

Disintermediating the insurance carrier

New technology is set to transform the industry, including the potential for reinsurers to disintermediate the insurance carrier and become the insurer



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Whenever the conversation turns to the future of reinsurance, many people will talk about the more distant future, perhaps 10 or more years away. Such people say the insurance industry will have to react to challenges coming from technology, as well as the opportunities for previously unavailable data to provide sophisticated analysis and help improve risk assessment. The emergence of much talked about self-driving vehicles is another example.

Predicting the nearer term – the next five years, say – is actually more difficult. This is, however, something that is of vital importance to insurers and reinsurers as they plan to grow their companies.

One significant question any start-up will be asking when looking at a well-established and traditional business sector (and a question I often ask our reinsurance clients to think of) is: “If this service were invented today, what would it look like?”

The answer is rarely the same as what we have today and this is where opportunities for disruption come in.

Consider this: if insurance were invented today, in a world with smartphones, the internet and arguably easier access to capital than at almost any other time in history, the end products, services or processes certainly would not be the same as those we have today. This is the issue many fintech and insurtech companies are trying to address right now.

Familiar names

My first prediction for the next five years is it will be the insurers we are familiar with that are going to start this process (albeit because they see they have to), but they will do so alongside new names and competitors that are going to start this process too.

Insurers have long expressed concerns about the possibility of Google offering insurance, the perceived threat being Google has so much data about individu-

als – and in many cases businesses – that its underwriting process may be better informed than some insurers.

I think the more significant threat potentially comes from another major player in the technology sector in the shape of Amazon. Initially, this will take the form of a captive arrangement serving the health insurance needs of Amazon, Berkshire Hathaway and JPMorgan Chase, which have joined forces to reduce the cost of the tripartite’s health insurance costs.

Or let us take the more niche example of Tesla offering car insurance at a 20% to 30% discount. Some are no doubt asking how it can afford to do this. The answer is, of course, quite simple: every Tesla vehicle collects a wealth of data about how, where, when and how fast it is being driven, which is transmitted back to Tesla, which makes the automated underwriting of this business a low-cost breeze.

My second prediction is that, given Amazon’s reputation, knowledge of and relationship with the customer, it will move into the insurance sector. It will initially focus on the direct-to-consumer business, which means cover such as property insurance, travel insurance, personal electronic (gadget) insurance and perhaps even motor might be among the first lines.

Disintermediation

So far, I have focused on the threats from the outside, be they from start-up and disruptive companies or some of the big tech players, but that is to assume the existing players, roles and relationships will remain the same or similar.

This is, I believe, unlikely. In the discussions about disintermediation, brokers have felt themselves to be at risk from the march of technology. I think it could be some carriers that might be at risk in this area, however.

Having been to many insurtech and fintech start-up events in London and elsewhere, what has been surprising to me is how many of the larger carriers and larger reinsurers sponsor such events. Several go even further and are providing incubator services (of-

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office space, access to back-office functions, access to mentors and investors/investment) for these fledgling companies.

The advantage for such companies is obvious: by providing these services, they get an early stage view and access to disruptive businesses and can invest or purchase those businesses. It gives them far greater control over the evolution of the future shape of the insurance business. This can be summarised by one of my favourite mantras: “If you don’t become your competition, someone else will.”

Another aspect is the potential for reinsurers to use new technology to disintermediate the insurance carrier and become the insurer. Consider how the reinsurance market has consolidat-

ed through various merger and acquisition deals over the past few years. Reinsurers have done so through the need to find new ways of becoming more efficient and discovering new approaches for the market. I think the lines between insurer and reinsurer will become more blurred over the next few years. Each will look to use technology to help them gain market share in each other’s traditional areas of expertise.

Taking advantage

If the future is open, what can and should reinsurers be doing to help them prepare and take advantage of these changes?

First, they should reduce costs. This is perhaps an obvious suggestion, but some of the combined ratios we have seen in the

market are unsustainable even if the future does not include disruptive or well-funded competition. The most likely areas of improvement will be business process optimisation, helping some organisations by assisting them to retire legacy systems.

Innovative companies can change the way their businesses work. For example, if it had not have been for some of the innovative companies of the past (notably Xerox, 3M, Microsoft and many others), the world would likely be a very different place. Innovation does not happen on its own; it takes investment, sponsorship and courage to make the changes.

Many organisations have more data than they know how to use. The crucial thing about data is making it useful by turning it into information. Many organisations are turning to their IT departments and data scientists to help them understand their data, transforming it from the raw, unrefined product into an information treasure trove that allows them to make data-led decisions rather than relying on gut instinct. ■

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The next five years could see a transformation in the insurance industry