

# The innovation imperative continues



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In today's technology-enabled world, the insurance industry is standing on the cusp of a major renaissance. Innovative technologies and business models are changing the way people think about insurance — giving rise to new products, services and opportunities to enhance customer value.

Investor interest in insurtech, the cutting-edge technologies helping to change the face of insurance, is exploding, and is poised for more growth in the year ahead.

For companies in the insurance industry, innovation is no longer a choice; it is an imperative. Consumers themselves are demanding better options. They recognize the new value they are receiving as a result of innovations in banking and other sectors, and they want their insurance providers to give them the same level of value and customization.

Companies that are unwilling or unable to embrace innovation as a means to respond to the demands of their customers will quickly become irrelevant.

### The rapid rise of insurtech investment

Insurance companies have recognized the importance of innovation for the last several years. A reflection of the growing significance being placed on industry transformation has been the rapid rise in venture capital (VC) investment in insurtech globally, much of which has involved corporate investors.

## Insurance

In 2015, VC investment in insurtech was US\$590 million — a considerable sum compared to 2014's US\$404 million. In 2016, however, investment in insurtech skyrocketed, doubling the previous year's investment total to break the US\$1 billion mark by a significant margin.

As insurtech companies mature and show success, investments in insurtech will likely continue to grow, leading technologies to evolve even more rapidly. This will only put more pressure on insurance companies to either embrace innovation or find ways to take advantage of what other companies are doing.

### Recognizing the opportunities presented by insurtech

In the banking sector, fintech innovation over the past few years has led somewhat to a dissolution of the banking value chain. Any number of technology startups have shorn off a part of the banking operations (e.g. payments, lending) and developed niche, tailored service offerings for either businesses or individual consumers.

The insurance industry is now facing a similar dissolution, with insurtech companies looking to unpack different areas of the insurance value chain in order to create business opportunities. Many traditional insurers recognize they need to up their game in order to respond to these challenges without losing market share. For these companies, one of the strongest opportunities presented by insurtech is the ability to disrupt and enhance the insurance business model; for example, by opening new channels for insurance products, by speeding up the claims processes or by providing mechanisms to tailor insurance products based on data analytics. Insurers willing to work with insurtech companies on these types of initiatives rather than seeing them simply as competition will be in the best position to respond to the rapid evolution of the industry.

### Approaching insurtech investments and opportunities

Recognizing the value offered by insurtech companies and being able to take advantage of the opportunities they present are two very different issues. Each traditional insurance company needs to independently determine how best to approach insurtech given their unique circumstances and situation. As a starting point, companies should consider the following activities:

#### 1. Define current problems

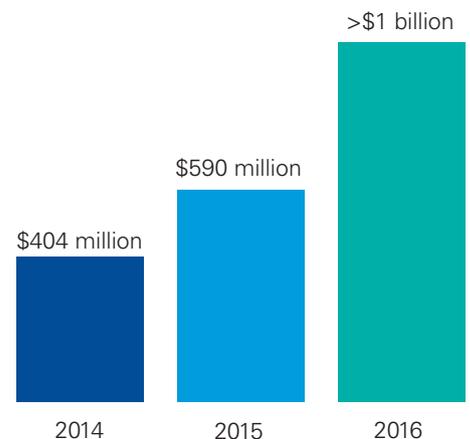
Too often, companies get caught up in an exciting new technology without looking at how that technology can help them. Before deciding which innovations to invest in, insurance companies should define the problems they want to resolve — whether that's reducing claims wait times, decreasing operating costs or providing more tailored insurance products. Identifying customer pain points and challenges can be a good place to start as resolution of these problems can have a positive resonating impact on an organization's entire operations.

#### 2. Identify insurtech opportunities

Once the problems needing to be addressed have been defined, insurance companies can then approach identifying and working with insurtech companies in a number of ways. For companies with a well-defined problem, finding a company with a technology able to address that need may be the most effective solution — for example, by running an innovation challenge with a partner like Matchi to identify relevant insurtech solutions.

For companies with a more complex or series of problems to address, developing an in-house innovation lab (i.e. digital garage) can be a good way to help foster innovative solutions. In this model, a traditional insurer would foster the growth of a group of insurtech companies while having them work on solving their specific business

### VC investment in insurtech



Source: Pulse of Fintech Q4 '16: Global Analysis of Investment in Fintech. KPMG International



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challenges. A number of these labs already exist in the insurance sector, including Met Life's LumenLab in Singapore — which focuses on driving insight-driven solutions, and Allianz's Data Lab — which focuses on harnessing digital innovations and advanced analytics. Aviva also hosts a digital garage to support collaboration and innovation between commercial teams and creative designers. For this model to be effective, the role and relationship of innovation relative to the strategy of the group, core functions of the organization and any transformation programs would need to be well established.

### 3. Address integration challenges

Regardless of how traditional insurers go about identifying or developing innovative technologies, they need to also remember that technology is only as good as their ability to implement it effectively. As part of their innovation approach, insurers need to examine their ability to integrate technologies obtained from insurtech companies within their operations. This might include evaluating the innovation culture of the organization in addition to any technology barriers that would affect changes from being implemented. Companies can then use this information to design a better road map for change so that innovations are not created in a vacuum without the ability to properly execute them.

### 4. Bring together the right partners

The big buzzword in insurtech right now is partnering. While insurtech startups need access to distribution in order to scale their businesses, most don't have the time, patience or money to get involved in the more tiresome,

regulatory and capital intensive parts of insurance that would make their organization independently sustainable. That's why many successful insurtech startups have developed a strong symbiotic relationship with traditional market incumbents. These companies partner with established insurers that have the distribution networks, capital and regulatory expertise, but lack the technical know-how to develop specific solutions. Insurers can approach insurtech the same way — by looking for the right partners who can help them address problems and gaps so that they can be more effective.

### Focus on the future

As insurance companies look to understand and take advantage of insurtech, insurance-focused technologies will continue to evolve. Focusing only on what's hot right now may mean insurance companies lose sight of what opportunities might be right around the corner. Keeping abreast of evolving trends in insurtech is critical to the long-term ability of insurance companies to compete. Looking ahead over the next 12 to 24 months, some trends to watch include:



### Technology enablement

Managing legacy systems is a big barrier to innovation for companies in the insurance space — and insurtech companies know it. As a result, there will likely be a focus on technologies that can make legacy systems integrate more easily, such as by opening up application programming interfaces so that companies can fully take advantage of the outcomes of any partnership endeavors.



### Cross-industry applicability

Insurers should keep up-to-date on technology innovations in fields like retail, banking and automotive as they may have applicability to the insurance space. As these other sectors converge with insurance, they will provide new opportunities and threats to insurers. For example, banks and vehicle manufacturers may use convergence to capture more of the insurance value chain, or insurers could work out how to partner with them to open up new markets. With industry boundaries blurring, more opportunities are coming into play.



### Proactive technologies

Over the next year, there will likely be an increase in technologies that can help insurance companies provide more proactive services to their customers. A number of companies already offer these types of solutions, including Helium — which provides environmental sensors that notify users when conditions change, and Kinetic — which has designed wearable devices aimed at reducing workplace injuries.



### Improved customer experience

One of the biggest areas of opportunity for insurance companies when it comes to insurtech over the next

year will be the ability to vastly improve customer experience through data and analytics. Most insurance companies have an immense amount of data at their fingertips. Being able to use this data to provide tailored services to customers or to help them manage their risk more effectively could become a key competitive advantage in the future. The insurers that can get customers to trust that sharing their data will result in better products, services and experiences for them will get the most value out of D&A.

### What's next?

Insurers today need to do more than understand the importance of innovation and the opportunities presented by insurtech companies — they also need to be able to leverage and integrate insurtech solutions within their own enterprises if they are going to grow and be sustainable. While insurance companies face significant challenges, those able to make the most out of working with insurtech companies — whether through acquisitions, direct investments, innovation labs or services agreements — will be well positioned to be industry leaders in the years to come. ■



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