Widening Technology Gap
Executive Summary:

The gap between firms with leading-edge technology and those without it is widening. The technological landscape is constantly escalating to dynamically embrace client needs and experience. Many firms are struggling to define and implement their technology roadmap as challenges increase. What once was cutting edge in the evolution from paper and pencil to imaging, online software access and website marketing is now leaping forward to the next wave of technology.

Technology is rapidly connecting every aspect of each industry via data accumulation, thereby making each industry no longer standalone but a potential opportunity to cross businesses. The ability to increase revenue streams with new business market share while utilizing existing technological platforms and data makes a compelling case for new competition and consolidation. Just as Facebook, Google and Amazon make daily news with increasing diversification of business models, the insurance industry is on course to evolve as businesses strategize the next competitive edge to profitably increase market share. Existing business practices in the insurance industry are bound to be re-invented. The dilemma is going to be both how and when to shift to either keep up or lead the way.

The specialty insurance market will grapple with such variables in determining how future business will be conducted. Will legacy data be replaced with data from third-party sources or integrated into new solutions? How will it be protected in terms of cyber security? Will business shift as the buying power of Millennials dictates the new desire for a certain consumer “experience”? Will the workforce restructure, incorporating Artificial Intelligence (AI), chatbots and machine learning? Will privacy rights dictate business practices as well as narrow the selection of competition that can afford to comply with forthcoming requirements? Ultimately, there doesn’t appear to be an ending to the storyline but another chapter that will write itself as the weaving lines of insurance, technology and consumer expectations continually overlap.

Implications:

- LexisNexis notes that insurers are aware that they have to transition to a more digital experience to meet customers’ changing needs, but also have to maintain legacy systems and processes to service current policies.1 Five places are identified to meet new customer expectations, which particularly emphasize the necessity to focus on data quality:
  - Expand Automation Capabilities: Predictive modeling and automated quoting through prefilled data can reduce errors, redundant work and expedite turnaround time2
  - Take Advantage of Best Data Available: Carriers can improve profitability by utilizing consumer and commercial credit data instead of relying on public records and Internet searches

Use Predictive Modeling Consistently: Surveyed respondents believe this is more important than underwriting, pricing and rating, and leveraging such modeling will improve better decision-making and create long term consistent business practice.

Improve Customer Experience: Compared to the speed of online personal insurance, the experience on the commercial side is underinvested and underwhelming. Automation and improved accuracy of customer data, predictive modeling and streamlined processes will improve such.

Embrace and Invest in Emerging Market Trends: Responses reveal telematics and IoT as the two trends offering the biggest opportunities for their business. Change is inevitable and those who will be the most successful are the carriers who embrace these changes and take advantage of the opportunities that present themselves.3

- Companies require innovation teams (and capital) to focus on the challenges and opportunities of InsurTech.4
- While the needs of the insured are evolving constantly, regulatory approval of new insurance products does not leave admitted insurers well-placed to respond at the same pace.
- Data governance, security and privacy will take precedent as innovations surface and businesses see digital transformation. General Data Protection Regulation (GDPR), designed to modernize laws that protect personal information and give more control to individuals, will be at the forefront as privacy rights and compliance evolves.5
- The claims process is mostly unchanged from paper-based processing, whereas AI application via smart, “touchless” claims presents a potential innovation opportunity for increased volume and speed along with reduction of human error.6
- Tech giants like Amazon and Google have huge trove of customer data enabling their opportunity into insurance market. As one example, Travelers has partnered with Amazon to bundle discounts upon smart home product purchases7
- 25% of insurers are using AI and the number is growing as legacy data is being cleaned up and mined to increase efficiencies, automate portions of business and offer new products.8

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Asia’s insurance market is growing rapidly, with heavy investment in mobile products, unburdened by legacy systems. The focus is on quickly building smaller scale technological products that can be experimented with in an environment with less stringent rules around data privacy, with the potential to be rolled out globally.9

FinTech companies are broadening scope through investment and acquisition in the InsurTech space.10

End users are moving towards online products that are transparent, personalized, and provide a better experience, forcing traditional insurers to reshape their product.11

With 30 million small business in the United States, this is big territory for InsurTechs as traditional brokers neglected them due to small premium size and cost relative to servicing. Digital tools can handle this market gap of small and medium-sized enterprises (SMEs) more cost effectively using automation and third-party information to prefill such data. As an example, Travelers purchased an SME-focused MGA called Simply Business for $500 million.12

Companies are investing in redesign of their portals to improve the end user experience such as relaying claims data and allowing initiation of claims.13

Some market participants believe AI and Machine Learning (bots) will likely replace brokers and actuaries as algorithms based on consumer data provided automated solutions to pricing.14

A 2018 Insurance Digital Transformation Study reported significant increase from 2016 in e-signature, website quoting and leads, social media incorporation and web-based portals. While improving, findings suggest further room to go, in particular with mobile applications, live chat capabilities and 24/7 contact suggesting much more growth is needed for customer convenience and experience. Millennials, who operate on the “10-minute rule” of getting answers, will become the No. 1 buying group in next few years and will be particularly drawn to improved experiences15.

Accenture reports that companies are hindered by a patchwork of applications and talent trained for yesterday’s technology, while surrounded by rapidly evolving technology including infinite computer power, AI and IoT technologies. There are pockets of success but a struggle to repeat. New systems are needed to unlock the value with combination of applications, data, infrastructure and talent.16

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• Since 2015, majority of insurance core systems sold are cloud-based or hosted off-premises, reducing implementation times, easing upgrades, and lowering operational costs. AI is creating a better personalized customer experience, improving claims turnaround cycle and increasing faster data access while reducing human error. Chatbots are interacting seamlessly via AI and machine learning IoT devices (i.e. smart home products) are improving data for pricing, risk and preventing losses.17

• In 2017, the US insurance industry recorded $1.2 trillion written premium, 48% P&C, contributed $602 billion to GDP, and had $5.5 trillion in cash and assets while employing 2.5 million people. Yet, it struggles to keep up with data and analytics compared to other industries, resulting in a need for digital transformation to revise and reduce costs.18

• Companies should consider exploring their processes to ascertain where specific challenges reside in order to seek the right opportunity to improve. Recommendations involve creating an innovation team that is balanced with lesser experienced folks to provide a fresh review and to create a streamlined procurement process to expedite the search for an InsurTech should they look to solve their challenge.19

Opportunities:

• Newer businesses and startups with funding and no legacy data have more agility to adapt to newer technologies.
• Firms with large quantity of historic data may be able to tap into the transition to AI to develop risk reduction algorithms.
• Partnerships via social media and other businesses can assist in user experience and data collection.
• AI and API implementation to reduce human work and manual errors, particularly at the lower levels, and ultimately redefining a more efficient work structure.
• Good user interface and automated access will facilitate cross-selling of products.
• Advanced modeling has to the potential to reduce risk exposure for insurers or help them plan for likely claims. Some technology has the potential to reduce claims occurrences, if effectively scoped and deployed and if fed with data of sufficient quality.
• While embracement is slow, the early adopters can successfully gain market share.

Threats:

• Data Privacy and information security are at risk as technology adapts to using such in the industry.

• Insurance carriers may be at risk from big non-insurance companies infiltrating insurance space with their customer base and data metrics to use to their advantage. Wholesalers may be less threatened as a result of their role as expert market navigators.
• Gaps in regulatory understanding threaten the adoption of new technology and rates of innovation.
• The uncertain trajectory of technological change leaves many opportunities for traditional market players to be disintermediated.
• New technologies and attendant efficiencies often compress margins; these pressures may eventually impact the industry in unseen way.
• Ever changing technology and landscape may prove costly for the wrong investment that fails to be adopted by client or business base.
• Lack of funding and size to adapt and provide customer/user experience will ultimately lose business.
• Continual investment in technological training is needed.
• Poorly executed technological service will degrade the customer experience since there is no personal “relationship” to maintain retention.
• No human relationship creates more commodity and price shopping.
• Underwriting and Actuarial roles of the past will change, necessitating newer learning and training models.
• Costs of IT infrastructure to handle and protect will increase.
Sources Cited:

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