

Insurance and IR4.0 – a brave new world



With a world shaped by a fusion of technologies and the blurring of lines between the physical and digital spheres, *Asia Insurance Review's* special summit on Industrial Revolution 4.0, held in Seoul recently, delivered a message for the industry to keep an open mind to seize new opportunities and enhance their value proposition.

By **Ridwan Abbas** in Seoul



In one of the keynote addresses, the International Insurance Society CEO Michael Morrissey said that the fourth industrial revolution is set to be even more transformative as adoption is exponentially faster than previous industrial revolutions. Furthermore, it has the capacity to disrupt almost every industry and territory around the world.

However, he also painted the scenario of the 'fourth insurance revolution' – where the basic function and processes of insurance are being disrupted at a rapid pace. Describing the Great Fire of London in 1666 as being the start of insurance 3.0 where insurance became an empirically-based enterprise, most of the changes within the industry up till now had been incremental.

But with the help of technology, insurance 4.0 is set to redefine the way insurance has been both conceived and perceived.

"Broadly speaking, insurance 4.0 means the industry is becoming part of an ecosystem of connected and communicating sectors that are symbiotic, not as B2B, or B2C, but E2E – which is everything to everybody, where the information exchange benefits all participants but is not necessarily understood by all parties," said Mr Morrissey.

Elaborating on the new mind-set of what insurance can be, he said that the industry's role in loss mitigation

could feature more prominently as stakeholders look for ways to reduce risk in society.

"Insurers basically want to sell protection for when losses occur, which they have done for centuries, although customers now want to buy loss prevention and mitigation in the form of broader advisory services. If real customer-centricity is to be achieved, making this fundamental shift in the business model of how the industry functions would truly mean we have reached insurance 4.0," he said.

But if risk is materially reduced, will the size and relevance of the industry then shrink alongside it? To that end, he pointed out the political capital that the insurance industry possess through the size and influence of its investment portfolios - with the industry having over \$35tn of invested assets.

"Our most promising avenue to high esteem with policymakers is by securing their understanding of the vital role our investment portfolios play in helping them achieve their goals."

Automation and outsourcing

Meanwhile, Korea's Financial Supervisory Service (FSS) senior deputy governor, insurance and financial consumer protection Lee Sangche said the growth of InsurTech will eventually alter the look of the insurance industry.

“It might be said that the application of IT has been more or less limited to data management but it may not be too long before advanced technologies like big data and the internet of things take hold in the entire insurance process from product development and sales to claims payment,” he said.

This will thus alter not only the business environment for insurers, but also the work environment for insurance professionals.

He said, “In the digital era, we should also see the growth of ‘made-to-order’ insurance policies that are offered according to the customer’s specification using the customer’s individual data.”

Furthermore, the accelerating convergence of insurance and non-financial industries will continue to expand the boundaries of insurance.

“Convergence of the two will then ensue and when that happens, the boundaries of insurance may well extend beyond product development and sales to new value-added services like personalised healthcare and risk-prevention management. This will most certainly give a major boost to the growth of the insurance sector,” he said.

But what of the prospect of redundancies in the industry? While it is a challenging issue, Mr Lee believes the theory of AI rendering much of the insurance workforce obsolete is too simplistic.

“If insurance is a service that ultimately demands human empathy, understanding and interaction, then insurance professionals will be able to differentiate their service and value from those of AI,” he said.

Regulatory response

Mr Lee also touched on three issues where the regulatory environment can be more supportive of the changes facing the industry in Korea.

“Financial literacy, taught in an unbiased way, is an important factor that would improve the insurance industry’s reputation.”

– The Geneva Association (GA) deputy secretary general Antoine Baronnet

Firstly, he said the regulator would need to accelerate its ‘regtech’ endeavours and rely more on automation for compliance work.

To that end, the FSS is working on a pilot project for ‘machine-readable regulation’, which is an automated process that performs compliance with minimal human intervention.

Secondly, he conceded that the regulator will have to evaluate and fine-tune the assistance it provides to Fintech firms in order to help unleash the sector’s full potential.

On a third and final note, he said that the FSS will continue to encourage ‘responsible innovation’ from both traditional providers and FinTech firms in the interest of consumer protection.

“What we envision for our consumer protection as it relates to FinTech is consumers exercising control over the use of their personal data and financial service providers and FinTech firms keeping consumer data secure and respecting consumer privacy.”

Korean life insurers urged to address unmet needs of consumers

While Korea ranks second in Asia for insurance penetration, there are still plenty of unmet needs for life insurance coverage which the industry has to address to remain sustainable into the future.

Speaking at a panel discussion, LINA Life Insurance Company of

Korea CEO Ben Hong said that both societal and technological trends mean that insurers in Korea would have to find ways to adapt their business model.

“There is a convergence of changing consumer needs and digitalisation. For instance, self-driving cars should happen soon in Korea and when that happens, premiums will be mileage-based and as a result motor premium volumes will drop. Also, people are living longer and so are more focused on living benefits,” he said.

Meanwhile, ABL Life Insurance chief digital officer Chang Wonkyun said that access to new data provides an opportunity for insurers to innovate.

“If we could measure people’s activities in real time, rather than just using current metrics like age and gender, then we can develop new products depending on the time and risk. Although there may be some regulatory obstacles for such a product to go to market right now, I do see that regulations are moving in a positive direction,” he said.

Given the fact that insurance has a long history, it is important for the industry to be receptive to new ideas from outside the sector.

“We have our own culture and processes and sometimes we need someone from the outside to come in and help us. Unless we have an open mind, then it will be difficult to set the right environment for it to work,”



L-R: Ms Kim Mijung and Messrs Ben Hong, William Choi, Chang Wonkyun and Michael Shin.

TECHNOLOGY

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– dacadoo president Peter Ohnemus

said RGA Korea CEO Michael Shin.

Meanwhile, Mr Hong pointed out the need to keep the focus on the customers and respond effectively to their needs.

“So far, much of our investments have been focused on the back office function for operational efficiency but we need to ask how do we create genuine customer value and how do we apply technology to achieve that,” he said.

Customer survey

Meanwhile, Geneva Association (GA) deputy secretary general Antoine Baronnet shared an interesting survey recently undertaken by GA, which polled 49 individuals in seven developed markets (France, Germany, Italy, Japan, US, UK and Switzerland).

It revealed that price was not a deterrent to buying insurance, but rather consumers felt a general uncertainty and distrust of insurance. While insurance is seen as a tool for protection and security, negative perceptions are driven by bad experiences from the respondents or their friends or relatives.

It was also suggested that financial literacy, taught in an unbiased way, is an important factor that would improve the insurance industry’s reputation.

Zhong An – a taste of the future?

Chinese online insurer, Zhong An, also shared its mission of redefining insurance in today’s hyper connected world.

Zhong An chief operating officer Bill Song revealed that the company launched its international arm last year and has positioned itself as an InsurTech organisation to audiences outside China, rather than just an insurer. In doing so, it hopes to signal its openness to explore business development, cooperation and investment opportunities in overseas markets like Hong Kong and elsewhere.

Mr Song also reiterated the importance of ecosystems, and how Zhong An’s offerings extended across

five major ecosystems (lifestyle consumption, travel, health, consumer finance and auto) and 307 ecosystem partners.

New ways of thinking

Meanwhile, dacadoo president Peter Ohnemus emphasised the need for insurance companies to make a quicker transition in building up a digital infrastructure. He noted how banks spent an average of 7.2% of operating income on IT compared to 3.5% for insurance companies.

“You simply can’t hide in a digital economy, you have to move in early, have a clear plan of how you want to execute and take leadership in this space,” he said.

Mr Ohnemus added that digital should not be ‘pilot projects’ in insurance companies, but needs to be at the core of its operations. With the likes of Amazon acquiring an insurance licence in India recently, insurers have to undertake a complete digital transformation to stay ahead of the competition.

He also exhorted insurers to adopt a fresher mind-set and be guided by consumers rather than just actuaries and life tables.

The Insurance Summit on Industrial Revolution 4.0 was co-organised by the *Asia Insurance Review* and the Korea Life Insurance Association. Sponsors included Kyobo Life, A.M. Best and Darktrace. ■



Mr Peter Ohnemus



Mr Bill Song

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