

Synthesis

The Age of Insurtech

How technology is reshaping the future of insurance

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EgonZehnder

Insurance Technology, or “Insurtech,” is reshaping the conservative insurance industry. With rapid growth and increasing investments, innovation in this sector is changing how the insurance industry operates. At Egon Zehnder, we continuously measure the impact these disruptors have on the industries we work closely with to build an understanding of shifting market dynamics and how to best partner with our clients. Drawing on our conversations with senior executives and consistent messages we heard at various insurance conferences over the last year, we have identified several key Insurtech themes and insights.

”You should want to be a tech company that happens to know about Insurance.” – *Insurtech Insights Conference 2018*

Insurtech is often perceived to be composed of smaller, customer-centric start-ups that push the larger companies to rethink their user experience offerings and transform their business models. While this is one part of the equation, the greater theme emerging is one of partnership in the form of innovation labs, long-term collaboration, accelerators, and sponsorships. From the use of Artificial Intelligence (AI) and chatbots to digital marketing, each new channel is leading to the development of new products, such as developing adapted products for self-driving cars, real-time claims, and taking advantage of data extracted from wearable devices.

Culture Change: When Insurers Partner with Insurtech

Many insurers are feeling the growing pains of adapting to new models in their business. Some, have decided to focus on Insurtech start-up engagement with a greater emphasis on partnership work and direct investment coming at a later stage. Others, initially preferred to run accelerators, only to later realize the value of first partnering on demo and implementation then choosing to invest in these companies outside of an accelerator model. Executives from all parts of the business highlighted the importance of looking at the governance structures prior to investing or partnering with Insurtechs, ensuring the investment path is adaptable before launching a VC arm, accelerator, or mentorship program.

Having a good understanding of the regulations and what the limitations are in the context of insurance is crucial, and keeping integration outside of the main regulated entity can be a solution. With these various ways of integrating Insurtechs, companies have found the clash of cultures to be a bigger challenge than the tech itself. Insurance cycles are viewed as slow moving, and with this influx of start-ups and products, changing the image of how fast things can change with Insurtechs while utilizing the power of scalability that incumbents can provide, are the keys to developing scalable insurance distribution.

In our 55 years of working with executives and board members, we have been called upon to shape new cultures in the face of emerging needs following a merger or to accelerate the integration of executives who bring different skills to the existing model. Our research and experience in this space has shown that one of the key drivers of culture change is the ability to focus on a common purpose and vision in which to anchor the future blended culture and new values. Blending the highly dynamic but sometimes less structured culture of Insurtechs into some of the largest companies in the world will come through leadership promulgating this message of shared purpose, and championing change agents. Many have tried, few have succeeded.

Winning Customers by Mastering Mobile

With an increasing amount of people owning smartphones and technology adoption skyrocketing in emerging markets, getting the mobile experience right is paramount to winning customers. The user friendly platform of mobile combined with a strong perception that apps are more secure than on the web leads to high expectations of the ensuing insurance product delivered. This means trust is key, as is keeping the customer happy, and companies are feeling the pressure to tailor the mobile experience to each customer's needs, especially in the claims environment. Insurance executives have started to see the same ramifications of Fintech as their banking counterparts, the pressures from customers to keep up with more nimble start-ups, and the need to leverage data to match behavioral traits. It is not about the data alone but what you do with it.

Good analytics will drive the industry, and companies can use it to create and take away friction.

The Growing Need for Cybersecurity

Responding to customers' instant and evolving demands by providing insurance via mobile opens up insurance providers to security breaches and cyber threats. The

resulting investment into cybersecurity has come both in the form of ad hoc cyber consultants, friendly hackers, and partnerships with cyber security experts, leading to the exponential development of insurance cybersecurity. During the course of our research, the CEO of a large cybersecurity company said that there are three key factors that are changing the world: cybercrime, regulation, and technology. Insurtech's new products and entrants address each one in turn.

“Traditional products need innovation in process, while new products, such as self-driving cars and chatbots, need innovation in risk.” – Chief Risk Officer at a UK Insurer

Regulation: An Increasingly Large Barrier for Change

Chief Risk Officers (CROs) are keen to highlight that insurers are not risk-averse, but that their competitors have the ability to be more nimble due to less regulation and models that take account of the new world and how it lives and breathes. They urge executives not to underestimate the power of companies to change. CROs love the innovation and are happy to look at partnerships that can transform and adapt the business to be future proof; however, due to the greater reputational risk, they place a much higher emphasis on the ethical use of data. For example, the use of Fitbit data could allow the insurance industry to know more about you than you know about yourself. The General Data Protection Regulation's (GDPR) new set of regulations make these ethical questions even more important, and finding the right solution seems to lie in increased transparency.

Data Is the Heart; People Are the Soul

All this data and new technologies are helping insurers to rethink their strategies and processes, and the conclusion is that to increase their coverage in this process they need more than humans. Trusting the data allows insurers to invest in AI, to provide cover more quickly -- at lower fees and at lower pricing -- enabling real time and ongoing underwriting. This real-time analysis and use of AI is being hailed as the future of insurance, allowing a range of new strategies, such as the ability to price range accordingly and making products proactive not reactive. While AI is viewed as being transformative, Insurers are quick to point out that these new technologies will not completely replace human contact, despite their ability to do so, and recognize the importance of a human interaction when dealing with sensitive matters that insurance needs often address.

”Data and technology are now being used for risk insight instead of risk transfer to mitigate risk and better understand the landscape.” – *Head of Strategy and Innovation at a Global Reinsurer*

From Developing Products to Finding New Competencies

To conclude, Insurtech is more enabling than disruptive when the right partnership model is found and the shift in culture is well-managed. A combination of developments in AI, wearable devices, and the utilization of huge data pools that incumbents possess will result in more accurate and better products being offered to customers. In addition, many insurance products will evolve from a focus on reactivity post-crisis to proactively managing the outlook of a customer’s health, life, or the risks they are exposed to.

While the insurance industry is still in its early days of transformation, innovation in the form of start-ups, partnerships, and initiatives by incumbents is changing the external perception from a talent angle. Crucially, the convergence point between incumbents and new entrants is creating a new talent gateway with a suite of roles, such as senior data scientists, Heads of Ventures, and AI experts that form part of the core strategy and direction of the business. Furthermore, all levels of talent in insurance are being disrupted by these new roles, with CROs to Chief Strategy Officers adopting new teams and forming different skill sets. Organizations -- both young and old -- need to share their journey and vision, highlighting the technology, analytics, and culture change being implemented, to attract forward thinking individuals and bring Insurance at the cutting edge of Fintech.

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