The transformation imperative for insurers

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The urgent need for insurers to apply technology and innovation at scale, to their core business and processes

Introduction

Up until now, the insurance space has not been at the forefront of digital transformation. This can be explained by the strict regulations in place, the sensitivity of the information held by insurers, as well as a relatively unique stability of the ecosystem over the past decades. High interest rates, that have been the norm across global financial markets until relatively recently, allowing insurers to yield high returns from financial investments, have also eased the pressure on the operational performance of the insurance business itself. But incumbents cannot sit on their positions any longer, as competition rises and pressure increases. The COVID-19 pandemic is a strong accelerator of such dynamics and is acting as a wake-up call. The constantly evolving and fast-changing environment, combined with lockdowns all over the world have reinforced the digital transformation imperative, if it was still a question. Insurers need to adopt innovation at scale and apply it to their core business and processes to remain relevant and competitive.

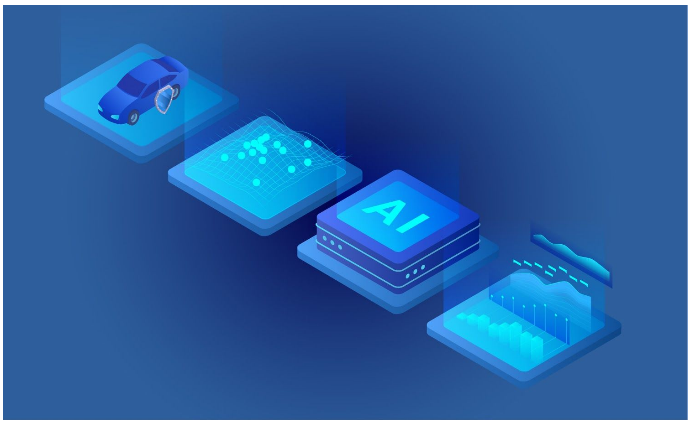
New competitors are targeting the insurance space, raising the bar with disruptive, customer-focused value propositions

After decades of relative stability, the insurance landscape is being reshuffled by new entrants claiming the historical strongholds of incumbents.

On the one hand, GAFAs are starting to make bolder moves to enter the insurance space. According to CB Insights, Google, Amazon, Facebook and Apple are targeting the overall $6 trillion insurance industry, including life and property and casualty spaces. Tesla's ambition to launch a major car insurance company is also making waves. It is more than a trend. These new entrants are able to harness data and new technologies in a way incumbents never have, to capitalize on their extremely wide, ready-to-be-leveraged customer base, with unrivalled financial resources.
In a study published in CapGemini's World Insurance Report 2020, 36% of customers declare they are willing to purchase insurance from Big Tech firms, vs 16% in 2016. This is putting tremendous pressure on historical insurance carriers.

On the other hand, insurtechs are creating entirely new ways of interacting with customers, raising policy holders' standards and expectations, and accelerating the pace at which they are getting weary of 'the old ways'. Players like Lemonade or Oscar are redesigning the entire customer journey, leveraging Artificial Intelligence (AI) to bring speed, agility and personalization, from customer acquisition to claims management.
According to Dan Schreiber, the CEO of Lemonade, his company collects around 100 times more data than a traditional insurer. Insurtechs are using this data to better target and serve customers, upending historical industry standards to deliver fast, seamless and personalized insurance products and services.

Personalization is exploding in usage-based insurance. According to CapGemini's World Insurance Report 2020, in 2020, the share of respondents asking for usage-based insurance went up to 51%, from 35% in 2019. The successful IPO of Root illustrates the momentum and the relevance of such models: since its creation in 2015, Root has bet on a shift to underwriting plans that use driving behavior data collected by cars, in other words telematics, rather than demographics. This shows the emergence of a clear demand, though traditional insurers have fallen short of meeting it so far: as a matter of fact, only half of insurers have rolled out usage-based insurance options, illustrating the gap between customers' expectations and insurers' offering.



To cater to these higher customer standards, key technology enablers are driving at-scale transformation:

- **The ability to harness data**: this is all the more powerful as more data sources emerge, such as telematics for cars or connected devices for health or behavioral data, to mention only the best-known examples.
- **The use of cloud-based solutions**: such solutions allow for unlimited computing power, substantial flexibility and guaranteed accessibility. As a case in point, leading global providers of integrated insurance software like Duck Creek and Guidewire are gradually moving away from the on-premise world to focus on cloud.
- **The use of AI and Machine Learning (ML) technologies** in production.

AI and ML technologies can unlock huge potential along the insurance value chain. Many disruptive players are tapping into these opportunities:

- New product offerings: by leveraging data not traditionally used by insurers, such as satellite data, insurers can expand their offering in areas like parametric insurance.
- More accurate and targeted pricing: Akur8 leverages proprietary ML to automate the insurance pricing process while guaranteeing the transparency of the models thanks to unique Transparent AI, accelerating the speed to market by 10x and improving the predictive power of the models by 10%.
- More efficient claims handling: leveraging AI through chatbots increases the efficiency of claims handling.
- Quicker claims management through automation: the use of AI for image recognition on a video or pictures of a claim allows for the automation of damage assessment.
- Fight against fraud: AI has transformed insurers' fight against fraud, by enabling to identify systematic patterns, facilitating fraud detection while making it more reliable.

Incumbent carriers need to speed up on AI and ML to stay in the game. A Forbes article relates that the insurance industry was actually the first industry to be data driven. The roots go back to 1662 when John Graunt helped to create modern statistics, which he used to calculate the probabilities for life expectancies of people living in London. The framework would lead to the creation of Lloyd's of London. Yet, the insurance industry has lagged others regarding adopting AI at scale, as legacy IT systems have been a burden.

This lag has been an opportunity that native AI insurtechs, like Lemonade, have seized: Lemonade describes itself not only as an insurer, but as a next-generation AI company. The technology is all-pervasive across its operations and is part of the company's DNA.

Nonetheless, interestingly enough, 87% of insurance carriers are investing more than $5m in AI-related technologies per year, illustrating their willingness to speed up.

The challenge of using AI and ML is not about the maturity of the technology anymore. That is a given. It is about the capacity to use it in production, at the core of insurers' processes.

Machine Learning models have become easy to build; understanding them from a business perspective, putting them in production, at the heart of processes as core as pricing and maintaining them is where the differentiation opportunity lies.
This is where expert, best-in-class B2B SaaS providers come into play: they provide incumbents with cutting-edge technologies that can be used in production at the core of their processes.

Conclusion

Digital transformation has turned from a buzzword to a nice-to-have to a must-adopt-now in the insurance industry. While Tech giants are looming on the insurance pie, insurtechs are building successes on the foundations of poorly satisfied customer expectations. Incumbents can learn from the secret ingredients of new players: harnessing data and leaning on AI!

As long as it is transparent - and not just explainable, AI can be safely applied to processes as core as pricing, and generate substantial differentiation while complying with regulation and avoiding adverse selection risks. Food for thought!

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