The convergence imperative for innovative insurers

Today’s new and emerging technologies get all the attention. But it’s with converged platforms and partner ecosystems that insurers will truly leap ahead.
Popular technologies such as artificial intelligence (AI) and blockchain may get the headlines, and insurers can certainly use these technologies individually to improve efficiencies and generate new business. But only by combining these tools and creating new partner ecosystems can insurers truly drive innovation.

Ultimately, converging technologies will enable insurers to develop new business models. These can include dynamic, personalized products; new forms of risk calculations; the ability to sense, monitor and manage risk; new ways to monetize data; actuation models; and the ability to work with a broader ecosystem to offer noninsurance products. Together, new business models pave the way for insurers to enter new and potentially lucrative markets.

That’s not to say individual technologies offer little or no value to insurers. In fact, the impacts of these technologies, even when used alone, can be profound:

- **AI** — Big improvements are coming in both machine learning and deep learning. Despite the hype about big data, many of these advances instead will offer more efficient models for working on “small data” — for example, customers’ recurring information requests — helping insurers distinguish themselves from their peers.

- **Blockchain and distributed ledger** — These technologies are likely to massively disrupt the insurance business, given the many inefficiencies in the industry’s value chain. These technologies, still evolving, could lead to new product distribution mechanisms, shared means of handling know-your-customer (KYC) and anti-money laundering (AML), new ways to handle reinsurance and more.

- **Augmented, virtual and extended reality (AR, VR, XR)** — These visual technologies can transform a lot more than gaming. Insurers can use them to remotely evaluate insured assets. Training for agents and other parties in the insurance ecosystem is another application with promise.

- **Internet of things (IoT)** — Both industrial and consumer IoT can be adopted by insurers looking to monitor and manage risk with new, high levels of efficiency.

- **Quantum computing** — This dramatically new approach to computing abandons the traditional computing model of manipulating digital bits and instead leverages a quantum mechanical phenomenon known as quantum bits, or qubits. For insurers, the potential benefits of quantum computing include faster risk analyses, better modeling of economic capital and more efficient reserve optimizations.
Not to be underestimated

As futurist and researcher Roy Amara said, we tend to overestimate the effect of a technology in the short term and underestimate the effect in the long term. That’s certainly the case with insurance. While these technologies are exciting today, over the long term the key for insurers will be using them in combination.

For example, in KYC projects, an insurer can combine blockchain and AI to identify hard-to-detect fraudulent activity while also using AR/VR to train employees in new KYC practices. Similarly, a customer service team could combine AI and virtual assistants to first match incoming questions from customers with those most frequently asked, then use that information to provide customers with answers and solutions quickly and accurately.

To fully appreciate how the convergence of these technologies can help shape the future of insurance, consider these two scenarios:

• **Life insurers can use an assortment of technologies** — including IoT, AI and blockchain — to empower customers to provide personal-wellness data from their wearable devices and other sensors. Life insurers can then store this data in cloud-hosted, blockchain-based platforms. There, they can run machine learning and deep-learning algorithms to predict potential near-term losses and provide feedback to insured customers.

  This same data, after being “anonymized” to protect the privacy of individual customers, can also be sold or rented by the insurer to pharmaceutical suppliers and others. In this way, the insurer lowers its risk, avoids potential losses and gains new revenue streams. Also, because all information is recorded in blockchain, the insurer gains both an immutable proof of all interactions and data that may be used for audits or compliance investigations.

• **Commercial insurers can combine emerging technologies** to lower their own risk and provide new, revenue-generating services to customers. Consider how an insurer of wind-turbine farms could use drones with machine learning capabilities to inspect the blades on a customer’s turbines. The insurer could then combine data collected during these inspections with other data, such as weather forecasts, and provide it to the customer as a service that helps manage the power-generation inventory against current demand and pricing.

  In this scenario, the insurer could also use blockchain for audits, AI and quantum computing for forecasting risks, AR/VR for employee training, the cloud for storing and processing data, and 5G for fast, wireless connectivity between the drones and the insurer’s (or cloud service supplier’s) data center or wind turbine’s blades.

Ecosystems for innovation

Insurers also need to respond to the growing demands of today’s insurance consumers for new, anywhere/anytime products. But before insurers can create these innovative products, they first need to create new ecosystems of providers and services — some of which may have no connection with the insurance industry as we now know it.
That’s already being done by two insurers based in China. One of them, Zhong An, is totally digital and online, meaning the company operates with neither agents nor branch offices. Instead, Zhong An runs as a platform, complete with an ecosystem through which it offers services and products to consumers and commercial customers. Some of its insurance products are quite novel. For example, Zhong An offers a service via the ridesharing site Grab that provides auto insurance for single car rides. Also, by working with other ecosystem partners, Zhong An insures a wide range of activities, including shopping returns, merchant performance bonds and airline flight delays.

The other innovative Chinese financial services company, Ping An, works online and offline to provide a comprehensive array of financial-services insurance offerings, including insurance, banking, brokerage services and asset management. Ping An provides insurance for healthcare, real estate and autos, and it recently launched fintech and health-tech businesses. The insurer does all this with two key elements: an online platform — combining AI, facial recognition, blockchain, the cloud and other technologies — and an ecosystem of partners.

**Insurer of the future**

The insurance company of the future will develop new products and mitigate risk based on insights derived from its data. These insurers will be able to sense data from all kinds of environments. They’ll also be able to process this data along with other types of information, such as commercial and consumer data, as well as historical and current data.

Such an insurance entity will also push personalized and dynamic products/services to consumers. Further, it will set up an environment to continually collect data from consumers so it can inform them about new and improved products and services.

The insurer of the future will also provide defining products for new risks that are now unknown, improve existing products for the risks it manages today and manage risks in real time once a policy is underwritten.
Three steps ahead

To move toward that future, insurers need to do more than simply adopt individual technologies. Instead, insurers should create truly innovative platforms of converged technologies, then augment these with an ecosystem of equally innovative companies. In this way, insurers can create innovative business models that allow them to enter new markets, drive new revenue streams and serve customers’ changing needs.

To move in this direction, innovative insurers will have to take three bold steps:

- **Embrace change** — The future isn’t avoidable. Now’s the time to investigate new technologies, launch discussions with potential ecosystem participants and start building new business models.

- **Cocreate to build platforms and ecosystems** — In today’s technology-enabled market, no insurer is an island. By working closely with partners, insurers can gain perspectives, create innovative offerings and enter new markets.

- **Collaborate with insurtechs** — Don’t compete with these tech-savvy startups — collaborate. Both sides can gain. Established insurers can learn to use the latest technologies. Insurtechs can get access to large customer bases, marketing and sales expertise, and financial stability.

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