INTERNATIONAL INSURANCE SOCIETY

An affiliate of The Institutes | Risk and Insurance Knowledge Group

Potential and Peril

"The power of technology and data to transform insurance."

The insurance industry is being transformed by an astonishing array of technological advancements, exponential growth in available data (and significant and ongoing improvements in data quality and timeliness, especially concerning access to real time data) and literally quantum leaps in the ability to process, analyze and disseminate data. These phenomena dominate insurance press headlines and insurance conference programs. More importantly, they are hot topics within insurance C-suites and among insurance regulators globally.

InsurTech, RegTech, digitalization, data analytics, artificial intelligence, intelligent algorithms, machine learning, automation, and other developments have generated excitement (sometimes breathlessness) about the potential to add value across the insurance sector value chain. They have also generated concern and suspicion among some insurance sector stakeholders – including most importantly consumers and regulators.

This wave of technological advancements has the potential to profoundly alter the insurance industry— by extending its reach, supporting the development of new and more relevant products, improving the customer experience and helping to close the protection gap that exists in all lines of business and in all markets— mature, developing and emerging. But technology in and of itself is not a solution or a strategy. Technology is a tool. How it is used is key.

I believe the most successful insurers going forward will be the ones who take a step back and consider how technology and innovation can improve the fundamental value proposition of the insurance industry. The goal should not be to use technology simply to do what has traditionally been done better, but to think critically and imaginatively about what customers need and want and to deliver that in a prompt, efficient and effective manner. This will not only open new opportunities but also help build trust and confidence in insurance.

In seizing the opportunity that technology presents, it is important for insurers to consider the many ways that insurers can enhance resilience , including, increasing risk awareness, assisting with risk mitigation and loss prevention and risk financing. As some examples of what can be done, consider the impact of wearables that can provide real-time assessments of workers safety or the health of individuals and provide early warning of potential harm, the use of satellite imagery and other earth observation tools to monitor weather, land and sea conditions which can help manage and warn of the danger from wild fires, landslides, flooding , windstorms, tsunamis and other natural catastrophes, telematics which have long been a factor in auto insurance and now driverless cars, which will completely change the auto insurance market. Data and technology are also expanding the potential use of parametric insurance products for a wide variety of risks. Parametric insurance can simplify the scope of coverage and ease and accelerate claims settlements (long a source of friction with consumers.) Of course, parametric covers include basis risk (particularly for insureds) which must be managed. But here too technology can help reduce basis risk significantly.

Too often it seems, insurers only promote their risk financing function—the collection in premiums and the payment of claims when losses occur. But the insurance industry does much more – and can do even more with the aid of technology-- to help individuals, corporations, governments and other assess-- and hence understand --their risk exposure and to take steps to mitigate or prevent these losses. These pre-loss services have many advantages, they provide upfront value and are often ongoing, which provides insurers with continuing, constructive engagement with their customers. And of course, these services can help avoid destruction of property and loss of life or injury. This dynamic could be a game changer for many insureds, whose interactions with their carrier usually only revolve around application for coverage, payment of premiums and the claims process. These are not the highlight of the day for most consumers.

The potential impact of technology on insurance markets is not, however, all positive. Insurers need to be mindful of the potential perils involved. The dangers include alienating consumers, triggering regulatory and legal challenges, and opening the door to new competitors. The dynamics within the regulatory environment illustrate many of the pros and cons of technological advancements.

Insurance regulators in many countries have long been alive to the potential of technology to change the business of insurance. They see the potential benefits in terms of product and service innovation that could better serve consumers and indeed regulators. But regulators are increasingly concerned about potential adverse consequences for consumers. These include cyber security and data privacy issues, implicit bias with AI and machine learning, data availability that could incorporate prohibited underwriting metrics. There is also the concern over transparency of technology driven processes, including underwriting models (the black box syndrome). In addition, there are asymmetrical technological capabilities among the industry, regulators, and consumers, which can lead to problematic results.

Insurance regulators are also aware of the need to reassess and updated insurance regulatory rules to accommodate new products, services, and players within the insurance sector. To their credit many individual regulators and regulatory groups, like the NAIC in the US, EIOPA in Europe and the IAIS internationally are already actively engaged in study and dialogue with the industry and tech providers in an effort to make informed decisions about what changes in regulation are needed. These include
new data protection and consumer protection rules, revising licensing requirements, which can seem obsolete in light of new forms of risk sharing and new channels of distribution and methods for communication with policyholders. In addition, coordination and harmonization of regulation is increasingly important given the ongoing globalization of insurance products and services.

The development of the next generation of insurance regulation and its support of or restrictions on the use of technology by the insurance industry, will turn on the level of understanding and confidence that regulators (and law makers) have in the fairness and transparency of how the insurance sector is using their new technological tools. The industry needs to continue and indeed increase its engagement with regulators on developments. In this context, ignorance is not bliss—whether this is regarding a regulator or a consumer. Both need sufficient knowledge and confidence in what the industry is doing—what data it has access to, how it is using it, and what the intended or unintended impacts of this use are.

The insurance industry is at an inflection point. Risks are changing (climate change, pandemics, cyber to name just a few). Increasingly, we see dramatic limits on the ability of the private insurance sector to provide sufficient coverage for these risks. Consumer needs, expectations and experiences are changing across all markets, including personal and commercial insurance and within property and casualty, life, health, or other lines. Competition from non-traditional players is increasing and will continue to evolve. Moreover, these developments are taking place within a period of great economic and social change. This all provides an opportunity for the insurance industry to step up in new and innovative ways and thereby enhance its value proposition for consumers as well as its own business prospects and its reputation as a force for good in society. It should not let this moment pass by.

11.2020

Bill Marcoux
IIS Research Expert: Regulation

About the Author:
Bill is an advisor to senior insurance executives, board members and other insurance industry stakeholders. He has 40 years of experience working in the insurance sector, most recently as the global head of DLA Piper's Corporate Insurance Practice and previously as co-head of the insurance sector practice at Dewey & LeBoeuf. Bill is a chair of the Insurance Development Forum's Working Group on Law, Regulation and Resilience Policies and is a member of the IDF Operating Committee, he serves on the Advisory Committee to the Dean of Michigan Law School and on the Executive Council of the International Insurance Society.