Widening Technology Gaps

**Trend:**

The gap between firms with leading-edge technology and those without it is widening. As costs, complexities, and lack of expertise increase, many firms are struggling to define and implement their technology roadmap.

**Implications:**

- MGA size in terms of employees, in particular IT employees and infrastructure, is a factor as the larger ones are increasing their investment in technology.

- Profitability and Cash reserves to further invest in IT and digitalization. Those with the greatest increases in revenue plan to increase investment in technology the most.

- Ability to be forward thinking and embrace evolving technology landscape.

- Ability to adapt to new technology, whether it is universal bordereaux reporting to carriers or social media access to retailers.

- IT’s role is shifting from maintenance to security and strategy, becoming more of a revenue generator than a cost center.

- IT and business departments will overlap with the top performers more strongly aligned.

- Consumers are adopting new technologies faster than ever.

- Legacy systems may prove to be an obstacle to getting current with technology.

- Aging of insurance professionals may create barriers to the evolution of technology and social mediums.

- Education and training at all insurance levels will escalate as menial tasks can be eliminated with technology.

- Competitive landscape is changing due to digitalization which takes a customer-centric view, using strategies, products, processes and experiences to create revenue.
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- Ability to use technology and figure out how to use data competitively so as to bring it to the market place via products and new markets

- Technology has eliminated most transactional activities that used to be the training ground for entry level employees (think coding/rating). Further, it has eliminated the need to understand those same functions (think automated/comparative raters). As a result, the new demographic of underwriters lack that understanding of building up risk characteristics (think COPE for property).

- Technology potentially a key driver to differentiating success in the industry.

Opportunities:

- Larger firms in terms of size, revenue and/or IT infrastructure stand to gain if they can evolve with technological landscape.

- Combination of talent from underwriting to technology side will prove to be valuable resource in differentiating products.

- Lower end tasks can be eliminated via investment in automation and technological resources. This will in turn create a shift towards higher end job creation.

- Millennials, younger generations, and those that adapt cutting edge technology in their regular means of living will have the right tools to interface such abilities within the industry as well as possibly direct such changes in the business landscape. Essentially, those already utilizing newer technologies will more favorably embrace and direct their efforts to such relationships.

- Limitations due to geographic location are no longer applicable due to technological access.

- Data compilation and paperless environment will allow firms to more quickly shift and advance among technological platforms.

- Those that use updated technologies and continue to reinvest funds to stay on forefront are more likely to realize higher revenues.

- The overlaying relationship that intertwines insurance and technology could make for a more appealing industry that captures more interest out of recent graduates, requiring a higher skillset level.
The harnessing of data and analytics, even at the wholesale level, helps to make insurance risk more predictable.

Ability to remote access to work could drive in the best talent as well as potentially maximize cost effectiveness via less rental space or lower cost regions.

Technologies directly leading to increased product development and data capturing abilities for further use such as programs and specialty niches.

**Threats:**

- Leading edge or bleeding edge if newest technology chosen is incorrect or not adapted in industry.
- Those not able to adapt because of age, talent, infrastructure or necessary funding will not be able to keep up with consumer’s changing in buying habits.
- Old style relationships built from face to face will diminish due to ease of access of competitive products via technology.
- Instant access to competition and pricing will make renewals more challenging.
- Giant firms built on technology (i.e. Amazon, Google) will have the ability to enter marketplace utilizing big data and existing infrastructure that consumers are comfortable with.
- Geographic barriers to entry no longer exist.
- Underwriting expertise may take a backseat to technology’s push to expedite processes as well as blanket subjective judgment into pre-conceived modeling.
- Changes in governmental compliance can thwart those without technology as well as those using newer technologies (and data) that may come into risk-related and exposure questions.
- Mastering data collection and data analytics for certain lines threatens entire distribution chains including wholesalers. Think GEICO/Progressive owning personal auto (then again driverless cars threatens this line.) 25 years ago non-standard auto was a huge line for a lot of wholesalers not so much anymore.
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- As larger MGA’s and companies get more technologically advanced, there is a threat of anti-selection against the less tech-savvy MGA’s.

- Legacy systems possibly a hindrance due to the cost of transitioning and updating/training to stay on competitive forefront.

- Seamless technology from Retailer to Carrier significantly reducing the role or ultimately excluding the need of a Wholesaler

- Remote access leading to outsourcing as well as increased cyber threat exposure.

- Competition of talent no longer a geographic barrier with global access via technology.

- Elimination of lower end functions and tasks being replaced by automation.

- Lack of updated technology hindering upcoming talent from entering such workspace.

Summary of Research, Resources, and Research highlights:

Source: The State of Techsurance 2015, ITC/Velocify

- 2015 Survey to more than 1,000 insurance agencies (segmented by captives, directs and independents) on the use and impact of technology in the insurance industry, focusing on six technologies:
  1) Marketing Automation Software
  2) Lead Management Software
  3) Automated Dialers
  4) Comparative Raters (Rating Engines)
  5) Agency Management Systems
  6) Customer Relationship Management (CRM) Software

- Adoption of such technologies indicated higher revenues and productivity amongst those surveyed. Agencies with increasing revenues were most likely heavy users of Automated Dialers, Marketing Automation, Lead Management and CRM software, despite all four technologies appearing to be underutilized. Agencies that used any one of the six technologies sold 15% to 43% more policies per producer.

- Directs used technology the most in four of the six (Lead Management, Automated Dialers, Agency Management Systems and CRM) while Captives led in Marketing Automation Software and Independents led in Comparative Raters. The survey also
concluded that Directs are more likely to continue to increase their technology investments this year, leading to a potentially widening gap.

- Agency size is another factor as the larger ones, regardless of type, are increasing their investment in technology at a higher rate than smaller agencies.
- Current revenue growth is another factor, as agencies with the greatest increases in revenue year over year plan to increase their technology investment the most.

Source: AM Best, Best’s New Service, “Resource Pro Director of Products: Don’t Forget the ‘Little Data’”, June 8, 2015

- Andy Niver, director of Products and Business Development for Resource Pro, said focus for MGA’s should be on Automation, OCR (Optical Character Recognition) and Integration as ways to handle the little data.
- Talent shortage and population aging creating gap in skillset.

Source: CGMA.ORG website(Chartered Global Management Accountant), “Expectations and reality vastly different for IT departments”, March 31, 2014

- Organizations with agile, efficient IT infrastructure have a significant competitive advantage over those with insufficient technology according to a survey by Softchoice, a North American technology services provider.
- IT’s role should be focused on security and strategy as opposed to maintenance. Should be more of a revenue generator than a cost center.
- Focus on IT’s infrastructure to be able to deploy new applications more quickly whereas organizations have outdated data centers that struggle to keep up with employees’ and clients’ growing demands. Companies that fail to embrace technology are missing out on opportunities.


- Based on a Gartner survey of US and European insurers, investment in digitalization has become a priority for the purposes of customer retention with leveraging data in real time, paperless operations and strengthening electronic channels at the top of the critical items list.
- By the end of 2016, insurance CIOs will on average double their 2014 IT budget dedicated to digital business capabilities.
- Digitalization will have a significant impact on insurance value chains, requiring significant involvement from IT.
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- IT’s role should be focused on security and strategy as opposed to maintenance.

- Consumers are adopting new technologies faster than ever, and insurers need to meet these higher expectations. Organizations with the right tech talent will stay ahead of the game. Insurers need employees than can handle such.
- IT and business departments overlap, and both parties need to understand each other, work together and align technology with business priorities
- Technology is changing and employees must learn to adapt as well as embrace new innovation, adopting new skill sets and have the ability to change their work environment.

- Insurers should follow the example of leaders in digitally advanced industries(i.e. Amazon, Uber), which take an enterprise-wide approach to digital and understand that digital is more than the sum of individual initiatives.
- Insurance customers and clients’ expectations have been shaped by their digital experiences with sophisticated companies in other sectors. Companies that can meet this challenge will build greater customer loyalty, cut costs and improve profitability.
- Underwriting discipline, claims execution, investment management savvy will continue to be fundamental to success, but leveraging the full power of digital tools will position oneself to lead in the industry.
- Goes beyond simply investing in digital capabilities but becoming digital insurers.
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- Impact and benefits of digital capabilities are unevenly distributed. Executives' expectations suggest that the gap between the strongest digital performers and the rest will widen rather than narrow.
- Top performers are more likely to report strong alignment between IT and Marketing, which define and implement instrumentation that turns data about interactions and transactions into a competitive asset.

Source: Accenture, “Seizing the opportunities of digital transformation”, 2014

- Digitization is the application of new data and technologies to existing business processes to reduce costs or improve effectiveness whereas Digitalization takes a customer-centric view, using strategies, products, processes and experiences to create revenue via new business models. This latter group, Digital Transformers, is speeding up the pace, changing the competitive landscape to those that wait.
The gap between what insurers know should be done and what they are doing could be due to the difficulty of overcoming the challenge of legacy systems, which was the No. 1 obstacle noted in their survey.

Carriers expect successful agents, brokers and advisors, as important members of existing insurance value chain, to leverage digital technologies in a variety of ways to respond to disruption of that value chain.

Source: PropertyCasualty360.com, Joseph Jaafari, "4 technologies that are revolutionizing the insurance industry", February 3, 2015

- World of insurance technology is evolving quickly which could have profound affects in the insurance industry
- Telematics combines computers and wireless technology to stream information for analysis (similar to the idea of a Fitbit)
- Customers (in particular Millennials) want more control over their policies via mobile applications for quotes, reporting claims, and accessing information
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- Big Data, partnered with telematics and mobile technologies allows for improved actuarial modeling
- Automated driving systems in cars encompasses all such pieces and is one leading example of this mix and strategic approach

Source: Insurance Business America, Caitlin Bronson, “These 6 insurance jobs are most likely to suffer from the oncoming talent gap”, March 17, 2016

- Average insurance professional is 45 years old, and just under 4% of students in the millennial generation are “very interested” in working in the insurance industry. The push for new technology has made hiring young millennials even more vital.
- College of America identified six positions most likely affected by the advent of new technology and the anticipated skills gap.
- Customer Service Representatives (CSRs) must be adaptable to new communication forums like email, online chat and social media along with manipulating big data via customer information
- Insurance Sales Agent will need to adapt to analytics technology to identify prospective clients (predictive analytics and customer segmenting technologies).
- Business Analysts will be needed to serve the link between end users and professionals including the shift from legacy systems to newer technologies such as paperless environments
- Claims personnel must adapt to new technology such as smartphones to quickly develop and manipulate the necessary automation in order to meet customer expectations.
- Underwriters will lose their lower tasks to automation forcing them to stay both relevant and competitive via greater responsibilities on the higher end of the necessary insurance position and selling skills
- Actuaries must be prepared to deal with more complex data (i.e. telematics)
- Both existing insurance professionals and incoming candidates must be educated and trained with right mix of technological skills that will necessitate the traditional insurance provider to implement.


- Summary of a roundtable discussion on how technology can be harnessed to maintain London’s position as a leader in the global commercial insurance market
- Insurance sector is under pressure to evolve via changing business and technology requirements. Key areas include big data, who drives change (business or IT function) and how can the local market keep up with global competition
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- Key challenge in the near future is to leverage data via proper identification, collaboration and delivering such results
- Updating legacy systems can improve competitiveness but also poses risk of costs, disruption, data loss concerns, unfamiliarity, need for upskill workers and long term return on investment.
- Can London markets maintain their face-to-face heritage while embracing newer technology that is being demanded on a more global basis?

Source: The Register, “Insurance companies must start buying security companies”, Mark Pesce, Oct 29, 2015

- Present reality is a world full of connected risks and no capacity within the insurance industry to assess or mitigate those risks, thus the need for insurance industry to reinvent themselves.
- Concept of an insurance company to buy an anti-virus software company and information security (infosec) firm as foundations for a new core business unit in cyber insurance.


- Technology is no longer a functional area within a business operating in isolation, but now sits at the center of the value chain and core operations.
- Insurance industry will face an immense challenge in implementing its strategic IT transformational change over the next three to five years.
- Difficulty anticipated in balancing the competing demands of the IT and compliance changes ahead.
- Many insurers have not invested enough, resulting in incomplete and poor quality data sets.
- Previous ways of working are too slow and cumbersome in the current world, where they need to be able to introduce systems and infrastructure which are agile and can adapt quickly to bring new products to market, and to move into new markets.
- Ability to use data competitively is one of the biggest technology-related risks facing the insurance sector.
- Inability to cope with rapidly changing technology and failure to use data for competitive advantage now figure as top risks for financial service organizations:
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1. Ineffective service delivery
2. Ineffective governance, risk and compliance
3. Inability to use and govern data for business needs / competitive advantage
4. Cyber crime and unauthorised access
5. Poor quality of IT investments / projects
6. Risk from suppliers (and the extended enterprise)
7. Inability to cope with rapidly changing technology
8. Lack of resilience and disaster recovery capabilities
9. Risk from IT complexity
10. Regulatory pressures and non-compliance

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