

THE END OF INSURANCE AS WE KNOW IT

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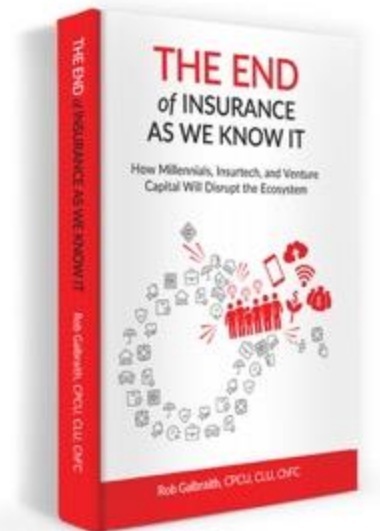
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Author, The End Of Insurance As We Know It

3º Insurance Service Meeting e 4º Encontro de Inteligência de Mercado

São Paulo, Brasil

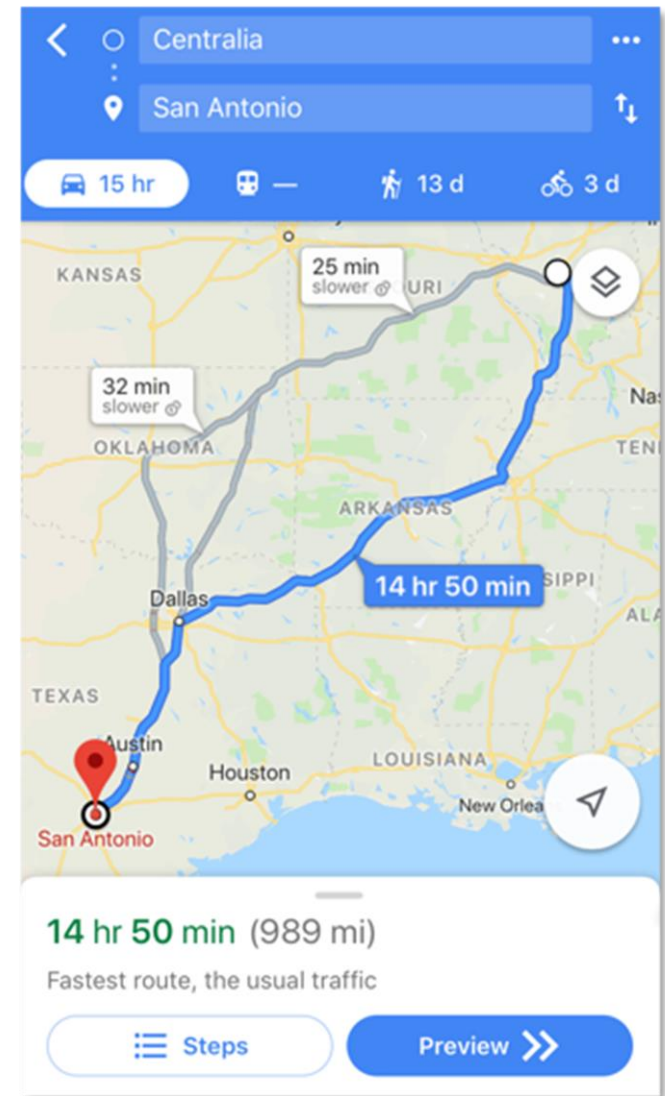
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GPS: fully integrated into our daily life



replacing proxy variables with
real-time data streams to
assess driving times



IoT: quickly integrating into our daily life

“Alexa, what is the weather forecast today?”

“Today it will be partly cloudy with a high of 15 degrees”

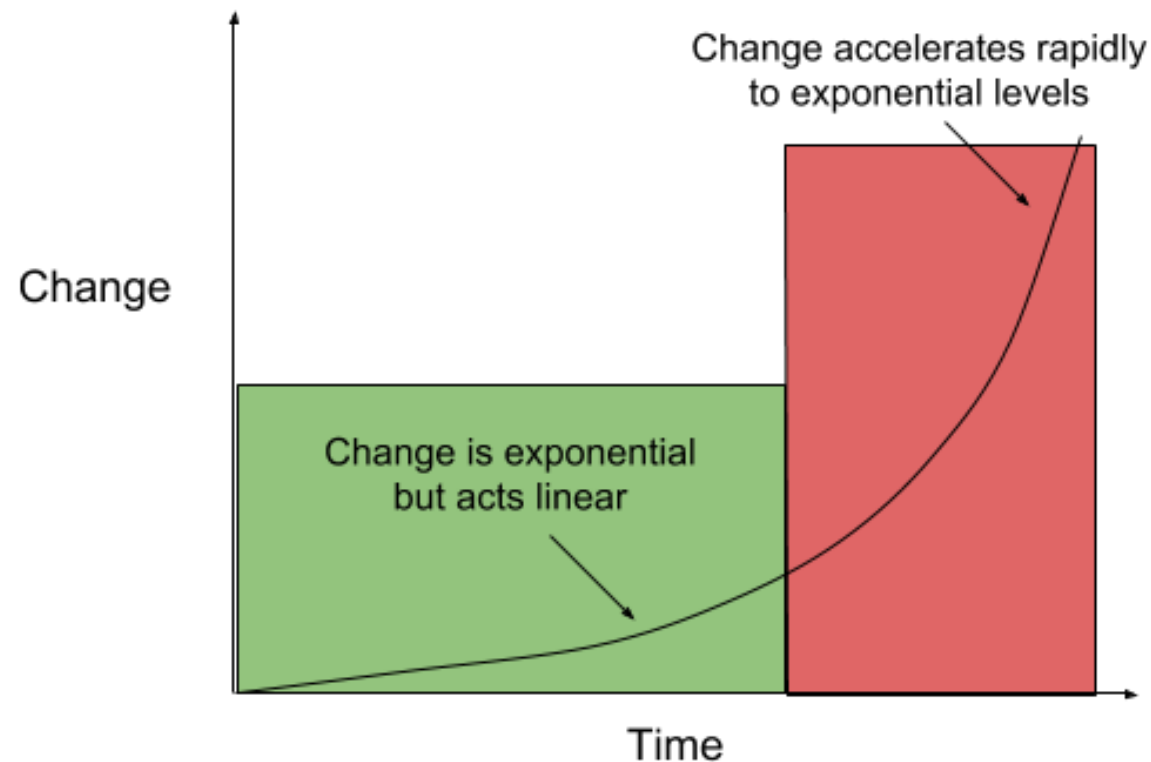


“Daddy, we hung up your clothes for you”



The insurtech paradigm shift

- We live in a world of accelerating change
- The next decade will see more change than the last 3 decades combined



The 7 fatal flaws of insurance

1. Too expensive
2. Too confusing
3. Too easy to game the system
4. Cash drain
5. Doesn't cover all causes of loss
6. Doesn't cover everything
7. Doesn't cover everyone

Expense ratios and technical debt

FINANCIAL TIMES

Allianz sends shockwaves through UK insurance market

Two deals catapulted German insurer into ranks of biggest providers

But they said that as Allianz starts to integrate the various UK businesses into its own systems, it could gain a big cost advantage over its rivals.

Mr Urwin said some parts of Allianz's business operated with an expense ratio — costs as a proportion of premiums — of just 10 per cent. He said that some smaller insurers in the UK operated with an expense ratio of more than 30 per cent.

“If you have a 20-point advantage that you can use for price, you can take market share quickly,” said Mr Urwin.

Are existing players part of the industry's future?

The
Economist

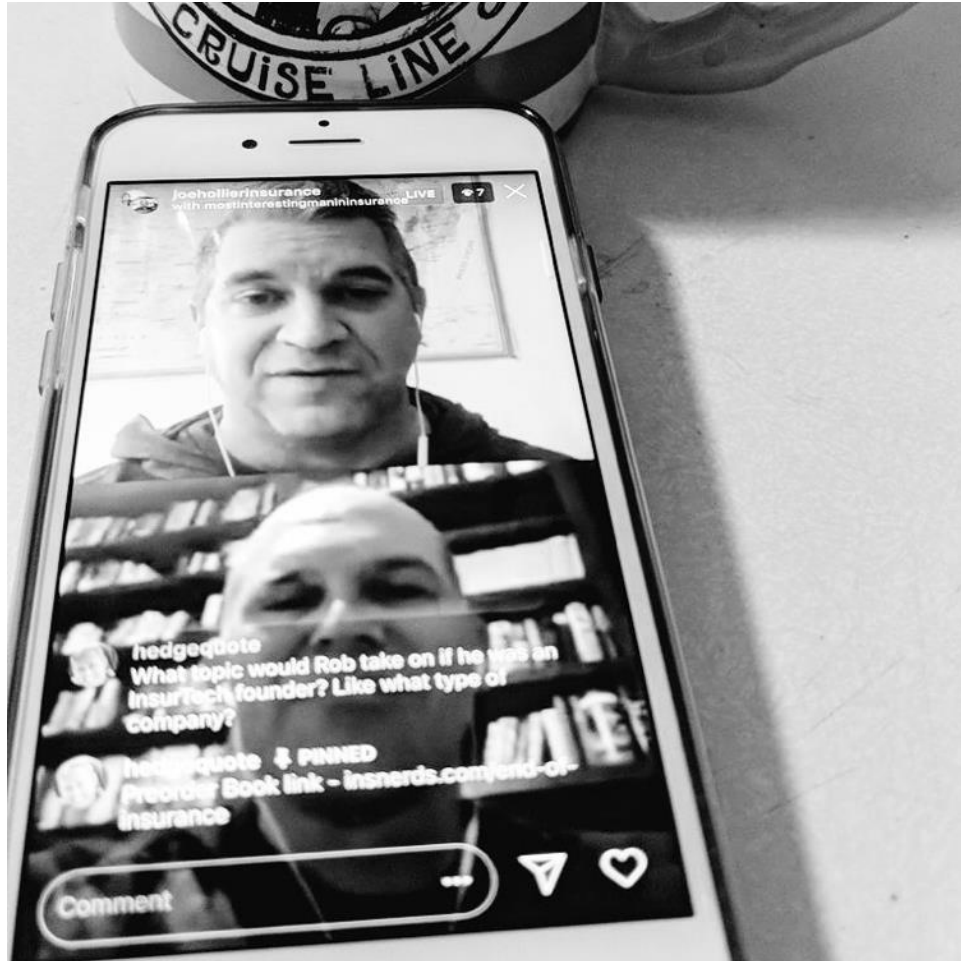
Run for cover

The future of insurance is happening without insurance firms

The industry's plodding giants face mounting threats from restless reinsurers and Big Tech

Big data has turned weather into a big business. TWC, which was bought by IBM in 2016, serves governments, media channels and 40% of the world's airlines. But many property insurers, whose fortunes rely on forecasting climate-induced losses, are still learning how to use the information, says Leon Brown of TWC. Their cluelessness is symptomatic of a problem for all insurance lines, including casualty, life and health. Reinsurance firms (which insure the insurers) and Asian insurance champions are almost the only innovators in an industry that is moving at a glacial pace.

The innovator's dilemma



It's the classic challenge.

How do you balance the desire to build new when keeping the old running is top priority?

Answer: you need help.

Insurance: the ideal product for the digital age

Insurance is one of the most enduring products ever developed

- Modern insurance can trace its origins back for centuries

If you could design a perfect digital product, you could do worse than insurance!

- Does not require massive investment in physical capital
- No global supply chain required

3 major barriers to entry:

1. Need for trust to make the risk transfer ecosystem work
2. Reliance on historical data for pricing, reserves and capital thresholds
3. Lack of consumer engagement – “set it and forget it”

Insurance: the ideal product for the digital age

New technologies are emerging that address the major barriers to entry

1. Need for trust to make the risk transfer ecosystem work

- Blockchain and “smart” contracts
- Peer-to-peer enablers such as user reviews, social media, etc.

2. Reliance on historical data for pricing, reserves and capital thresholds

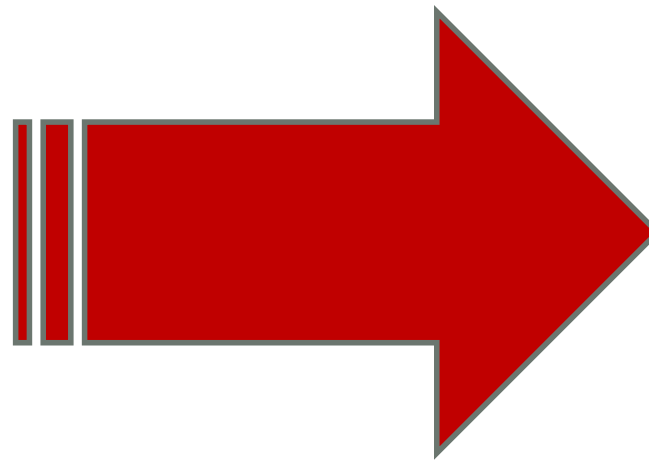
- Telematics
- Internet of Things (IoT)
- Remote sensing, aerial imagery and smart phones
- Artificial intelligence (AI)

3. Lack of consumer engagement – “set it and forget it”

- Digital marketing
- Chatbots
- User interfaces (UI) and user experiences (UX)

What are the implications of this new insurtech world?

Data collection
Periodic
Time-based experience
Surrogates
General
Linear
Experimental
General trends
Actuarial science



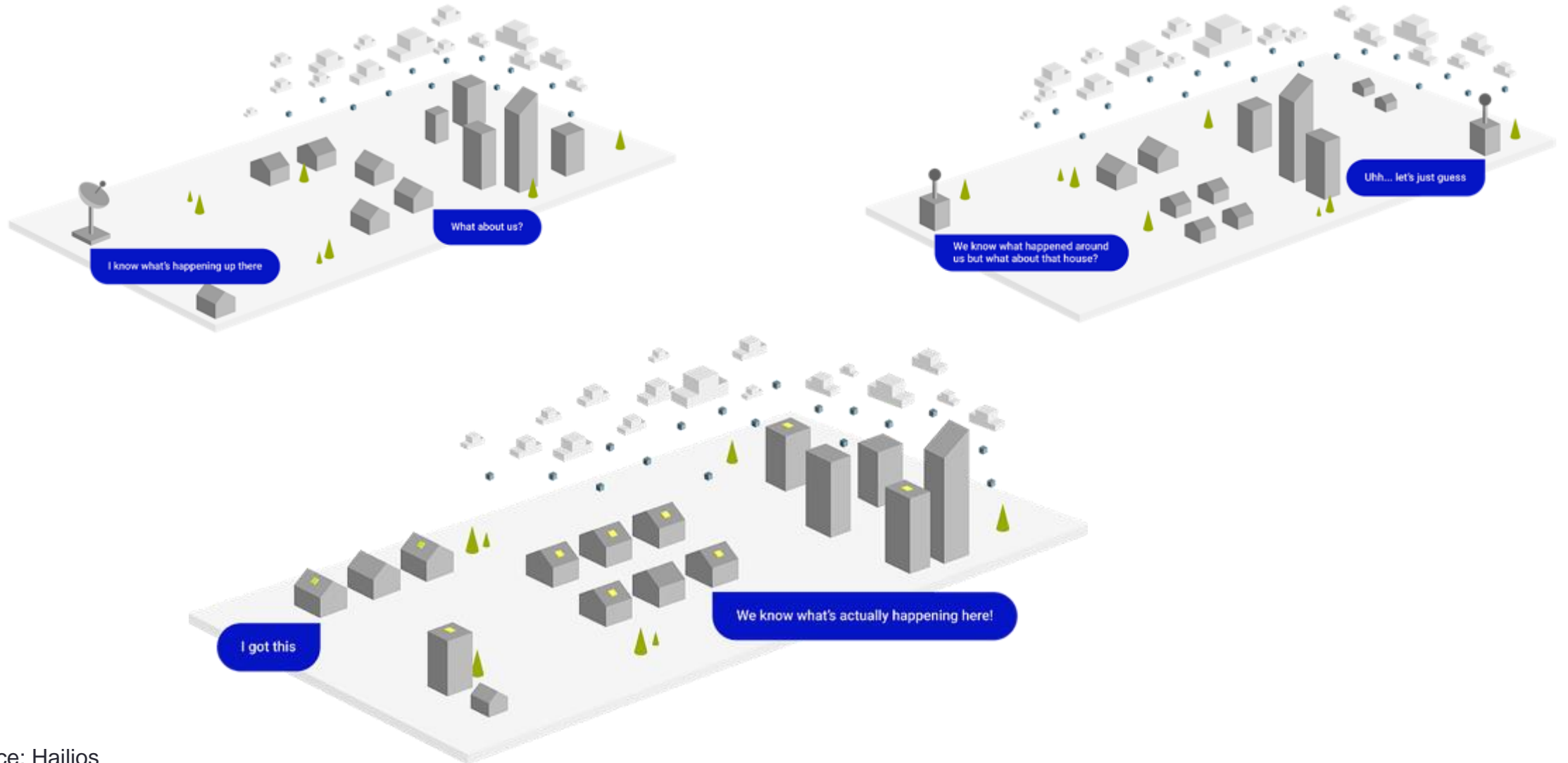
Data filtering
Continual
Data-based experience
Actuals
Specific
Exponential
Core
Near misses
Blend w/ data science

Example: "playing games" to reduce motor accidents

Going beyond the "red light" with telematics



Example: real-time first notice of loss



Example: wearables wherever

Using wearables to track each individual worker's environmental surroundings helps notify safety managers of:

- high heat and humidity
- loud noise levels
- slips, trips and falls
- does NOT capture biometric information

The resulting information can provide a map of a factory floor or other work location to show where the most risk is to worker safety.



Our AI future is here...today

AI is a key enabling suite of technologies in a Big Data world

- Previously, data collection was focused on “proxies” correlated with exposure
- Increasingly, behavior can be directly “observed” through sensors
- Real-time streams = massive amount of data to process and analyze
- **AI is required to make sense of all these new sources of data**

*“When it comes to how insurers should prepare for the shift, [insurance companies] should be ready to engage intelligently with new types of data and adapting their models and infrastructures to **fully embrace the potential of AI**”.*

- Francisco Corea, AI technologist

Privacy and blockchain: how to digitize trust

- Proof of insurance and certificates of insurance
- Real-time fraud and regulatory monitoring
- Tokenization of titles, deeds and liens
- Digital inspections of physical assets
- Agent and broker licensing
- Policy cancellation and non-payment
- Any transaction involving multiple payees
- Technical accounting
- Salvage and subrogation processes
- Commercial liability
- Enabling secure exchange of data for Internet of Things (IoT) enabled devices
- **Any process that requires exchange and verification of third-party data**

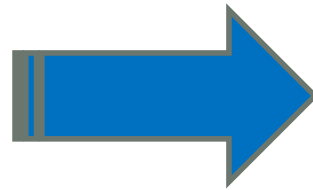


Source: RiskStream Collaborative

Who will finally drag insurance into the 21st century?

Role

- Actuaries
- Underwriters
- Claims
- Marketing
- Finance
- Human resources
- Information technology
- Business analysts
- Data scientists



Bias

Proven methods
Conventional wisdom
Process
Distribution
Rules
Regulations
Maintain stability
Dashboards & spreadsheets
Lack of business knowledge

Data-driven world: competing on algorithms

“If you want to build a model with great statistical fit,
simply predict you will never have a claim”



Case study

Insurtech scouting & partnerships

Agency Innovation Council

Digital acquisition capabilities

Expanding into commercial auto with telematics

Employee Innovation Weeks & Idea Pipeline

Digital transformation



Product growth and diversification strategy

Blockchain

Wearables

Third-party pre-fill and frictionless underwriting

Hackathons with local university

Core systems replacement

Less weightlifting, more yoga: think modular systems

Loss Prevention

Digital Core with a Human Touch

Telematics

Internet Of Things

API Integration

Big Data Strategy

Distribution Channels

Agency Management

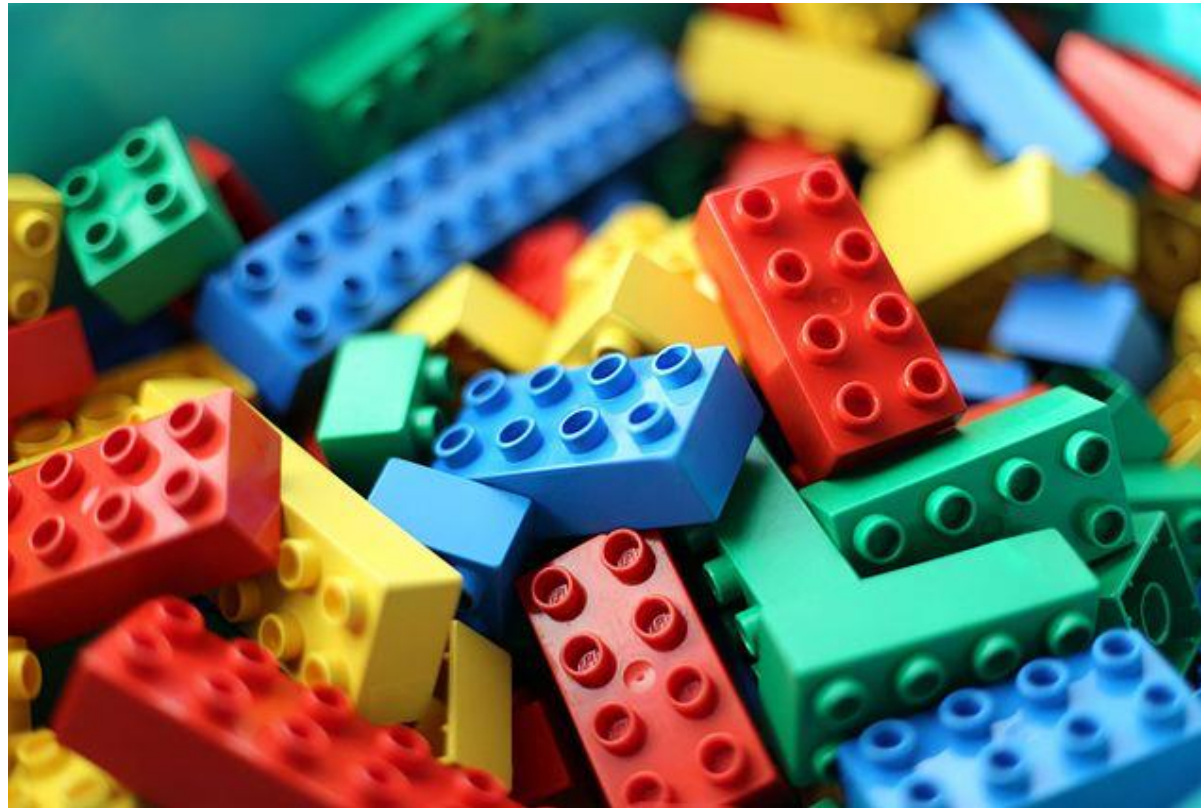
Back Office Process Automation

Streamlined Contracting

Cloud Computing & SaaS

Digital Mindset

Agile Methodology



Systems Modernization

Thriving in the digital era of insurtech

Thoughts on positioning for success in an era of accelerating change:

- **Less weightlifting, more yoga**
- Managing the innovator's dilemma
- Your KPIs should correlate to your APIs – how many partners do you have?
- Risk transfer re-imagined
- Betting strategy
- Competing for younger talent – start by holding on to your superstars
- Building a diverse and inclusive corporate culture

The unanswered questions

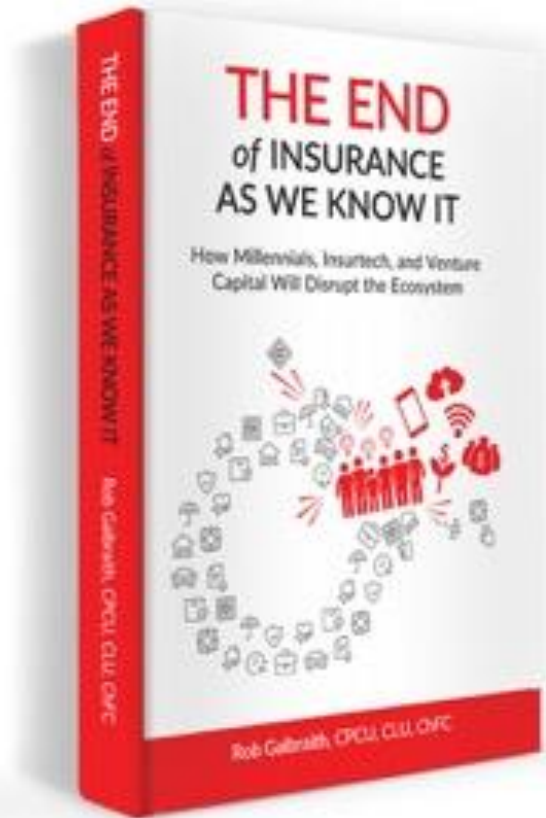
Which parts will be disrupted?

By what technologies?

How soon?

How quickly?

Read the book



**The world
deserves great
insurance. Go out
and make it
worthy.**

Learn more by visiting:

<http://endofinsurance.com>

Available in many countries on Amazon in paperback and Kindle digital versions

Final thoughts and discussion

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