

# The Fourth Industrial Revolution in Insurance

Insights from the panel discussion

# Entering a new era: moving beyond digitalisation



## Entering a new era: moving beyond digitalisation

Insurance stands on the brink of a technology revolution that could change the very fabric of the industry. If the first industrial revolution was the rise of the steam engine, the second electrical power and the third the evolution of digital, then the fourth is the data revolution, which will power analytics and artificial intelligence (AI) to transform how insurance is underwritten, how claims are handled and how insurers engage with



Clare Lunn, LV=

their customers. Revolution is a big claim but our panelists agreed it is appropriate for the scale of disruption AI and machine learning is about to unleash on an industry that is traditionally slow to innovate.

**“You either need to be a leader or a very fast follower - or you are going to be toast”**

Clare Lunn, LV=

“AI and machine learning is such an exciting space for insurance,” said Clare Lunn, general insurance fraud director at LV=. “You either need to be a leader or a very fast follower, or you are going to be toast in the future because people will start slashing their operating expense models.”

The technology has the potential to transform every aspect of the insurance model, from point of sale to underwriting, claims handling to fraud detection. “It’s going to fundamentally change claims,” said Ian Thompson, Zurich’s chief claims officer for general insurance in Europe, Middle East & Africa. This change will encompass all



aspects of claims handling, from the customer experience to the efficiency of the function. “And from the profitability side, 70 per cent of the money that goes out the door in an insurance company is on settlement of claims, so the ability to control quality, manage leakage, process claims faster and make decisions faster will be huge.”

**We asked the audience where they see the use of AI most impacting insurers. 32% said customer engagement, 27% pricing, 27% claims and 14% fraud**

The workforce:  
change is  
coming



## The workforce: change is coming

Inevitably, any discussion of AI-driven efficiency leads to concerns about the impact on jobs. Some pundits have predicted vast swathes of white-collar roles will be lost as smart machines take over an increasing range of tasks, from the automation of routine and repetitive administration to sophisticated risk modelling and pricing. Even medics, journalists and lawyers could be ousted by the machines. Our panelists, however, were not as bleak in their assessment of the future.

**“AI and machine learning augments the intelligence of an organization rather than replaces people. It’s about equipping the knowledge workers with intelligence to make better decisions.”**

Adam Goldsmith, TIBCO Software

“My personal view is that AI and machine learning augments the intelligence of an organization rather than replaces people,” said Adam Goldsmith, head of insurance at TIBCO Software. “It’s about equipping the knowledge workers with intelligence to make better decisions.”

Lunn agreed. “It enhances the people working in insurance,” she said. “It’s getting the right data to the right people at the right time so they can interpret that data to progress a claim or underwrite a policy accurately.



Ian Thompson, Zurich

It’s not about replacing the technical expertise we have in the industry.”

**“[Automation] gives our staff more time to get onto the value-added processes and focus on the interaction with the customer.”**

Ian Thompson, Zurich

Thompson pointed out that it’s important to take staff on this journey. Zurich, for example, asked its frontline staff to highlight “the really grinding hateful processes” and the insurance giant then directed its first automation efforts at those. “It gives our staff more time to get onto the value-added processes and focus on the interaction with the customer,” said Thompson.

He sounded a health warning, however. “In an industrial revolution, there’s the transition stage, and the outcomes stage. We’re currently in the transition stage and we’re going to see a lot of change in our employment base.”



Adam Goldsmith, TIBCO Software

**“Democratising data science is a horrible phrase but the principle is sound; you want to take AI and machine learning and deploy it in areas you haven’t previously.”**

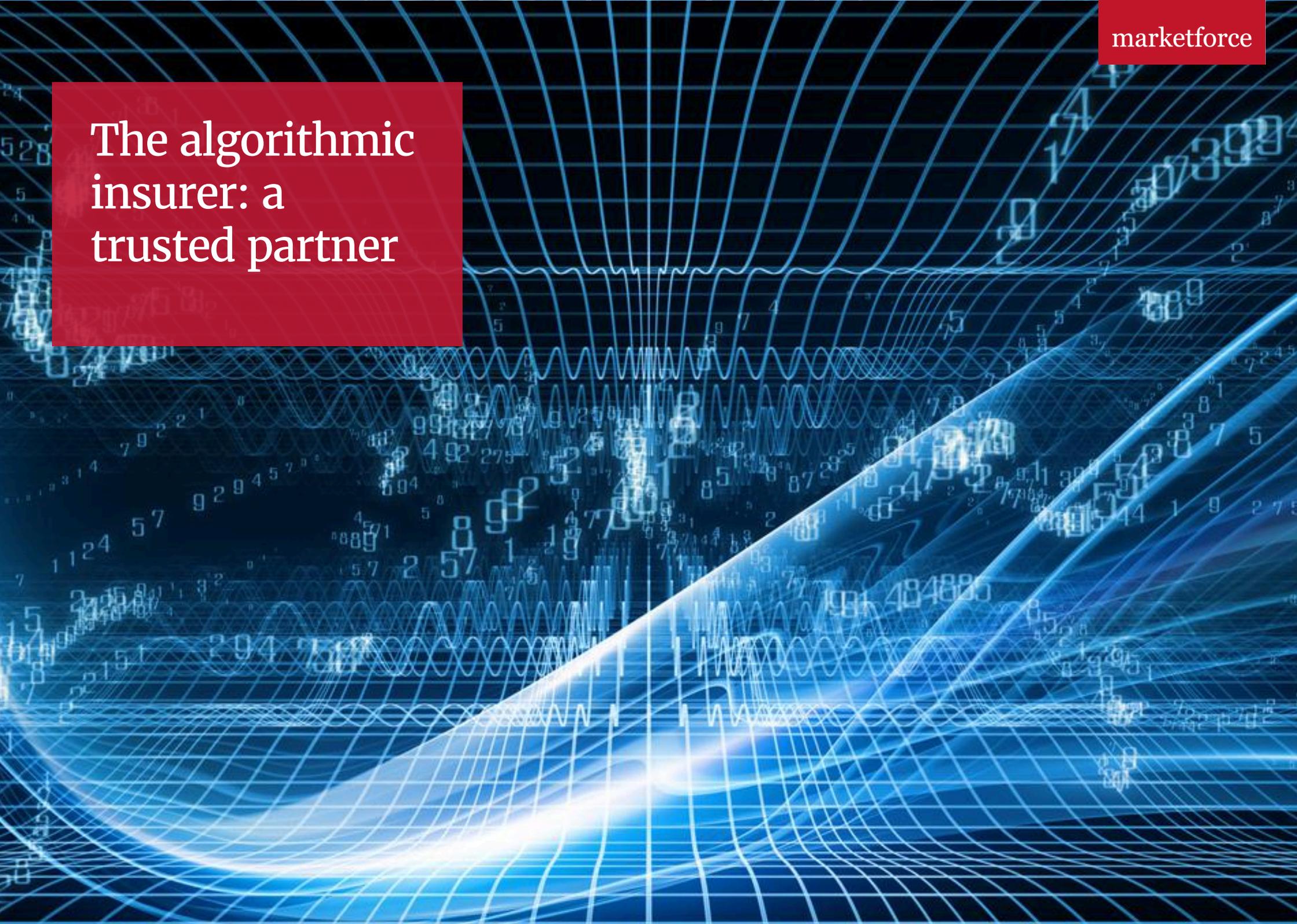
Adam Goldsmith, TIBCO Software

Goldsmith pointed out, however, that’s it no use recruiting a lot of data scientists if they’re separate from the rest of the business. “It’s now about moving data science out of the dark room and rolling that insight out across the organisation,” he said. “Democratising data science is a horrible phrase but the principle is sound; you want to take AI and machine learning and deploy it in areas you haven’t previously.”

This doesn’t just mean job losses; it’s going to mean recruiting different types of people. “We’re going to need data scientists, people with great analytics skills but also problem solvers who are able to deal with the unexpected,” said Thompson. “And rather than recruiting in silos, we’re going to need rounded business people who can move around because in the future those silos are not going to exist anymore.”



# The algorithmic insurer: a trusted partner



## The algorithmic insurer: a trusted partner

Insurance companies need to brace for a profound change in a business model that has been around for centuries. As the Internet of Things and machine learning reduce the amount of insurable risk in the world, then insurers need to find new revenue streams to offset the reduction in premium income. This is likely to see a fundamental shift in what it means to be an insurance company, moving insurance from a



David Williams, AXA and Adam Goldsmith, TIBCO Software

“just-in-case” grudge purchase that promises compensation should the worst happen towards a partnership approach, working with customers to help them make better decisions to reduce the amount of risk in their lives and improve their safety and well-being.

“Connected devices are all about prevention,” said Lunn. “Nobody wants to use their insurance policy because it means something has gone wrong. If something goes wrong on your car, or there is a leak at home, we can raise an alert and mitigate or even prevent the damage, and that will be something our customers really want.”

**“Wouldn’t it be great if rather than sending a team of people to clear up after a flood, we were able to tell somebody they are beginning to have a leak? That technology already exists.”**

– David Williams, AXA

### We asked the audience how advanced their strategy is for adopting AI or Machine Learning.

- 41% are discussing their strategy
- 24% are starting a project
- 18% are operationally live
- 18% are not yet thinking about this

David Williams, chief underwriting officer at AXA, agreed. “Wouldn’t it be great if rather than sending a team of people to clear up after a flood, we were able to tell somebody they are beginning to have a leak? That technology already exists.”

He pointed out that at first people were obsessed with using new data sources to have the most up-to-date numbers to improve pricing for cost comparison websites when actually the industry needed to rethink its products and focus on customers.

“At the moment, we have this terrible situation where we take some money off the customer and

then hope not to hear from them,” said Williams. “Wouldn’t it be better if we could use real time data from connected devices to minimize risk and then communicate with the customer, provide them with positive benefits and hopefully be able to retain them?”

### GDPR: more clarity needed

Insurance companies will only be able to carve out a niche in this smarter, safer world, if they have access to customer data. And, with customers increasingly aware of the value of that data, there’s no guarantee that access will be granted. This issue generated a lot of discussion in the context of new EU-wide data protection regulation, the General Data Protection Regulation (GDPR), which comes into effect next year.

“GDPR has created a lot of uncertainty in the industry,” said Lunn. “We are all looking at how to interpret the guidelines internally and make sure we’ve got the right systems in place. Who owns that data, how can we access that data and get it to our frontline staff to action it?”

**“GDPR has created a lot of uncertainty... It’s important customers know we can keep their data safe, and that we show them what the benefits will be if they do share their data.”**

– Clare Lunn, LV=

Williams agreed. “There’s still quite a bit of uncertainty,” he said. “We know there are certain derogations that can be applied, but we do not know if they will be agreed. So internally we’re having to make some assumptions, a Plan A and a Plan B, depending on what comes through.”

He added that new customer rights to deny access to their data and the right to be forgotten will create “massive pricing challenges”. He pointed out that telematics devices generate huge amounts of personal data that are vital for accurate and dynamic pricing in motor insurance, “but what about other people in the car, does that data apply

to them too? We need more clarity on these issues.”

Goldsmith made the point that GDPR can also be an opportunity. “If as a result you can better understand and interact with your customer, then that creates opportunity too.”

Lunn said the key would be to build trust, so that customers are happy to share their data with their insurance companies. “It’s important customers know we can keep their data safe, and that we also



show them what the benefits will be if they do share their data.”

Williams agreed that there needs to be a clear expression of the benefits. “The comms person might be the most important person in GDPR,” he said.

### **Customer engagement: on the AI frontline**

This was an interactive webinar and the audience were polled for their views on the coming fourth revolution. Almost a third of the audience said they expect to see AI have the most impact on customer engagement, 27 per cent expect pricing to be impacted most, 27 per cent claims and just 12 per cent expect the main impact to be on fraud detection.

The audience were then asked about their company’s AI and machine learning readiness: the largest proportion, at 41 per cent, said they were still discussing strategy. Further ahead in their readiness, our poll found 18 per cent were operationally live and almost one-in-four, 24 per



cent, had a project starting right now. Worryingly, however, another 18 per cent were not even thinking seriously about implementing AI and machine learning.

David Williams of AXA admitted he was surprised by these results. “I would have thought more would have started a project by now,” he said, noting that the low proportion could reflect that the audience may be unaware of the projects underway across their organisations. “Good teams are going off and doing things themselves.”

It was no surprise, however, that two out of five organisations are still discussing strategy. “Everyone’s still discussing strategy,” said Williams. “Nobody has absolutely defined what they are going to be doing for the next ten years, largely because they do not fully understand the capability yet.”

AI and machine learning technologies are just starting to disrupt the insurance industry, and everyone, it seems, is waiting to see just how transformative this fourth revolution will be.

Thank you for reading

For further information on how TIBCO can help you on your path to becoming an Algorithmic Insurer visit

[www.tibco.com/solutions/algorithmic-insurance](http://www.tibco.com/solutions/algorithmic-insurance)