VIEWPOINT

New technology must be deployed in a strategic way or the results could be disastrous

Re/insurers must look for technology to do more than just cut costs as a fast track to improved profitability

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The idea of the Fourth Industrial Revolution (4IR) has been reverberating throughout boardrooms around the world since it was a major topic of discussion at the World Economic Forum in Davos in 2016. It refers broadly to the coming together of physical, cyber and biological networks, and it can involve a range of revolutionary technologies such as robotic process automation (RPA), artificial intelligence (AI), machine learning, data analytics and the internet of things (IoT). Changes are coming to all industries at a bewildering speed and in ways which few of us can predict.

One of the most startling predictions to come out of Davos was that 65% of children in primary school today will eventually be working in jobs that do not yet exist. It is eye-opening to consider that within most of our lifetimes, two-thirds of those children will be doing jobs no one has yet conceived. It is also likely a range of predominantly repetitive and process-orientated tasks will no longer be done by people. Increasingly, such undertakings could well be carried out by machines which will do the work quicker, cheaper, more efficiently and with much more precision than human capabilities.

Does this mean robots are coming to take away insurance jobs? The insurance industry is one of the most data-driven sectors in the global economy, making it particularly susceptible to disruption from intelligent technologies such as machine learning and AI. And it stands to reason that robots – specifically intelligent and cognitive technologies – will certainly cut into some of the more menial and repetitive tasks in the sector.

Many re/insurers are, understandably, apprehensive as they try to work out how to absorb and respond to rapid technological advances. In an eagerness to embrace the potential benefits for the business, some companies may rush in tactically, without fully thinking through the strategic imperatives. The principle of "first mover advantage" describes businesses getting a competitive edge over rivals by gaining control of resources and establishing technological leadership.

Dilemma

As we have seen from bygone days, when VHS and Betamax battled to be the dominant "operating system" in the home video market, those businesses that try to move first and get it wrong could make a costly – potentially fatal – mistake. It is a dilemma re/insurers face as they size up how to embrace the technological disruption underway in the exponentially shifting age of 4IR and its robotics attributes.

In the past few years the insurance industry has struggled to come to terms with a series of economic headwinds, including high catastrophe losses, diminishing profitability and painfully low investment returns. It is tempting for insurers to view intelligent technology as a magic bullet to cure many core challenges. However, those businesses that leap into technological transformation without first reviewing their operating and service models, technological resources and transformational capacity run the real risk of pouring money down the drain.

It is highly advisable companies diligently assess all options, seek expert guidance and undertake pilot projects before adopting any new enterprise-wide intelligent technology implementations. The culture of the business can also play a fundamental role in determining whether big, bold technological changes will be supported in the right ways to ultimately result in success.

The insurance industry embodies high levels of technical skill and expertise. Yet, when it comes to technology adoption, the industry can be relatively conservative, often trailing other industry sectors. And for good reason. Caution may actually be an advantage in the fast-evolving 4IR era, allowing insurance companies to carefully assess whether their businesses are ready to undertake radical change with technology at the heart of the process.

Many cutting-edge technologies, robotics included, are in their infancy and there is little certainty which ones will survive and help to transform the industry, and which ones will flounder. Taking a big bet on one automation approach to get "first mover" advantage could, therefore, be a costly gamble. Another factor is that robotics cannot simply be a substitute for an insurer's core systems regardless of how the technology is applied. The classic term "rubbish in, rubbish out" still holds true, and inefficient legacy data and processes remain as the elephant in the room for the insurance industry. So, for example, if an insurer's existing data, operations, and systems are not analysed and improved at the outset of transformational projects involving robotics, then the shiny new technology will simply process low-grade data at a faster speed, and possibly even exacerbate the potential for large scale errors – ironically, and in part, because of less human oversight.

To be competitively astute and successful, it is essential that re/insurers look for technology to do more than just cut costs as a fast track to improved profitability. Emerging technologies such as robotics must be carefully synchronised to support and enhance business operations and service delivery. Under those conditions, cost savings and improved profitability are, typically, an inevitable and welcomed outcome. But failure to plan and deploy technology in a strategic, deliberate fashion could result in loss of competitive positioning at best, and catastrophic business failure at worst. ■

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