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"Reshaping Insurance for the Future"

Good morning, and thank you for inviting me to speak here today. It's been an excellent and thought-provoking session thus far, and hopefully I won't spoil that now that we're into the final stages of the conference! For those of you who don't know me, I'm Paul Stanley, and I lead Accenture's insurance consulting business in the UK. Our client-base in the UK and Ireland ranges from General Insurance and Life & Pensions right through to Commercial & Specialty Lines. I've spent most of my career delivering large-scale business transformation and technological change. Now I help insurers and brokers to define their business strategies and their innovation agendas – so that they'll be able to continue succeeding within an industry that's experiencing considerable disruption. And that's largely what I'm going to talk about here today: what the future looks like, and what tangible steps you can take to be ready to compete and thrive in that future world. But before I look to the future, I want to spend just a few minutes reflecting on where our industry is right now; what's working, and what isn't. Because some of today's challenges are going to become tomorrow's biggest drivers of change and disruption.

Let's start by acknowledging that there are some great things happening in this industry right now, both here in Ireland and globally. There's a lot for the people in this room to feel good about. The steady return to profitability among Irish non-life insurers after what's been a very difficult period. Technology-driven advances in areas like fraud detection, pricing and underwriting decisions. The availability of better, more granular data around risk – allowing, for example, some Irish households to obtain flood insurance where previously their properties were ineligible. And of course many insurers continue to make valuable improvements when it comes to operational efficiency and reducing the cost base. Customers are also seeing the benefits, in the form of new products and new ways of interacting with providers.

However, there's also no doubt that the insurance industry continues to battle against long-standing business issues and customer pain points. In many cases it boils down to a partial failure to get the basics right. For example, insurance is consistently ranked as one of the worst industries for customer experience: levels of trust are often very low, customer loyalty sometimes goes punished rather than rewarded (at the time of renewal, for example), and the industry has fallen behind the levels of personalization people have come to expect from other consumer-facing industries. Moreover, modern consumers expect insurers to deliver the same type of frictionless, omnichannel experience they get from other types of firm, like online retailers or technology manufacturers. Why shouldn't someone be able to check on the progress on their insurance claim in the same way that they check on the progress of their Amazon delivery or their Uber driver?

Most traditional insurers also suffer from relatively high levels of legacy technology, and this creates a costly 'technical debt', i.e. the compounding sum of money and resources needed to keep those core legacy IT systems functioning at an acceptable level of quality and, more importantly, to keep them interacting with newer, more efficient systems. Accenture's analysis of data from CAST (an independent software quality vendor) revealed that a typical insurance company carries $1.2 million of technical debt for every application they run. Multiply that by the number of applications an insurer usually runs, and the scale of the problem becomes apparent. Of course, this isn't an issue most startups have to contend with, as they get to begin with a clean slate and a modern IT estate.

From the conversations I'm having with my own clients, it's clear to me that the insurance industry is facing more challenges, and undergoing greater change, than at any point in its long history. Whether we're talking about technology trends, consumer trends or business trends, insurers are feeling the pressure to evolve. That anecdotal view is also borne out by the data: 86% of the insurance executives Accenture surveyed globally believed that they must innovate at an increasingly rapid pace simply to retain a competitive edge.

In particular, insurers and brokers are feeling the need to create new, more relevant propositions, and to fundamentally redefine themselves in order to defend their place in the value chain. Changes within the commercial broking landscape over the past ten years provide a good example of this. Many of the large brokers have been steadily acquiring advisory, risk management, employee benefits divisions, partly in order to diversify their businesses away from their traditional core activity of intermediating insurance contracts. And in some cases, the traditional broking function has become one of the least profitable parts of the new business.

Within personal lines, insurers are under pressure to transform the customer experience (especially with regards to trust, which many brands are starting to view as the ultimate currency. More broadly, insurers are struggling to adapt their products to a rapidly-changing world. This point is very important because insurance is, by its very nature, a derivative. What do I mean by that? Well, nobody buys insurance for the fun of having insurance; they buy it to insure an object, a person or an activity. And those objects are changing, just like we as people – and the way we chose to live our lives – is changing. Insurance products need to respond to that, but often the industry doesn't take a sufficiently 'big picture' view of the changes coming down the path. For example, many motor insurers are starting to think about electric or driverless cars, but very few are trying to imagine what the future of private transportation looks like as a whole. Will people want to move around as much as they do now? Will they even use cars? If they do use a car then will they own it, or just arrange occasional access to it? Who, if anyone, will drive the car, and what does that mean for the type of insurance required? And finally, all parts of the industry are under pressure to cut costs and improve operational efficiency.

All of the pressures and challenges I've described above are, in effect, creating disruption within the insurance industry. Of course, other notable sources of disruption include startups (both dedicated InsurTechs plus startups from other industries), non-traditional competitors from other industries, and the constant flow of new regulations and reporting requirements. And don't worry, I'm not even going to attempt to discuss Brexit here!

But I do want to make two important points about disruption. The first is that, by and large, insurers perceive disruption as something that is done to them by others, and therefore something that they must purely defend against. Very few insurers are prepared to go out there and proactively disrupt other industries, or even disrupt other parts of the insurance value chain. That's a mistake, because being a disruptor can create valuable new opportunities. And it's precisely those kinds of opportunities that the more famous disruptors – such as Google and Amazon – are trying to exploit by dipping their toes into new industries like automotive, grocery, or financial services.

The second point about disruption is that it comes in two very distinct flavours. The first type is 'big bang' or 'explosive' disruption, and that's typically the one people think about. Big bang disruption usually involves a significant and largely unforeseen technological leap that completely transforms an industry or a product, often causing powerful incumbents to fall by the wayside. Classic examples include what digital photography did to Kodak, or what digital video and music streaming did to the likes of Blockbuster and high street music stores.

But the second type of disruption is far more subtle, and often hard to spot. It's called 'compressive disruption', and it puts a gradual squeeze on revenues and profitability. The products appear largely unchanged, and most of the big competitors stay in business for now, but little by little it becomes harder to preserve market share and to retain profitability. This type of disruption often affects industries that have hitherto been very stable, and that have traditionally enjoyed high barriers to entry. As such, compressive disruption is often overlooked or not recognised until it's too late, at which point large incumbents can find it very challenging to restructure or embrace new business models. It's my view that some of the market and profitability challenges that have affected insurance in recent year are the result of this kind of stealthy compressive disruption. Similarly, a recent piece of modelling from Accenture (called the Disruptability Index) revealed insurance to be one of the most vulnerable of all the industries covered by the research.

In any case, failing to prepare for disruption – whether it's of the 'big bang' or 'compressive' variety – can prove detrimental to a firm's health and longevity.

So, what does the future of insurance look like? Well, given what I've just said about 'big bang' disruption, one of the key things to bear in mind is that obviously we might not be able to accurately predict what the future holds in store! Of course, that makes it even more important for insurers to focus on improving their strategic and operational agility – so they can respond quickly and competitively when unexpected disruption comes knocking.

But there are many changes that we can indeed foresee, and some of these will considerably change the shape of insurance over the next ten years or so.

Perhaps the biggest evolution will be the shift towards insurers offering genuine, pre-emptive 'protection' rather than mere financial compensation. Why? Because insurance should ideally be about protecting the people you love and the assets you value. However, in its current form, the insurance policy is instead what you reach for when you've failed to protect the people you love and the assets you value. That's changing. The industry's starting to evolve from a compensation model to more of a risk management and accident prevention model; from a series of separate products that merely compensate policyholders for loss, to a more holistic service that's far more useful and relevant to customers' everyday lives. Creating safer drivers, encouraging healthier lifestyles, stopping domestic water leaks before they happen, and carrying out pre-emptive maintenance before the factory grinds to a halt. Done properly, this shift towards becoming what Accenture calls a Living Business – and moving 'from grudge to love' – has the potential to redefine how insurance brands are perceived by consumers and commercial clients alike. Insurers will benefit from stronger and more intimate relationships with their customers, and the increased frequency of touchpoint will help insurers develop entirely new revenue streams. And their customers will enjoy longer, safer lives filled with richer and more personalised experiences.

This shift towards products that are more relevant in the present and near future (rather than purely in retirement or the event of death) will also be evident on the Life and Pensions side of the industry, as consumers continue to move away from traditional protection policies in favour of savings and investments products. This is also the key for providers in that part of the industry to engage with younger customers with more short-term savings and lifestyle goals; customers who don't currently feel the need to engage with life and pensions providers as they have no dependents, feel invincible, and are more focussed on their quality of life now rather than preparing for old age.

There will also likely be considerable disruption at the business model level, rather than just at the product level. Insurance will start to become invisibly embedded within other products or experiences. This is not a new phenomenon within insurance (think of bundled travel insurance or extended warranties on home appliances), but the nature and scale of the packaging and white-labelling will become ubiquitous and extensive. In this way, insurers run the risk of losing their visibility towards the end-consumer, as stronger brands with deeper customer insights usurp them in the value chain. For example, regular consumers may cease to buy motor insurance as we know it today – advances in driverless technology transform this line of business from being a personal liability policy into more a software and product warranty policy that is bundled with the car from the outset. In fact, already around one third of motor insurance customers don't know who their underwriter is. And don't forget that, once all the vehicles are driverless, they won't really be crashing into each other that often, and so motor insurers may have to look to add value in other areas, or indeed identify new risks to cover the shortfall in premiums.

One such rapidly emerging line of business is cyber insurance. Currently the global market is only worth around $5bn in premiums, whereas cybercrime costs the global economy more than $500bn every year. The underpenetration of this product is therefore huge, especially among SME businesses and consumers. The market for cyber insurance is growing at around 30% annually, and the recent GDPR legislation will further promote awareness and uptake of these policies.

So how can the industry prepare for these (and other) changes to products, business models and customer relationships? Well, at an overall strategic level, one of the hardest things is managing the transition from the current business into the future state of the business. At Accenture we refer to this as the 'Wise Pivot', and essentially this involves transforming and growing the core business while simultaneously scaling up the new business. The old and the new business will co-exist for a long period of time. In fact, you need many of the benefits of transforming and growing the old core business (such as more competitive cost structures, greater investment capacities) in order to fund the scaling up of the new business. The speed at which you execute the wise pivot is critical: too fast and the new business never becomes sustainable; too slow and you become a Kodak or a Blockbuster.

As previously mentioned, insurers and brokers will also need to fundamentally improve their agility and their understanding of the customer in order to thrive in the future. They also need to start thinking differently about innovation.

There's a difference between incremental change (which mainly requires thought and money) versus genuine innovation (which also requires courage and vision). The insurance industry requires wholesale change, not just a sticking plaster. Happily, the InsurTech movement is in good health and its brave startups can act as an invaluable catalyst for this transformation. Insurers can (and indeed many do) learn a lot from startups; not just in terms of technology, but also when it comes to strategy, organizational culture, and operational agility. However, the way much of the insurance industry currently views and leverages startups makes them far less effective – as a force for real innovation – than they could be. Some traditional insurers appear to be expecting InsurTech to deliver 100 per cent of the changes that are required, whereas they should instead be looking to InsurTech to set a good example and indicate the way ahead.

However, insurers also need to recognise that InsurTech is not the only tool in the innovation toolbox. Insurers need to think more broadly and strategically about their innovation agendas. They need to become more fearless in their approach to change, and ensure they have the proper architecture in place to support and nurture innovation across all parts of their business. And remember, the ultimate goal shouldn't be to have all the fresh talent, ideas and energy tied up in startups; it should be to incorporate those much-needed qualities into the mainstream insurance sector, to deliver innovation at scale, and to help insurers rotate to the new.

Part of the industry's understandable reluctance to embrace innovation as part of 'business as usual' comes down to a straightforward fear of change and an inherent aversion to risk. Insurance primarily exists to help reduce and manage risk, so it's not surprising that some incumbents remain quietly fearful of change. For such insurers, dipping their toes into InsurTech – either alone or through a hosted accelerator program – can offer an effective and relatively safe introduction. On the other hand, it can also offer them a way to put a brave face on their fears and avoid taking substantive action when it comes to the broader innovation agenda.

But new ideas are fragile, and they need the right architecture to support them through the various stages of development and implementation. Insurers need to carefully nurture innovation and new ideas throughout their full lifecycle – from ideation right through to industrialization. There are many well-known tools and methods available for this, from so-called design sprints and hackathons through to hosted accelerator programs and in-house strategic venture funds. But what really matters is that insurers create a properly-defined innovation agenda, and that they have the right elements of 'innovation architecture' in place to support the process end-to-end. Many forward-thinking insurers have made good progress here although, in general, insurance still lags other industries (including banking) when it comes to forming a consolidated approach to innovation.

Next I'm going to talk about data, and about how the latest breed of analytics and machine learning technologies can help you unlock trapped value in that data in order to create better experiences for customers and employees, and better outcomes for the business.

It's true that insurers have long been leading proponents of using data for pricing and risk management, and have invested significantly in technologies and people to support these functions. However, it's also fair to say that the prolonged focus on these traditional, actuarial capabilities has resulted in a partial failure to exploit the maturity of advanced analytics and machine learning. Other industries (such as banking, retail and technology) now far outpace insurance in terms of their analytics capabilities; they see data-driven business decision-making as vital; they are re-engineering their end-to-end value chains around machine learning; and they are taking a very holistic view of new digital technologies – a view that is as concerned with operational processes as it is with front-office capabilities. Insurers are not currently so good at taking this holistic view: in fact, recent research from Accenture found that insurers' use of technology was farthest behind the more disruptive industries (including players like Google and Uber) when it came to running the operational aspects of their businesses.

But why should insurers bother trying to keep up in this data-driven arms race? There are some high-level strategic reasons. At one level, analytics can help insurers and brokers develop new opportunities for growth and improved profitability. It has the potential to dramatically improve core competencies such as risk pricing and claims management. Analytics can also be used to improve end-customer segmentation and understanding, to help drive operational efficiencies, and to deliver the kinds of personalised products and experiences that customers increasingly demand.

But the biggest trend I see occurring in analytics right now is the evolution from predictive models to prescriptive models. Whereas predictive models will evaluate the probability of an event occurring, prescriptive analytics can identify the action or set of actions which are most likely to optimise a result. For example, a predictive model for customer retention will evaluate the probability of renewal whereas a prescriptive model will identify the next best actions (such as changing price, out-bounding the customer, or offering an incentive) which will improve the probability of renewal. Happily, the shift from predictive to prescriptive models is well-placed to support the key insurance trend I mentioned earlier, namely the evolution from financial compensation to real-world protection.

And then, at the upper end of the machine learning spectrum, there is Artificial Intelligence – a collection of technologies which will help insurers to completely redefine how they work, how they create innovative products and services, and how they transform customer experiences. 75% percent of insurance executives think that AI will either significantly change or completely transform the industry over the next three years, according to Accenture's Technology Vision for Insurance survey. AI is creating the single biggest technology revolution the world has ever seen, and across all industries it's being used to address a wide range of challenges, large and small, by making interactions with machines and systems simple and smart. Although AI technologies are still evolving, they already have the capacity to enable tangible, real-world business outcomes. By letting machines learn, adapt and improve, AI can bring exceptional value to a business and its customers – and lower costs as it does so. What's more, AI is set to have a truly positive impact on people. By removing monotonous, repetitive tasks from day-to-day work, it will elevate employees to more rewarding, higher-value roles. It will bring completely new opportunities for the workforce – in the form of new jobs and new skillsets. And it will create technology experiences that are far more closely aligned with personal goals than anything an organisation has been able to deliver to date.

I've just talked a lot about technology, but of course it's not all about the technology. It's really all about people. People have always been, and will continue to be, one of an organisation's greatest assets. However, the future nature of the insurance workforce, and indeed the very culture of these long-standing companies, will need to evolve. Aside from anything else, insurance needs to start attracting a new breed of digital native into its ranks, and that will be key to helping our industry learn to manage change in a more agile and efficient manner.

The insurance industry isn't simply trying to change how it's perceived; rather, it's looking to fundamentally change what it does and how it does it. But insurers and brokers will only be able to achieve their full potential in respect of product innovation and next-generation customer experience if they can successfully evolve their approaches to innovation, technology and people.

Thanks so much for listening. I believe we have some time now for Q&A.