Novidea
INSURANCE REINVENTED

# INNOVATION IN INSURANCE

## LESSONS FOR COMPANIES ON THE TECHNOLOGY FAST TRACK


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The insurance market is frequently criticised for being stuck in the past. Senior management are blamed for a lack of interest in the latest technology. Bloated and inaccessible legacy systems with blinking green screens stifle efficiency. Customer engagement suffers from 20th century work practices with overworked call centres and too much reliance on paper.

# INSURANCE HAS ALWAYS BEEN ABOUT INNOVATION.

Yet the history of insurance is characterised by an ability to innovate and adapt to new situations. Many insurers have been quick to develop new insurance products to address emerging risks. Terrorism insurance was widely available soon after the attacks in September 2001. Cyber insurance has been one of the fastest growing insurance lines in recent years. Almost every senior executive at insurance organisations today is comfortable using technology in their daily lives. Use of mobile phones, tablets, email, computers and social media such as LinkedIn are a natural part of the working day. The issue for brokers and insurers is not a lack of appreciation of the benefits of technology, it's understanding which of the many emerging solutions will truly add value to the business. Today's winners are those that are finding that technology is opening up new routes to growing revenue, saving expenses and serving customers at far lower cost than traditional approaches.

## IT'S NOW A BOARD LEVEL PRIORITY

BIBA, the British Insurance Brokers Association, recently commissioned a survey of its members to understand how effective insurance brokers are in using technology-related innovation and what the barriers are to uptake.

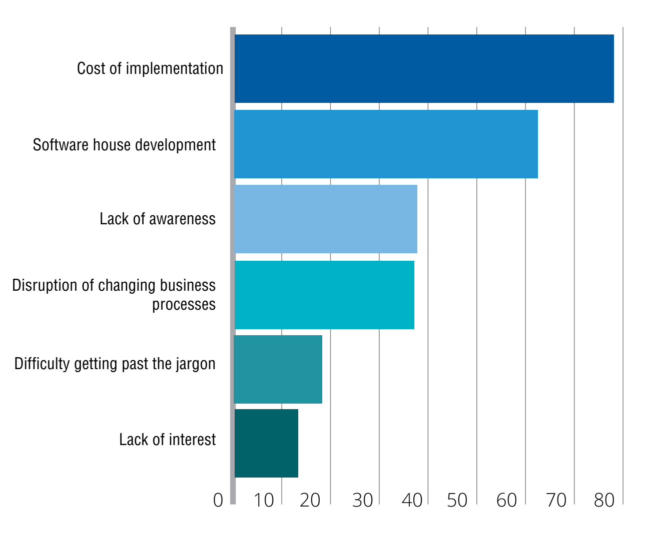
Andy Thornley, head of corporate affairs for BIBA was encouraged by the seniority of those responding to the survey:

> "the overwhelming majority of respondents were at CEO or Director level suggesting a high engagement in the topic. Very few of the respondents (only 11%) rated opposition from senior colleagues as a barrier to the adoption of technology. Improving innovation and technology is without doubt a priority at board level for most companies today."

The challenge from existing legacy systems is a problem that all companies need to work through, or around. Many established insurers and brokers are relying on core systems that were designed thirty or more years ago. Data is cumbersome to get in and frequently needs to be entered multiple times into different systems. Accessing information beyond the standard system reports is difficult or impossible. Half of the brokers surveyed by BIBA felt that the traditional software houses are not doing enough to embrace innovation. The cost of implementation of new technology is a barrier for three quarters of them.

### Barriers to innovation

What do you perceive to be the main barriers to being able to innovate using modern technology?




Source: BIBA - Brokers and Insurtech; state of the nation report 2017

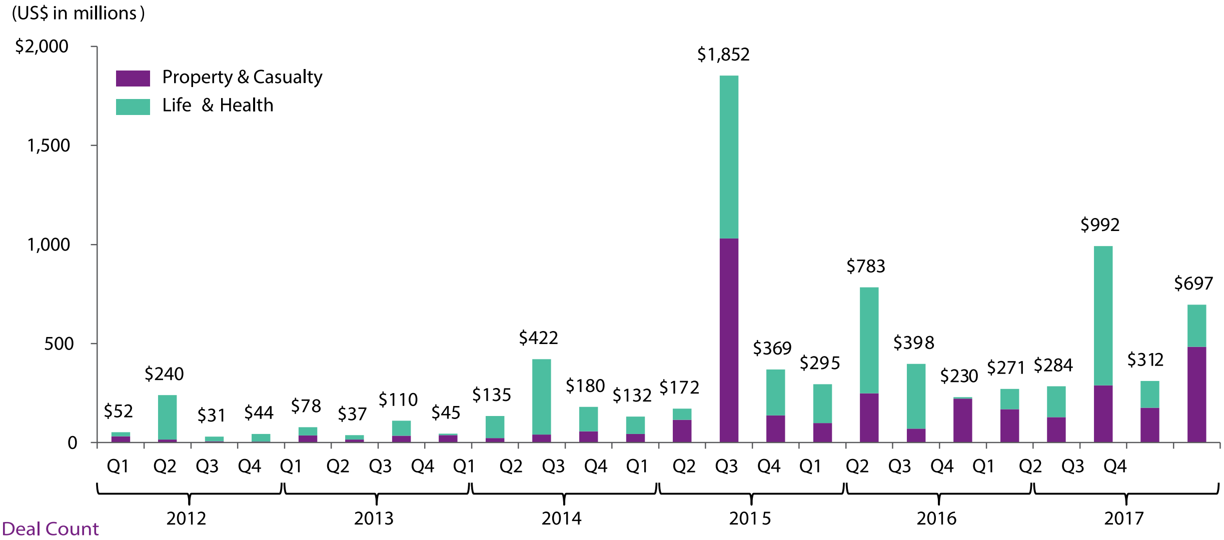
## THE NEW AGE OF INSURANCE

Arguably the biggest technological change in insurance in living memory occurred at the turn of the century with the rapid adoption of internet and email. This led to a major shift in how many consumers bought insurance. The success of Direct Line, founded in 1984, had already demonstrated the power of focussing on customer first, product second. Today online aggregators present the lowest prices, connecting buyers directly to insurers, bypassing the traditional broker.

But then not much else changed for almost two decades. Indeed, as insurance became more commoditised and margins narrowed, vprices decreased but the quality of service for buyers suffered. By 2014 annual churn rates had increased to 20% for UK motor insurers and this wasn't a uniquely British problem. The following year Accenture found that less than one third (29%) of global insurance customers were satisfied with their insurers and less than 1 in 6 would definitely buy other products from their insurance providers.  This wasn't just an issue in personal lines. Commercial lines insurers and brokers tended to get too focussed on squeezing out costs. The time spent directly engaging with clients was reduced, risk management skills lost and every insurance product started to look the same.

In the US, the ramping up in costs for life & health insurance has seen the gradual emergence of new insurers looking to provide cheaper alternatives. They were quick to adopt the emerging technology and found different ways to sell the insurance. In the summer of 2015 the newly named "Insurtech" movement burst onto the scene with close to $2bn of funding for insurance start-ups in a single quarter. New arrivals, such as Oscar ($145m) and Zenefits ($500m) in the US, and ZhongAn ($931m) in China, hinted at major opportunities for those looking to enter the market to disrupt the incumbents.

Quarterly InsurTech Funding Volume – All Stages




Deal Count

| | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| P&C: | 5 | 2 | 4 | 3 | 5 | 4 | 11 | 8 | 8 | 6 | 11 | 8 | 12 | 13 | 13 | 18 | 42 | 18 | 30 | 27 | 22 | 33 | 25 | 45 |
| L&H: | 8 | 7 | 7 | 10 | 15 | 8 | 10 | 4 | 11 | 16 | 19 | 15 | 13 | 18 | 15 | 22 | 17 | 16 | 8 | 16 | 16 | 31 | 23 | 8 |

Source: Willis Towers Watson - Quarterly Insurtech Briefing

## THE DATA EXPLOSION

This phenomena was not limited to Insurance.  New ideas and businesses were being spun up in Marketing (Martech), Property (Proptech), Agriculture (Agtech), Law (Regtech), Medicine (Medtech) and biggest of all, Fintech (financial services).  There has been one common theme across all sectors:  the expectation of massive changes in efficiency and customer acquisition driven by the availability of large volumes of data. Not so long ago data in all but the most sophisticated systems need to be entered manually. In the last decade cheap, small and low powered sensors and chips have become commonplace to monitor and control everything from sophisticated machinery to the humble toaster. Networks, often wireless, support the collection and transfer data to central hubs.

This availability of "Big Data" provides the raw material from which to construct the new challenger businesses.  The huge amounts of what is largely unstructured and often messy day is useless without the ability to mine the critical insights that then develop the metrics to inform meaningful business decisions. Data scientists were virtually unknown 10 years ago.  Today every start-up has access to powerful open source programming with tools such as "R", running over cheap and effectively limitless computing capability on the cloud.

In its raw form most data tells us little. It is only by exploring the connections between data and identifying trends and themes that repeat consistently over time that it becomes possible to develop the credible connections between cause and effect that are essential if data is to be used to predict behaviour. The most useful technology often appears deceptively simple, but to extract the key "act now" signals is not straightforward. Information on its own is of little use unless it helps drive business decisions. Techniques such as machine learning and predictive analytics can help insurer and brokers find new opportunities, drive efficiency and identify the needs of their most important clients.

## WE ARE ALL CONNECTED NOW

The rapid growth in mobile phone capabilities and technologies has created an intimate platform for communicating with customers.


### Some of us look at our mobile phones over 150 times a day. For an insurer or broker that's over 50,000 opportunities a year to engage with its customers.

Expectations of what defines acceptable customer service have also increased greatly. Our phones give us instant access to online retailers. These apps and our need for immediate gratification has embedded themselves deeply into our daily lives. We've come to expect the ability to source and buy goods or services as soon as the need arises.  And when things don't turn out quite as we'd hoped, Amazon has conditioned us to expect to get a full refund immediately. No questions asked. Customers now demand the same ease of buying and instance response when buying services as well as products.

The growth in insurtech funding may have calmed down since the heady spring of 2015, but insurance continues to attract new start-ups with a diverse range of experience, skills and offerings. Ultimately though, any business servicing the insurance market will only succeed if it can deliver on one of the same three core requirements as many other industries: improve revenue, reduce costs and address regulatory needs.

Cost saving or revenue generation alone is meaningless without outstanding customer service. This has been a major driver of growth in fintech and now in insurtech. A handful of smart people showed it was possible to create an alternative bank or insurer and acquire new customers by developing an easy to use app running on robust, but cheap technology. This is now becoming the expected norm for all customer service engagements. With switching costs so low, even in the more complex commercial insurance markets, companies that don't have customer centricity baked into their core values will not survive.

## ATTRACTING THE BEST TALENT

While the insurance industry is grappling with its own challenges, the expectations of people entering the workforce are also changing. They have grown up in a world where social media and access to smartphones mean that the boundaries to communication are limitless, and unconstrained. Open source, or virtually free software tools enable the creation of sophisticated and professional looking websites and apps. In their personal lives everyone can have access to the very latest technology with few limits on how they use it.  Insurers and brokers are going to be increasingly competing for the most talented staff on the basis of the technology and tools they provide. The ability to enable employees to access critical information easily and get their work done efficiently will be a key differentiator. Companies that don't encourage and enable innovation amongst all of their staff, or that fail to recognise the value of independent thinking, will struggle to attract the top talent. A number of insurance brokers are making explicit efforts to encourage engagement from younger members.

BIBA launched a young broker initiative to help those under 30 develop their career, providing them with advice and help in building professional networks. Young broker ambassadors are appointed regionally, drawn from companies that include A J Gallagher, Policy Bee, Towers Watson, Archenfield , Aon, AFL, KGJ, Shepherd Compello, Griffiths & Armour and Lloyd & White. More information can be found at www.biba.org.uk/members/young-broker/

## Young Ambassadors now appointed are:

**Courtney Barnes**
Arthur J Gallagher (UK) Ltd
South East
courtney_barnes@ajg.com

**Lisa Carr**
PolicyBee LLP
Anglia
lisa@policybee.co.uk

**Jonathan Catley**
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**Joseph Catris**
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**Florence Dennis**
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**Daniel Kinlan**
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**Ashley Mills**
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**Kelsey Pyne**
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**Ryan Warfield**
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Some forward thinking companies, such as XLCatlin, MSAmlin, Talbot, Tiger Risk and Howden are supporting individual brokers and insurance underwriters who have taken the initiative to define new roles for themselves in creating and growing in-house innovation teams.

> "The real opportunity we have with Novidea lies in how quickly we can get hold of the data, what that data is telling us and how that can help us grow the business further. It's important to us that we can keep up with our growth through the data that we are collecting, in conversations with clients, adding value as we bring new MI to our clients, reaching into the data to see opportunities to cross sell or up sell. Novidea is allowing us to grow at the pace we need to grow, it's allowing us to think about the future. You've now got one place to go, one source of the truth, it's a logical solution to consider Novidea".

HYPERION INSURANCE GROUP

**Lyn Grobler,** CIO Hyperion Insurance

These and other companies are finding they can break free from some of the constraints of legacy systems by building new technology in house, or working with some of the emerging technology providers. They are introducing tools that reduce the administrative overhead. They reveal new insights to help inform client discussions and internal allocation of resources. In some of the most successful cases, this new approach has increased the time spent available for looking after clients from two to six hours a day.

## PUTTING THE CLIENT FIRST

BIBA believes there will be a persistent erosion of the role of insurance brokers if the profession does not embrace new, innovative ways of serving customers and working more efficiently. In its 2017 manifesto BIBA committed to helping advance the adoption of new technology amongst insurance brokers.

BIBA is now actively supporting new Insurtech firms to enter insurance broking with advice and guidance, as well as supporting existing members in helping them to grasp new technologies.

"This is a crucial area for our sector. Whilst there may not be a big-bang moment where brokers will become disintermediated overnight, there may be persistent erosion of market share if collectively we do not embrace new, innovative ways of serving our customers and working more efficiently."

BIBA **Andy Thornley,** BIBA head of corporate affairs

The BIBA survey found three clear areas where brokers believed technology could bring improvement. Of those surveyed 24% felt that reducing costs was a top priority, 23% were looking for ways to reduce office administration and 22% wanted to enable better interaction with customers.

**24%** of brokers felt reducing costs a top priority

**23%** were looking for reduction in office admin

**22%** felt they needed better customer interaction

BIBA has formed an Innovation Working Group and launched a number of initiatives to help its members understand innovation and discover relevant new technologies. The association is also helping emerging insurtech companies develop relationships with insurance brokers through regular workshops and informal introductions.

## MOVING BEYOND LEGACY

In 2014 The London Market Group (LMG), a body that includes Lloyds of London, the International Underwriting Association of London (IUA) and the London & International Insurance Brokers' Association (LIBA), recognised that London was seeing a declining share of global premium that brokers bring to London. They identified factors such as the expansion of alternative centres in Bermuda, Singapore and Zurich and the growth of alternative capital as a potential threat to London as an insurance market. It was becoming clear there was a need to drive change in the market if London was to remain globally competitive. The LMG commissioned the London Matters report in 2014. The report identified shortcomings that included a lack of sufficient attention to modernisation and talent and its recommendations included:

1. The need for a more detailed operational vision of a modernised market and improve the ease with which business is transacted in London. Specifically it urged moves to "reduce costs by delivering on infrastructure activities, removing London specific processes and realising economies of shared services".
2. Address the issues of Talent and Diversity. It found a notable disparity between the London Market workforce and other comparable sectors and urged London and regional brokers to develop ideas to keep the industry relevant and vibrant as a career choice for the next generation.

The London Matters paper led to the development of the London Market Target Operating Model (LM TOM) and the allocation of funds to enable the market to launch three core projects: a central placing platform (PPL), a central services refresh project (CSRP) and the development of improving the consistency and quality of data collected from Delegated underwriting authorities (DUA).

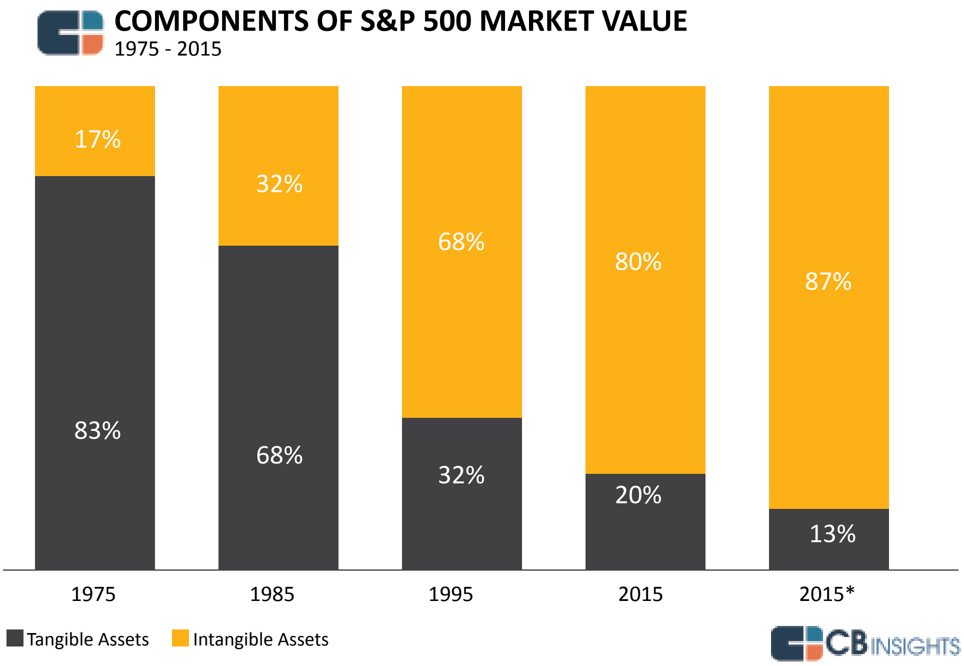
Driving change from central organisations, and at scale is almost always harder than commercially led initiatives. When projects are funded centrally, decisions take longer and must account for the needs of all members. The TOM projects are slowly starting to deliver results but members of the LMG recognise that its own initiatives are not the only possible solutions. Most of the individual companies that are part of the LMG are exploring partnerships with a variety of new insurtech companies. Lloyd's itself has a number of parallel initiatives underway.

Lloyd's wants to bring in talent from around the world to work in partnership with Lloyd's businesses and the Corporation, in what CEO Inga Beale sees as an "increasingly digital, data-driven future." Lloyd's recently announced the creation of an Innovation lab. The lab will be tasked with designing technology-driven solutions to meet the "unique and rapidly changing needs" of the Lloyd's market and to enable new concepts to be tested in a "fast-track, fast-fail environment".

## THE CHANGING NATURE OF RISK

Technology is not just a critical enabler for insurers, it has fundamentally reversed the nature of what is being insured. Thirty years ago over 80% of the value of companies was in physical assets. Today it's less than 20%. Intangible assets such as reputation, relationships, intellectual property and supply chain dependencies make up over 80% of the worth of companies. This creates major new challenges, but also opportunities, for insurers. Physical assets have a defined location and value. It's usually clear when a loss has occurred. Aggregations can be managed and diversified globally.

Intangible assets are more ephemeral. The ability of the insurance market to deal with emerging and potentially catastrophic losses, is still to be tested at scale. Cyber insurance has emerged as one of the fastest growing lines of premium in recent years, representing income of $3bn globally. Specific coverages, such as losses caused by data breach or denial of service (DoS) can be quantified. It's far harder to understand potential exposure to "silent cyber", the losses occurring for when a cyber-attack results in a physical loss to property. And so far, we've not seen any true catastrophic cyber losses.




(Source: CB Insights)

Despite the dramatic change in technology over the last hundred years the one consistent characteristic of the insurers and brokers that have survived and flourished over this time is the partnerships and collaboration formed with customers. The threat of new businesses emerging to disrupt and commoditise the insurance industry that were heard in the early days of insurtech haven't totally disappeared but the discussion is a now about collaboration. At its core, successful insurance relies on a robust understanding of the risk, and creating incentives to motivate the customer to take an active role in managing and reducing the risk. The ability to develop strong, mutually benefit partnerships with clients will continue to define successful insurers well into the next century. This will increasingly be supported by technology that enables sharing of data and information between both parties.

## CLIENT FIRST COLLABORATION

For tomorrow's winners it's not as simple as just spending more time looking after customers, it will be about intelligent use of time spent with clients. Until recently few, if any, of the management in a broking firm had a good understanding of how much time their brokers were spending with individual clients. Measuring which clients are the most profitable is hard and the natural instinct is to spend more time on those clients that create the greatest revenue.

> Is it better to spend £500,000 servicing one major account and generate £2 million of revenue, or spend £20,000 and generate £200,000 of revenue from 10 smaller accounts?

The numbers speak for themselves but without a good insight into how brokers are spending their time, such choices are rarely as clear in practice. Some of the latest technologies offer major efficiency savings, others hold the promise of being able to revolutionise the way that insurers and brokers communicate with their clients. A few offer both.

Almost all insurance transactions have traditionally operated on an annual cycle of renewal and review. Yet the needs of even the smallest organisations change far more frequently. As technology liberates brokers and insurers from the shuffling of paper and rekeying of data, a far more integrated relationship can be formed with the client. It will become easier to identify gaps in cover, find solutions to support ventures into new business lines and geographies and apply best practices. New forms of cover, with more accurate loss assessment and faster settlements will benefit both the insurer and the insured through lower cost and improved engagement.

> "Industry CEOs can no longer relegate technology to their IT divisions. They need to have an in-depth understanding of technological concepts and how they relate to specific business operations and strategy, given the potential for industry disruption. If done properly, technological improvements and increased automation can increase efficiency and offer better insights."
>
> **Sridhar Manyem,** Director, Industry Research and Analytics

# A POSITIVE FUTURE

Access to information will open up across companies. Management will no longer need to rely on old data and inaccurate metrics when trying to understand how their business is performing. It will be possible to access and act on success or failures in meeting key performance indicators in days not months. Everyone will be able to understand more clearly the impact of their own work. Innovation will no longer be a silo in one part of a company. Finding ways to improve performance and relationships will become an inherent and valuable part of everyone's job.

Barriers to the adoption of new technology will fall away. The new technology will be available quickly and lower risk. Cloud based systems, exchanging information via APIs through secure portals will eliminate duplicate data entry and make it easier to configure systems around the unique needs of individual companies. Information will be sourced directly from clients, complemented by third party tools that check and enhance data by extracting key characteristics from satellites, drones, photographs etc.

The global "Protection Gap", which today results in only 10% or less of losses being covered by insurers will shrink as insurers gain the confidence to write more business in areas where risk had previously been hard or impossible to quantify. As commercial insurance solutions grow the burden on individuals, companies and governments will shrink. The industry still has some way to go, but the evidence of the last few years suggests that we can look forward to a growing and vibrant insurance industry powered by technology designed with the needs of the users in mind.

Today it is a competitive market for insurers and brokers. That doesn't mean there are not opportunities. The emergence of complex analytical tools to provide more accurate ways of measuring risk has characterised insurtech. It has also seen the launch of smart methods of identifying efficiencies and cost saving in core processes that free up time and encourage innovation in client facing staff.

Generating more premium, and reducing claims are clearly strategic imperatives for insurers and the brokers advising them. Increasingly, the most successful companies today are also aligning their strategy around a customer centric approach. What began in personal lines, is starting to take hold in commercial insurance. It's no coincidence that the leaders of the fastest growing companies are recognised by the importance they place on personally understanding the needs of their largest customers.

# CHECKLIST FOR SUCCESSFUL TECHNOLOGY ADOPTION

It is very encouraging that technology and innovation is now a board level priority. But with so many new offerings springing up how to ensure that the new tools will truly service the needs of business? The following list of ten questions are the essential checklist for companies looking to learn the lessons of insurers and brokers that are on the technology fast track:

1. Does the new technology have a clear way of generating revenue or saving costs?
2. Will the customer experience improve and retention rates increase?
3. Can key business insights be extracted from data and information that already exists in the business but which hadn't been possible to access previously?
4. Is it easier to identify opportunities to upsell and cross sell products?
5. Is it possible to benchmark across types of clients, lines of business and internal teams to help improve performance?
6. Is it possible to enter information into the system, extract it, query and share it from a customer perspective as well as the more traditional business or internal focus?
7. Is the system scalable and easy to access by multiple people in different locations?
8. Are implementation and maintenance costs clear, and significantly less than prior solutions?
9. Does the technology empower business users to use their own creativity and initiative to grow the business
10. Does the technology allow customers and third parties to interact with your business in a secure and seamless way E.g. Portals.

## ABOUT THE AUTHORS

**Matthew Grant** has over 25 years' experience of bringing new technology solutions to the global re/insurance markets. He is the founder of Abernite, and a partner of Instech London. Matthew is an advisor and investor with early stage technology companies, and helps insurers and brokers identify the best technology and data solutions. Matthew sits on the BIBA Innovation Working Group and is an advisor to the Cambridge Risk Centre.

**Roi Agababa** is the entrepreneurial mind, founder and CEO behind Novidea. With a long and distinguished career in business intelligence and software integration for global organizations, Roi saw the need for a unified, end-to-end data driven platform designed specifically for insurance professionals. Prior to this Mr. Agababa was a senior executive with SRL software group, where he held a number of senior management positions, most notably as the global Vice President for Research and Development and the Managing Director of SRL Tech. Under his leadership, Novidea is revolutionizing the working patterns in insurance distribution, enabling unprecedented growth for the industry.

Novidea is revolutionizing the working patterns in insurance distribution, enabling unprecedented growth for the industry. Novidea is the company behind the leading end-to-end, data driven insurance platform, designed specifically for insurance distribution professionals and their customers.

By consolidating all front- and back-office data and workflows into a unified view, the platform provides real-time visibility and actionable intelligence into the entire customer journey.

The Novidea platform enables top-tier global brokerages, agencies, bancassurance and corporate insurance operations to optimize every customer interaction, expose opportunities for revenue and growth, and dramatically improve profitability and competitiveness.

The company has offices in the UK and US, with R&D based in Israel.
For more information visit us at www.novideasoft.com
If you have questions, please send them to info@novideasoft.com

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