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VIEWPOINT

Navigating the operational risk of new technology

Reinsurers are, increasingly, faced with the stark choice of committing to costly, uncertain new technology solutions or clinging on to their traditional business models

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Insurtech has been one of the great buzzwords of the global re/insurance industry in the past several years, with an enormous number of start-ups seeking a silver bullet to revolutionise a notoriously laggard industry on the road to modernisation.

Encompassing a broad range of industry-focused technologies and disciplines – such as digital enablement, artificial intelligence (AI), machine learning, blockchain, and big data – insurtech has always carried the potential to deliver major benefits in terms of speed, accuracy, and efficiency along the re/insurance value chain.

While there is much hype surrounding those insurtech initiatives, and many more, it's a reasonably safe prediction that a few will make breakthrough contributions, but the majority of pure insurtech firms will not make momentous impacts on the market. Nevertheless, there is little doubt the industry will, eventually, be transformed by the adoption of new tech-stimulated developments with meaningful real-world applications for reinsurers and cedants.

For generally straightforward classes of business, including home and motor insurance, insurtech is well-placed to drive modernisation. For example, there are already many (internal and third-party) data sources to help reduce risk assessment due-diligence and accelerate automated underwriting, quoting, and binding with responsive tools and platforms.

Those technology resources, and other insurtech innovations, also help to ensure exemplary and proficient transactional service between reinsurance providers and their clients.

Complicated lines of business

Even so, there are some classes of business, such as a range of commercial and specialty lines, which simply cannot be managed adequately by automation, no matter how innovative or advanced the technology.

When it comes to more difficult-to-understand industries – aviation or energy classes, for example – there may not be enough information to allow underwriters to automatically price the risk accurately; or the information may be so layered and technical that it requires intervention by experienced personnel to analyse and rationalise the data.

In any case, an automated pricing and rating engine or straight-through underwriting platform, no matter how modern and insurtech-inspired, may not suffice to assess perils and process assets in complicated lines of business.

Likewise, a start-up reinsurer or managing general agent (MGA) hoping to write complex risks with straight-through processing technology would face formidable hurdles. Similar barriers would confront established providers looking to enter new markets and generate premium revenue early in the business cycle. In some cases, organisations could leverage traditional approaches and acquire off-the-shelf systems; or they could task some combination of in-house teams and technology partners to build a bespoke platform capable of reliably automating the required processes.

However, insurtech-inspired or not, any combination of those approaches can take many months to materialise and reach a point of productive utilisation and deployment with any degree of confidence.

In the meantime, reinsurers could be severely hampered in writing profitable business.

In this environment, there is another way to optimise commercial insurance business enablement, by using insurservices.

This approach features a partnership with an industry-dedicated and knowledgeable managed services provider.

In this model, the partner would deploy business and intelligent technology resources on-demand – allowing the reinsurance provider to "variabilise" expenses and cost-efficiently ramp up revenue- generating activities, without significant upfront investment.

Limitations

Recognising the limitations of insurtech to automate complicated, multifaceted business workflows, a relatively high degree of human intervention is required at the outset of an engagement – for example to analyse, cleanse, and input risk-evaluation data. Insurservices can promptly deliver highly expert support on-demand, allowing the re/insurance organisation to write good business (while addressing other operational priorities as well) without an inordinate or debilitating delay.

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Meanwhile, the insurservices partner, or yet other internal and external participants, could assist carriers to build or modernise the platforms that will eventually optimise core business processes and data use.

In time, as insurtech enables and refines more and more of the transactional workflows, the amount of human intervention can decline, and the reinsurance provider's business can evolve toward maximum automation, driven by the advanced tools and techniques of intelligent technologies.

The insurservices strategy represents a viable alternative to either a purely insurtech solution or a traditional insurance or reinsurance business model — which may rely on a large team of experienced underwriters and support staff to get the business off the ground.

This is effectively a hybrid approach, characterised by securing the appropriate and cost-effective mix of technology and experienced resources to optimise the business from the very start.

As an illustration of the model's efficacy, MGAs operating at Lloyd's of London are under sustained pressure to make maximum use of technology, to minimise operating costs, and to improve operating efficiency. A combination of insurtech and insurservices could well be a viable approach to help deliver a leaner, more responsive, and cost-efficient operating model – for MGAs, insurers and reinsurers alike.■

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