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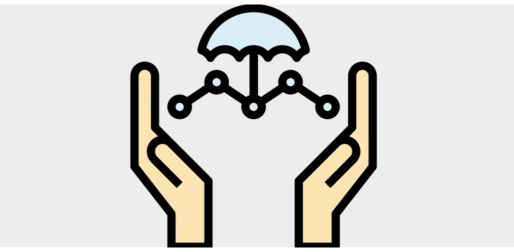
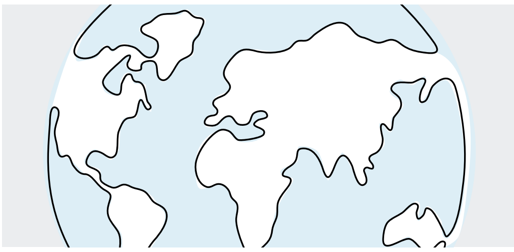
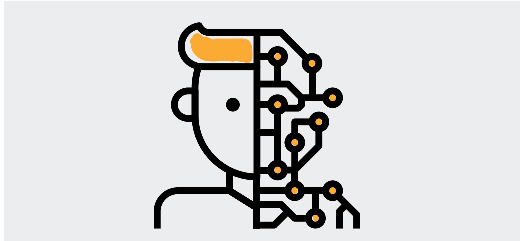
RISK MANAGEMENT REVIEW







Insurtechs and Insurers: Ensuring a Successful Collaboration

by Sarah Salem, Gen Re, Cologne

Insurtechs first emerged in the insurance scene ten years ago and have been slowly changing the traditional insurance playing field. They have excelled at anticipating and rapidly meeting changing customer demands and it's abundantly clear that they have had an innovative impact on many a component of the traditional insurance customer journey.

We have seen innovations on the client onboarding and application filling, the medical underwriting, the pricing, the claims management process as well as the general feedback process.

Insurers can therefore no longer afford to ignore these changes and are faced with a decision to either (i) adapt to continue to compete in the long run; or (ii) collaborate and partner with these disruptors to integrate their ideas into the insurance value creation process. This "disruption" has created far more of an opportunity for the traditional insurance industry than a threat.

A new generation of customers

At the heart of the insurance industry is a customer with dynamically changing expectations. Hyper-personalisation of the insurance offering is one of the trends redefining the industry, driven by this customer expectation and the availability of the data and tools needed.

The access to more information about each customer is creating the opportunity for a decrease in one-off interactions and innovation of continuous customer engagement. This deeper understanding of a customer's need allows for the personalisation and the changing of offerings over the customer's lifecycle.

It does however require a clear understanding of the customer journey map, and all potential touchpoints to maximise customer engagement and minimise customer pain points.

This customer-centricity is driving the overhaul of the insurance product itself. The dynamically changing customer demands and expectations are morphing insurance products to digital native, on-demand products, ones with instantaneous and paperless access, evaluation, and payment, all while requiring more transparency of the pricing and claims process. These are all areas of lower expertise of traditional insurance companies and of pure expertise for their potential partners: insurtechs.

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The insurtech variable

To understand better how a collaboration can be successful, we need to understand exactly what insurtechs are. Despite the term being coined in 2010, the definition of what insurtech encompasses remains vague. The most basic understanding of the term is that it combines technology and insurance.

Insurtechs are early adopters of technology and therefore almost always digital natives. Unencumbered by legacy systems and managing them, insurtechs are capable of building fast and leanly on new emerging technologies, such as big data, machine learning, the cloud and the internet of things. They leverage these most advanced technologies to create solutions for the insurance industry. This clearly comes from a deep understanding of the technology, its use cases and applications, be it telematics, blockchain, or drones – all examples we see in the current insurtech landscape.

Insurtechs have a focus-driven approach. They focus on one aspect of the insurance value chain – line of business, client segment, or insurance process – and aim to tackle a specific customer pain point by automating, simplifying, or increasing the transparency of the process.

They reimagine the customer experience and focus on improving many of its aspects which results in an improved value proposition, simplified interaction process, and increased transparency of the product and the purchasing experience. They tend to look for niche markets within insurance where they can deliver the changes they promise and therefore earn credibility.

The fact that insurtechs are disrupters of the traditional insurance business model by innovating the customer value proposition provides another description. For example, they innovate by increasing operational efficiency and therefore lowering turnaround time as well as cost for the customer. Their *modus operandi* is to automate a part of the value chain, be it a process, a service, or an interaction based on their technological expertise, thereby generating value either to the end customer or to the insurance company itself.

Fundamentals of a collaboration

To understand better what a collaboration process could look like, we decided to take an in-depth look at integration examples between insurance companies and an insurtech well-known to Gen Re in the field of a wellbeing platform offering.

The insurance companies had been creating a platform for post-policy issue engagement with their customers. Their goal was to give their customers access to applications that can help with healthy lifestyles, exercise and general mental health and wellbeing.

The insurtech at hand is a health technology company providing solutions within the realm of health assessment and health improvement. Its products are evidence-based and come with a record of success. The products also allow for integration of other partners through the platform for a seamless customer experience.

The insurance companies engaged the insurtech to innovate, automate, and improve customer engagement after the customer has taken out a policy, allowing for more touch points with the customer, visible value addition and potential data generation for better personalisation of future offerings.

In preparation for the collaboration process a few questions were examined in depth by both companies in each project:

- **Are the companies well-matched?** Insurtech-insurance company collaborations almost always fall into the big company-small company categorisation. In such collaborations, the aims of both parties should be properly communicated and broken down into phases and goals that both parties agree to. Alignment of expectations between the companies is of utmost importance given the novelty of the project they are collaborating on. It is also important that both parties are vested in the project. In some cases, insurtechs might feel in a weaker negotiating position and could end up underselling or undervaluing their service and product.
- **Do the business models match?** Most insurtechs look for shorter-term gains while insurance companies work on a longer timeline with lower cashflow restrictions. Insurtechs sell a product or a service that requires, in a lot of cases, exploration to materialisation. This phase involves a vague scope and if not properly discussed and contracted, could lead

to scope slip and unbilled work, a huge opportunity cost when the primary focus is growth and cost efficiencies. These fundamental differences in business models needed to be clear for both parties prior to entering into a collaboration.

- **Is there stakeholder buy-in?** To guarantee the success of a technology-driven new project there needs to be stakeholder buy-in from the insurance company. Often the innovation department brings the insurtech into the business, in such cases it is of utmost importance that sales, IT and any stakeholders involved are aware of the goals and milestones, believe in the purpose of the collaboration and are working towards its success. Internal alignment and stakeholder buy-in play a fundamental role in how the project turns out.

Shaping a successful collaboration

As a collaboration progresses, dynamic variables arise that affect the outcome. The following five key learning points resonated as challenges and pitfalls to be aware of in the scope of insurance-insurtech collaborations:

- **Agility:** The projects insurtechs and insurance companies collaborate on require an exploration phase, a development phase, and a rollout phase. These three phases have different speeds of response and movement. These phases rigorously test assumptions previously made and rewrite them as the collaboration continues. The agility of stakeholders in responding to these hurdles is a very important driver of the success of the collaboration. Having awareness of distinctly different corporate cultures can help determine the pace that both companies can handle.

- **Project management and communication:** The big company–small company reality translates into small insurtech teams and complex cross-departmental matrix teams in insurance companies. Dedicated champions tasked internally in leading these projects who are empowered and have the right talent in the right place are a key component of ensuring the success of these projects. The aforementioned vertical buy-in eventually comes to fruition in the choice of team and ease of cross-departmental roadblock resolution. Innovative projects require the involvement of product design, IT integration, sales, legal, and many more who all come together to make the new project a success.

- **IT investment and capabilities:** Insurance companies are well aware that they come to this collaboration with the burden of legacy systems and integration challenges. The success of collaborations relies heavily on the insurance company being prepared to develop the technology needed to best integrate the offering into its systems. Unless the product is fully embedded into the insurance company's offerings (from brand continuity to single sign-on, for example), the product will remain unfinished, and the end client will suffer a poor customer journey. There needs to be a commitment to take the product where it needs to be.

- **Data awareness:** From privacy and data protection, to being able to use data to improve the customer journey and hyper-personalise the offering, data is a central variable in the collaboration. Data-sharing agreements should be drafted open-ended so they can evolve as the data comes in.

- **Identify KPIs for gauging success:** Given the novelty of most projects, pre-agreed key performance indicators (KPIs) might not be the best way to gauge the success of the collaboration. KPIs should be revisited and the definition allowed to evolve as the project moves from contractual to commercial working. Insurtechs have mentioned that high-level KPIs that summarise the key project information that the insurance company wants to track work better for these collaborations, while specific and objective detailed KPIs can limit what can be done or send the parties chasing the wrong goals. A clear KPI that insurtechs believe belongs in such projects is the subjective customer interview (open-ended questions to understand the effects on the customer journey) and surveys.

In a digital world where customers are prepared to share more of themselves to better their experience, an insurance company that does not adapt to meet its customer where the customer wants to be met will eventually lose that customer.

Collaborating with partners who are experts in innovating part of the customer's journey, putting customers at the centre and making their experience seamless, retains the customer, keeps them at the centre of the offering and ensures an insurance company's survival in a changing environment.

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