

ADDACTIS® Expertises: Innovation's process & disruption in the insurance market.



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Introduction

ADDACTIS® Expertises' program gathers news from every business unit of [ADDACTIS® Worldwide](#). Each consultant gives his point of view on a trend which is influencing his job.

Discover today Fabian Derenne, consultant IAIBE actuary at [ADDACTIS® BeLux](#) in Brussels, Belgium, thinking about Innovation process in the insurance market.



How are insurers adapting to the current environment?

“ **Innovation is no longer a way to increase a market share but an imperative for all the insurers, even the biggest ones.** ”

As mentioned by many (or most) experts¹, the insurance industry is going to be severely disrupted in the coming years. For example, the European market faces a lot of threats and opportunities such as a new solvency II regulation, a digital transformation, low-interest rates and GDP growth, new customer behaviors, new technologies, Brexit and political uncertainty, climatic changes... and this list is far from being exhaustive.

From my point of view, innovation is no longer a way to increase a market share but an imperative for all the insurers, even the biggest ones. The financial crisis in 2008 has shown that companies are no longer “too big to fail” and some experts even start wondering whether

they are not “too big to succeed”. Regarding the size, Carl Icahn suggested in 2015 that AIG was subject to an “increasingly onerous regulatory burden”. As Assicurazioni Generali previously did², AIG is currently divesting assets and businesses too. Regarding the financial sector, BNP Paribas also decreased the in-house tasks³ and outsourced them in order to “manage complexity”. For example, it is obvious that the reporting process is very costly under Basel and Solvency. In this context, outsourcing this activity to experts will enable companies to reduce (or mutualize) costs.

Nowadays the insurance sector is changing, challenging (companies and people) and full of opportunities. But what can we expect in the future? How to achieve profitable innovation? Who is best able to innovate? How to innovate in a highly regulated environment? Or simply, how to define innovation?

Can startups revolutionize the insurance business?

Yes! Startups like well-established insurance carriers have the *opportunity* to innovate. However anyone recognizes that the insurance industry is not at the forefront of innovation⁴. On the other hand, start-ups are often lacking the technical expertise of very local insurance products (and consequently the knowledge of product pricing, consumer behavior, ...).

Theoretically, I would emphasize some of the main drivers as follows: a culture, the human resources, a legal environment, opportunities, willingness and ideas.

- The culture: one must acknowledge that the industry is rather change-averse compared to other industries such as the retail industry. Indeed, the insurance sector did not change that much

over the last century.

- The human resources: I tend to think that innovation is best brought by all the employees rather than a dedicated team. However, you must retain talented people and offer them the opportunity and time to think, discuss, implement and test their ideas (something that the pressure on margin threatens).
- The legal environment: In the UK, the Regulatory Sandbox provides the insurance start-ups with a “safe space in which businesses can test innovative products”. But even in a highly regulated environment like Solvency II, there is always room for changes.
- The opportunity: a new product exists if there is a customer's need. Technology

improvement is possible if there is the right tool. It is necessary to understand the market and the current legal, technological and global environment in order to spot the best opportunities.

- Willingness: innovation does not come without trial and failure. Employees and leaders must be willing to dare, open to failure and ready to try again.
- The idea: starting point or objective? It can be a revolutionary idea or an improvement. Whatever! The creativity process (instead of “idea”) is not present at the beginning or at the end but must accompany the whole process (from the brainstorming to the final implementation/product) and must be *supported* by all the employees.

Innovation can come from insurance businesses as Alan Kay suggests, “The best way to predict the future is to invent it”. However, it may come from other sectors. For example, the retail sector is very focused on big data and the banking sector on blockchain solutions.

One can also imagine that the successful insurer is not the one that is going to innovate but the one that will be able to adapt quickly to the new consumer behaviors and changing industry. The insurer that will be able to find the best distribution channel, the best product (covering new risks), the best way to assess the new risks, ... Eventually, the innovation would be driven by the buy side.

From a simple question (insurer or start-ups?), I'm now wondering: Insurance or retail sector? Sell or buy side? Disruption or innovation? Small or big companies?

I tend to think that collaboration remains the best way to achieve success nowadays. Among the Systematically Important Insurers, I paid particular attention to Axa and I was very interested and fascinated by their collaboration with Alibaba. These companies represent one systematically important insurer (out of 9 global insurers⁵) and the world's largest retail platform⁶. Particularly, this association brings a lot of opportunities in terms of data analytics, consumer behavior understanding or distribution channels. In addition to this gigantic collaboration, Axa is also accompanying the start-ups through funding and/or support. As Elise Bert Leduc⁷ explained: Axa needs “sensors to understand a changing world” and understand the new behaviors of the customers. Within the current increasingly complex and fragmented world, adjustment (not of a product but to the environment) must be at the epicenter of the current innovation process.

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Does the creative thinking process has its place in risk management specialized companies? (creative VS analysis way of thinking)

Yes! Unfortunately, the risk management function is still often seen as a controller a follower or just an additional costly constraint. Unlike this widespread idea, I defend a business-oriented risk management. I am convinced that risk managers can become strategic partners. I believe that risk managers can add value to the companies, the industry and the community. In a changing world (and industry), uncertainty is increasing drastically. In this context, minimizing (and not reducing) the risk must be a priority. Of course, risk managers cannot use the same tools or methods and they must be creative. Like innovation, there are many ways to define “creativity”. I would use the following and very common one: “The use of imagination or original ideas to create something”. It exactly confirms that risk managers can be creative and must invent new ways to understand, spot, assess, measure and reduce uncertainties and related risks. I would particularly like to focus on the role of the actuary. As actuaries, we must embrace this new world full of opportunities and challenges. We

have to create usable models, translate complex mathematics into understandable messages, find new insurance products, new reserving and pricing methods, develop tools to assess the risk and improve the computation time. Being creative does not mean that we are increasing the risk! It just means that we are developing our profession in order to face a new world and its new challenges.

“ **Being creative does not mean that we are increasing the risk!** ”

¹Addactis Group LinkedIn website: “InsurTech panel discussion at European FinTech Awards & Conference 2016 Amsterdam”.
²Assicurazioni Generali was designated for the last time as a Global Systemically Important Insurer in 2014

³BNP Paribas, “MIDDLE OFFICE OUTSOURCING: FROM EXPERIMENT TO STRATEGIC IMPERATIVE”

⁴From Latin, “innovatus” = to renew, restore, change. “novus” = new.

⁵“2015 update of list of global systemically important insurers (G-SIIs)”. Financial Stability Board.

⁶“Alibaba passes Walmart as world's largest retailer”.

⁷“How AXA partners with startups”. An Interview with Elise Bert Leduc.



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