

# Survival of the quickest

The (re)insurance market is at a crossroads. The soft market, regulatory challenges, increased competition, abundant capacity, and external disruptors are just a handful of the threats (re)insurers face across international markets

**W**ith the industry under stress, (re)insurers are looking to move away from traditional operating models to ensure sustainability and growth. Against this backdrop, *re-Insurance* asked Xceedance CEO Arun Balakrishnan about his perspective on technology-driven change in the (re)insurance ecosystem.

## How should (re)insurers be approaching emerging technologies in order to reduce operational costs?

**AB:** In a perfect world, reinsurers would embrace all new and emerging technologies. The focus should be less on reducing cost via headcount reduction — since reinsurer employees are typically highly skilled, whose experience and knowledge are integral part of the reinsurer’s intellectual property — and more on systems modernisation and integration, with an emphasis on throughput to improve operational processes wherever possible. Many reinsurers are operating a variety of “home grown” bespoke systems which were cutting edge at the time of deployment but are now many years past their prime. The advent of modular platforms allows companies to integrate components seamlessly, rather than rip out and replace entire frameworks. In addition, the fast-emerging nature of artificial intelligence and robotic process automation requires not only a fresh view regarding integration with existing platforms and databases, but also the commitment to build, and partner with, the expertise required to leverage advanced, intelligent technologies.

## To which business segment of a (re)insurance company – such as claims or underwriting – does investment in technology have the potential to make the biggest difference?

**AB:** It is tempting to respond: “wherever (re)insurers feel the most pain.” For insurers, it could be the claims system(s), for others, the policy issuance process may be a major bottleneck. Key indicators are high volume

and repetitive manual tasks that can be relatively easily automated. Insurers may look to their claims area, and while reinsurers do not see the same volumes in that function, they may instead look at their catastrophe modelling practice. It’s worth repeating an axiom that rather than considering new technology for its own sake, (re)insurers should look to deploy it to solve a specific problem or inefficiency. If a company has a sense its processes are bogging them down but doesn’t quite know how to cost effectively tackle the problem, an expert insurance consulting firm can be a big help in identifying and formulating a plan of action to address the best areas of investment for modern technology.

On the underwriting side, we are seeing technology increasingly play a role in real time aggregation and concentration management, providing better risk selection. Several providers have built platforms that can be bolted on to existing underwriting platforms,



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as well as entire new underwriting and catastrophe modeling applications that can give the underwriter real time projection of aggregate accumulations and what-if scenarios as they consider adding exposures to their portfolio.

### What is the best way for incumbent reinsurers to leverage new technologies?

**AB:** Most reinsurers either have entirely bespoke systems, created in-house, or they have licensed systems such as underwriting management automation, often developed by vendors or even other reinsurers. As with much of the rest of the insurance landscape, M&A activity is bringing more and more disparate systems under one roof. In the case of the reinsurers, some are mainly property underwriters working with systems designed for casualty operations, and vice versa. In many cases, systems are more than a decade

old, and not engineered to take advantage of the latest capabilities and features. Reinsurers typically need to integrate risk or cat models with pricing and capital modelling tools.

Regardless, the fundamental building block for all (re)insurance operations is their strategic data assets. If they can build a data warehouse or lake in which data is available and standardised to serve all applications and functional areas of the business, that is likely an advantageous place to start. Reinsurers can also take the practical approach of identifying a specific problem area and deploy new technologies, combined with solid expertise around it to address that target area of operational deficiency. Projects should be able to “fail fast” and be restarted using a different approach if required, without spending large amounts of time or money on a technology-driven approach that is not paying dividends.

Reinsurers are also in a well-placed position to advise their clients about macro and micro trends they see in the marketplace.

### Is the increase in M&A in the sector having an impact on (re)insurer operational plans?

**AB:** Certainly, the increase in M&A is having effects on (re)insurers operations, and they need to respond. Managing a larger book of business with numerous, disparate systems, is a natural barrier to operational responsiveness. Addressing the growth of exposure aggregation and concentration becomes increasingly difficult as well.

To manage their capital effectively, (re)insurers need clear internal vision to their processes. Post M&A, (re)insurers must also quickly identify ways to reduce their “IT estate” by rationalising and merging the number of platforms that are deployed. The expedient alternative is to create a “veneer” platform to sit over multiple legacy systems for a single, more user-friendly, and effective view into their data, and to enhance seamless policyholder services.

### What has the (re)insurance market’s response to emerging technologies been so far?

**AB:** Reinsurers were among the first in the industry to embrace advanced analytics and high-powered technology platforms as integral to their operating model. But the (re)insurance market has not seen a rise of successive new companies as it did during the period of 1994 to 2009, when newly-formed companies came equipped with the latest in analytics and technology. That condition is now more prevalent among insurtech-powered MGAs and new market entrants.

Reinsurers are certainly more comfortable in using cloud- and service- based platforms, for example, but in general have not yet shown the wholesale commitment to “new technology” at least not at the same rate or with the enthusiastic commitment as the new era of start-ups.

Nevertheless, many traditional and incumbent (re)insurance companies have set up “new technology” divisions. Some are doing so to truly explore how the emerging generation of automation can increase efficiencies and improve combined ratios. Others have done so primarily to begin the process of building and expanding knowledge, or to keep shareholders happy.

### Is a collaborative approach from the industry required for individual companies to be successful?

**AB:** This is a broad and difficult question. If individual companies are to succeed, they need to be presenting distinctive solutions, provided in a compelling and efficient manner. Perhaps the most obvious sector — where collective agreement would allow individual company’s IP and their unique value propositions to

shine — is in data standardisation. It’s a tall order, but if everyone can agree on one set of characteristics for any given risk, the underwriting and analytics required to deliver the best product to policyholders would be more distinctive, and better. And perhaps blockchain has an emergent role to play here. But blockchain can only be effectively deployed among multiple parties and often across several areas of the insurance lifecycle, which requires a highly collaborative mindset and approach.

### What is the role of the broker in driving modernisation?

**AB:** Brokers have always been at the forefront of market innovation. Indeed, the nature of their role requires them to leave no stone unturned in delivering the best, most cost-effective solution for their clients. Thus, brokers were among the pioneers in the use of catastrophe and capital modeling.

They took the lead in forming offshore (e.g. Bermuda) well-capitalised, sophisticated underwriting operations in response to capacity scarcity. And brokers continue to invest heavily in technology and analytics to service their markets.

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Nevertheless, the broking industry stands at a crossroads. The (re)insurance players are all trying to get closer to their customers – and some are succeeding. The soft market demands the frictional costs of doing business have to be reduced. Those, and other factors, are threatening the brokers’ business model.

There is a survivalist need for change, and brokers must embrace change too – both technological and in their markets. Therefore, the pioneering trend of technology-driven modernisation among brokers looks like it will continue.

Productivity leads to competitive advantage, for example, in business environments where excessive time and effort is required to verify data between parties. Brokers can gain advantage by leveraging technologies that cut down on the frictional effort of data exchange and verification, both in the primary insurance and in reinsurance channels.

By promoting a platform with distributed ledger technology (DLT) or blockchain, brokers can speed up turn-around times, enhance verification with an absolute audit trail, and link accounting for a consistent contract view between operations and finance. The same efficiencies will apply for MGAs, program administrators and program writers.