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Technology: AI, Blockchain, Cloud

Mind Your ABCs

New technologies—particularly AI, blockchain, and the cloud—will help spur vital disruption and infuse new life into the insurance landscape.

by Pat Renzi

Digital disruption is touching every aspect of the consumer market, including the insurance industry. Customers expect more personalized, agile, and on-demand delivery, causing insurers to keep pace and deliver more relevant solutions for a changing user landscape. What's more, the digital revolution is demanding internal changes to drive digital transformation within the organization and operate in more cost-effective ways.

Insurance companies face added pressure, because it's not just about disruption in their own backyards. Industries such as travel, automotive, health and financial services, all of which are deeply tied to the insurance industry, have undergone significant disruptions of their own. Even more concerning are pressures from outside industries that believe they can approach common insurance concerns in better ways. Companies such as WeWork or Amazon are making the ability to deliver better insurance options to their employees and customers a top priority.

Despite these pressures, savvy insurers are preparing for a future that delivers more relevant solutions to their customers. This requires they learn from the pitfalls and successes of other industries and find ways of reaching customers that transcend markets.

Emerging technology offers a solution for many of the concerns today's insurers face as it creates a foundation of opportunity and lays the groundwork to not only navigate disruption, but to deliver true innovation and value. The ABCs of insurance technology—specifically artificial intelligence (AI), blockchain and the cloud—must be front and center in every insurance company's strategic initiatives.

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Key Points

The Situation: Insurers are facing the pressures of digital disruption from within and outside the industry.

New Tools: Emerging technology including artificial intelligence, blockchain and the cloud are helping insurers to not only navigate disruption but to deliver innovation and value.

What's Ahead: Insurance companies that engage in mutually beneficial partnerships with diverse experts or startups in the field will see faster, smarter and more successful disruption.

Artificial Intelligence

AI serves two distinct purposes in the insurance landscape—data analytics and automation. Information derived from machine learning and predictive analytics enables insurance companies to not only better understand the customers they serve, but to anticipate their needs and provide valuable advice to keep customers protected. This speed and agility allows the insurance industry to match stride with others in the digital age.

Between massive flooding and raging wildfires, reinsurers and insurers report that 2017 was a devastating year across the country, causing the insurance industry to keep pace with a deluge of claims. When such disasters arise, AI offers access to relevant data that can help insurers process claims faster and get customers the help they need in the moment they need it. Rather than suffering while an insurer imposes requirements of an endless supply of forms, victims of these tragedies can be better served in the times that matter most.

Using chatbots and voice technology, AI also can help automate labor-intensive areas of the insurance process such as claims and underwriting. This not only makes customer transactions more seamless, but also helps reduce costs for the insurer, as these simple but time-consuming tasks can be managed by machine.

The good news is that customers are on board. According to Accenture's *2017 Global Distribution and Marketing Survey*, 74% of consumers say they'd be happy to get computer-generated insurance advice, and 78% would take investment advice from a virtual assistant. AI not only serves insurers, but the modern consumer as well.

New market entrant Lemonade is already making waves in the home insurance sector through its chatbot AI Jim. Though the company says most claims are still routed to a human, AI Jim has processed claims completely on its own, some in mere seconds. This is just a glimpse into the very near future of what insurance carriers will provide their customers.

Another great example of the use of AI is Generali, one of the largest auto insurance companies in Italy. The company was among the first in the industry to create a pay-as-you-drive policy option that takes data from the vehicle, including how often it is driven, how fast a driver goes, how quick that person is to brake, etc.

Using AI, Generali predicts the insurance risk for the driver. Drivers have seen as much as 40% decreases in insurance premiums as a result of these more targeted policies.

Generali is also using that data for wider purposes. Thanks to sensors in the cars it can intelligently assess potential medical concerns following an accident and dispatch appropriate help. In addition, Generali is able to cull collective data and share the most dangerous intersections in a particular region.

Examples like these demonstrate how AI is transforming customer interactions for insurers and that instant, personalized gratification will soon become the expectation and not the differentiation.

The ABCs of insurance technology—specifically artificial intelligence, blockchain and the cloud—must be front and center in every insurance company's strategic initiatives.

Blockchain

Fraud accounts for as much as $80 billion every year across all lines of insurance, according to the Coalition Against Insurance Fraud. Blockchain—where transactions are time-stamped and unalterable, identities are secure, and data is far more trustworthy—presents an interesting opportunity for the insurance industry. With this security and mobility, insurers can depend on this technology for precise, secure delivery.

Beyond just security, blockchain also opens the door to underserved markets. As customers in the developing world turn toward their mobile devices to conduct all transactions, it makes it easier for insurers to engage this market even without traditional financial institutions. This global expansion opens a new realm of opportunity for the insurance industry.

Regulatory hurdles may also be less of a concern with blockchain, as the nature of the model requires less stringent regulations across borders and markets, and concepts such as "smart contracts" make it feasible to deliver legal insurance contracts or death benefits electronically—putting critical information directly into the hands of the consumer.

The Blockchain Insurance Industry Initiative (B3i), made up of European insurance and reinsurance providers, is the first consortium of its kind designed to facilitate an exchange of ideas and a place to pursue proof of concepts in this space. The consortium, now 23 members strong, just celebrated the successful launch of the first reinsurance blockchain prototype and with it there are high hopes to create an efficient platform to more easily cede, handle and trade risks.

While the future of blockchain in insurance looks promising for delivering new and innovative ways to reach the global market, bitcoin's success highlights the economic problem with large blockchains. Bitcoin mining consumes more electricity a year than Ireland, reports the website Digiconomist. This limitation for enterprise solutions, such as insurance, is obviously a problem. Additionally, an ability to scale to numerous transactions per second is also a significant hurdle. Public blockchain implementations, such as Ethereum, can only handle a handful of transactions per second. When high transactional throughput is required, the standard blockchain implementations will struggle to keep up.

The Cloud

The cloud is quickly becoming a critical source for innovation and vast amounts of data. Without a robust cloud strategy, the pace and breadth of innovation is hampered.

The cloud makes it possible to have access to the kind of big data required for organizations to compete today, and it is the mechanism that delivers value from AI applications.

Furthermore, many believe the cloud will address the cost and scale of blockchain to help enable it. In fact, cloud vendors, such as Microsoft Azure, are investing in building open tooling for enterprise blockchain networks, which will see widespread adoption of blockchain in the enterprise.

The cloud has opened up doors to deep data analytics while significantly increasing the speed at which transactions can occur. For this reason, any reticence the industry showed early on has been replaced with a holistic embrace of trusted cloud platforms. Implementing the cloud into business strategy is a positive leap toward a digital insurance landscape.

With this more widespread reliance on the cloud comes a cautionary tale.

Insurers, in particular, manage vast amounts of highly private and personal data, and transacting through the cloud can prove risky if not working with a reputable and knowledgeable vendor. While any new technology brings with it inherent risk, cloud computing is safe and efficient when acquired through large, reliable providers.

For the insurance industry, the cloud has proven itself in three distinct areas: access to data, scalability, and trust and reliability.

The greater access to data—whether to support machine learning, predictive analytics or another form of AI—isn't just about improving the bottom line. It also helps the industry to better understand the customers it serves, and to design and deliver the right products at the right time to the right audience.

Insurance companies are powered by actuarial analysis, something that requires vast amounts of data understanding and computational power. To keep up with a modern on-demand economy, it becomes impossible to conduct this level of analysis on-premise, making the cloud the ideal environment for speed and scalability.

Over time, cloud technology is also proving itself to skeptics, using one of the most stringent units of measurement in the insurance industry—trust and reliability. The more cloud technology transitions from "emerging tech" to "knowable entity," the more readily insurers are able to rely on cloud capabilities to bring to pass other technical innovations.

Spurring Transformation

Emerging technologies—particularly AI, blockchain, and the cloud—have provided a vehicle of change for the insurance industry, and new innovations will help spur vital disruption that will infuse new life and opportunities into the insurance landscape. So how do we transition from talk to action? With all of this inevitable change, who will step forward as clear industry leaders and who might get left behind?

The good news is that innovation is not built on the principles of scarcity. For one to succeed another does not have to fail.

The rise of insurtech has introduced a host of startups to the market, small companies built on digital agility that bring new perspectives to the business of insurance.

Tech giants offer another intriguing opportunity for insurance companies to disrupt or face being disrupted themselves. The recent watershed announcement by Amazon, Berkshire Hathaway, and JPMorgan Chase demonstrates how leading experts in other fields can make real change, even in complex regulatory environments such as insurance.

Partnerships will be critical to innovation. Change does not happen in a silo, and as insurance companies engage in mutually beneficial partnerships with diverse experts or startups in the field they will see faster, smarter and more successful disruption.

Whomever the industry partners with, the bulk of the industry evolution must begin within the walls of our own institutions and gradually expand.

The insurance industry is a valuable and necessary institution, and a holistic internal approach to the challenges it faces will yield the best outcome.

We must individually and collectively shift our focus and recognize the need to become technology-minded companies—using our strengths and skills in insurance, coupled with key partnerships and a newfound understanding and expertise in emerging technology—to provide lasting value to our customers. BR