InsureTech firms look to disrupt, but not to overtake incumbents

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The insurance industry is rarely credited with innovations we now take for granted. The idea for a fire service was brewed up in 17th century coffee houses to insure against arson, pension funds came from the desire to protect the wives of clergymen in the 18th century, and the blueprint for the modern welfare state ultimately emerged from Bismarck's social insurance plans of the late 19th century.

Our history of financial innovation is impressive, but in the 21st Century, as technology evolves faster than ever before, the challenge is to stay ahead of the curve. The digital revolution is disrupting all aspects of the way insurance firms operate – understanding and pricing risk, customer engagement, product development, marketing, managing claims, etc. will all work differently in the future.

In this context, we are beginning to see incumbent insurance firms ramping up their transition to the digital age. Companies are actively disrupting their own businesses as they fight to be fit for a customer base with wholly different needs and expectations. But this brings technical, commercial and cultural challenges, and it in this environment that we are seeing the rise of 'InsureTech', or fintech firms operating in insurance.

Fintech firms are often characterised as small, agile outfits looking to usurp established businesses with an innovative idea and cutting edge technology. Unencumbered by legacy systems and the bureaucracy of large organisations, they can focus on delivering services more efficiently and at a lower cost, thus disintermediating existing market players.

This narrative has some truth, but it hinges on an assumption that the relationship between established firms and start-ups is purely confrontational. In our sector, this is too simplistic. Whilst InsureTech firms have unique and dynamic business models, the capital and regulatory barriers to becoming an actual insurer are significant. Any funds that start-ups receive from venture capitalists or angel investors will cover salaries, office space and computing power, but enormous funding is required to take a business from scratch to being a fully authorised and operational insurer. In this context, it is no surprise to see that, almost without exception, InsureTech firms are looking to disrupt the way products are bought, how they work and how they are understood, not by taking over from incumbent insurers, but by partnering with them to overcome challenges they face.

Such partnerships will help to deliver a very different insurance experience to the consumer over the coming years. Here are three key shifts we are likely to see:

1. Flexibility and personalisation in the customer experience

InsureTech brings the prospect of a more engaged relationship between an insurer and its customers, with more touch points, a greater information flow, and increased flexibility.

Firstly, the interfaces between insurers and their customers are evolving, with more seamless engagement encompassing desktops, smartphones, tablets and wearables. This facilitates a more simple, user friendly relationship between insurer and customer, can help drive useful real time interactions.

The existence of such interactions is likely to encourage insurers to adapt their propositions to become more personalised for customers. Popular insurance products are likely to be delivered through a more 'open source' approach with customers changing the parameters within an insurance policy.

2. The buying experience

The channels used to buy insurance have already been disrupted significantly in recent years. Thirty years ago the telephone began to eat in to business models built on door-to-door sales. Fifteen years ago the internet emerged, challenging the telephone. Now, online direct models and price comparison websites are rising in prominence. In this context, it is possible, though not desirable, that the traditional high street insurance broker will become virtually redundant in the coming years for retail customers at least – or at least need to evolve hugely in order to survive with the new generation of consumers operating almost exclusively through the web. Such a shift raises important questions about the treatment of older or more vulnerable people for whom this model is sometimes less appropriate.

But this shift is just part of the story; genuinely original methods of comparing, buying and selling insurance are also beginning to emerge. Websites are delivering a more holistic set of comparators than just price, for example TripAdvisor style reviews on www.smartmoneypeople.com, or customer service ratings on www.fairerfinance.com.Peer-to-peer and group buying insurance are also gaining traction, facilitated by the normalisation of financial transactions through social networks – the question is whether this growth will genuinely impact the scale of the mainstream market

3. A shift towards more actively managing risk, as well as carrying it

The core role of an insurer is to give their customers financial certainty by carrying their financial risk in exchange for a premium. Given the inextricable link between physical risks and financial risks, insurers have always had an interest in their customers mitigating risk in order to minimise financial losses, but until now have often been unable to help.

InsureTech is changing this, allowing insurers to become 'real time risk consultants'. Through 'big data' and the increasing prevalence of connected sensors in our lives, the so-called 'Internet of Things', customers and insurers will be able to constantly share insights that simultaneously:

- Provide customers with information or warnings about their risk (eg. You're driving through red lights, left your front door unlocked this morning, or are developing a potential medical condition);
- Help insurers set prices that accurately reflect a customer's individual risk, reducing the reliance on less granular information, and take account of that risk if it changes;

- Pre-warn customers and insurers about faults and events likely to cause loss, allowing them to be rectified in advance far more cheaply.

Over hundreds of years, the insurance sector has managed to remain relevant in a changing world and it is within the whirlwind of the digital revolution, that InsureTech will ensure its relevance continues.

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Notes:

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