# Insurtech and insurance industry transformation – insurers, reinsurers and captives

Building a better working world

"Insurtech" — a fusion of the words "insurance" and "technology" — is the use of new technologies to drive efficiencies and cost savings along insurance market value chains. Once the province of start-up companies trying to break into the insurance market, insurtech has moved into the wider insurance industry, affecting traditional insurers, captive insurers, reinsurers and the type of talent they all need. Among main drivers of the expansion is the theme of focusing less on insurance products and more on leveraging technology to improve existing coverage, reach new customers, accelerate timelines and reduce costs. From customer acquisition and retention to operations, investments, tax planning and market share growth, the new world mandates an "adapt, transform, innovate or perish" mindset for the centuries-old sector. But where does it leave various market players? The following sections highlight the effects of insurtech on the insurance industry to date and examine questions for the future.

## Effects on traditional insurance industry

Insurtech start-ups recently entered the insurance market promising innovation and disruption. Though traditionally resistant to change, the "brick and mortar" insurance industry recognized that it needed to revamp its business models to acquire new customers and retain its existing customer base.

As a result, insurtech quickly went from being a disrupter to a strategic value-add platform for traditional insurance models. Traditional insurers began using artificial intelligence (AI), the Internet of Things, cloud computing, data analytics and blockchain to innovate their business strategy and transform their operations. They also developed and deployed new product types and processes that are more transparent and customer-centric and offer more flexibility to align with the current "on demand" environment. In the process, their goals changed. Rather than focusing on the value of individual transactions, traditional insurers began focusing on maximizing lifetime customer value through adaptive technology. Such modernization of the insurance value chain is quickly becoming a vital part of perceived value.

Externally (by markets and potential business partners) and internally (self-created value drivers), insurtech is poised to become a differentiator for companies that are looking to work across markets and sectors to reshape the insurance value chain, both within the insurance sector and beyond.

## Effects on captive insurers

Captive insurers have been comparatively slow to embrace digitization and insurtech innovation, in most cases for one simple reason — there was no immediate need or immediate threat to the operating model for which captive insurance was established. However, recent developments, such as the adoption of the Insurwave platform and underwriting process improvements made available by specialized digital analytics firms for specific market risks like weather, suggest that insurtech's influence in the captive space is starting to awaken and should continue to grow. From dynamic pricing to on-demand insurance structures, captives and their owners are learning how to apply digitization concepts to further improve risk management, risk financing, capital management and operational efficiency.

For example, AI dynamic data analytics will allow captive insurers, and groups within which they are set up, to innovate products into new flexible subscription and usage-based, on-demand models and policies. This will also allow for the creation of bundled products with potentially new approaches to risk distribution while reducing the cost of risk and other enterprise costs.

On the life side (a space that has not seen such drastic captive insurance component growth as did property and casualty), insurtech users are partnering with reinsurer and carrier partners to provide digital term-life insurance products (at different coverage limits) in what they deem are "life insurance made easy" ways. It may not be long before the captive insurance market refocuses on life and related products and takes a fresh run at potential risk financing structures that companies may consider offering to their employees, affiliates or consumers. An example of such dynamic enhancement, which includes a captive insurance component, is the EY collaboration with Guardtime and Microsoft to offer a blockchain platform to Maersk, a global shipping conglomerate, for its marine insurance needs. The innovative platform connects all stakeholders in the insurance value chain with the same accurate, current and secure risk information.

What remains unknown, however, is whether various regulatory and tax authorities, including the US Internal Revenue Service, would view these digital value chain improvements and data management and analytics innovations as affecting the regulatory and tax insurance qualifications of captive insurers. For example, would the current views on risk distribution and the existence of insurance risk be affected if a captive insurer issued policies that rely on drones to gather real-time data on risks such as weather, location and traffic conditions? Would the use of blockchain and/or AI analytics, which allow for better predictive modeling, faster claims analysis and processing and more efficient premium setting, affect whether a captive is viewed as bearing or shifting risk?

## Effects on reinsurers

As with captives, the effects of insurtech on the reinsurance market remain to be seen. Although reinsurers have made some key investments in insurtech companies designed to benefit their customers, there are still areas of improvement that the reinsurance industry needs to tackle. Given the innate complexity of the reinsurance industry, it will be interesting to track the disruption trends within this market, both at the commercial reinsurance end and in the captive space, where captives play the part of a reinsurer. As seen from current innovative technology use, reinsurers may benefit from access to more robust data, higher automation, less paper files and increased security.

## Effects on talent

It's no secret that the insurance industry overall faces challenges attracting new talent. Insurtech's effects on the industry, however, mean that talent must have technological know-how and innovation skills. According to Isabelle Santenac, EY Global Insurance Leader, "Attracting and retaining the right talent as well as reskilling the existing workforce will be essential in this transformational journey."

On the captive insurance front, the talent issue is being tackled by university programs and private initiatives, both aimed at attracting new innovative talent with forward-looking thinking and a disruption mindset, whether in brokerage, captive management, specialty consulting or underwriting areas of focus. While the number of folks joining the industry may not change drastically in the immediate future, such efforts are starting to produce results.

## What is next?

Based on where the winds of insurance market disruption are blowing, it is safe to say that insurtech will continue to bring innovation and disruption to the insurance industry. As such, it is a prime market for unique and dynamic changes, product and process developments and collaboration opportunities using new technologies and examples from commercial market colleagues.

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