

# GLOBAL INSURANCE FORUM

## **Discussion Group Report: Technology**

Discussion Group Meetings: July 9 & 10, 2018  
InterContinental Hotel Berlin, Germany

Moderators:

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As digitalization continues to spread, technology is becoming increasingly important and a central element for operational as well as strategic processes in insurance companies. There are different perspectives that have to be brought up in a discussion on technology within the overall area of innovation transformation in the insurance industry. While this topic could probably fill a whole day or so, we had just a bit more than about two short hours together on July 9 (Monday) and July 10 (Tuesday) with about little less than 30 participants each day. The discussion among Group Technology at the 2018 edition of IIS's Global Insurance Forum in Berlin was thought-provoking, intelligent, and informed. In the course of preparing for our workshop, several thematic blocks were identified, where interests and contributions of the registered participants were also taken into account. While the first day was designed to give an overview of the situation on technology-driven innovation and its impact on the structure of the insurance industry, the second day went further by discussing concrete examples and actions taken by regulators. It is impossible to capture the richness of all comments and statements in this brief summary, but it is intended to give an overview and might help to jog the participants' memories.

### **July 9 Discussion Session:**

The lively discussion during our Monday session highlighted that the participants are well informed and further have dealt with the current phenomena of innovation driven by technology. We began our session by addressing examples of digital innovations, such as insurtechs, and discussed that they could attack the incumbent players due to inefficiency and lack of transparency in traditional underwriting and processes. Technology and digitalization should thus be embraced by traditional insurers to remain competitive and to address the needs of customers.

This thought triggered the importance of market research on the customers' needs and approaches by the represented companies were described and discussed. Several facets play a role here and topics such as health care and behavioral economics appeared in the comments. It was further pointed out that the complexity in general and with respect to contract design could be a problem for the end consumer, through which the focus is laid on exclusions rather than on insurance coverage and benefits. One message was that transparency and simplicity is becoming increasingly important in insurance operations.

Regulation is seen as an important design element for digital insurance solutions. It requires collaboration between insurers, investors, and regulators to capture opportunities and contain threats for society. The discussion group found that each region and country is struggling with different problems and challenges in this respect. It was mentioned that regulatory authorities are quite interested to further develop current structures and that they are generally open to suggestions by companies.

Another important point in the discussion was that there will be a need for insurance coverage for emerging risks, such as driverless cars or drones, and also claims might have a different structure in the future, e.g. car accidents could be product liability cases at some point. In addition to this, there will come up new possibilities to predict claims and this potential can hardly be foreseen as of today. Here, a vision could be that insurers will shift from bodies that tackle losses and payments to bodies that prevent losses.

In any case, human expertise will still be needed to address new technological applications and emerging risks for society and that there is a need for employees that are proficient in the areas of insurance as well

as in technology. A solution has to be found, as otherwise there will be a clear gap on the job market. Numerous tasks within an insurance company can be (fully or partly) automated and thus technology will continuously change the job structure and requirements for future employees. It should also be clear that this is not a one-time event, but one should rather be prepared for continuous change that will determine the future.

### **July 10 Discussion Session:**

We continued our session during a working lunch on Tuesday and discussed the addressed topics from the previous day in more detail. The starting point was the idea of product simplicity (vs. individualization) and also the focus on the customers' needs. Triggered by Henry Ford's quote, "if I had asked people what they wanted, they would have said faster horses", we discussed that these needs might not be fully known to the customers right away and an in-depth collaboration with the customers in the field of application is needed to identify their concrete needs. By comments from different parts of the world, it became clear and was confirmed that the protection gap can vary (sometimes considerably) between markets and countries.

Online platforms can here be very helpful in various ways. Customers could be informed about risks and possible product solutions. Furthermore, technology can guide customers to configure and select tailored products and in addition to this, such processes could generate considerable amounts of data that might be a valuable resource for insurance companies. Several participants reported on their activities and explained how they are approaching the use of technology and, in particular, online platforms. It could be seen that different strategies are pursued. While some participants develop in-house software solutions, others rely on external IT service providers. The decision on build or buy depends on the specific situation. It could be also seen that insurance companies consider technology as a commodity and that the value is created by the applying it to specific business tasks.

Emerging markets are particularly of interest, since there are few or no established structures of the insurance industry in place. In those legacy-free markets, new technology, such as smartphones, enables companies to reach new customers that previously did not have access to insurance products at all. However, regulation can make the distribution of insurance products via new channels (such as smartphones) difficult and concrete examples from Malaysia and Nigeria were discussed. Regulation focuses on policyholder protection and in many cases its current design is incompatible with new technologies. The digital transformation in insurance companies can thus not evolve as fast as in case of other players, such as in case of cross-sector Internet platforms. On the basis of the particular case of Alibaba, we discussed the relevance of such platforms for insurance products. We further addressed the idea of bundling products and services from different lines of business, e.g. the distribution of insurance policies together with mobile phone contracts in India.

It was further addressed that digital transformation can be delayed and made more difficult for companies when employees do not accept the change and the overall paradigm shift of the value chain. This should be tackled by round tables with the stakeholders before and during the transformation process, or similar other formats, which could also help to break silos. These points were discussed in more detail on the basis of blockchain. Attendees from different countries reported on consortia of insurance companies that jointly work on blockchain solutions, where also regulatory authorities participate. Blockchain initiatives presented were all models for domestic markets, however, our discussion group participants struggled to see how blockchain could be applied in international contracts. Blockchain was regarded as particularly interesting for fraud prevention.

These examples clearly show that considerable capital requirements are necessary for new technologies. Industry-wide standard solutions offer the benefit that economies of scale might be achieved, however, the aspect of genuine innovation could then be lost. Relying on external IT service providers can result in a dependence structure that might lead to considerable running costs and is not necessarily better than in-house developed technology.

In summary and in light of what was said, the insurance industry is facing considerable challenges to not passively or reactively implement the digital transformation, but further actively advance with its own innovations. Through new technology, the insurance industry will considerably change in the years to come and it can be seen that companies are aware of that and work on various approaches. Not one single best practice can be identified and this reveals the enormous potential of digital technology allowing many different ways for the innovation transformation in the insurance industry.