After the shock

Insurance in 2021 and beyond

Emerging trends that are shaping the landscape of the personal, SME and commercial insurance segments in a post-COVID world

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Executive Summary

There are moments in history that mark significant turning points for an industry. We are coming towards the end of one of those moments. If 2020 was defined by a single, global market shock (that of the COVID-19 pandemic, in case you weren't sure) then 2021 – in a business sense – will be defined by how organisations respond to the 'new normal'.

The 2008 financial crisis is the most recent example of a similar shock; the financial services industry must learn lessons from the aftermath of this event. In the years following the crisis, financial service providers were so pre-occupied with recovery and compliance to new regulations that they took their eyes off investment in new technologies that could have provided a competitive edge. Many commentators attribute the rise of FinTechs to this event; with banks and insurers distracted, a gap opened in the market for high-tech financial service propositions.

We saw this trend occur within the insurance vertical, as the InsurTech revolution accelerated. The lowest hanging fruit was personal lines – providing the digital experience that customers demanded and incumbents weren't providing – but as the years have passed, we have seen InsurTech start-ups emerge in the SME and commercial lines space, too.

As we enter 2021, insurance – like most other market segments – will be coming under significant pressures that did not exist 12 months ago. As consumer confidence falls, businesses close, capacity exits the market and interest rates fall worryingly close to zero, insurance companies must look for new and innovative ways to gain a competitive edge over their rivals.

We will have to wait and see whether the industry has learned its lessons from 2008. An economic shock has the capacity to create winners and losers; insurance companies that want to be on the positive side of this fence must fight the urge to pull back on technology investment, and rather increase their focus on digital transformation. Initial outlook is positive, though; COVID does appear to be acting as a catalyst for technology investment, accelerating transformation.

In this report I hope to show where the competitive advantage lies within each segment of the insurance market – personal lines, SME insurance and commercial lines – by highlighting the key trends and direction of movement of each. I will also touch on MGAs and Underwriting Agencies, Big Tech in insurance and the high-level technology trends we are seeing in the market.

It should be noted that there is a UK bias towards some of the data used to evidence the trends that I am seeing within the market. This is because I am based in the UK and thus have greater access to UK-specific information. However, whilst the data may be country-specific, the trends are not. In my role at SSP I speak to insurers across the world and from the conversations that I have had with these executives, it is evident that the insurance market is moving in the same direction globally.

Of course, the specific manifestations of these trends will differ by region, and some countries will be further along the journey, but my hope is that by highlighting the direction of travel I can help in your strategic planning for 2021 and beyond.

The market is challenging, but the possibilities are huge. I wish you the very best in navigating the path to success in an insurance market that is finally loosening the shackles of its reputation as a 'boring industry'; I genuinely believe it to be one of the most exciting markets to work in.

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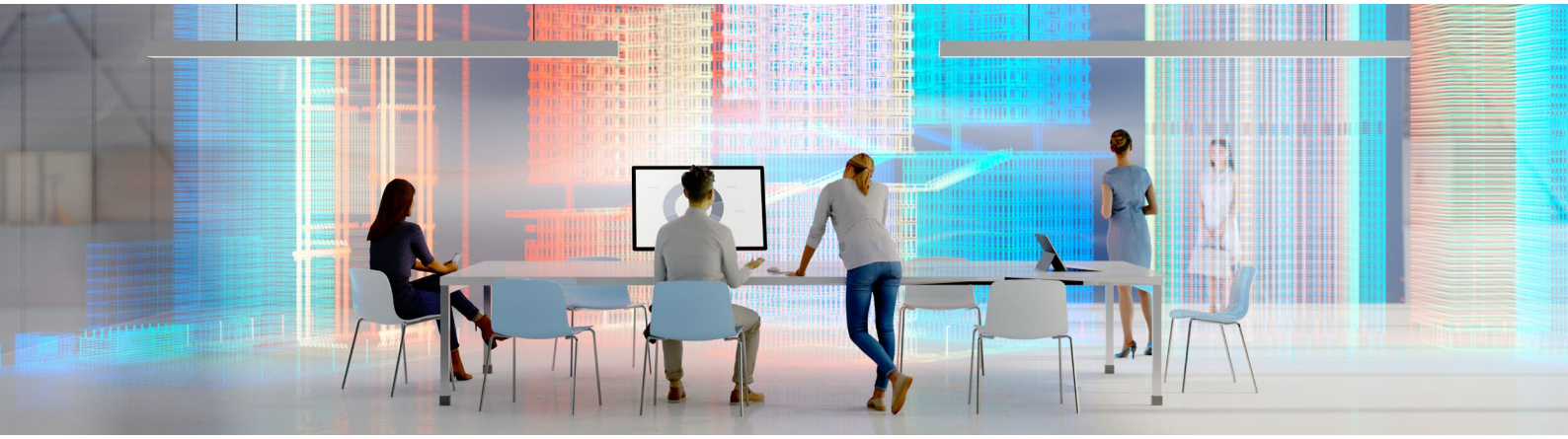
Personal lines: Winning (and keeping) the digital-native customer



Historically, personal lines insurers have competed almost exclusively on price. This is changing. There is a notable shift towards a customer-centric approach that does include presenting a competitive price but also goes far deeper, delivering an end-to-end digital experience that continually adds value to the customer's life using smart technology.

Of course, price remains important to acquiring customers. In an immensely competitive market insurers will often discount new business quotes to unprofitable levels in order to acquire customers; margin is made on the inflated renewal prices. According to Consumer Intelligence[1] 84% of UK motor customers shopped around for their insurance at renewal, with 53% staying with their existing brand. Interestingly, however, the same report finds that brands which increased price at renewal by a higher than average price rise achieved – counter-intuitively – a significantly higher level of renewal retention than those insurance brands that increased prices by less.

Evidently, something more is at play here; whilst price is consistently named as the key determining factor for consumers when selecting an insurance partner[2,3], it is not the only factor at play. Brand trust, customer experience, personal recommendations, online reviews and ease of purchase are also contributing to consumer buying behaviour.

All of this is occurring in a consumer market that is evolving at unprecedented rate. Consumer confidence plummeted through 2020 and is likely to remain low for at least the next 12 months. Total UK consumer spending is expected to fall by a staggering £183.6 billion (14.9%) in 2020, according to a Mintel[4] report. Whilst overall spending is falling, online retail – which has been growing for a while – has expanded its footprint dramatically as retail stores were closed in line with various lockdowns across the globe. According to the Office for National Statistics[5] internet sales as a percentage of total retail sales in the UK soared to 36% in November 2020 compared to 20.2% at the start of the year.

These online retailers are setting the customer expectations across all verticals; consumers do not segment their lives into different markets and form opinions on brands on an industry-specific basis, but rather expect all companies to match the very best customer experience they receive anywhere. This means easy online purchasing journeys, personalised experiences, integrated add-on services and rapid customer service response times are now expected by the customer.

In order to win and retain customers, insurance brands are assessing their approach to personal lines insurance with the customer at the front of mind.

[1]The virtuous circle: Customer retention in the general insurance market, Consumer Intelligence
[2]The Digital Insurer: Accenture US Personal-Lines Insurance Consumer Survey, Accenture
[3]UK Personal Lines Insurance: Distribution and Marketing 2019, GlobalData
[4]Mintel British Lifestyle Report
[5]https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi

The success equation is simple:

Effective pricing + **Excellent customer engagement** = **Improved customer acquisition & retention**

We are therefore seeing significant advancements across the entire value chain; distribution, pricing, customer engagement and insurance products are all changing at a speed of knots as personal lines insurers pour their resources into developing the very best customer propositions, priced at the right level.

Distribution: Cheap, easy and online, please!

They say that you don't get a second chance at first impressions. A customer's first impression of an insurance company is the new business quote; you cannot afford to stumble at this first hurdle. Insurers and intermediaries alike will be looking at methods of improving the purchasing journey in order to win more customers (increasing revenue) and establish themselves as customer-centric, technologically advanced entities (improving brand reputation).

With the increase in online retail, insurance customers expect to be able to purchase their cover online. GlobalData[6] research indicates that 66.6% of UK home insurance policies and 68.3% of motor cover was purchased online (via a laptop, PC, smartphone or tablet) in 2019. Whether an insurer, bank, broker or affinity partner, a slick and easy-to-use online web journey is essential to win new customers.

GlobalData's research also shows that almost half (48.1%) of personal lines premiums were sold direct from the insurer.

When asked why they chose this channel, 38.5% of consumers named lower premiums as a factor; by passing on the savings made by selling direct, insurers are successfully winning new business.

Interestingly, 13.6% of consumers also cited the fact that the purchasing process was quick as a determining factor in their choice of the direct channel. According to The Insurance Times (quoting data from Aviva and Legal & General)[7] 32% of UK adults with home insurance have given up on an application because it took too long or they didn't have the right information, and 76% say that the home insurance industry needs to simplify the quotation process. Innovative insurers are therefore using third party data to source risk information, thus shortening the buying journey for customers. This approach ultimately leads to improved conversion rates as well as more precise risk profiling; third party data is often more accurate than customer sourced information.

[6]UK Personal Lines Insurance: Distribution and Marketing 2019, GlobalData
[7]Insurance, with no questions asked, Insurance Times

> Until now, taking out insurance has meant running a gauntlet of complex questions to achieve the peace of mind that home insurance can bring but many of these questions – such as the type of door and window locks – can be difficult to answer. By removing these difficult questions, we're not only saving customers time, we're reducing any worry they may have about providing the right answers.

Owen Morris | Digital Director, Aviva

Insurers have gained significant success in their attempts to shorten the web journey for household insurance. Legal & General's SmartQuote proposition – powered by SSP technology – asks only 5 questions to produce a household insurance quote that L&G will bind on. According to the insurer, the whole quote process takes 90 seconds; we reckon it's a bit quicker!

However, Altus[8] research shows that the best a UK motor insurer has managed to achieve is a 19 question motor quote (Aviva). The same research suggests that InsurTechs have proven capabilities to quote for car insurance in under 10 questions. I predict that in 2021, insurers will focus on simplifying their motor insurance pricing journey, before they move onto the smaller market segments of pet and travel.

Customer engagement: Anytime, anywhere – is that too much to ask?

Whilst the online quote and buy functionality varies amongst insurers, Altus[9] research highlights that even back in 2017 96% of leading insurers enabled customers to quote and buy online. More interesting is the advancement of other functions – namely MTAs, renewals, claims and customer interactions – being made accessible online. The proportion of leading insurers enabling MTAs, renewals and claims online increased from 42%, 21% and 4% respectively in 2017 to 61%, 46% and 27% in 2018. In 2018, 58% of leading UK insurers also offered customer interaction via Webchat, Smart FAQs and Chatbots. This data is now two years old, and the strong indication is that this acceleration in insurance functions being made available online has continued, as I will evidence below.

[8] https://www.altus.co.uk/insights/digitalbar-quote-buy-questions-car-insurance
[9] General Insurance: The Digital Experience, Altus

Self-service Customer Portals are now essential

Customer portals have been on the agenda for years. Back in 2015 a PwC[10] report stated that "the cornerstone of a digital strategy is the carrier's portal." Whilst some would argue an effective data strategy has overtaken the portal as the cornerstone of digital success, self-service portals remain a necessity for an insurer looking to retain clients through exceptional customer experience. 88% of US customers expect an organization to have a self-service portal[11]; insurers must match this demand.

Effective customer portals must move beyond simply providing policy information, to enabling insurance operations to be easily completed online. This should cover all eventualities; mid-term adjustments and renewals must be able to be completed online. Documents and policy details should be easily accessible. Integrated within the portal should also be intelligent customer engagement features and an end-to-end online claims experience; these two items are where I see most progress being made in 2021, and as such they earn themselves their own sub-headings.

AI chatbots are revolutionising customer engagement

Online web chats tend to be a bit hit and miss. If you've ever been stuck in a logic loop trying to answer a specific question – with no other means of customer service contact – you would be forgiven for being sceptical about the potential for chatbots in insurance. As AI technology advances, however, robots are becoming more and more human-like; according to Accenture[12] "Artificial Intelligence (AI) is fast becoming the insurer's digital ambassador to the world." A combination of robotic process automation and AI interfaces create 'human-like' chatbots, that draw on internal and third-party data sources to deliver meaningful responses.

An Accenture[13] study in 2017 showed that 79% of insurance executives agreed that AI will revolutionize the way they gain information from and interact with customers. By the time a 2019 Capgemini[14] report was released, 49% of the world's top 100 Retail Banking and Insurance organisations deploy chat assistants.

Touchless claims are a genuine reality

The claims process is often described as 'the moment of truth' for customers. For years they have faithfully paid their insurance premium in the knowledge that when a loss finally occurs, they are financially covered. Insurance companies must, therefore, provide a fast and fair service that proves that they care about the customer. The goal has to be 'touchless claims', i.e. a claims process that is entirely automated, with the customer kept up-to-date in real-time regarding the status of their claim, loss recovery and settlement.

This 'touchless claims' approach is not a pipe dream, but rather a reality for the most innovative insurers. A Capgemini[15] report states that "as providing better claims experience is becoming a level playing field, carriers are adopting touchless claims processing to gain a competitive advantage". I have previously mentioned the fact that an improved customer experience drives greater renewal retention – touchless claims will achieve this. Moreover, by automating much of the claims process, insurers can reduce the expense related to loss adjustment; elsewhere in the Capgemini report, it is noted that "loss adjustment expenses account for 9-12% of an insurer's direct written premiums. Insurance firms can reduce this cost drastically by moving towards touchless claims processing".

To achieve touchless claims, insurers must embrace various emerging technologies. The Internet of Things can automate notification of loss (e.g. a connected car can tell the insurer when a crash has occurred), digital interfaces allow the policyholder to upload any photos of the damage, and an ecosystem of connected partners (including loss adjusters, recovery services, claims handlers etc.) can access the information. Many of these partners' processes must also be automated – through AI and Robotic Process Automation – and as such InsurTechs are often present within the ecosystem. Finally, the settlement needs to be automated, paid into the bank account of the policyholder with no friction. An intuitive digital interface – probably a mobile app or self-service portal – must provide real-time progress updates, and AI chatbots should be available to quickly answer any questions that the policyholder might have.

[10]Gateways to growth: Insurance portals that deliver, PwC[11]Insurance, with no questions asked, Insurance Times

[11]https://www.statista.com/statistics/810374/share-of-customers-by-if-they-expect-brands-to-have-a-self-service-portal/

[12]Ever chat with a robot? Insurance tech is getting more 'human', Accenture

[13]Accenture Technology Vision for Insurance 2017

[14]Smart talk: How organizations and consumers are embracing voice and chat assistants, Capgemini

[15]Property & Casualty Insurance: Top Trends 2021, Capgemini

Naturally this will take a significant amount of technology investment to produce, as well as an internal culture that embraces innovation and change. The benefits to the insurer are clear, however; a touchless claims offering increases retention rate through improved customer experience and brand reputation, and reduces claims processing costs by automating processes which would otherwise have required significant amounts of human resource.

The Spanish insurer MAPFRE, in partnership with InsurTech Shift, has created an automated claims process in line with what I have described above.

Reinsurance News[16] describes the proposition:

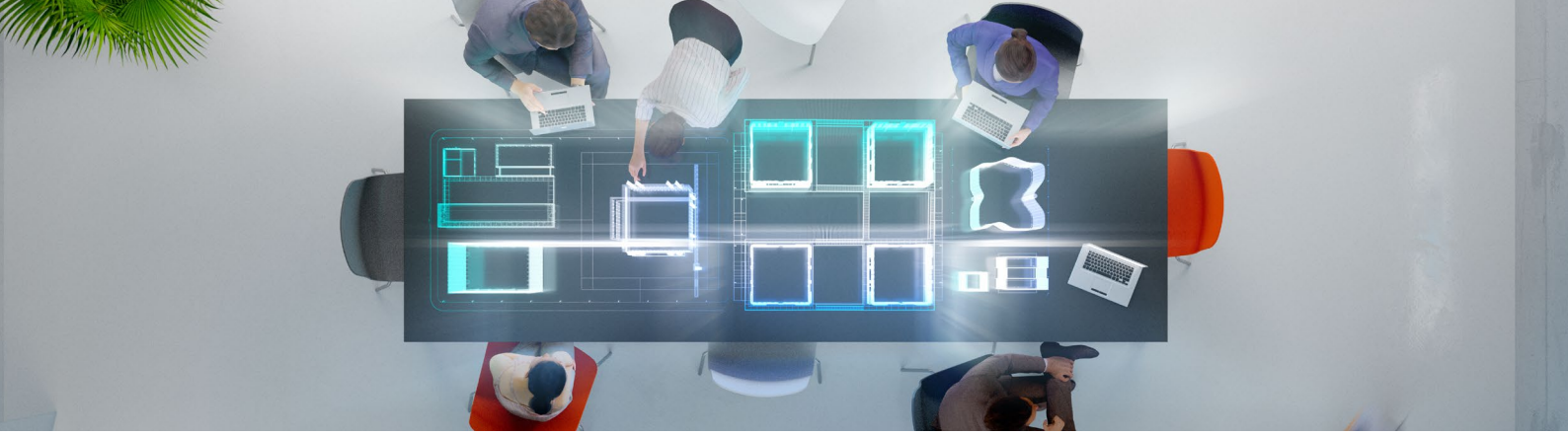
> Shift has joined MAPFRE's startup engagement program insur_space and over the coming months will help develop a roadmap meant to deliver a new kind of claims experience, starting with homeowner claims related to water damage.
>
> Shift's claims automation solution uses AI to instantly identify those claims that can be indemnified immediately, separating them from those that require further intervention on the part of insurance professionals.
>
> The technology reads the insured's policy and analyses documentation, images, and other forms of structured and unstructured data to make the right decision about the claim at every point in the process.

Reinsurance News

Touchless claims as an approach is evidently possible, and I believe we will see accelerated adoption of propositions that automate the claims process into 2021 and beyond.

The customer demand is there, the technology is available, and the business case adds up.

[16]MAPFRE partners with insurtech Shift on customer claims experience, Reinsurance News



Products: You need to do better than just covering my risk – add real value!

The Internet of Things (IoT) – that is, the growing number of connected devices we use in our everyday lives that send and receive data – is finally set to cross over from hype to mainstream business use. According to McKinsey[17], the number of businesses that use IoT technologies has increased from 13% in 2014 to 25% in 2019. From speaking to various industry analysts and insurance professionals, I predict that 2021 will see an acceleration of IoT adoption within the insurance market. In particular, this technology will revolutionise insurance products.

Flexible and personalised

The 'one size fits all' insurance policy is fast becoming obsolete, especially in the personal lines space. A Deloitte[18] study found that 45% of insurance customers stated that the availability of flexible or personalised products is a key differentiator when choosing their insurance provider. Consumers expect a much more flexible and personalised experience from their insurer, and this has only been heightened by the COVID-19 pandemic. Premiums based on behavioural data and monthly 'subscription' cover will grow in popularity in 2021 and beyond.

More than just insurance

The same Deloitte study as mentioned in the paragraph above showed that 62% of survey respondents believed the availability of non-insurance products which add value and are extensions of core insurance products is a key differentiator for consumers when choosing their insurance provider. Consumers expect not just insurance cover, but an interconnected ecosystem of complementary products and services that add real value to their lives. We are likely to see personal lines insurers expand their ecosystems, as they look to compete based on customer engagement rather than just price.

Risk prevention

Another significant benefit of IoT technology is the real-time nature of the data it produces. The upshot for insurers is that through the use of these smart technologies risks can be continually monitored in real-time, with preventative measures carried out at an appropriate point. This marks a significant shift in operating model; the role of the insurer is shifting from that of risk carrier to that of an orchestrator of loss prevention services. Rather than simply paying out a settlement when a claim is made, insurers are taking steps to prevent the loss occurring in the first place.

Motor insurance: The growth and evolution of Usage Based Insurance (UBI)

The breadth of customer data made available by IoT devices means that premiums can be based on customer behaviour throughout the policy lifecycle, rather than static risk information about the policyholder.

Telematics insurance has seen rapidly increased adoption over the last few years – particularly (but not exclusively) for younger drivers – and this market growth is set to continue. Mordor Intelligence[19] forecasts that the Insurance Telematics market, which was valued at USD 1.9 billion in 2019, is expected to reach USD 5.25 billion by 2025, at a CAGR of 18.5% over the forecast period 2020 – 2025. Of course, it is not just the personalisation and flexibility of this sort of cover that benefits the customer; black boxes encourage better driving which reduces the likelihood of a claim.

Consequently, telematics is providing personal and flexible insurance alongside a risk prevention service.

[17] Growing opportunities in the Internet of Things, McKinsey

[18] A demanding future, The four trends that define insurance in 2020, Chapter One: New world, new customers, new solutions, Deloitte

[19] Insurance telematics market – growth, trends, and forecast (2020-2025), Mordor Intelligence

We are also beginning to see a rise in 'pay-per-mile' insurance, with organisations such as By Miles[20] providing an insurance product which has a low base premium which covers the car when it is parked, and then a flexible monthly premium – based on the number of miles driven each month – is added on top. An intuitive mobile app allows consumers to see exactly what each day's driving is costing them in insurance premiums. COVID-19 has dramatically reduced the number of miles that the average consumer drives – at least temporarily – and will permanently decrease business-related travel, as working from home and video conference calling adoption grows. As a result, this sort of flexible, personalised motor cover is likely to become more commonplace.

With the emergence of the 'connected car' which, in essence, is a computer on wheels, the volume of data available to insurers is growing. Insurers must now work out what they are to do with this data. One obvious use case is an evolution of the product types mentioned above, integrated into a single mobile application with a touchless claims process – including automated FNOL and integrations with service providers.

Household insurance: Connected home

Household insurers are also embracing IoT technology, but in a very different manner. Connected home insurance cover combines various sensors and cameras that are included within the insurance product, and strategically located around the home, with helpful home assistance specialists and other relevant service providers. The overall solution is a proposition that alerts the policyholder to any potential loss generating activity – notably leaks and intruders – and provides easy access to services that can minimise the resultant damage. Should the loss still occur, the product still includes insurance cover.

Neos[21] in partnership with Aviva provides this service in the United Kingdom. When a customer leaves the house, they simply swipe a button on the Neos app which activates the Neos security system; a suite of up to nine sensors, cameras and other devices. Smart leak and smoke detectors, and intelligent security cameras, help to prevent losses relating to fire, water and theft. Should the worst still occur, the policyholder is still fully covered with comprehensive home insurance. Neos home assistance team are on hand to resolve any issues quickly and can even arrange for tradesmen to come and fix the problem and settle the bill ahead of time.

Insurance products: Concluding remarks

In summary, IoT technology provides an opportunity for insurers to progress the insurance product from that of covering financial loss – which is often bought begrudgingly – to a flexible, personalised and interconnected suite of services that add real value to the customer and, in the best case scenario, prevent losses happening in the first place.

This is good news for customers – who will receive an improved experience – but it also offers opportunities for insurers to cut expenses and losses, whilst generating greater revenues. It really is a win-win scenario for those carriers that embrace this change.

[20] https://www.bymiles.co.uk/

[21] https://neos.co.uk/

In 2021 and beyond the very best personal lines insurers will take customer-centricity to the next level…

- Create shorter buying journeys
- Deliver intuitive self-service portals
- Provide 24/7 AI chatbots
- Move towards a touchless claims approach
- Develop flexible, personalised products
- Integrate with ecosystems of complementary products and services
- Begin to offer risk prevention services

SME insurance: Serving the modern-day business

The majority of the world's businesses are SMEs – defined as organisations with fewer than 250 staff. In the UK SMEs make up 99.9%[22] of all private sector businesses. For commercial insurers, therefore, small and medium sized enterprises represent a key target group. Whilst the more complex commercial lines policies generate large premiums, SME insurance products make up a significant proportion of policies in force.

The success of these smaller businesses is heavily correlated to the health of the economy. A growing economy tends to signify improved business performance, and – more relevant to current economic conditions – vice versa. According to OECD[23] data global GDP fell by 4.2% in 2020. This only tells half the story, however, as global GDP is projected to rise by around 4¼ per cent in 2021 and a further 3¾ per cent in 2022. Naturally some businesses have already closed their doors for the last time, and others will fail to recover from the initial downturn. But, for those that do survive – and the new entrants that ride the wave of economic growth – the future looks positive. Sustained economic growth will provide SMEs with an environment to thrive.

The face of retail is also changing, meaning new types of SME are emerging as, consequently, are new risks.

One major change is the rapid growth of online B2C retail – a trend that has accelerated due to COVID-19. According to the Digital 2020 report from Hootsuite[24] the UK B2C e-commerce market grew by 11% between 2018 and 2019, accounting for 19% of total retail spend by the end of the year. This trend has accelerated through 2020; the Office for National Statistics[25] reports that internet sales as a percentage of total retail sales in the UK soared to 36% by November 2020. With the growth of online retailing, cyber-attacks are becoming a growing concern for businesses, especially as the volume of personal data held grows.

The emergence of the gig economy is also changing the face of the SME market. As app-based platforms such as Uber and Deliveroo have grown in popularity, so too has the number of people working for such organisations. A study undertaken by the Foundation for European Progressive Studies and University of Hertfordshire and cited by IBISWorld[26] indicated that the number of UK adults working for online platforms at least once a week rose from 4.7% of the adult population (2.3 million people) in 2016, to 9.6% (4.7 million people) in 2019. Personal vehicles are therefore being used for business purposes, and the distinction between personal and business risks become blurred.

In the face of a challenging and changing landscape, SME insurance providers are faced with the task of providing relevant cover to businesses that have – in many cases – seen significant cashflow shortages throughout 2020. Add to the mix the fact that InsurTechs are making increasing inroads into the market and we have an environment whereby SME insurance brands are struggling to see the wood for the trees. There are a few trends that I can see emerging which will help to provide innovative insurance organisations with a competitive edge.

[22] UK SME Insurance: Competitor Dynamics 2019, GlobalData
[23] OECD Economic Outlook, Volume 2020 Issue 2
[24] Digital 2020 (UK report), Hootsuite
[25] https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi
[26] The Future of the Gig Economy, IBISWorld

The battle for distribution: Price or advice?

There is a fierce battle waging between direct insurers and intermediaries for market share of SME insurance distribution. As previously mentioned in the chapter 'Personal lines insurance: Winning (and retaining) the digital-native customer' of this report, consumers purchasing personal insurance products are leaning toward the direct channel, tempted by the lower price and simpler buying journey. You will see in the next chapter that large corporations tend to value broker advice and the assurance of correct coverage more than ease of purchasing and cheaper price that the direct channel would provide. SMEs sit somewhere between personal line consumers and large commercial entities; tight purse strings and busy schedules mean that some SMEs like the simplicity of the direct channel, whereas the need for broker expertise remains paramount. We therefore see a much more diverse distribution landscape compared to other lines of business. GlobalData[27] research shows that for medium sized businesses in the UK, 46.5% of policies are distributed via the broker channel, 23.2% via the direct channel and 22.1% through banks. Whilst the distribution channel varies dramatically amongst SMEs, the method of purchase differs far less: 67% of SME insurance purchases are conducted online.

Whether an intermediary or a direct insurer, there is evidently a market for the taking here; each distribution arm must innovate by taking steps to resolve any shortcomings, in order to succeed.

Broker channel: Improve the buying journey

Brokers are experts in their field and add real value to their SME customers by ensuring they purchase the product which best matches their coverage and budget requirements. Where brokers tend to fall down is on ease of purchase. The GlobalData report (mentioned above) concludes:

> "With two thirds of SMEs purchasing their insurance online and convenience being the key factor affecting the choice of purchasing channel, a strong online presence and user-friendly interface is paramount to remain competitive. This is one of the weak points for brokers, as very few of them have invested in additional online services."

GlobalData

[27]UK Commercial Insurance Distribution 2020, GlobalData

In line with this trend, we are beginning to see a new type of SME broker emerge: digital brokers that provide more commoditised products via intuitive online platforms. Simply Business[28] is a good example of this model being adopted in the UK. The broker provides advice through educational videos embedded in its online platform, alongside large call centres that can answer any queries that the potential client might have.

This 'digital broker' model combines specialist broker advice (where brokers have always been strong) with a quick and easy buying journey (traditionally the broker's Achilles heel). This model will be adopted by more and more intermediaries as they look to match the customer demand for a quick and easy buying journey without compromising on expert advice.

Direct channel: Infuse advice within the web journey

Insurers that sell SME insurance direct have the exact opposite problem. These insurers excel at the ease of purchase requirement; many also offer personal lines insurance where the expectation of a simple web journey is even greater. By cutting out the 'middleman', these insurers can reduce distribution costs; the savings can then be passed on to the customer in the form of cheaper premiums.

If the fallout around the COVID-19 business interruption controversy taught businesses anything, it's that having the correct coverage is essential. As such, expert advice will be increasingly demanded by SME insurance buyers. This does not, however, exclude direct insurers.

Modern technology enables direct insurers to intelligently embed insurance advice within the web journey. Of course, there is a line to toe – insurers cannot claim to be expert insurance advisers in the same way that brokers can – but by giving easy to understand information and help text along the buying journey, direct insurers can go some way to bridge the gap.

This is exactly what Direct Line for Business has done, powered by SSP's insurance technology. SSP helped Direct Line develop an intuitive web journey that asks simple questions and, based on the answer provided, dynamically builds a personalised insurance product – using a 'pick and mix' approach – meaning the insurance cover is both easy to buy and tailored to the specific customer's needs. Direct Line for Business has seen significant growth in terms of gross written premiums and policies in force since going live on the platform.

An approach similar to this is required for direct insurers looking to compete in a market where expert broker advice is increasingly prized by businesses keen to ensure their coverage provides sufficient protection against any future shocks.

InsurTechs: Disruptors or potential partners?

InsurTechs initially focussed on the personal lines market; B2C consumers were those which were demanding the greatest levels of improvements around digital engagement and technological advancement within insurance. However, we are beginning to see those demands drift into business space. GlobalData[29] highlight how the InsurTech propositions are focused on the SME segment of commercial lines insurance:

> A number of InsurTechs have developed propositions to service the commercial insurance sector. These propositions are often targeted towards SMEs, as larger companies will have formed lasting relationships and feel more comfortable with the security of established incumbents.
>
> GlobalData

[28] https://www.simplybusiness.co.uk/

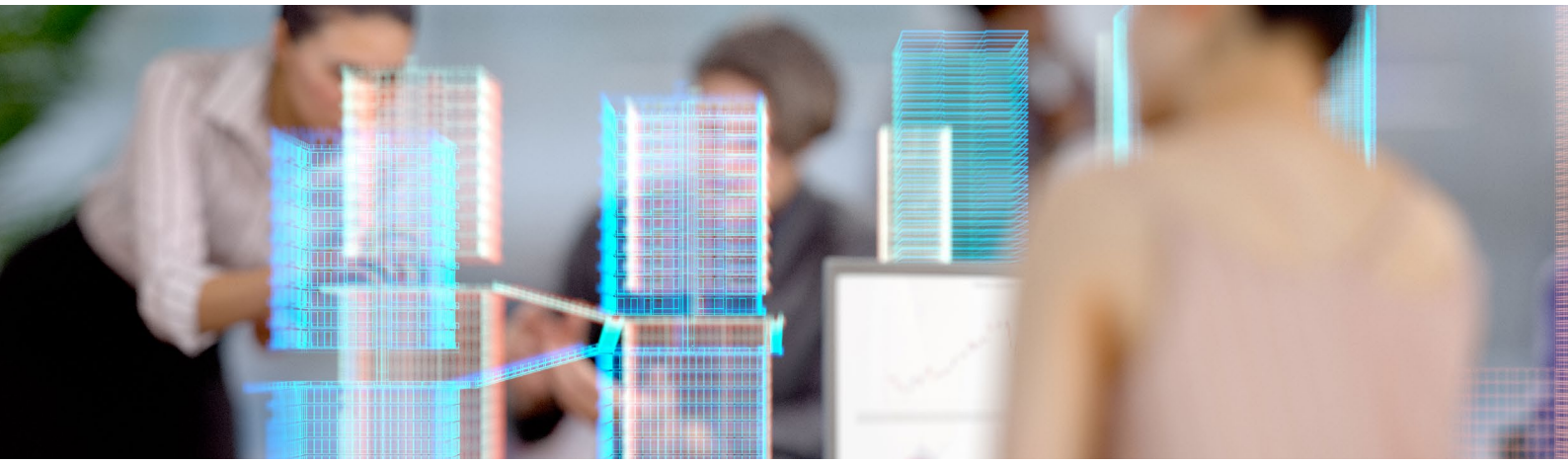
[29] UK Commercial Insurance Distribution 2020, GlobalData

One example of an InsurTech entering the SME space is Zego, which provides flexible, on-demand insurance for workers in the gig economy, notably private car hire, delivery drivers and fleet. (I will go into more detail around these types of products shortly). Interestingly, Zego underwrites its own policies, so is very much positioning itself as a rival to incumbent SME insurance providers.

Whilst some InsurTechs in the SME space have evidently set out to challenge to incumbents, others are partnering. Often, InsurTechs do the front-end, customer-facing element of insurance very well, but they lack the expertise, experience and financial strength to succeed at the behind the scenes stuff (underwriting, managing capacity, policy administration etc.) Resultantly, insurers and InsurTechs are working together to provide new propositions into the SME insurance market.

GlobalData outlines one such offering below:

> Allianz has partnered with InsurTech Dinghy to offer on-demand protection to freelancers working in the gig economy. Through Dinghy, gig workers can purchase on demand public liability, professional indemnity, and business equipment insurance. Customers are charged by the second, and cover levels can be altered through Dinghy's app.
>
> GlobalData



Product innovation: Serving the modern SME

Flexible products for flexible workers

You will have noticed that both InsurTech examples highlighted above relate to gig economy workers. This is symptomatic of the changing face of the SME landscape; the gig economy is growing, and insurance providers must adapt to this change by creating flexible propositions to match the needs of this emerging and evolving market segment. Evidently, incumbents have been slow to adapt, and InsurTechs are thus filling the hole.

An article by BusinessMole[30] summarises the problem well:

> The gig economy has boomed and the insurance sector has struggled to keep up. Traditional insurance policies fit freelancers, sole traders and contractors like a square peg fits a round hole, and frustration with finding a suitable, bespoke policy is rife. […] Traditional insurance policies offer annual cover, which would be expensive and largely impractical for a worker who only needs cover for a short period of time.

BusinessMole

There is a great opportunity for SME insurers and brokers to tap into this booming market, but they need to act fast. The nature of the gig economy means the products need to be flexible, on-demand and mobile app based. This lends itself well to a partnership between agile InsurTechs and financially strong incumbents. Expect this market to grow through 2021 and beyond.

Business interruption insurance in a post-COVID world

Business interruption cover has never come under more scrutiny than in 2020. As a result, insurance organisations that offer such cover must reassess their existing product, and come up with a strategy that simultaneously results in a proposition that is attractive to the market and doesn't leave them too exposed to major losses, should we see a similar event to the coronavirus pandemic.

GlobalData[31] predicts that parametric insurance – i.e. an insurance product that pays out a pre-defined amount based upon a trigger event – could provide the solution to this paradox:

> Businesses will be searching for specific cover that protects them against future pandemics. While pandemics are too costly to insure using traditional models, parametric insurance can provide a low-cost solution that offers businesses protection. It will also provide policyholders with peace of mind since the policy terms are clear and payouts are triggered by pre-agreed, measurable events. Insurers that are able to develop a strong parametric offering will have an edge on their competitors."

GlobalData

[30] http://www.businessmole.com/how-the-gig-economy-is-transforming-the-insurance-sector/

[31] UK SME Insurance: Market Dynamics and Opportunities 2020, GlobalData

Growth of cyber insurance

In an increasingly digital world, cyber attacks are becoming more common and more dangerous. Penetration of cyber insurance amongst SMEs has been steadily growing for several years, even prior to COVID-19. Since the start of the pandemic, the number of cyber-attacks has grown exponentially, driven by opportunistic criminals and an increase in home working. GlobalData has found that a third of medium sized businesses are now more likely to purchase cyber insurance because of the increased risk that has been brought about by COVID-19.

There is a clear market opportunity here, and SME insurance providers can grow their books by providing good value cyber insurance propositions to the market, especially if said product is distributed via an intuitive online interface, as outlined previously.

Beyond insurance: How an ecosystem of partners can help deliver an integrated SME service

In a trend akin to what we are seeing in personal lines, the most innovative SME insurance providers are expanding their offerings beyond simply providing insurance cover. By integrating with an ecosystem of complementary service and product providers it is possible to create a holistic SME proposition – which includes, but is not limited to, insurance cover – that adds real and continual value to the end customer.

A great example of this incorporates the growing demand for cyber insurance that was discussed earlier in this report. Four different companies – Cisco, Apple, Aon and Allianz – have joined forces to produce a holistic cyber risk management solution that not only covers the business customer from loss caused by a cyber-attack, but also provides associated products and services that help protect the organisation from loss in the first place. The overall proposition is described below, taken from Apple's[32] website:

> Cisco, Apple, Aon and Allianz today announced a new cyber risk management solution for businesses, comprised of cyber resilience evaluation services from Aon, the most secure technology from Cisco and Apple, and options for enhanced cyber insurance coverage from Allianz. The new solution is designed to help a wider range of organisations better manage and protect themselves from cyber risk associated with ransomware and other malware-related threats, which are the most common threats faced by organisations today.

Apple

There are opportunities to replicate this model in various SME product lines. An "ecosystem and risk prevention" approach is set to be increasingly adopted by innovative SME insurance providers (and their partners), as these organisations look to find a competitive edge and provide real, continual value to their SME customers. By doing this, insurers are also making themselves 'stickier' – if the insurance cover is tied to numerous other value-adding products and services, should SMEs want to change insurance provider, they will also have to cease using all the component parts of the overall offering. It is much more complex to do this than it is to simply change insurance providers, when the insurance contract is not anchored to other services. For these reasons, I expect to see this model grow through 2021 and beyond.

[32] https://www.apple.com/uk/newsroom/2018/02/cisco-apple-aon-allianz-introduce-a-first-in-cyber-risk-management/

SME Insurance products: Concluding remarks

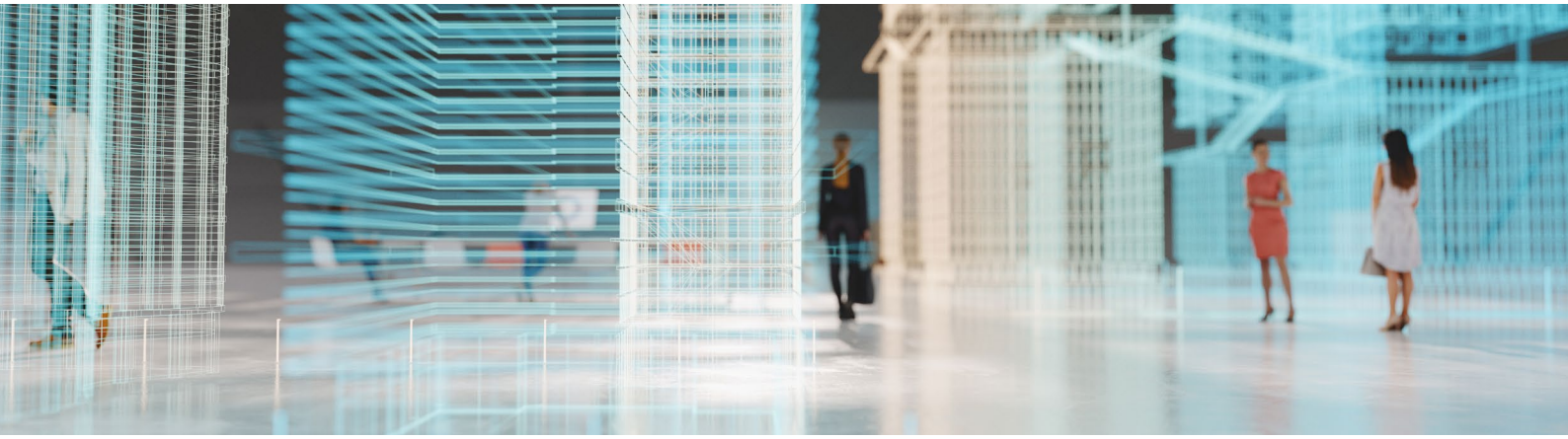
The SME landscape is changing, and insurance providers must adapt to the new business environment, if they are to increase their penetration within the SME market. These new products will often be flexible, especially when aimed at the gig economy. Whatever the product line, opportunities for partnerships with InsurTechs and other service providers offer an effective route to achieve this.

By being proactive, SME insurance providers can get ahead of the curve, winning new business and driving revenue growth. The market is changing, those that adapt quickest will be the ones that thrive.

In 2021 and beyond the most innovative SME insurance providers will have to adapt to a changing business environment…

- Combine advice and an easy buying journey
- Partner with InsurTechs
- Provide flexible products for gig economy workers
- Consider what business interruption cover will look like going forwards
- Decide if and how to respond to the growing demand for cyber insurance
- Integrate with a wider ecosystem of partners to create a more holistic, value-adding proposition

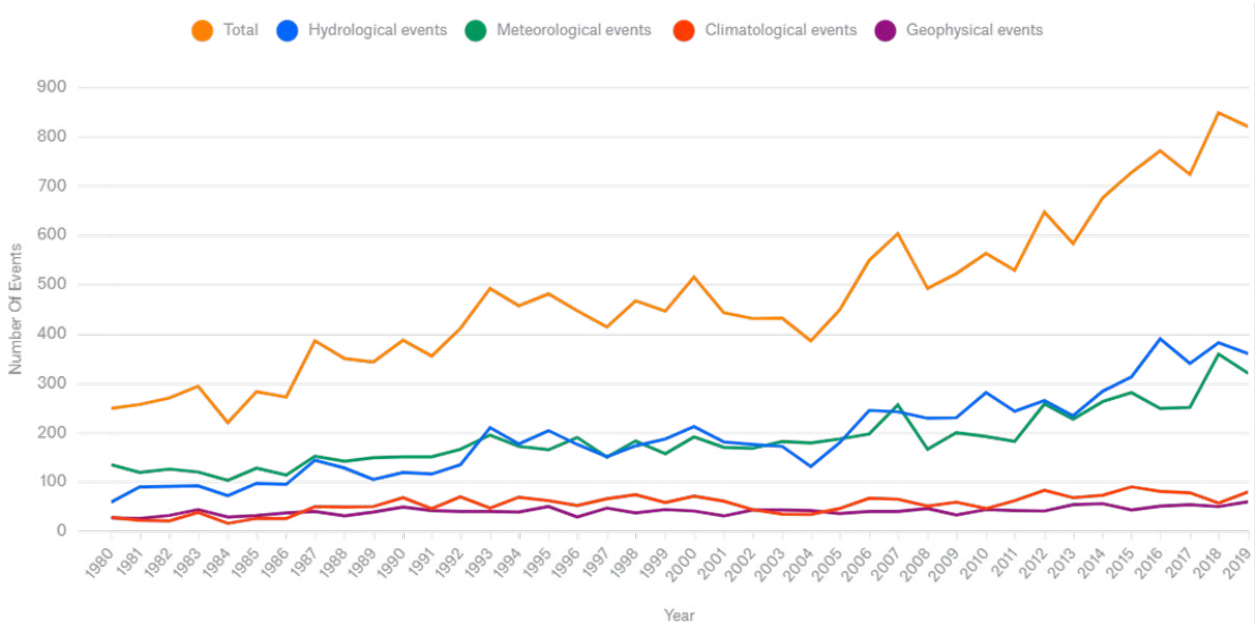
Commercial lines: Data, expertise and a hardening market



Complex commercial insurance promises the greatest gains (high premiums) but also carries the greatest risks (high level of exposure). For insurers playing in this market segment there is a continual balancing act between premium revenue generation and risk exposure. Strategy decisions around product lines, geographies, levels of reinsurance, pricing and various other factors are paramount to profitability and long-term sustainability of commercial lines insurance companies.

In the previous chapter of this report, I discussed the changing business landscape. Key trends such as the emergence of the gig economy and the growth of online retail are irrevocably changing the face of the many industries. Whilst these trends are certainly of interest to providers of complex commercial insurance – especially surrounding the growing demand for cyber insurance – there are more notable factors impacting underwriting performance.

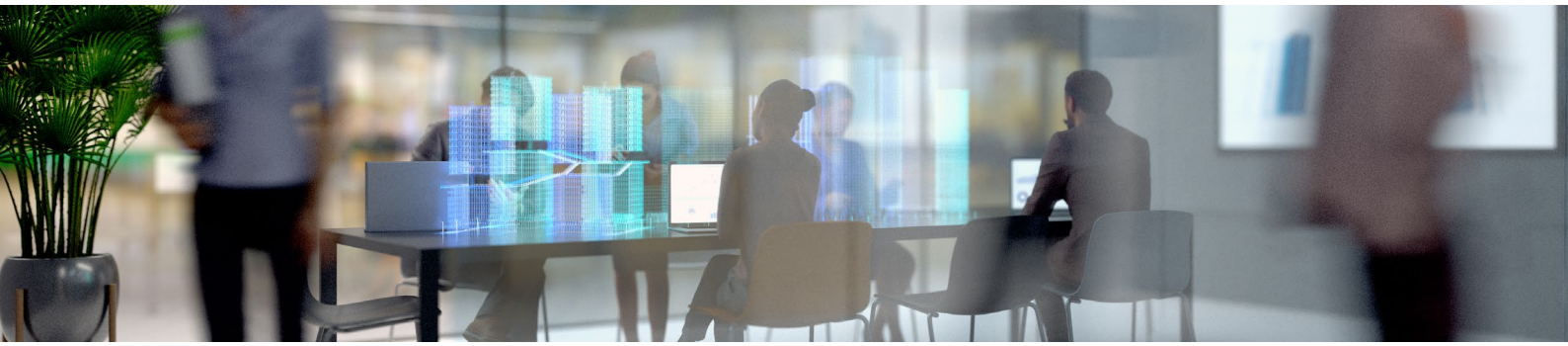
The frequency and severity of natural disasters is on the rise. In the four decades prior to 2020 we have seen a steady increase in loss-causing natural disasters. According to MunichRe[33] data, total losses as a result of natural disasters since 1980 amount to US$5,200bn. We can see from the accompanying graph that these losses are inclining upwards as the years go by, indicating that losses are on the rise. Insurers seeking to operate in a profitable manner must navigate a challenging claims environment.



Data and Image: MunichRe

[33]https://www.munichre.com/en/risks/natural-disasters-losses-are-trending-upwards.html#-1624621007

To add insult to injury, there has been a long and steady decline in interest rates across the globe; in many countries the threat of negative interest rates is a very real possibility. As a result of this, commercial insurers aren't experiencing the strong returns on their capital investment that they were a couple of decades ago. Combine low interest rates with rising claims and you have the perfect recipe for a hardening market, where only the most profitable insurers survive.



A hardening market

As previously mentioned, achieving profitable growth in a market where losses are increasing, and interest rates are falling is a challenging task. Capacity is therefore exiting the commercial insurance market and, as such, supply of commercial lines products is falling, forcing prices up.

Even prior to COVID-19, the Marsh Global Insurance Market Index[34] shows that prices had been steadily rising since Q4 of 2017; a trend triggered by significant loss events in 2017 (and subsequently in 2018) and several years of declining prices from Q4 2013 up until the end of 2017.

The consensus amongst market experts is that the commercial insurance market will continue to harden through 2021 renewals, as insurance carriers seek to balance losses caused by COVID-19 and other loss events. This is evidenced by average composite price increases of 19% and 20% in Q3 and Q4 of 2020 respectively.

Underwriting performance is the key differentiator

In these challenging market conditions, commercial insurers must look for competitive advantages to outperform their rivals. Interest rates have been steadily declining, and PwC[35] confirms the fact that investment performance is therefore not the most notable area that sets top performers apart from the competition:

> "Several years of record-low interest rates have crimped everyone's asset management performance. Investment results haven't varied significantly among the top 100 US P&C companies we analyzed. The average yield for IPM Leaders for the years 2013 to 2017 was 2.9%, barely higher than the average for the top 100 insurers. Obviously, this is not where top performers are gaining an advantage today."
>
> PwC

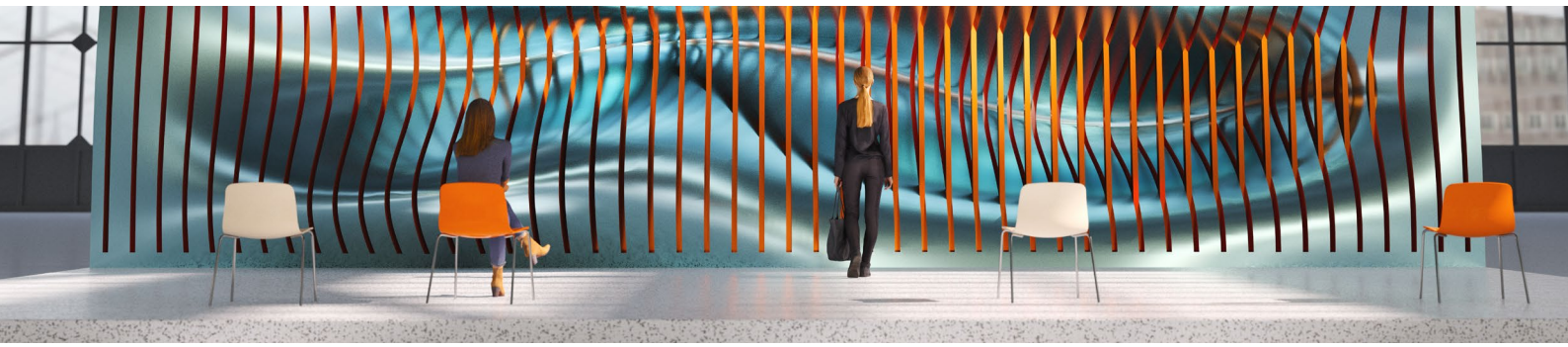
[34] https://www.marsh.com/uk/insights/research/global-insurance-market-index-q3-2020.html

[35] Commercial insurance underwriting strategy: The key to high performance

So, if not investment results, what is it that provides the competitive edge to the top performers? Well the PwC study (which is well worth an in-depth read) provides the answer: the top performers consistently and significantly outperform their competitors in underwriting profitability.

This may seem intuitive, but it is important to understand this fact before we look at how commercial insurance providers are innovating. Consequently, commercial carriers are focusing their time, efforts and resources into improving loss ratios.

> According to PwC's Insurance Performance Measure a sustainable underwriting advantage clearly leads to outperformance. Top property and casualty (P&C) insurers have pulled away from the pack by strategically diversifying their underwriting portfolio and fueling cross-functional collaboration while keeping an eye on expenses.
>
> PwC



Data and human expertise must work in unison

We will see in the following sub-sections of this report how the very best commercial underwriters are infusing human expertise with advanced data analytics to deliver the required results. Unlike in the personal lines and – increasingly – SME insurance markets, the possibility of automated underwriting is not on the horizon. Artificial intelligence technology is not yet advanced enough to match the years of underwriting experience that top underwriters possess, but data analytics, AI and Machine Learning can help complement human skill to deliver improved underwriting performance.

Pricing

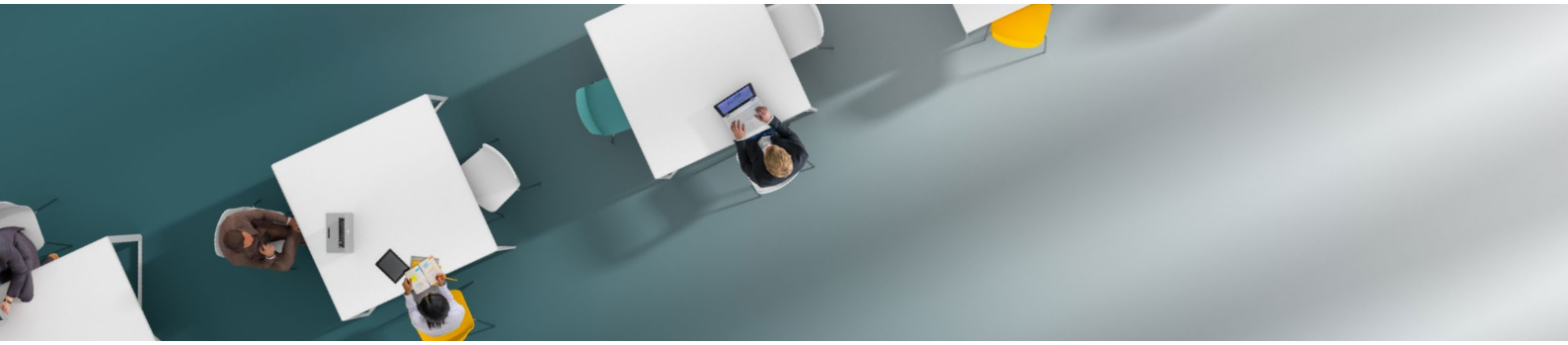
Pricing commercial lines insurance is a complex exercise; underwriters and actuaries must consider market analysis, past claims history, risk factors and the insurer's existing portfolio and risk appetite. Over the last decade, technical pricing has become more commonplace amongst commercial insurers, as many companies have introduced model-driven pricing into their underwriting governance.

Rather than being the primary driving force behind the final premium – which invariably is generated by a variety of factors – technical pricing acts as a benchmark within the actuarial control cycle. In essence, the technical price gives an indication of what the price 'should be', before other factors – including client and competitive considerations – are factored in.

As part of this pricing process, the top performing insurers are employing new data-driven tools to support the human underwriters and actuaries in effectively analysing and pricing a risk. McKinsey[36] highlights this trend in a 2019 article:

> We observed that the highest-performing underwriters are those with a structured, intentional approach to analyzing exposures. […] We have also observed that data-driven tools can greatly supplement human judgment, enabling many successful underwriting teams to outperform peers, especially by employing superior risk selection in overcapitalized markets in which pricing is barely adequate…When successfully implemented, new data-driven tools supplement—rather than replace—human judgment.
>
> McKinsey

As we enter 2021, expect commercial insurers to invest in data-driven tools that support their underwriters in effectively pricing a risk. To truly add value, analytics tools cannot simply look at individual risk level; the wider risk portfolio must also be factored in decision making. The following sub-section will show how data analytics, infused with human expertise, can help improve underwriting performance.



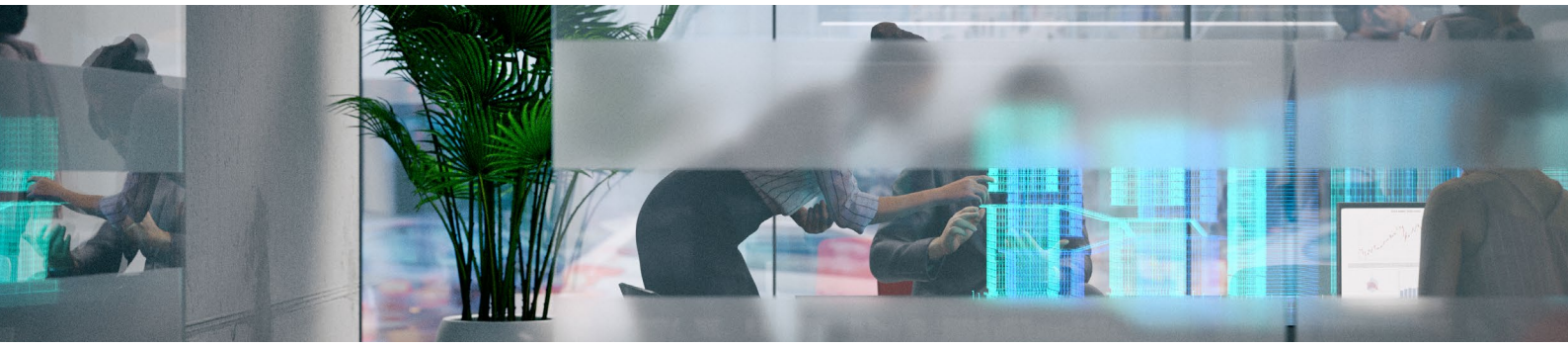
Portfolio management

Managing a risk portfolio is an extremely complex task in a fast-changing world. Underwriters must strike the balance between having a consistent risk appetite – in line with the strategic direction of the company – and the continual need to adjust course as the market dictates. Some product lines that had previously been profitable are now unsustainable, an economic downturn might demand insurers to reduce their exposure and so on.

This is a delicate balance, and one that is hard to get right. Consequently, leading insurers have invested in extensive management information frameworks that provide a view of the overall portfolio from various lenses and at multiple levels. This information provides the tools for underwriters to blend quantitative analysis with expert judgement, creating the ideal conditions for great underwriters to deliver profitable results.

[36]From art to science: The future of underwriting in commercial P&C insurance, McKinsey

Within this analysis must be a focus on capacity optimisation; a tricky and ongoing process. Insurers must be constantly evaluating their net retention across the portfolio, limits they offer to clients amongst a number of other factors. Again, having predictive analytics tools that support this process provides a significant competitive advantage. Given the unpredictability of world events right now, insurers will be looking to expand the use of data analytics to give themselves the best chance of navigating the changing landscape. The most innovative insurers have already set up expansive data science teams to maximise the accuracy and usability of the analytics available to the underwriters. A greater focus on this sort of activity is essential as we move into 2021 and beyond.



Risk prevention services

If underwriting performance is the key differentiator between top-performing commercial lines insurers and the laggards, and loss ratio the driving factor behind underwriting profitability, then it only seems natural that risk prevention services should be adopted by commercial lines insurance providers. Capgemini[37] cites three real-life examples of this:

- Zurich Insurance Group[38] launched Climate Change Resilience Services to help businesses better prepare for current and future risks associated with climate change
- Japanese insurance company MS&AD[39] is collaborating with climate risk specialist Jupiter to predict the effect of natural disasters on companies. MS&AD will share the data with clients wanting to implement risk-control measures
- California based ICW Group Insurance[40] launched an online safety and learning management system to provide policyholders with free access to a wide range of pre-packaged, ready-to-go safety tools and training

Capgemini

[37]Property & Casualty Insurance: Top Trends 2021, Capgemini
[38]https://www.zurich.com/en/media/news-releases/2020/2020-0917-01
[39]https://asia.nikkei.com/Spotlight/Environment/Japan-s-MS-AD-to-predict-climate-change-impact-on-companies
[40]https://www.icwgroup.com/news/2020/07/icw-group-expands-its-risk-management-offerings-with-safety-ondemand/

These measures provide a win-win scenario: businesses receive a broader, value-adding service from their insurance provider (with a reduced likelihood of having to make a claim), and the carrier pays out less in claims, improving loss ratio performance. As more and more data becomes available – through increased use of sensors and other devices – expect risk prevention propositions to become increasingly commonplace in the commercial lines market.

Digital distribution in a broker-dominated market

For large, complex commercial lines insurance products, the broker distribution channel remains the most prominent; GlobalData[41] estimates that 79.9% of UK commercial lines premiums were distributed via brokers in 2020. When the stakes are so high, businesses want to ensure that they have the correct coverage levels to protect them against significant loss; brokers come into their own here, adding real value.

Given this fact, 'digital distribution' will look very different to the personal lines space. However, brokers and carriers alike must invest in front-end technology that makes the selling and purchasing of commercial insurance products simpler and easier. For insurers, the driving force behind this is that a quality submission flow produces improved business development performance and reduced leakage in the underwriting process. As such, distribution is a vital cog in the underwriting machine; insurers looking to maximise underwriting performance must focus on improving distribution performance. In a post-COVID world, this is inevitably going to mean insurers and brokers interacting via the online channel. KPMG[42] highlights the need for insurers to adopt full-cycle Broker Portals:

> "There could also be ramifications for the way that carriers interact with and run their relationships with independent agents and brokers as well as vendors and outsourcers. The situation is showing many insurers that these external parties are not always as technologically resilient as they may have assumed, with their systems struggling to stand up to the disruption. For agents and brokers, therefore, we are likely to see insurers investing more in creating an end-to-end environment through which to interact."

KPMG

[41]UK Insurance Market Essentials: December 2020 Update, GlobalData

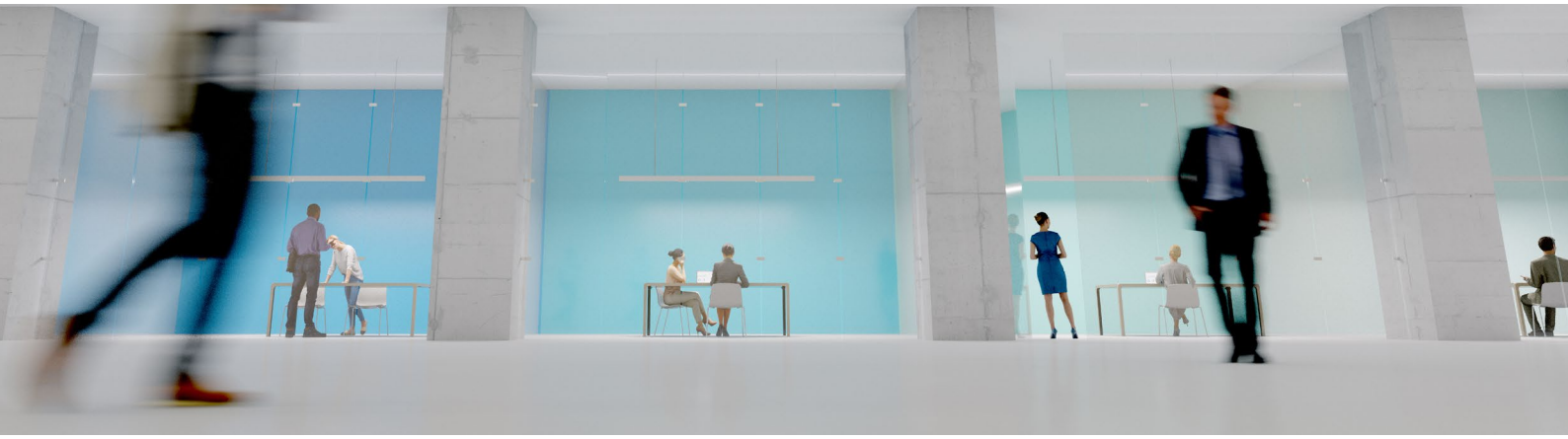
[42]https://home.kpmg/xx/en/home/insights/2020/04/covid-19-puts-insurers-on-fast-track-to-technology-adoption.html

If COVID-19 taught brokers anything, it was that having an online sales channel is essential – especially for mid-market products. For the larger commercial lines products, online placement will continue to accelerate, especially given the increased technology focus in the Lloyd's market; the Future at Lloyd's initiative with dictate the direction of distribution within the higher premium end of the market. Blueprint Two promises to deliver intelligent risk exchanges, online platforms and digital placement; 2021 will be the year that these concepts begin to become a reality. The face of complex commercial distribution could completely change through the next 12-18 months, and the brokers and carriers that adapt quickest to this change will see significant underwriting performance improvements.

In 2021 and beyond commercial lines insurers will need to have a laser focus on underwriting performance to navigate a hardening market…

- Invest in analytics tools to provide insight at both individual risk and overall portfolio level
- Infuse this data with underwriting expertise to price risks more effectively
- Use quantitative analysis and human judgement to review and calibrate the portfolio
- Consider how risk prevention services could be delivered to reduce claims pay outs
- Explore new, digital distribution channels that are suitable to the lines of business offered

MGAs and underwriting agencies: The battle for capacity



Obtaining and keeping capacity has been a challenge for MGAs and underwriting agencies for a couple of years now, as the market has hardened and capacity has left the market.

Greater pressure has been applied as InsurTechs increasingly adopt the MGA model, adding additional competition for capacity that is becoming scarcer.

Add real value

As the battle for capacity intensifies, MGAs and underwriting agencies are coming under increased scrutiny. These agencies must prove that they are truly adding value to their capacity provider.

Of course, the primary purpose of MGAs is to provide carriers with efficient access to new markets that fall outside of their primary underwriting expertise, and to deliver strong underwriting performance on these product lines. I mentioned in an earlier chapter that insurers are increasingly utilising management information to assess their capacity and portfolio performance and are continually calibrating strategy based on the information available. Should underwriting agencies fail to deliver adequate results then carriers will withdraw capacity. In a Clyde&Co[43] report, Charles Manchester (CEO of Manchester Underwriting Management) highlights the fact that COVID-19 has heightened this pressure on MGAs:

> COVID-19 has accelerated an already hardening marketplace for MGA capacity. While MGAs with a good story and who add value will continue to thrive and be able to access capacity, those that haven't made money or who, bluntly, haven't added value may struggle. Overall, capacity providers are going to be more selective in 2020 and onward into 2021.
>
> Cycle&Co

[43]Proceeding with caution: A survey of MGA and insurance carrier opinion on the state of the MGA sector, Clyde&Co

Given this increased scrutiny on performance, we will see MGAs invest in data-driven tools that will support their underwriters in assessing risks, in order to deliver improved loss ratios and thus retain – and even obtain more – capacity. We will also see MGAs invest in digital Broker Portals that will improve business development performance, a key factor driving better underwriting results.

"Show me the data"

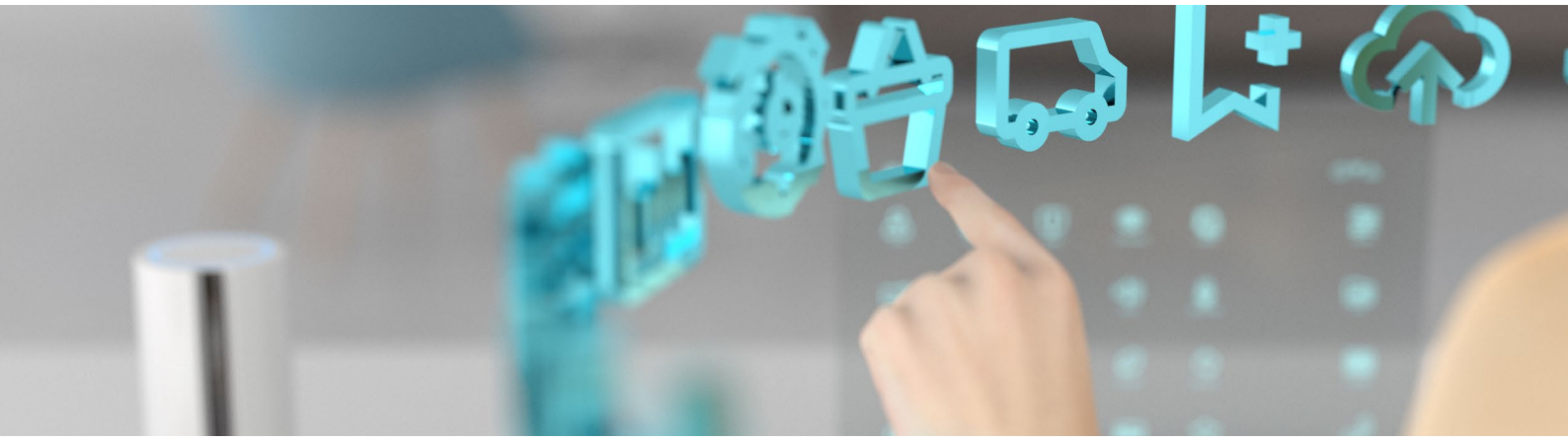
As carriers do become more data-driven, they will require greater insight into those third parties providing outsourced underwriting services for them. To get a full picture of the portfolio and risk exposure, capacity providers will demand MGAs to provide real-time management information.

Expect to see MGAs investing in data analytics tools, creating 'Capacity Provider Dashboards' that deliver real-time data insights into underwriting performance and risk portfolio. In many ways, this will become the interface that MGAs can use to justify the capacity they are asking for; objective data and hard metrics do not lie.

Product innovation

I have talked at some length throughout this report about how insurance providers are innovating products to improve premium revenue and in the case of risk prevention services, reduce losses. Whilst MGAs tend to have fewer resources available to them, we will see the most innovative agencies launch these new types of products in order to deliver improved results back to their capacity providers and thus continue to grow in a hardening market.

Big Tech in insurance: Could this be the year?



For years incumbents have been concerned about the Big Tech companies – such as Google and Amazon – disrupting the insurance market. In recent years the question has shifted from "will Big Tech choose to enter the market?" to "when, and in what capacity, will these firms enter the market?"

I've headlined this chapter with the question 'could this be the year?', but in reality that is misleading. What we are seeing is Big Tech firms slowly but definitively expanding their footprint with the insurance industry. The 'when' therefore is now, and even more so in the future.

More interesting is the 'what'; what operating models will these large technology firms adopt to succeed in insurance? The evidence thus far seems to indicate a reluctance to hold capital – we are not seeing Google forming an underwriting agency, for example. Rather, these tech giants are operating more like the world's biggest InsurTechs – setting up agile business units that provide a very distinct service within a wider ecosystem. For example, I have previously mentioned the fact that Apple has partnered with Cisco, Aon and Allianz to provide a cyber risk service to businesses.

The real competitive advantage that these firms possess is the personal data that they own. Consequently, the majority of ventures that the Big Tech companies are embarking on are focussed around the personal, health and life market segments.

The emergence of wearable devices (e.g. Apple watch), connected homes (e.g. Amazon Alexa) and connected cars (Tesla) provide opportunities for Big Tech firms to feed personal data back into the insurance ecosystem, in order to personalise the pricing and add risk prevention services. Both models have been outlined previously within this report.

Online platform giants can also provide a new distribution channel. For example, Amazon recently launched Amazon Protect, an offering which includes extended warranties, accidental damages and theft insurances. Amazon does not underwrite the cover (London General Insurance Company Limited carry the risk), but rather it is leveraging its existing retail client base to distribute complementary insurance policies. I predict we will see the growth of 'embedded insurance' – i.e. insurance cover embedded in the purchase journey of other products – with a focus on gadget and warranty insurance initially, but also extending to other propositions.

For example, Tesla is likely to seek to embed insurance within the purchase of its cars, given the company's belief that Tesla cars are safer as a result of the huge volumes of data each vehicle produces and processes. This provides a significant challenge to insurance brokers and affinity partners, who will increasingly have to compete with tech giants that specialise in consumer buying journeys – especially in the personal, life and health segments.

The final point I should make – which will lead me nicely onto the Technology trends chapter of this report – is that Amazon and Google are providing public cloud services to insurance companies. Attitudes towards the public cloud have dramatically shifted in recent times. Up until just a couple of years ago, large-scale organisations were extremely cautious about handing over the storage, security and monitoring of their data to a third-party vendor. However, public cloud vendors have improved their security and performance measures and achieved great success in persuading firms to move their core enterprise technology to the cloud; it is now the hosting model of choice.

In short, Big Tech in insurance is happening now and generally offers incumbents great opportunities for innovative partnerships. It will be interesting to watch the developments in this space over the next 12 months; it certainly promises some exciting prospects.

Technology trends: Data, ecosystems and the public cloud

Two key trends have run through the entirety of this report: a growing use of data and expanding ecosystems. This was by no means deliberate – I didn't set out to write a report on data and ecosystems – but these threads do seem to run through the heart of the insurance industry at the moment.

Evidently, the use cases of data and ecosystems differ by line of business – usage-based insurance is much more relevant to personal, health and life insurance, whilst management information regarding portfolio exposure is pertinent to commercial insurers. However, the overarching basis of the emergence of these trends is the same: insurers want to make better business decisions, reduce the likelihood of a claim and differentiate their service based on elements other than price. In order to achieve this goal, insurance companies must reassess their technology architecture and data structures in order to lay the foundations upon which they can innovate.

Store data in the public cloud

The benefits of the public cloud are vast. Nowadays, software that is hosted in the cloud is the most secure and performant. Not only this, but cloud-hosted software can be delivered 'as-a-service', meaning all monitoring and maintenance are handled by the vendor. By outsourcing these tasks, companies can save money and move their IT staff from menial software maintenance to innovative and value-adding application development. The business case for upgrading legacy systems can be made on these factors alone, but perhaps the most compelling reason to upgrade to the cloud relates to the advanced data capabilities that are made available to users.

By storing data in the public cloud, insurance companies can expose that data to advanced analytics tools, including machine learning and AI. Structured and unstructured data from a variety of sources can be fed into these tools and deliver real-time, intelligent results. If an insurance company wants to be data-mature, they must embrace public cloud technology.

APIs are essential

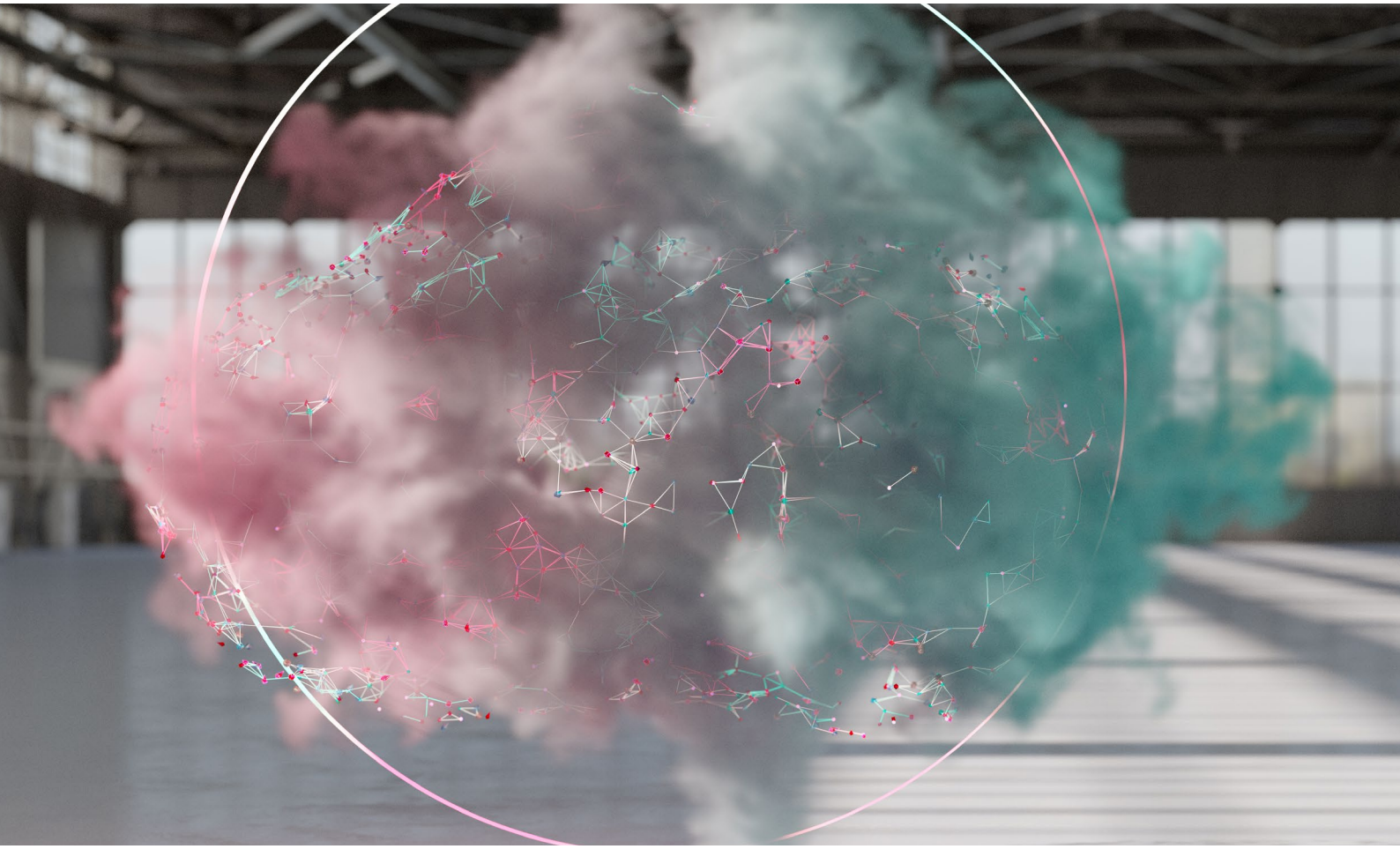
As insurance products evolve from siloed propositions to integrated solutions that embrace an ecosystem of complementary partners, the insurance provider's technology architecture must adapt accordingly. Whilst closed systems were adequate for narrow insurance products, they are unfit for purpose in 2021. The ability to integrate with a growing number of other systems, enabling automated data transfer (and processing) between parties, is essential if you want to provide the sort of service that consumers – both personal and commercial – expect in the modern age.

To achieve this, insurance companies must adopt technology which is built using open architecture and is API-enabled. This is standard for InsurTech start-ups – which make up a large part of the ecosystems – and is essential for incumbents looking to partner with them.

What to do about legacy?

It is evident that siloed, on-premise legacy systems that lack modern data tools cannot support this new business model. Wrapping digital components around the systems is also ineffective. Insurance companies must, therefore, adopt cloud-native platforms that are built on open architecture. Many are setting up new business units that adopt cloud-native technology from the outset, to launch new innovative products to market quicker and cheaper.

Please do get in contact with me if you're looking to innovate and would like to explore SSP's cloud-native, API-enabled, data-centric insurance platform – we'd love to help you achieve your goals.



Summary

These are challenging but exciting times for the insurance market. The landscape is changing at an accelerating rate, creating opportunities and threats to incumbent players within the industry.

Here are some key questions for you to consider:

What is your data strategy?
How can the growing levels of data available be used to drive better business outcomes?

Who is in your ecosystem?
Which partners could complement your product and would – when combined with insurance cover – add additional value to your customers?

Is your product adding value?
Does the proposition you provide add continual value to the customer? Is it personalised? Is it preventing claims occurring?

Is your digital offering sufficient?
Does the online service that you offer to customers and/or broking partners match the expectations set outside of the insurance industry?

Is your technology architecture set up to innovate?
Do your systems possess the data tools and open architecture required to thrive in the modern insurance landscape?

Of course, these are high level questions, but I hope they can fuel internal discussions. I do not want this report to be marked as "quite interesting" (though hopefully it is); my desire is that it sparks innovation. I genuinely believe that the insurance market is changing for the better, and I'd love to help you successfully adapt to these new conditions in a profitable manner. If you would like to discuss anything covered in this paper in more detail, please do not hesitate to contact me using the details below.

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