Insurance reboot

Building a digitally enabled blueprint for the future and managing the industry's current challenges

2018 Financial Times Insurance Innovation Summit report

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The Here and Now …
and, a view over the Horizon

How much of an impact is digital technology having on insurance? Consider this data from the Financial Times. In researching specific terms mentioned in analyst calls in the first quarter of this year, there were:

200
mentions of cryptocurrencies,

3,000
mentions of Donald Trump,

7,000
mentions of interest rates, and

15,000
mentions about artificial intelligence.

Wall Street is watching.
The industry stands at a pivot point: Embrace change or risk irrelevance.

KPMG's view

We advocate that insurers:

— Focus on the future

— Simultaneously seek top- and bottom-line growth opportunities

— Adopt revolutionary methods to interact in real time with customers.

We believe technology by itself is **not** the only answer to a new era in insurance. The future state of the industry will be shaped by how powerful technologies are leveraged and managed **by people** in the industry.

From market disruption to market adoption

Matthew McCorry, KPMG's insurance advisory leader in the United States, said that aligning with a reliable insuretech is a challenge because "it isn't easy to find the right tools that work." By his count, "there are about 3,196 companies in the U.S. that call themselves insuretechs, but only about 281 actually have something to share that works."

Three fundamental questions are raised, McCorry said, when the discussions with insurance executives turn to the topic of digital transformation:

— "Why are so many insurers still not making the needed changes?

— "Why are so many not well informed on processes and tools that work?

— "What will it take for more insurers to get moving on transformation?"

Looking over the horizon, McCorry offered points of view on an array of issues:

— **Adoption of sensor-driven loss-prevention offerings:** The sensor technology wave is real and building, and insurers see more of their revenue coming from prevention in addition to protection.

— **Rates of disclosure of personal information:** The rate of disclosing personal information is increasing. Generally, the older the individual the less willing they are to share their information. But we also see that as Millennials' amount of hard assets increases, they tend to be less willing to share their information.

— **Decoupling the value change:** When we talk to clients, this is the topic they focus most on. Many do not want to own all elements on the value chain. They would rather focus on just a few and be top-of-class in that segment.

— **Sharpening insights and analysis capabilities:** Use bigger pilot programs that have a foundation built on analysis of the data already in the organization.

— **Organizational simplification:** Insurance is a complicated industry to organize. Know what you want to be.

— **Innovation enablement:** The tools that are working now should not be viewed as fads. They will stick.

— **Speed of change:** Some of the best innovations come to the businesses that are wide open to new ideas. Cultivate a culture that encourages new ideas. In that environment, positive change happens quickly.

Reviewing the digital scorecard

Expectations by insurance customers and other stakeholders are high when it comes to digitization of the organization, but slow progress across the industry has created a gap that has not been filled.

A focus on engagement is "the key to everything," a panelist said. In order to understand the protection and prevention needs of customers, insurers need to do a better job of collecting and analyzing the data. Putting sensors into homes may be a goal for insurers, but there is resistance among retail customers. Insurers must tell the story better to the consumer market about how these sensors will help avoid problems before they occur.

On-demand insurance is growing and effective. In some cases it has reduced the time to issue a policy from six weeks at traditional insurers to 48 seconds from insuretechs, one panelist said.

Connecting the dots between traditional and new digital economies

Creating a solid connection between traditional and new digitally powered insurers relies on the recognition "that products across traditional businesses are not very differentiated," as one speaker put it. Therefore, to make progress more likely, traditional insurers should be aligning with insuretechs. It is far less emotionally negative for newer industries that have newer technology stacks. Function and emotion should be connected. Function is the reason a customer comes to an insurer in the first place, and emotion is defined as the way consumers act during their relationship with the insurer. Customer experience relies only so much on technology. How we use people, such as customer-service agents, is critical.

Fast money/Slow money
Fast money is used for ongoing expenses, such as money to pay bills and buy groceries. Slow money is used to fund investment and savings accounts. Insurers will need to figure out ways to help people who are paying a bill to easily and quickly slide some of the money in their paychecks into a savings/investment vehicle.

Driving growth through distribution

Will online-only and mobile-first channels become even more prevalent than agent-driven distribution? There is little consensus on the issue, although increased sales and better conversion rates will rest on how well the industry motivates consumers. An educated consumer is more likely to make a purchase than one who knows little about the purpose and benefits of coverage—especially on the life and wealth management side of the industry. Nevertheless, with the average age of an agent currently about 59 years old, the industry will need to focus more attracting a new generation of agents. A panelist also suggested that insurers must go on the offensive: "Procrastination is a very powerful force," he said. In order to maximize any newly created distribution strategy, consumers have to use it, and they need to be "gently prodded toward examining their insurance needs and then nudged again to take the next step to buy products."

Keynote interview: Putting a stake in the ground

At 92-years old, Maurice "Hank" Greenberg, chairman and chief executive officer (CEO) of C.V. Starr & Co., brought many decades of perspective to the summit. His message was unequivocal: "Technology is not the answer. Management is the answer." He added that while insurance "is an industry that doesn't adapt to change very easily … if you are a change maker, you have to be patient. It will happen, but it will take time." When asked why it is taking so long for the insurance industry to adopt change, he answered: "It's not the insurance industry; it's the people in it." As others before and after him mentioned during the innovation summit, Greenberg stressed that insurance "will always be a people business" and that although emerging technologies hold immense promise, "we look at these things as helping an underwriter with underwriting better … and helping our people in claims."

Deepening the insuretech relationship

The next big thing coming out of the insuretech wave will be more of the same—only at a faster pace. Although they have presented a threat, insuretechs have given life to innovation in the traditional insurance industry, and it's now up to the major insurers to rev up the engine of change. More than half of all U.S.-based insurers already are invested in some way with insuretechs, and Wall Street is paying attention, a panelist said. Analysts are pressing traditional insurers on how they are digitizing, and how digital solutions are ingrained in their strategy. A venture capital investor said her firm wants to deal "with (insuretechs) who have entrepreneurial experience, but that also do not distain industry experience."

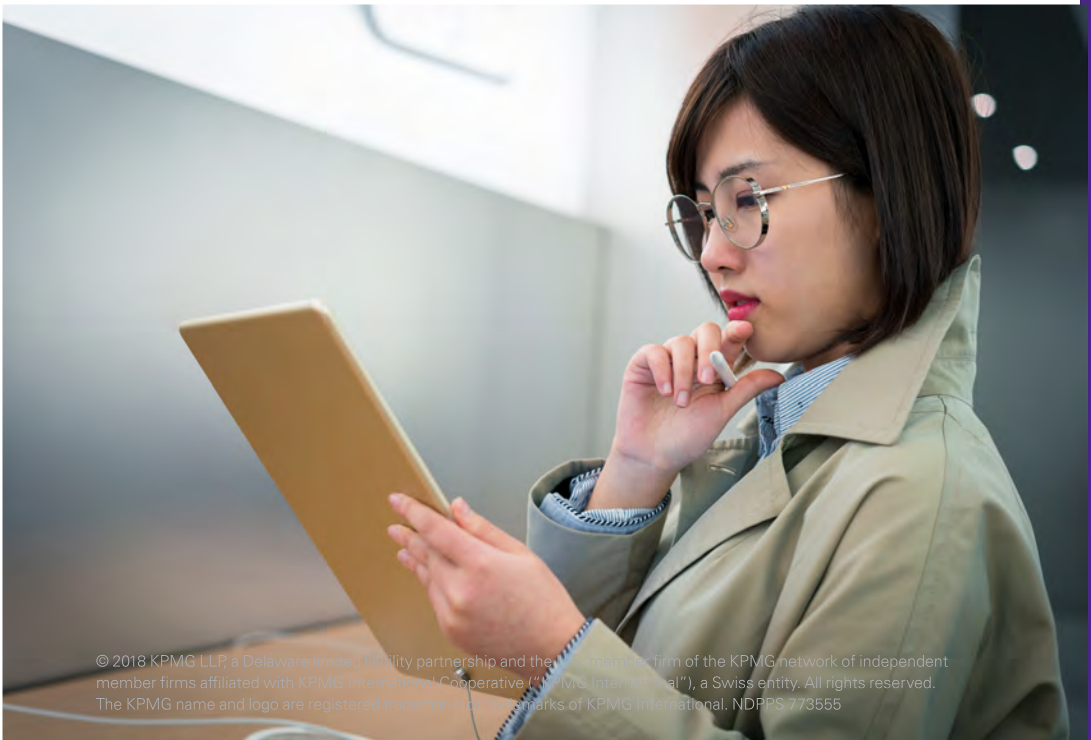
Automation, artificial intelligence, and machine learning

Although the amount and complexity of data that needs to be leveraged by insurers is staggering, there is no option but to manage that challenge. That situation inevitably means that insurers increasingly will need to invest in artificial intelligence and machine learning (AIML) in order to meet their goals of reducing costs associated with underwriting, claims, and regulatory compliance reporting. Further, insurers will need to increase AIML efforts in order to provide consumers with personalized solutions.

"Technology is not the answer.

Management is the answer."

– Hank Greenberg



Keynote interview: Building insurance for the 21st century

It took Daniel Schreiber, cofounder and CEO of Lemonade, the digital app-powered renters and home insurance company, just a few words to answer a question about what it will take to advance the industry in measurable and meaningful ways. "Until you can create trust with the customer," he said, "things will be difficult … I think there is a deep-seated perception problem in insurance."

Although the industry "provides a social good … and it also has helped many people and businesses, it is one of the least loved sectors in our economy." Lemonade was founded, he said, to reverse that reputation, and is using a combination of artificial intelligence, machine learning, and behavioral economics, to try to "get back to basics."

Lemonade decided it would be best to build an entirely new company rather than sell its idea to an insurance company "because the problems in the traditional industry are structural. They run deep. They are cultural. It just made sense for us to do it the way we did it."

The changing nature of risk

Technological advancements and the proliferation of data are altering the ways insurers assess and underwrite risk, creating the need for new ways for risk to be managed. As the nature of risk evolves, so too must the industry and the regulatory parameters it operates within. Traditional assumptions need to be reevaluated. One need look no further than our cars and the use of mobile devices in them to understand the proliferation of distracted driving as people check e-mails and texts, watch videos, or make phone calls. Some insurers are offering an app that measures the extent of a driver's distraction, and the insurer then shows a score to drivers who agree to use the app. Those who score well may see premiums lowered.

Gathering data about behaviors can be a contentious topic, even if the data is used for prevention purposes. An insurance regulator said he and his colleagues "always worry that data gathered as part of the underwriting process might be used to segment someone out of coverage."

Closing

Judging from the diversity of opinions, as well as the many examples of agreement, the industry clearly stands at a pivot point.

But make no mistake, the drivers of change are consumers. They have witnessed the onslaught of insuretechs and they are intrigued by the products, services, and interactions those new entrants have brought to the marketplace.

Without question, a number of forward-thinking individuals leading insurance companies are proactively managing for the future; others are still studying the landscape and, as a result, are risking the existence of their businesses.

Join KPMG at the 2019 Financial Times Insurance Innovation Summit

KPMG is a proud sponsor of the Financial Times Insurance Innovation Summit taking place on **April 11, 2019, at Convene in New York City**.

This event will once again bring together leading executives and industry experts to provide insights on how insurers should balance growth, customer satisfaction, agility, and innovation in order to stay ahead and remain successful in this rapidly evolving industry.

We look forward to connecting with you at the Summit!

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