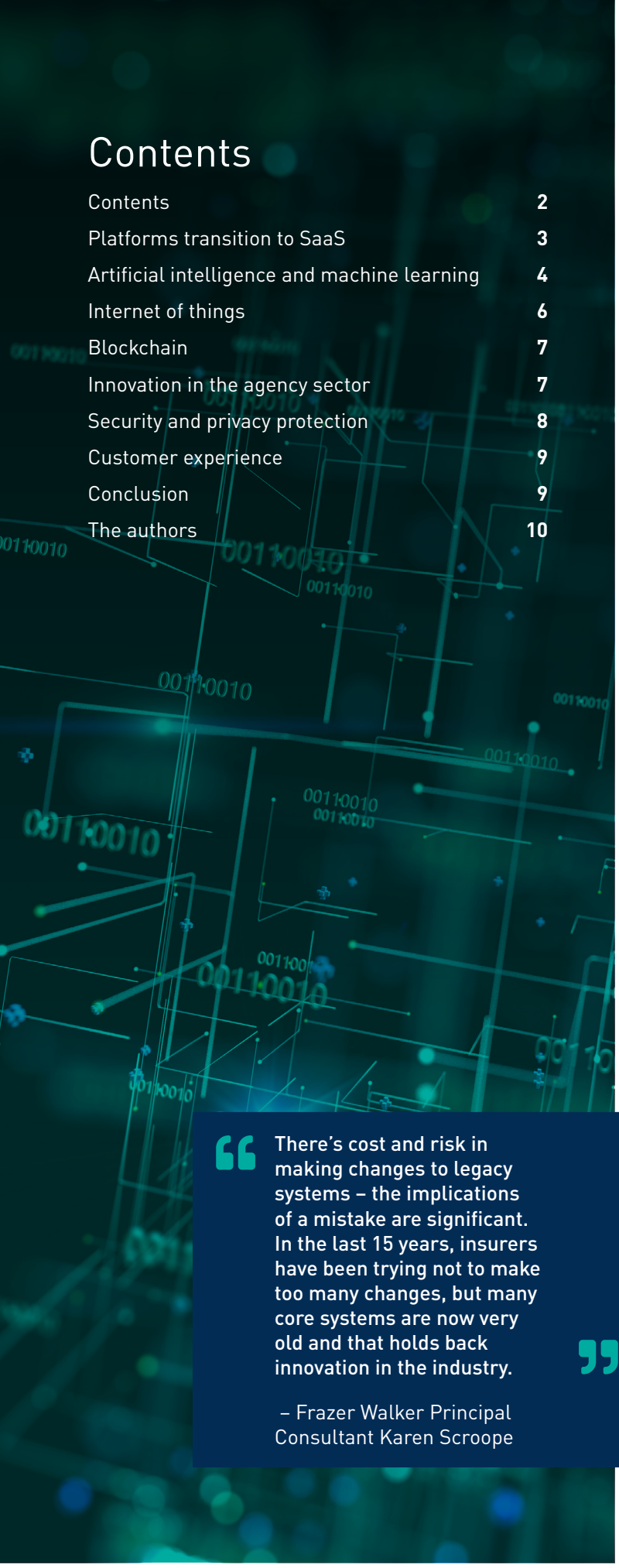

> **There's cost and risk in making changes to legacy systems – the implications of a mistake are significant. In the last 15 years, insurers have been trying not to make too many changes, but many core systems are now very old and that holds back innovation in the industry.**
>
> – Frazer Walker Principal Consultant Karen Scroope

Insurtech is the insurance industry's current big buzz word.

The term covers myriad technological innovations being created and implemented to improve efficiency in the insurance industry.

Insurtech can help the industry better manage product development, distribution, rating functions, claims and customer management, and administration.

Insurers' top priorities are typically operational efficiency and profitable growth. With inflation driving the rising cost of claims and rate increases not easy to implement, insurers are focused on improving efficiency and pricing accuracy while reducing leakage and waste.

Competition in the industry is fierce, the pace of change relentless, and increasing regulatory compliance mandates continue to erode scarce capital.

Concurrently, customers are demanding high-tech, easy-to-use digital solutions.

Insurers have historically lagged the banks in implementing tech. A key reason is that insurers don't have the same amount of customer contact. Renewals happen annually and claims, generally, far less frequently. In contrast, most customers interact at least once a week with their banks.

Large banks generally have had more capital to invest in tech and are therefore more advanced in their journey to digital transformation, but insurtech is inevitably flowing on from banktech.

Vendors are talking tech with insurers but insurers need to build a strong business case before they will invest. Insurers are wary of having to write off large projects if they make the wrong decisions.

For all financial institutions, ease of use is the key to the customer experience and, for insurers, that means brokers as well as policyholders. Insurers that don't embrace technology will face extinction.

Startups, many of which are managing general agents, or underwriting agencies as they're known in Australia, will likely claim a large chunk of business once considered an exclusive domain of the big, traditional insurers. A key reason is that many large, long-standing insurers are hamstrung by antiquated legacy systems.

This Frazer Walker white paper explores some of the key insurtech trends and options for the insurance industry to manage them.

Platforms transition to SaaS

All the major core platforms for general, life and health insurance are now committed to delivery via cloud-based software as a service (SaaS).

Key players, including Guidewire, Duck Creek, EIS and Fineos, have arrived at that point at different times, but are all onboard now.

The shift away from on-premise managed structures to SaaS is a big leap, particularly for large insurance organisations.

Previously, with packages that had major upgrades only every few years, insurers had greater control. The transition into a SaaS platform requires careful thinking about how to achieve it.

Engagement with SaaS platform providers is different. The choice is either:

- A one-off, lift and shift to take a current package into a SaaS platform, in which case there will be significant amounts of data and code that require remediation first. Sometimes the current implementation cannot be migrated because the level of code remediation needed is too costly.
- Reimplementing from scratch, which is often encouraged by vendors because it forces insurers to ditch old legacy technology. However, for insurers with multiple product lines that is a significant expense.

Insurers must carefully examine vendor options and opportunities within the marketplace. Even for vendors that have built SaaS versions of their existing products, the architectural designs are very different, so there are big challenges.

Common themes emerge as the major core insurance platforms commit to SaaS delivery via cloud infrastructure, including:

- Constant updates to the SaaS platform, with new and enhanced features. This replaces major, capital-intensive version upgrade projects and the need to support multi-versions of the platform. Guidewire, for example, names its upgrades after ski resorts, initially launching Aspen, Banff and Cortina. It is now onto its eighth release, named Hakuba, after the Japanese ski village near the city of Nagano. Guidewire now promises to "increase the release cadence from two to three releases each year through accelerated automation of updates".
- Greater use of open application programming interfaces (APIs), enabling better integration.
- Support for a marketplace for add-ons from third parties. Vendors encourage clients to use competitors' tools that complement their core platforms.
- Cloud infrastructure benefits, such as dynamic processing power to handle peaks in workload.
- Tighter control over the level of customisation clients can make and discipline around client-introduced configurations to ensure the SaaS platform is not compromised.
- Digital portals, in part driven by the same code base within the insurance technology system, enabling one change rather than two.

The significant challenges for insurers making the transition to SaaS platforms include:

- Resource requirements are critical. There's a bottleneck of demand for skilled resources to manage the transition. The core skills needed for the tailored, bespoke, customised IT systems of the past are different from those required to implement and integrate into the SaaS environment.
- System integrators also need experienced staff. While a particular platform might suit an insurer's requirements, some have been disappointed when their systems integration partner has not lived up to expectations.
- Decision making on lift and shift (also known as rehosting) versus reimplement. Initially, in the early days of cloud computing, lift and shift was commonly used to replicate on-premises functions in the cloud to avoid costly, time-consuming redesign. However, many legacy systems that were lifted and shifted could not take advantage of the cost efficiencies of native cloud features, including autoscaling.
- SaaS platforms offer less customisation and greater integration, enabling options to use separate products for varied functions, like CRM, claims, policy management or digital technology. That has benefits, but also creates challenges.
- Australianisation is important. The Australian market is heavily regulated with myriad government reporting requirements. That's one reason EIS may currently be focusing on growth in north America. It provides a strong, customer-centric platform, but is yet to gain traction and credibility in the Australian market.

In a 2022 article, Frazer Walker Partner Ian Chisholm explained why the cloud is becoming the platform of choice for core insurance applications instead of self hosting.

- Cloud storage is much more cost effective than running inhouse private data centres, as most insurers did in the 1980s-1990s. The costs of owning and operating large, high-cost assets to the standard now required by regulators, and to meet customer expectations, is prohibitive for most organisations.

- The specialist skillsets required from a small army of IT staff to operate data centres around the clock is beyond the reach of most insurers, brokers and other industry participants. Keeping those skillsets current and at an appropriate level of redundancy (ie, duplicating resources in case of system failure) would stretch organisations' staffing and training budgets.
- The ever-increasing range of services offered by public cloud providers, such as artificial intelligence, machine learning, and internet of things (IoT) data processing, is beyond the reach of even the largest corporations to establish inhouse. Insurers need to focus on their core business and value creation. Being experts in operating data centres is not part of that.

External suppliers are better placed to build, own and operate the services provided via the cloud, enabling insurers to focus on customer needs and expectations and core value creation for policyholders.

Transport industry underwriting agency GT Insurance did a major upgrade that went live in late 2022 and adopted a "rip off the Bandaid" approach. CEO Tony Dodd told *Insurance Business* while there were risks in conducting a substantial upgrade in one hit, there were also risks with a piecemeal approach of adding progressive upgrades slowly.

"To go in one foul swoop, while it appeared on the surface to be a significantly risky approach, [had] the longer-term benefit of being able to move in a far more agile process [which] made it worthwhile," Mr Dodd said.

GT used the Microsoft Azure cloud, partly because the agency already used several Microsoft applications.

The high cost of maintaining on-premise IT teams is a motivator for insurers to move to cloud-based SaaS platforms. Insurers want a system that's built and deployed quickly, but there's always a degree of customisation.

However, there's a lot of psychology involved in changing mindsets to ensure insurers are aware they cannot configure exactly what they had before. They must adapt to ensure their requirements match the chosen platform's capabilities.

That requires a top-down approach, driven by the executive team.

> **You think a SaaS product is generic, plug and play, but nothing works that way. It still needs to be configured to suit the customer.**
>
> – Frazer Walker
> Principal Consultant Chirak Syrett-Lay

Artificial intelligence and machine learning

There's no major evidence yet of machine learning (ML), artificial intelligence (AI) and robotic process automation (RPA) revolutionising the insurance industry, but they will definitely come in the future.

In medical insurance, there's some use of AI and ML in diagnostic and recovery steps.

In claims, there are some advances in using digital tech to supply images that AI and ML can then review to improve processing efficiencies.

For example, a Claim Central Consolidated offshoot, Wilbur Solutions, uses a SaaS platform to streamline the insurance claims process by providing greater flexibility, scalability and speed. It tracks claim progress from first notification of loss to final resolution, "ensuring a better customer experience and faster claim resolution".

Claim Central's Hello Claims offers complete claims management for motor claims, including digital, live video and onsite assessing.

In general, though, insurers themselves are not heavily investing in AI and ML tech and what's available is still immature in the way it interprets data.

The use of generative AI-powered language models, like OpenAI's ChatGPT-4, is a rapidly growing market for insurtech providers. Implementing co-pilot services to assist underwriters and sales and claims staff navigate to the correct screens and pre-populate fields is a focus area since Chat-GPT hit the headlines in 2023.

Other generative AI use cases are being investigated to provide a competitive edge, for example, Daisee uses conversational AI analytics, advanced natural language processing, and sentiment analysis to help improve the customer experience. By analysing customer voices, users can gain insight into why they are calling.

Revealr uses AI to help query, analyse and explain content locked up in PDF and Word documents. Its cloud-based service can automatically transform Word and PDF documents into web and intranet pages.

For enhanced customer experience, chatbots can be helpful, avoiding customers having to wait for call backs or being left hanging on the line, being told 'your call is important' when the reaction time demonstrates that it is not.

Anecdotally there's an 80% success rate with chatbots and there's a transcript or record of the conversation. However, it's often difficult for customers to find other

ways to contact organisations, even an email address, and, if a customer has a complex problem that needs human interaction, that's frustrating.

The insurance industry is seeing increased AI use in peripheral systems, such as document management and support for personalisation.

AI is also being used to build a coach for internal staff. The technology is not advanced yet, but money's being invested in it. The coach builds insurance knowledge to enable it to advise underwriters when they face new challenges.

The Insurance Council of Australia (ICA), in a submission to the Federal Government's discussion paper on *Safe and responsible AI in Australia*, said "there are diverse potential AI use cases in general insurance, from more interactive and tailored engagement with consumers to more efficient automation of claims handling processes".

The ICA noted public trust and confidence in AI is low. "While some of these concerns are not unreasonable, there is the potential for the discourse to manifest in unnecessarily negative consumer sentiment towards all AI applications," ICA's submission said. "Negative consumer sentiment makes it difficult for firms and governments to invest in and deploy AI applications that will improve the lives of Australians and/or drive productivity gains and economic growth."

In the United States, the National Association of Insurance Commissioners developed regulatory principles for AI in 2020 that ask insurance organisations using AI to be:

- fair and ethical
- accountable
- compliant
- transparent, and
- systems should be robust, secure and safe throughout the entire life cycle.

The European Insurance and Occupational Pensions Authority (EIOPA), in its December 2021 *Digital transformation strategy*, says the take-up of AI in all areas of the insurance value chain raises opportunities and challenges. It says the variety of use cases is fast moving, while the technical, ethical and supervisory issues thrown up in ensuring appropriate governance, oversight, and transparency, are wide ranging.

"While the benefits of AI [for] prediction accuracy, cost efficiency and automation are very relevant, the challenges raised by the limited 'explainability' of some AI systems and the potential impact on some AI use cases on the fair treatment of consumers and the financial inclusion of vulnerable consumers and protected classes is also significant," the strategy says.

EIOPA warns that some categories of consumers, or those unwilling to share personal data, could have difficulty accessing affordable insurance because of more granular risk assessments.

For example, detailed risk-based pricing enabled by satellite imagery processed by AI systems may make flood insurance unaffordable for some.

EIOPA says potentially vulnerable consumers deserve special attention due to their personal characteristics, for example, the elderly, those in poverty, or affected by events like car accidents or with health conditions or people with difficulties accessing digital services.

EIOPA says the trend to increasingly data-driven business models can be compromised if governance measures are inadequate to manage dataset biases to avoid discriminatory outcomes.

It warns that insurers using AI in the underwriting process must be wary of breaching anti-discrimination laws. For example, if an AI algorithm identifies that male drivers in an age demographic are more likely to have accidents than female drivers and adjusts premiums accordingly, that could be identified as discriminatory.

Many of Australia's anti-discrimination laws contain specific exemptions that make it legal for insurers to discriminate against individuals in certain circumstances.

For example, the federal *Age Discrimination Act* permits the use of age as a rating factor in determining life insurance premiums, under clearly specified circumstances. (A 2020 paper from the Actuaries Institute has more information.)

The federal *Disability Discrimination Act* (DDA) recognises that some discrimination is necessary in insurance and contains a partial exemption for insurance and superannuation providers. It also contains a general defence that may apply to providers where not discriminating would cause them unjustifiable hardship.

The Australian Human Rights Commission has provided guidelines for insurers to assist them in understanding their rights and obligations under the DDA. The guidelines are not regulations and are not legally binding.

Arun Balakrishnan, CEO at global insurtech and systems integrator Xceedance, in an interview with *Reinsurance News*, says AI will disrupt how insurance organisations do business.

"The industry must embrace it as the technology will help deliver better, faster, more accurate, and cost-efficient outcomes. However, widespread use of AI

will also significantly affect the insurance products we must develop to manage risks associated with data confidentiality, transparency, security and abuse," Mr Balakrishnan says.

"Insurance is the original data science business. We were trying to predict losses and calculate premiums 300 years ago. Today, the vast world of data exists. Integrating AI with existing and upcoming data sources has immense potential to revolutionise the industry," he says.

Insurance News has reported that US insurtech Lemonade already handles almost half of its claims using AI, and says it settled one within a record two seconds. Lemonade CEO Daniel Schreiber says: "This is what 21st century insurance feels like."

Insurance News says Chubb is trialling AI and, in Australia, IAG uses "an army of automation bots to cut tedious tasks, with estimates that by 2026 it will be saving 500,000 work hours each year".

In February 2023, when IAG was hit with 16,000 claims in a week after extreme weather in New Zealand, it used the technology to automate back-end work by recording and capturing information.

A group of US-based vendors, led by Cloverleaf Analytics, in July 2023 established the Ethical AI in Insurance Consortium as a collaborative platform to promote responsible and ethical adoption of AI in the insurance industry. "We bring together insurers, insurtechs, influencers and other stakeholders to establish industry-wide standards, foster transparency, and ensure fair and accountable use of AI technologies," the group's website says.

Internet of things

The internet of things (IoT) has the ability to transform insurance.

Simon Cooper, a partner in the insurance and reinsurance group at UK-based law firm Ince & Co, in an article on insurtech, says IoT usage increases underwriters' ability to provide personalised products but is also subtly changing the nature of the relationship between insured and insurer.

Location-based sensors, such as smart thermostats and geographical information systems that relay information to insurers in real time, can facilitate more accurate underwriting and play a role in risk management. For example, devices monitoring an insured's water usage can respond to any unexpected increase to warn of leakages.

Mr Cooper says insurers are using gamification to change insureds' behaviour and attitude to risk. "Gamification involves the inclusion of some gaming experiences into the insurer–client relationship by, for example, encouraging the insured to achieve targets to exercise in the context of health insurance or by congratulating the insured on improved driving and successfully completing a road journey."

Prateek Vijayvergia, Business Leader – Key Accounts in Australia with Xceedance, says IoT enables insurers to more closely engage with customers, better predict and evaluate risk, make claims processing more efficient, and create superior insurance products.

"IoT is the bridge between the physical and the digital worlds. It is the connection of devices — any devices — to the internet using embedded software and sensors to communicate, collect and exchange data," he said in an April 2023 media release.

Mr Vijayvergia highlighted three areas where IoT technology is driving insurance transformation.

TELEMATICS:

The ability of IoT devices to transmit large data volumes in real time opens avenues for seamless data analysis and responses. Insurance sales and marketing, policy pricing and servicing, claims management, and risk assessment are all potentially enriched by data collected from telematic devices. For example, Xceedance developed a model that calculates a motor vehicle driver score based on driving behaviour. Collected data was transformed into an analytics platform that provides insight into how people drive, helping them to better understand risks and take preventive actions faster.

SMART HOMES:

Insurers can provide a range of services based on data collected from smart devices installed in IoT-enabled homes, for example, devices that monitor security, energy, heating, and water usage and flow. Insurers can then offer price reductions for policyholders who use monitoring devices and integrated product and service bundles for smart home technology.

SMART HEALTHCARE:

IoT-based health insurance uses technology such as wearable monitors, biosensors and networked health devices. Products identify and track specific types of care individual patients require. That enables health insurers to better assess risk and create billing models that use real-time data the devices provide. IoT-enabled health insurers can understand the pulse of policyholders and personalise products to suit their needs. IoT technology can enhance insureds' quality of life and the insurer-customer relationship.

Parametric insurers use IoT devices at insured locations to determine when coverage is triggered, for example, when pre-determined flood heights or frost levels for insured crops are reached.

Ben Qin, Head of Australia & North Asia for parametric insurer Descartes Underwriting, says brokers are asking questions about parametric solutions after repeated floods in Australia.

He told *Insurance News*: "Brokers need to embrace it to best advise their clients. Parametric insurance is here to stay and forms part of the new normal."

Descartes uses data from satellite imagery and smart devices installed at insured locations, combined with information on climate patterns, to individually price risks.

Blockchain

Blockchain is a decentralised digital ledger that records transactions and tracks access across a network of computers.

The insurance industry has talked about blockchain for many years, but there's been very little implementation. Insurers are generally conservative and want to see a return on investment first. The theory is great – instant verification of transactions – but you need many organisations involved to get critical mass.

Marlene Dailey, Financial Services Senior Analyst at RSM US, a tax, audit and consulting firm, says blockchain has the potential to create an environment of trust for insurers by providing a network with controlled access and a way to share valuable information securely.

Ms Dailey told *Insurance Business America*: "Many insurers today are still slow to adopt this technology, but we are starting to see more companies create different proofs of concept and start to leverage blockchain in different ways."

She said the most significant application of blockchain so far has been for parametric insurance triggers. "If you have a flood or high wind, a policy could be triggered via a smart contract without any human involvement. If you meet all the parameters, you could be paid immediately through the blockchain."

Ince's Simon Cooper says blockchain is useful for multinational corporations seeking insurance coverage for multiple locations and assets around the world.

Blockchain can speed and simplify the underwriting process that requires "collecting and verifying a range of data, such as asset values and loss histories, and making that data available to different interests", while also providing transparency and reliability.

Mr Cooper says blockchain can be used to verify the existence of insurance, for example a company can verify that a contractor has the insurance it claims to possess.

Insurance Journal reported that the industry's blockchain project, Blockchain Insurance Industry Initiative (B3i), folded and filed for insolvency in July 2022.

B3i began when five insurers and reinsurers came together in 2016 to explore the potential use of distributed ledger technology. The group grew to more than 20 before it folded. *Insurance Journal* said the aim was to improve the interface between insurers and reinsurers.

However, the main stumbling block was that all participants would have had to "switch their IT systems to be able to create smart contracts".

Innovation in the agency sector

New players in the market have an advantage because they have greenfield sites and haven't invested in old tech that's been so heavily customised they can't afford to move away from it.

Startups are a threat to the traditional insurance players. Some big insurers think they are unassailable but forget that 30-40 years ago they, too, were small.

Underwriting agencies pick their markets, understand their niche products and are putting solid tech behind their operations. Some big insurers have purchased agencies and been sensible enough to leave their operators to run the agency their own way and retain their brand strength.

Colin Fagen, co-founder and Managing Director of underwriting agency Blue Zebra, says big insurers are shrinking and have trouble competing with new, nimble market participants because their IT systems have not kept pace.

Mr Fagen, who had a lengthy career with a major insurer before launching Blue Zebra in 2017, says there is "much potential for Kodak companies" in insurance because big insurers are encumbered by legacy systems, often 20-30 years old.

He says melding evolving technology with legacy systems is almost impossible when older systems were not created with any understanding of modern digital techniques.

His perspective is that it's better to be 'born' digitally native than try to retrofit an insurance system into the cloud and its various digital benefits.

Mr Fagen says regulators expect insurers to upgrade, but constant change is expensive, particularly when insurers are under pressure to make products more affordable.

"As insurance prices go up, driven by reinsurance rates and inflation, more nimble competitors chip away at the big players. They have the ability to adapt and move quickly," he says.

Blue Zebra's platform, Blue Leopard, was "built with the end in mind". Mr Fagen's goal is to achieve a $1billion annual turnover with 40-50 staff. Blue Zebra's current turnover is $240 million with just over 40 staff, half of whom are IT specialists.

"Systems-based underwriting is more predictable and adaptable. Our referral rate is less than 3% but we want to further reduce that human interaction, whereas larger companies' referral rate is usually above 10%."

Other industry voices are less buoyant than Mr Fagen, saying the agencies are not pushing the big insurers hard – yet. Major insurers have built trusted reputations and consumers are cautious. In the same way that neobanks have not killed off the big banks, agencies have possibly not taken significant amounts of business away from the big insurers.

However, younger, tech-savvy consumers are potentially more likely to use agencies, particularly for broker-generated business.

Most large insurers have placed bets on insurtechs, through in-house venture capital initiatives. They are effectively hedging their bets on where the next breakthrough will occur and potentially leveraging those skills to augment their own capabilities to reduce costs or retain and grow market share.

Security and privacy protection

Insurers must be wary about security. Whenever they open their environment to another party there's potential risk. Insurers must consider what data they are sharing and what third parties are doing with it. Any breaches will likely come back to bite them.

However, the industry seems confident of the security available in cloud-based platforms. Suncorp, for example, has pivoted from a decision to retain some data centres to trusting its supplier's security arrangements.

Suncorp's Executive General Manager of IT Infrastructure Charles Pizzato, in an interview with *Insurance Business*, said the company was exiting data centres. "Cloud will be our default, there won't be an on-premise environment," he said.

One factor driving that decision was the high level of cyber security available in the cloud. "The different controls that operate right across that cloud environment give us comfort that our data is unequivocally safer in a cloud environment than it would be in the data centre," Mr Pizzato said.

But not everyone shares his view. A white paper from global technology provider Thales says while cloud infrastructure security is a focus area for cloud service providers, cybersecurity is not their primary business.

"Security controls for cloud service providers are notoriously tough to figure out and can be easy to overlook. Cloud infrastructure can be susceptible to ransomware, an ever-growing threat striking organisations large and small."

The white paper says: "When you outsource a major part of your IT infrastructure to anyone, cloud service provider or otherwise, you risk putting all your data eggs in one security basket. Sometimes that basket has a hole in it.

"Aside from breaches caused by active hacks by malicious entities, there are numerous cloud security incidents traced back to configuration errors, user misunderstandings, and just embarrassing gaps in operational procedures."

Thales suggests that's common with the cloud because "such complexity is hidden within layers of abstraction and virtualisation".

The security provider recommends organisations consider data encryption, key custodianship, and access control to ensure data security in the cloud.

Ince's Simon Cooper warns of the need for insurers to carefully handle the huge volume of often sensitive personal data required to maximise the benefits of AI. "Failure to safeguard this material, or to obtain the necessary consent for its use, can expose the insurer to severe financial penalties," he says.

For companies subject to the European Union's General Data Protection Regulation (GDPR), that could be up to 4% of their annual turnover.

With changes approaching for Australia's 1988 Privacy Act, it is essential to be cognisant of potential security risks. Bad publicity can be costly in terms of reputational damage.

In February 2023, the Federal Attorney-General's Department released a review of the Privacy Act, which aims to "better align Australia's laws with global standards of information privacy protection and properly protect Australians' privacy".

New legislation based on the review will likely see a much stricter privacy regime that in parts mirrors GDPR.

The government released its response to the review on 28 September 2023, agreeing to 38 of the 116 proposals, with another 68 agreed in principle. Ten proposals were not agreed.

A bill will be drafted and brought to Parliament in 2024. Changes include small businesses being included under the Act, greater clarity of what constitutes personal information, shorter periods for reporting breaches and mandated officers in corporations accountable for privacy.

In the US, the California Privacy Protection Agency (CPPA) on 31 July 2023 announced a review of data privacy practices by connected vehicle (CV) manufacturers and related CV technologies.

CPPA says connected vehicles are embedded with features including location sharing, web-based entertainment, smartphone integration, and cameras. It says data privacy considerations are critical because the vehicles often automatically gather consumers' locations, personal preferences, and details about their daily lives.

CPPA Executive Director Ashkan Soltani said: "Modern vehicles are effectively connected computers on wheels. They're able to collect a wealth of information via built-in apps, sensors and cameras, which can monitor people both inside and near the vehicle.

"Our enforcement division is making inquiries into the CV space to understand how these companies are complying with California law when they collect and use consumers' data."

Customer experience

Insurers must be cognisant of the customer experience when introducing new technology, not just considering how the tech can save them from making phone calls or entering data.

Customers are no longer loyal. It's much easier for them to change insurers than banks. At renewal time, customers shop around to see who can provide a better price and potentially offer better service. They're willing and able to leave.

Tech can improve the customer experience, for example, helping a claimant to find the nearest approved repair shop or autofilling property details. That creates efficiencies for both parties by ensuring data accuracy.

A Laserfiche article published in *Digital Insurance* says insurers must be nimble and innovative to digitally transform how they provide services throughout the customer life cycle.

It suggests they use digital process automation (DPA) to help eliminate manual steps and improve user experience for customers, employees and vendors.

Conclusion

US-based company WaterStreet, which offers a cloud-based insurance policy administration suite, surveyed 100 insurance carriers' tech executives in 2021. It found 59% of them believe emerging startups and insurtech companies will be most responsible for leading growth in the insurance industry, followed by big tech, like Amazon and Google, at 28%. Only 13% of respondents nominated traditional insurers as growth leaders.

Asked what is more likely to drive profitable growth for insurers, the survey respondents listed the top three as highly accurate risk mitigation and claims prevention (41%); offering more relevant types of insurance products and coverage (31%); and process automation and efficiencies (22%).

Law firm Clayton Utz, in a paper on AI in insurance, sounds a note of caution on tech like ChatGPT, saying it offers great potential to insurers and insureds, but the industry needs to proceed cautiously as the technology matures.

The Clayton Utz authors say it's possible for home and motor vehicle insurance policies to be generated entirely through an AI technology platform with no human input.

But they suggest more complex commercial policies, including directors' & officers' liability and professional indemnity, require complex underwriting that's not readily replaced by technology – AI or otherwise. "However, there is much that can be done to help. As always, there will be sceptics and detractors but, as with most advancements of technology throughout history, the overall net effect is likely to be positive."

A 2023 report by ratings agency AM Best suggests the evolving risk environment, in the wake of the Covid-19 pandemic, has accelerated insurers' shift to digital technology and intensified their focus on product innovation.

The report gauges the effectiveness of rated insurers' innovation efforts by scoring their performance on leadership, culture, resources, and processes and structure.

It emphasises that leadership is key to companies developing an innovative culture.

There's no doubt the insurance industry is on the cusp of major change and industry participants' ability to adapt to and adopt the wave of insurtech that's rapidly approaching will be the key to their survival.

Insurance organisations that stick their heads in the sand risk drowning as the wave passes over them, while the innovators surf towards success.

About Frazer Walker

Frazer Walker is a Sydney-based independent management and technology consultancy, established in 2002. Frazer Walker works with clients across its core industry sectors – insurance, banking and finance, wealth, health, transport and government – in four service practices:

- Technology: gaining strategic advantage through technology.
- Data: implementing information and data strategy, governance and ethics.
- Transformation: creating and delivering transformation programs and portfolios.
- Assurance: independent program assurance and technology reviews.

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