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The impact of disruption

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A force for good

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Insurance began as a simple concept. But since its early days at Lloyd's of London, it's become more and more complex – arguably too complex in some areas. For the most part, innovation and change throughout the industry's 300 year history has occurred at a steady pace – with products introduced, developed and improved gradually. But this pattern is beginning to change.

We are entering an era in which improved technology and knowledge are enabling disruptive (in a good sense) innovations that enable us to work and live in completely new ways – an era in which entirely new markets will need to be created that offer new and better ways to satisfy the changed needs of tomorrow's consumers and customers.

The impact of this step change on the insurance industry, its products and services – indeed the very way it operates – will be dramatic. Disruptive innovation will by its very nature upturn many of the concepts the industry has come to accept, and it will be difficult to implement to begin with, but the opportunities involved in it far outweigh the risks of not doing so. "Disruption represents huge opportunity," explains CEO, AXA Corporate Solutions UK, Gaëlle Tortuyaux, "Especially if we can work together as a team – risk managers, brokers and insurers – to disrupt rather than being disrupted, harnessing its power to foster mutual success rather than merely seeing it as barrier or hindrance."

Disruption as a concept is seen primarily as something negative – somewhat akin to catastrophe, but while both words are often used to describe wide-ranging events with a damaging outcome, they are very different things. Their nature and origins are different. Indeed, throughout history, thousands of catastrophic events have occurred that have changed the face of humanity and the world. But the impact of the events that we might call disruptive – while these events might not have been welcomed or understood at the time, they are more likely to have changed the world for the better. As Tortuyaux puts it, "Catastrophe will create disruption, in the negative sense, but disruption does not always result in catastrophe. On the contrary – disruption can be a powerful force for good that we must proactively embrace to instigate positive outcomes and changes. Let's consciously choose the disr-Option."

So what impact might disruption have on the insurance industry and exactly how can it be harnessed for a positive outcome? Could we even embrace disruption to the point at which we can control it, and further drive it to our mutual advantage and benefit?

The disruptors

AXA Corporate Solutions' chief commercial officer John Pickergill's view is that one of the most

significant disruptors in the current insurance market is the customer risk profile itself. "As a result, the insurance industry is moving from a need to cover the tangible to the intangible – from the more traditional, physical risks such as property, to such risks as intellectual property or brand or even reputational risks.

"In this environment, creating opportunity from disruptive developments necessarily entails a greater need for corporations to react quickly, with less time for product development and testing – something that puts an even greater emphasis on risk. In addition, the need to react to short lived, high intensity trends, or flash trends presents another risk dimension.

"Similarly, usage-based insurance, where the focus is on assets rather than ownership is a trend we are already witnessing with such companies as AirBNB and Uber; and is likely to develop further." Pickersgill says these developments may see companies becoming more acquisitive, as they seek to become more agile by buying smaller start-ups, or indeed creating their own spin-out organisations. "Alternatively, we may see 'jigsaws' of small organisations each with disparate products, services, processes and cultures focused on niche markets, that at the same time benefit from corporate synergies."

All of these trends are leading to fundamental changes to organisations' risk profiles with the knock-on effect that they disrupt the current traditional insurance model.

The use of the Internet of Things is now moving into the commercial and corporate insurance space – in the first instance through motor fleet (location devices/telematics) and marine (connected ships/cargo). Similarly, driverless cars are changing the nature of risk, taking the risk from individual human error attritional losses to hacking/system failure catastrophe risk.

Further disruptive changes in client risk profile will be seen through the use of Virtual Reality, Artificial Intelligence (AI) and Intelligent Automation (IA).

"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change"
Charles Darwin

Social media risks, agile working and the introduction of robotics are also gradually creating new challenges and opportunities.

The use specifically of big data and AI in underwriting will fill current data gaps. Where underwriting currently involves a degree of 'art' of human analysis, soon bigger and better data sets will eradicate the need for human analysis. AI will replace human thought process and learn by experience to create mechanised, ever-evolving accurate risk modelling and rating. This will in turn create a need for accurate exposure data.

Meanwhile, new trends in data use and management in the form of Blockchain could contribute to a reduction in expenses and fraud, with potential uses extending to claims management, proof of insurance, multi-national policies and excess of loss placement.

More sophisticated use of data will also see a move from predictive to prescriptive analytics, focused on using data to mitigate risk rather than price risk – creating better real life outcomes for clients.

Will we finally see the end to the annual policy? Will zero claims be the future norm if risk prevention and data insights improve so much?

Insurers will also be increasingly

aware of the emergence of new capacity through peer-to-peer insurance that may well impact the corporate market in the future. This will inevitably create profitability challenges, and may encourage insurers and brokers to introduce an almost 'self-disruptive' discipline, involving continual review of organisation/client needs and creation of methods to address opportunities – creating more fluid processes and culture.

All of these new disruptors aside, the industry must also remain ready for the next big terrorist event, ongoing cyber risks, the impact of Brexit, and ongoing regulatory and legislatory change, mainly as the Insurance Act 2015 beds in.

Preparing for disruption

What does all this mean for risk managers and their future role within the organisation? Whatever happens, risk managers still need to find ways of assessing, managing and transferring risk.

"Risk managers are always competing to get quality time with the board and so when we do get that time we need to make sure that we have all the data available to us," says chairman of Airmic, Clive Clarke.

Data is becoming more important and risk managers need to understand the relevance of their data and business information. As insurers become more data hungry (for understanding and rating emerging risks) risk managers' analytical skills will become more important.

Similarly, risk managers need to understand what data and information represents the business model and therefore the risks to the business. Clarke also points to a shift from predictive analytics, which traditionally looks at historical data, to more forward-thinking prescriptive analytics.

Risk and insurance managers, meanwhile, need to play their part in understanding the changing needs of their customers.

"Traditionally the risk and insurance manager has been

Future trends

Some of these changes are already well under way.

Disintermediation – enhanced data capture/analysis will enable automation of intermediary function

Connected policies – policies that automatically adapt to client needs – connected via data feed to client organisation

Outward disruption – market players (insurers/Broking houses) using capabilities/knowledge/distribution to disrupt/enter other (loosely related) markets

Single global all risks cover – feed in data and cover provided for all risks organisation faces

Omni Channelling – related to above – all types of risk cover (and related services) available through one distribution point

Deglobalisation – communication technology enabling individual voices to be heard – kick-back against global organisations (Brexit – against super-state, CETA – against big business/ protect small business. Model shift in corporate market

Zero claims – success of prescriptive analytics reduce losses to near Zero or Zero – insurance becomes about prevention and not compensation

Crowd sharing – next stage from Peer-to-Peer – technology allows individuals to invest in risk

Advances in **data quality,** Blockchain, AI and IA. Robot-to-Robot marketplace

considered a luxury item," Clarke explains. "But they will need to become more integrated with the business. The insurance manager needs to be considered essential to every element of the business model."

Connected policies, he says, are an area of potential growth for insurers. These will allow cover to change in response to changes in the business. Such a model could translate to real benefits for the risk manager, such as better fleet management, for instance. It could also allow insurers to give risk management advice in real time, though its success would depend wholly on real time flow of data from the business to insurers and back again.

Clarke's advice to risk and insurance managers is that they make better use of the information provided by insurers to manage risks rather than just relying solely on insurance.

They need closer ties and a better understanding of marketing, operations and finance to become better able to explain risks to the insurers and translate these into a relevant insurance product. They must confront their biases and think about risks rather than insurance covers.

Pickersgill agrees. "Insurers and brokers need to start to question everything," he says, predicting a shift towards loss prevention and the provision of risk management advice – particularly if insurers are no longer dealing with previous levels of losses and exposure.

The era of the risk manager

With such expansive change, today's risk managers have a unique opportunity to raise the status of their role within their organisation and within the risk profession more widely. This means they need to act now, to be connected with all functions of the business, to learn to talk the same language as the board and to hone the skills, expertise and knowledge to articulate the risks of the business to senior management and insurers. The risk manager should become more involved in horizon scanning and shift from operational to strategic risks.

"They must be empowered to discuss and purchase relevant cover," Airmic's Clarke says. "This cover might be more expensive but almost certainly broader than what is currently being purchased."

The future is now

We are already living and working in period of great change, but with a limited ability to re-engineer existing systems, processes and cultures.

"Opportunity and innovation go hand in hand"

As we embrace this disruptive era, it is fast becoming evident that the insurance market as a whole needs to transform, so that it can focus on client needs and return to a more simplified future – moving away from the complexities of insurance provision today.

Rather than being fearful of disruption, businesses have an opportunity to embrace it, to explore the many exciting opportunities, and to use it as an enabler. As futurist, Stefan Hyttfors, put it in his closing remarks at this year's AXA Corporate Solutions UK Client Forum, it is disruption itself that is the opportunity. "No matter what you think about the future, 70 per cent of what's being done now won't be done in ten years' time. We will have new solutions to old problems. If we don't disrupt, we will be extinct. We need disruption and a new solution. This has to be the time of the risk manager."