Seven factors that will change Australia's insurance industry by 2025

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Australia's insurance industry is at the precipice of a significant transformation within the next few years. It will be unlike anything we have seen in the past.

An informal Xceedance survey of Australian insurance company senior executives uncovered seven key factors they predict could completely change Australia's industry within this decade. They are:

- changing market dynamics
- automation
- the data explosion
- greater specialisation and the rise of underwriting agencies
- new insurance roles
- a move from reactive to predictive claims modelling
- hyper-personalisation of insurance.

An analysis of the current Australian insurance market shows the industry is morphing, based on business and societal changes caused by the digital revolution. While many factors will impact future insurance transformation, these seven will be responsible for major industry change.

1. Changing market dynamics

Our informal survey indicated there could be a significant reduction in some consumer insurance brands, particularly for motor vehicles. The move to driverless cars and vehicle manufacturers insuring their own products will likely significantly change motor insurance business models.

With fewer people owning motor vehicles, insurance will increasingly become tied directly to car manufacturers, usage, and rental companies.

Modern motor vehicles contain myriad data capabilities and assets that the insurers of motor vehicle manufacturers can harness.

It is highly likely that insurer and manufacturer relationships will result in one insurer providing coverage and services for a particular motor vehicle brand during the life of its vehicles. The vehicle manufacturer's insurer will know each vehicle's entire history (and the status of every component within the vehicle), as well as the insured value — up to the day it's worth nothing, or alternatively becomes a classic collector's item.

This trend could negate the need for competitive consumer insurance brands, shifting the industry to focus predominantly on commercial motor vehicle insurance and classic or special vehicles.

2. Automation

The millennial population and beyond will change how we buy insurance. Much of this demographic expects to buy insurance online and usually instantly, with little or no human intervention. Tomorrow's consumers will increasingly have different insurance requirements while pushing for simplicity in buying insurance. Digital natives will have high expectations from the next level of a fast-evolving, technologically enabled economy.

The same expectations also apply within the insurance industry. A younger insurance workforce will not accept cumbersome, slow technology — built to protect a vendor's investment, but now seriously dated and challenging to configure and operate. We cannot continue training graduates on antiquated technology while they operate hand-held devices that are infinitely more functional and powerful.

The younger broker community live in this new, digitally progressive world. Like others in the industry, they will not accept working with traditional technology.

Insurers are aware of the momentous technology changes occurring now, and many are capitalising on automation driven by artificial intelligence (AI) and machine learning (ML). However, industry-wide application of AI and ML is required. There is an increasing case for digital reinvention of the industry to achieve higher customer satisfaction, driven by the imperatives for improved service and faster processing times.

The digital natives will introduce the industry to their needs. Concurrently, insurers are realising significant value from digitising insurance processes, for example, reducing the cost of the claims process by as much as 30 per cent with automation. Large incumbent insurers can more than double profits over five years by digitising existing operations and business workflows, according to a McKinsey & Co report.

3. The data explosion

The insurance business is increasingly and materially based on data. The explosion of data attached to, and sourced from, smart devices requires insurers to establish sophisticated data platforms to keep pace. As more people attach their personal information to online platforms it is becoming easier for insurers to evaluate risk, and assess and process claims.

They can underwrite risk instantly, based on data gleaned from smart devices. Entire households will connect to devices that track moisture and leaks, ground movements, electrical current faults, pests, and stray animals. The internet of things (IoT) creates a level of digital intelligence for devices or appliances, things that would be otherwise dumb, enabling them to communicate real-time data without involving human beings. It started simply, with RFID tags, but has progressed rapidly. Tech analyst company IDC has predicted there will be 41.6 billion connected IoT devices or 'things' globally by 2025.

Databases will hold building and renovation information, construction updates, and repairs. Whether a building has been rented or owned multiple times, insurers can document its entire history. That will impact on premiums. Service and equipment providers will supply free tracking devices to push ongoing maintenance, such as pest extermination, painting, general repairs, and roof repairs to prevent future leaks.

4. Greater specialisation and the rise of underwriting agencies

The industry's business model will move more into niche specialisations delivered by underwriting agencies.

Australia now has a proliferation of specialty insurance providers across lines such as performance motor vehicles, marine, antiques, and niche small business insurance products.

Underwriting agencies are providing added value not just to consumers but to brokers as well. For example, underwriting agency Agile provides an innovative online platform, Powered by Agile, that enables brokers to quote and bind business under $3,000 in minutes. The portal automates simple, transactional business, which frees brokers to concentrate on providing advice. Brokers can also white-label products across the platform.

The Underwriting Agencies Council, Australia’s representative body for agencies, estimates its members’ annual GWP at about $3.5 billion, and the agency sector is growing rapidly, because agencies (providing they can get the capacity) can take on some risks the general insurers will no longer accept. As general insurers' underwriting guidelines tighten, there are opportunities for flexible agencies which can use their expertise about specialty risks.

Agencies can be pure specialists. For example, one prominent Australian agency only writes cyber insurance and competes strongly with the major carriers in that sector. The agency has substantial backing from underwriters with a comprehensive understanding of cyber risk.

Large carriers are reducing their risk footprints. Many seasoned insurance professionals are now focusing their attention on core areas with specialist knowledge and moving their expertise into underwriting agencies.

The trend to create agency clusters continues as groups add to their range of specialisations through mergers and acquisitions.

Regulatory obligations for Australian insurers are high, so smaller insurers find their profits squeezed under the burden of regulatory and statutory reporting requirements. Those conditions can drive consolidation, with mergers and acquisitions rising among smaller insurers. Industry consolidation is also fuelling the emergence of specialist companies with outsourcing capabilities to support insurance operations.

For example, larger insurers are increasingly engaging IT specialist organisations that focus only on the business of insurance, enabling insurers to focus on customer-facing activities. The approach is far more cost-effective and less risky to insurers than maintaining extensive in-house IT teams.

5. New insurance roles

Spurred by technology, the evolving industry will re-engineer roles within insurance companies.

Data is changing the claims assessment process. There will always be a requirement for assessors and loss adjusters, but their role is changing from always having to be physically present at loss locations to often being able to assess claims virtually.

Insurers will require skilled, qualified loss adjusters for complex claims, such as large, expensive industrial special risks (ISR) claims; however, straightforward claims will be desk-top managed via digital images from phones and drones.

The critical change for insurers will be the rise of new roles centred around data, including risk analysis, collection, and reporting. Driven by the data explosion, insurers will require more specialists who can analyse and interpret data. Many insurers now use data to power apps that assess property risk. There are and will continue to be extraordinary possibilities for efficient, data-driven insurance operations.

Technology opens a global workforce for Australian insurers. Many have already adopted a right-shore workplace model consisting of a hybrid of onshore and offshore workers. The trend is likely to continue, particularly as technology enables more people to work remotely in geographically diverse environments.

The right-shore model will broaden in the wake of events such as the Covid-19 pandemic, allowing insurers to leverage more economical resource pools from locations not yet tapped. The model can be organised to deliver a unified solution and team, with resources available across many geographies and time zones.

6. A move from reactive to predictive claims modelling

The traditional nature of insurance is to provide protection and peace of mind in the face of unforeseen events. However, due to the vast amount of data now available to insurers, the industry is moving towards predictive claims modelling that helps insurance customers avoid risk. In effect, the industry is moving from risk mitigation to risk avoidance.

For example, modern buildings use new materials that are cheaper and faster to install (such as plastic plumbing and gas fittings and pipes, replacing copper pipes). Flexihoses are beneath kitchen and bathroom sinks and connect kitchen and laundry appliances in modern buildings, but some insurers say they are responsible for about 25 per cent of water damage claims. Flexihose products have limited lifespans and the consequences can be ruinous when they malfunction. As a risk avoidance strategy, insurers can help accelerate the addition of innovative pipe monitoring technology to alert building owners and managers.

Insurers already have mapping technology to quickly identify areas of potential future subsidence for flood risk planning. Systems like Residz already track this data and can provide it house by house and suburb by suburb.

Flood mapping is now available down to the centimetre, and insurers are aware of potential locations for disastrous floods associated with weather conditions, such as La Nina.

Starting in July 2022, Australia's Federal Government is establishing a reinsurance pool for cyclone damage to private homes, strata buildings, and small businesses in northern Australia. The pool is backed by a $10 billion government guarantee.

A key challenge is that while the data is available, not all insurers appear to be using it effectively yet. There is a massive opportunity for insurers to find new ways to empower the data they hold and move to more predictive claims models with a focus on risk avoidance.

Among high-risk exposures are class action suits, pandemic-related business interruption losses, and company directors' increased responsibility for governance and risk oversight, fuelling more directors & officers' claims. Insurers are growing more aware of these risks and leveraging technology to tighten product disclosure statements.

The trend towards parametric insurance is gaining momentum, which changes the entire nature of claims.

With parametric insurance, a pre-agreed claim payment is made when a triggering event occurs. The event is a pre-defined parameter or metric related to the insured's exposure. Parametric insurance does not indemnify the pure loss but pays a claim after the trigger event occurs.

For example, flight delay cover can be triggered by 30, 45 or 60-minute delays, leading to an instant payment.

The WindX parametric product can be purchased by island resorts, tourism operators, power distributors, and other entities impacted by cyclones or hurricanes that cause physical or economic loss.

It makes a payment when a trigger occurs – for example, a pre-determined wind speed is exceeded. Unlike a traditional ISR policy, no physical loss or even claim lodgement is required.

Parametric insurance is also used in agriculture, with typical triggers including lack of rainfall over a specified period or storms of pre-determined wind speeds.

7. Hyper-personalisation of insurance

Harnessing data for risk selection and predictive claims modelling opens the opportunity for insurers to move to hyper-personalisation to enhance the customer experience.

A focus on hyper-personalisation enables insurers to offer customers in high-risk areas affordable insurance, if their individual properties or situations are deemed low risk.

It allows insurers to pinpoint a particular customer's risk based on lifestyle factors. For example, a customer seeking home and contents insurance in a low socio-economic area — but being an owner-occupier with significant home security technology — could be a good risk. The proposal will likely not be rejected because of its general postcode risk characteristics.

Hyper-personalisation is a key reason why insurers are increasingly buying data companies. Beyond insurance, hyper-personalisation enables insurers to become trusted partners to consumers and businesses by proactively approaching insured customers and advising them of actions they can take to reduce their insured risk.

Risk avoidance can significantly benefit insurers and their customers. Hyper-personalisation is made possible through insurance data and the granular knowledge insurers can gain about their customers' risk factors.

Key challenges for Australian insurers

Australian policy wordings are still problematic, with many insurers impacted by legacy policy terms — as demonstrated by the confusion around business interruption claims created by the Covid-19 pandemic. Many policies retained wordings that referenced outdated legislation, subsequently replaced by Australia's 2015 Biosecurity Act.

To avoid such confusion, there is growing pressure on Australian insurers to review and update policy wordings continually.

While the future is unpredictable, insurers can look back and review what has happened historically with events such as natural disasters, terrorism, and pandemics.

Greater collaboration is needed between insurers and government agencies to determine what emerging risks will look like and how Australia can best prepare and pay for them. The Insurance Council of Australia (ICA) is already working with governments to address pandemics, climate change, and natural disaster responses.

ICA may consider bringing all insurance industry stakeholders together to plan how the industry and governments can handle future perils and risks more proactively than in the past.

Industry and government have long co-operated on various issues, but changes of political parties and ministers responsible for relevant portfolios can mean a lack of continuity in the consultative process.

While there is on-going background dialog between the insurance industry and governments, ICA could benefit its member insurers by being more open with the public about the industry's involvement in working with governments to achieve the best outcomes for policyholders.

It's now inevitable that Australia will have what used to be rare flood and bushfire events every five to 10 years. The frequency of such events means they are no longer solely insurance problems. They must be addressed based on a broader community view about how assets and people can be better protected.

Australia must be better prepared for the next set of unforeseen events before they occur. Insurers and governments can now use the vast amounts and types of available data to work together and support more predictive claims models and hyper-personalisation of insurance that will ultimately help consumers and businesses to avoid risks.

It's the only way governments and the insurance industry can prepare to best protect people, properties, and other assets against the next big natural or man-made threat.

About the Author

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With an international background in business and technology, Stephen Browne has delivered insurance solutions to the Australian and New Zealand markets for more than 30 years. His focus in identifying core solutions for organisations and assessing appropriate delivery models has ensured the most strategic outcomes for his clients.

Creating successful teams and building businesses by leveraging technology solutions, Stephen has managed large multi-country implementations. He has secured significant new business across regions in customer-facing solutions and systems of record, and established knowledgeable teams to ensure cost-effective solution delivery.

Before joining Xceedance, Stephen was director for insurance at CSC Australia. He previously held senior roles with Lumley Technology, SSP in Australia, and Computer Power Group in both Australia and the United States. He started his career implementing technology solutions. Stephen's consulting engagements to assess business requirements and packages for organisations stem from his experience in delivering technology solutions.

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