

Innovation in insurance: Debating the future



During this year's AXA Corporate Solutions Client Forum, publisher of CIR Mark Evans asked four insurance experts about whose role innovation is within the corporate sector, the barriers it faces and the future for insurance innovation.

Change or die is a very old mantra, but it holds true in all fields of human endeavour. The issue is that the rate of change varies drastically across industries and companies – in a reactive sector it can come as a sudden wave rather than a gentle ripple. This debate, which was held during the 9th annual AXA Corporate Solutions Client Forum, looked at the issues around innovation and the barriers which prevent it. With keynote speeches from James Woudhuysen, Professor of Forecasting and Innovation, and 18 time arctic explorer Alan Chambers giving examples of innovation in practice, the debate took place in front of an audience of industry experts, all looking to answer how an industry which is characterised by red tape and inflexibility can be expected to adequately respond to the risk transfer needs of even the most fast paced corporations.

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**Concerned about
weather risks?**

Insurance is matter of trust, but innovation is automatically risky and uncertain.

ME: Buying insurance is, to some extent, an attempting to buy some degree of certainty. How are new, innovative products delivering that peace of mind?

ML: As buyers, we face the challenge of taking more risk in buying some of these new products. I think what we need to be doing is taking more of a leap of faith around these new products – both on the insured's and the insurer's sides.

CM: First off, in order to create credibility for new innovative products, you need to have credibility on existing products. A little bit of innovation is required on the basic product first.

ML: That said, am I incentivised to take risk? I've got a young family, I've got to support them, do I really want to be taking risks with my career at this point? Maybe there is a generational angle here too.

JR: You could argue that the slightly more experienced generation are just carrying all the constraints of history with them and they won't think



"Everyone has a bright idea, but it has to be captured and turned into something"



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differently, but equally, the more inexperienced member of staff doesn't get it at all, so does either actually improve innovation or constrain it?

GT: But that's the whole point – it's about bringing diversity to the table. Flying wasn't just the Wright brothers, the light bulb wasn't just Edison, it was happening all across the world as collaboration between different people from different cultures, different experiences, of different ages.

CM: And you've got to have the link to making it a reality. Everyone has a bright idea, but it has to be captured and turned into something. We send people away to have ideas but they're a million miles away from the underwriters or the frontline.

JR: We must also remember that all innovation has a shelf life. We could all sit here now and talk about email and what a great innovation that was, but actually, is it a great innovation now? I've sat

in many, many meetings with clients and they all say, 'do you know what? That meeting was great because we sat down face to face'. And the insurance industry is still an industry with face to face relationships.

GT: Of course, with all financial products, and insurance no less, we do slow the innovation process with a raft of compliance issues and regulations. In the early days of Lloyd's of London, for instance, there was a lot more freedom to do different things.

ML: Compliance and the regulation is there for a good reason and that's to protect us.

GT: Does it really protect you, or is it us ticking boxes?

ML: But there's no reason a company can't innovate within the boundaries and I think what you

touched on there was some of the organisational issues in companies that might restrict their innovation. I don't subscribe to the view that regulation is what's halting innovation.

Product innovation requires the creation of something that few will buy start with.

ME: There is a theory that first mover advantage is not in fact an advantage at all, and that you are better off being the second mover because you see all the mistakes the first mover has made.

ML: Exactly. If you're the underwriter you could lose a lot of money if you don't get the product or the pricing just right. Meanwhile, everyone else can analyse that and get the pricing right and then make a lot more money than the early adopter. Is there then an argument for encouraging greater collaboration across the industry, in the spirit of mutuality?

CM: Yes, at least greater engagement between the client and the insurer.

JR: And it could be to their advantage by tapping into expertise – not necessarily with the insurer itself, but among their suppliers or other contacts.



“There is no reason a company can't innovate within the boundaries”

The Panel

	ME: Mark Evans Publisher of CIR and Chair	Chair
	CM: Chris McGloin Chair of the Insurance Steering Group, AIRMIC	The industry association
	JR: Jason Rodwell Head of Operations, AXA Corporate Solutions UK	The insurer
	GT: Geoff Taylor Global Client Advocate, Willis	The broker
	ML: Michael Lucas Group Head of Risk & Compliance, Wolseley	The client

CM: It's not about a renewal in 12 months' time; it's about proper engagement for five years in order to develop a long-term relationship around risk. The definition of risk is quantified uncertainty; at some point, you take a chance but at what point is it? And that's the appetite for risk which insurers have to think about and be able to enunciate.

ME: Another way of looking at it is, where do solutions come from? Is it driven by customer need or does the customer decide they need the solution when it is presented? That is a little bit akin to asking whether you can ever actually offer a solution before a problem arises.

JR: After the first ever flight took place, it was only a few years later that you could purchase aviation insurance. What that actually tells us is that the need can start off fairly small and then if an insurer is able to cover the risk, that's when the real innovation can start to take place.

ML: I'm trying to think of an instance where an insurer has come up with a product before we knew we needed it.

JR: The iPad is a classic example of innovation – nobody knew they needed one until it was invented.

GT: I think the difference between tangible consumer products and financial products is that marketing plays a huge part in the consumer world. You don't get full page ads in *The Economist* saying, you need this and that. You're just not influenced by that kind of marketing.

JR: I think that's part of the problem, because the insurance industry needs to support the risk manager in convincing their board to spend money.

CM: Something we haven't touched upon so far is trust. Trust within partnerships, between suppliers, and from the customer base is extremely important. With the best will in the world, if you talk to a CFO or CEO and the trust is not there, how can you then build trust in any product innovations?

Some industries thrive on innovation, others have tall barriers.

ME: Just as trust can be a major barrier to innovation, what else can stymie innovation within



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the industry? And what lessons do we know of that we can learn from?

JR: If you are first to the insurance market with a new product, nobody is going to come along with you straight away. There's not going to be any availability of co-insurance or re-insurance immediately. The whole point about insurance is that losses by the few are paid for by the many. Now when you have a new product you haven't got that mutuality, which basically means there is inevitably of a high price and restrictive wording.

ML: When Phillips invented the first video recorder, they were not automatically going to sell to hundreds of thousands of people. They didn't know whether the product would work. They went out there, sold to a few, it grew and eventually became cheaper. So whilst I accept there's that issue for insurers, it's the same for any business that needs to get out there and sell a lot of products to get the revenue in and to be profitable. I think there's a need for more vision and more risk taking.

GT: I don't fully agree because insurance is a financial product, so there's a difference. And, of course, the insurance industry is heavily regulated. Go back to those original Lloyd's underwriters, and they did not have the information - they didn't know where the cargo was, they didn't have GPS tracking - but they still took the risk.

CM: The difference with the cargoes of hundreds of years ago is that, for large businesses, the frequency of events has gone down because we manage risk better, but the severity has increased because we make bigger warehouses, bigger factories... bigger everything. So the market cannot innovate because we need common subscription to create capacity.

JR: It isn't that we won't, it is just that you have to accept a price for it. We were prepared to take a risk by being first in offering cover for cyber risks. So I agree, there's a degree of certainty needed but we're prepared to take the risk. We're prepared to put an amount of money out there to buy a product that we don't know exactly how it's going to work.

ME: Is the current state of the market part of the issue with innovation?

GT: We know more about risk and now the prices are depressed but does that mean innovation shouldn't happen? Are insurers still profitable? Yes they are. Should they be spending more on R&D? Absolutely. And should brokers spend more on R&D? Yes. So I think the soft market is maybe a distraction and we shouldn't use it as an excuse to say, well, we'll just go out and buy some cheap insurance.

CM: The soft market gives insurers a fantastic opportunity to create new products and sell new products, which they're not grasping. But whilst everybody seems to be saying that innovation is a great thing, who's paying for it? Some of the innovation in the insurance market seems to be

Summary: Creating the Future

Today, at the AXA Corporate Solutions Client Forum, our expert panellists agreed that data alone cannot create effective insurance, and that true understanding is the solution. As Jason Rodwell noted, it only took a few years for the nascent aviation industry to gain cover, and even the complex area of cyber cover has been addressed. The complexity of the issues is not the barrier to innovation, nor is it the soft market or the layers of red tape.

Sharing of the issues and effective communication between the stakeholder is vital however, as is an acceptance that risks might need to be conveyed more widely as single incidents become rarer, but the level of interconnection

through technology give them the ability to create devastating results. Our panel accepted that as the nature of risk is changing, so will the way in which insurance is viewed. It cannot be seen necessarily as a market of individual insurance companies offering similar products, and it cannot be created with the same outlook and narrow views of the past.

However, disruptive ideas, technology and data are tools rather than creators of change, and when all else is stripped away, the key skills of client liaison and trust remain essential. To this day the old Lloyd's Coffee House remains the image of insurance – and it is still the meeting of all the stakeholders together that creates true innovation.

quite short-term where the payback is expected in a few years, maybe even in the first year and that just is not tenable as the premiums are too large.

JR: I think to even ask the question of 'who pays' means that price is going to be your driving emphasis on everything you do, and it shouldn't be because if everything is price driven, naturally innovation will start to drop away.

ML: The reason we choose on price is because we can't differentiate. Because there might be some subtle difference in terms but, really, if there were more innovation, if there were really new stuff, we would be willing to pay a difference for a clearly differentiated offer.

JR: You want us to innovate as an insurance industry but how often are we introduced to your discussions with brokers and clients? Do you ever invite us into that early discussion before you actually start the programme or build?



“Do you ever invite us into that early discussion before you actually start the programme?”

Questions from the floor



Q: We all know that the Marine Insurance Act is going to be scrapped and replaced. Surely this is an ideal time for brokers and insurers to be innovative?

JR: We've been the first insurer to say we support that reform. It's not in the immediate interest of the insurers but we believe it is in the interests of the market as a whole, so we support it. And this is only possible as we have long-term relationships, because it's absolutely necessary to build that confidence that what we have actually reflects the risks because we can't run the risk to have enterprise policies.

Q: Does the panel feel that the key to innovation is through research and development or through the corporate mindset of all of our various companies?

CM: The main thing they have to do is get out and engage with their customers, ask them what it is they'd like to see changed and improved and then work out what they can do in the short-term, medium term and long-term and how it fits with the strategy.

Q: When you look at true innovation and the use of big data, you look at, say, F1 where they know the tyre temperature round every corner. So my

question to the panel is, do we actually use big data or do we actually think we use big data?

JR: We use big data and I think we think we use it well. I think, as an industry, what we haven't quite questioned is if it actually accurate? This is my own personal opinion – just to be clear, but is all the data we capture accurate and precise. In F1 they've got a brand new car, they can sit and analyse it, they've got all these little gizmos on there which tell us exactly what's going on. As an insurance industry, we're ploughing through a lot of historical data to try and understand if it is giving us any real information. So I think there is a lot of potential there.

ML: I think, as a client, we have big data and we're facing the same problems. We don't necessarily manage it in the best way we can but it's definitely on our list of things to do and way up that list. So I think get the basics right around the big data and then we can look further ahead.

Q: Let's say today is 2020 and we're having this discussion – what would the key innovation's be the insurance industry?

GT: Maybe we'll have a completely different market in which you have lots of smaller insurers who just insure little pieces of the platform, instead of big insurers trying to do everything for everybody. We might see crowd source funding for small risks because people like AXA and Allianz and whoever are too big and too cumbersome to move. So we might see completely different sources of capital that are not there today.