Oxbow Partners

InsurTech — and How it Could Change Insurance

Oxbow Partners keynote address to the Slovenian Insurance Association

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Slovensko Zavarovalno Združenje
Slovenian Insurance Association

Introduction

Ladies and gentlemen, it is a great honour to be able to address your annual conference, and I'd like to thank you, and particularly Maja Krumberger, very much for the invitation. You will understand that invitations to come to Europe are particularly appreciated by us Englishmen at this time.

But don't let me stray into politics…

My name is Chris Sandilands and I'm a Partner at Oxbow Partners. Today, I have been asked to speak on the subject of "modern distribution channels", and specifically how InsurTech could change insurance.

Oxbow Partners is a boutique advisory firm in the insurance industry. We are based in London but have clients throughout Europe. Our engagements often involve helping clients grow or to improve their core operations. As such, InsurTech forms a significant part of our project portfolio at the moment: insurers, reinsurers and, to a lesser extent, brokers are all looking at the InsurTech landscape and reading quotes like this from the World Economic Forum: "The most *imminent* effects of disruption will be felt in the banking sector; however, the greatest *impact* of disruption is likely to be felt in the insurance sector".

And as a result, they are wondering how they should respond.

When we speak to clients, our main message is "don't panic". The insurance industry is not about to have – as the World Economic Forum also put it in a 2015 report – an "Uber moment". There are structural reasons why insurance has a greater degree of protection from disruption than other industries, and I shall talk about these in a minute.

"The most *imminent* effects of disruption will be felt in the banking sector; however, the greatest *impact* of disruption is likely to be felt in the insurance sector".

World Economic Forum

But "don't panic" is quickly followed by a word of caution. There are numerous historic examples of insurance being disrupted in many countries, particularly the UK and USA.

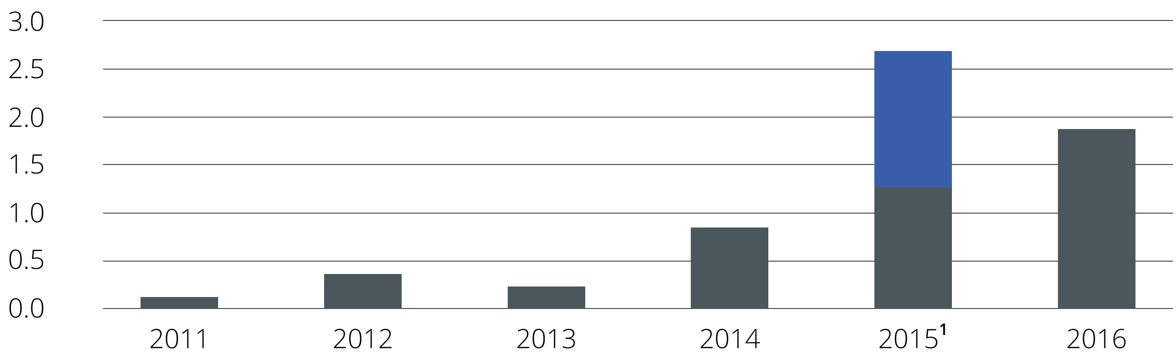
I am going to start my presentation with some comments about the global InsurTech scene and explain why some of the challenges it faces are unique – or why it is important to look beyond the current hype. I am then going to look at some of the models that InsurTechs are exploring in the distribution area and draw some conclusions about how this could change the insurance market. Finally, I shall consider how to get value from InsurTech and describe what some insurers and reinsurers are doing, and consider what Slovenian insurers could be doing.

Comments about the global InsurTech scene

InsurTech is hot right now. Funding has been accelerating for the last three to four years.

Global InsurTech Investment Volume

2011 – 2016, $bn



Source: CB Insights, Crunchbase, Oxbow Partners blog, Oxbow Partners analysis

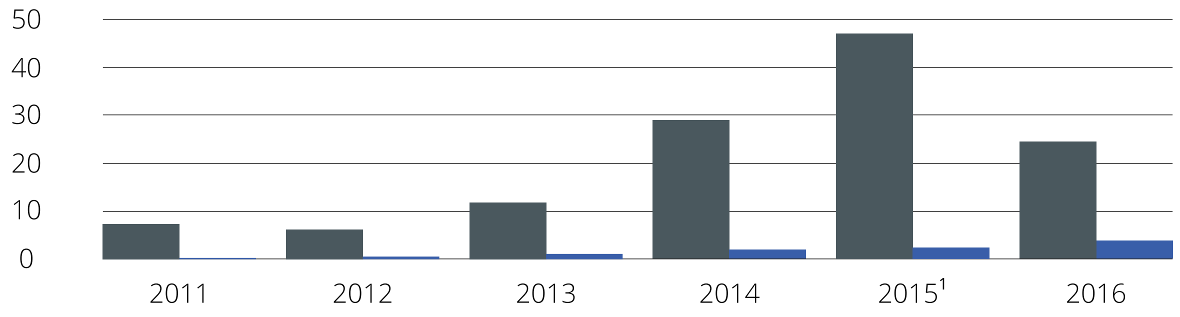
1. 2015 is distorted by Zhong An and Zenefits rounds ($931m and $500m respectively, blue portion)

As you can see on the chart, investment flows hit unprecedented levels – nearly $3bn – in 2015 according to CB Insights, a research firm. This included two major fundings: Zenefits, a platform offering healthcare insurance in the US, and Zhong An, a Chinese InsurTech, which I will come back to later.

However, InsurTech is still a fraction of the size of the broader FinTech market, which saw investment volumes of around $25bn in 2016, and $47bn in 2015.

FinTech vs. InsurTech Investment Volume

2011 – 2016, $bn

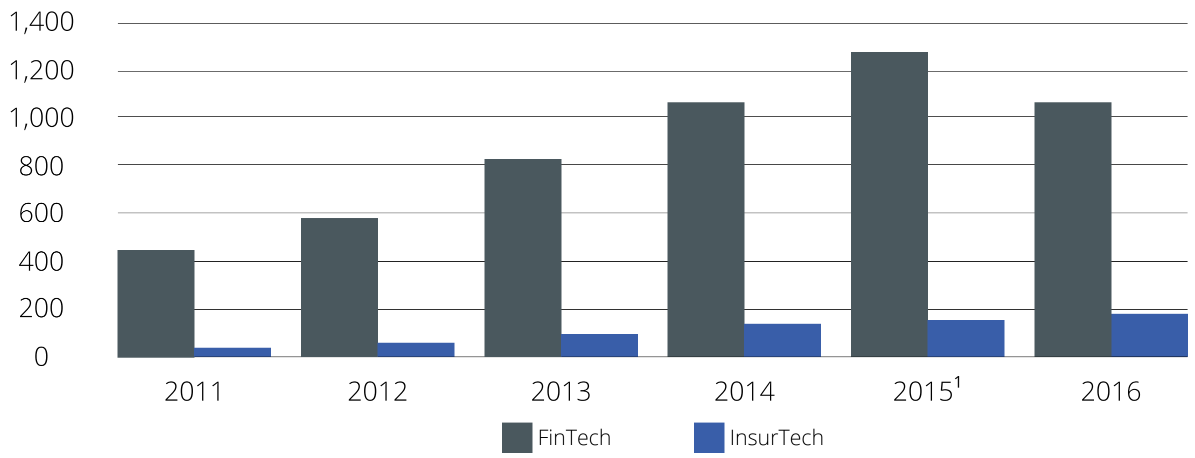


Source: CB Insights

The next chart shows the difference on the basis of the number of investments.

FinTech vs. InsurTech by Number of Investments

2011 – 2016



Source: CB Insights

So why is InsurTech lagging?

In my view, the principal reason is that it is hard for InsurTechs to build independent propositions with which they can break into the industry.

Source: CB Insights

This picture, also from CB Insights, uses the HSBC website to illustrate how startups are attacking the numerous products that HSBC sells. For example, peer-to-peer lenders such as Zopa are attacking loans, Nutmeg is a low-cost investment platform and TransferWise provides international transfers.

To set up TransferWise, you need a bank account in each country where you operate, but not much else from the bank. Instead, you need a founding team that can build some great technology, you need to devise a clever business model and employ a marketing genius.

In this way, TransferWise is now transferring around £1bn per month, and has a valuation in excess of $1bn.

This is not true for InsurTechs.

To set up TransferWise, you need a bank account in each country where you operate, but not much else from the bank.

Insurance products are complex and generally have some form of guarantee to pay either an unknown amount or an amount larger than the customer's deposited amount in the future. They require an institutional balance sheet in the background to support them.

As startups generally do not have risk capital – something I will come back to later – they cannot take away the core insurance proposition from insurers, just change the value chain and shift profits within it.

> Insurance products require an institutional balance sheet in the background to support them.

My assertion was put to the test in 2016, when there was a wave of peer-to-peer insurance startup launches. These InsurTechs devised models that reduced the role of insurers by emphasising the mutual aspects of the proposition.

Lemonade was the most high profile launch. It claimed that: “Instead of making our money from denying claims, as is the norm within the industry, we treat your premiums as if it’s your money”.

Lemonade takes a flat fee of 20% for its services and this is the basis for its claim. The remainder is split between a communal risk pool and reinsurance, which is provided by Munich Re and Berkshire Hathaway. Any surplus in the communal risk pool at the end of the year is paid to a charity of the policyholder’s choice.

I don’t think that Lemonade’s claims about the revolutionary nature of its model stand up to scrutiny.

I don’t think that Lemonade’s claims about the revolutionary nature of its model stand up to scrutiny. But marketing aside, even Lemonade’s peer-to-peer model depends on two traditional reinsurers not denying claims which exceed the pool. Clearly this pool could cover an ever-increasing volume of claims, but the point is this: when you set up a business, the pool is small and so InsurTechs are to some significant degree reliant on traditional, institutional balance sheets supporting them.

As it happens, Lemonade dropped the peer-to-peer element from its marketing in January this year. People didn’t understand peer-to-peer, they said. Or maybe they don’t think insurers and reinsurers are as dishonest as Lemonade claimed. Either way, Lemonade is doing very well promoting its genuinely superior experience to customers and customers don’t seem to be worried about the fact that the guarantees are supported by traditional reinsurers.

Indeed, there is even an argument that says that InsurTech is helping protect incumbents. Sabine van der Linden, the Director of the insurance programme at Startup Bootcamp, an insurance accelerator, recently noted that startups have moved in the last year from trying to disrupt the industry to enhancing it by partnering with incumbents.

So traditional capacity is not dead, but insurance will change.

InsurTech has the ability to – and will – shift profits in the industry.

This could be between direct competitors, between tier one and tier two players, between globals and locals, and between insurers and brokers, insurers and reinsurers – and incumbents and startups. The winners will be those who have thought ahead, prepared, and executed well.

InsurTech has the ability to – and will – shift profits in the industry.

And I should add two caveats, which are not the subject of today's presentation.

First, it seems that the broking business model, which of course does not provide risk capital, is more exposed to unbundling, similar to a bank, than insurers. Many of the InsurTech examples I will consider later in this presentation are intermediary propositions, which have the potential to shift volumes dramatically from brokers to startups.

And second, my presentation today is focused on InsurTech startups, but there are plenty of other risks on the horizon for insurers – for example the impact of autonomous vehicles. I've deliberately decided not to cover those today as I only have an hour.

InsurTech business models

So let us now consider what business models are being explored by InsurTechs.

There are said to be upwards of 1,500 InsurTech startups and you'll have to forgive me for cutting some corners. Today I'm going to focus on four kinds of startup active in the proposition and distribution space.

I shall talk about four categories:

- Specific insurable interest;
- Personalisation;
- Full risk partner; and
- Distribution integrators.

Specific insurable interest

"Specific insurable interest" startups narrow down their policies so that they only insure specific things for a specific amount of time. One example is Trōv, a startup that has raised nearly $90m in various rounds, including most recently one led by Munich Re. Trōv allows people to insure specific items which are captured in a "digital vault" for any amount of time they choose. The idea is that you can insure your skis, for example, only for the 25 hours a year that you actually use them.

I would argue that specific insurable interest startups are the most active area of proposition innovation amongst InsurTechs at the moment. Other high profile companies in the space are Metromile, which provides pay-per-mile insurance and has raised over $200m, Buzzmove, which graduated from Startup Bootcamp in 2016 and raised $6m from White Mountains Re soon afterwards, and Slice which provides "turn-on, turn-off" insurance for the on-demand economy.

As a previous internet startup founder, I'm always cautious about commenting on whether other people's startups will succeed or not – it's always very easy for outsiders to see the negatives in a new idea and feel smart if they are right, as they invariably are.

So I acknowledge and admire the audacity of each and every InsurTech founder, but as a consultant it is also legitimate to analyse and comment on the challenges that startups face. And so I cannot stop the word "fraud" swirling around my head when I consider some of these propositions.

How can we be sure that the water hadn't already been spilt on the laptop when the short-term insurance policy is purchased? Did I maybe forget that I skied over a stone last week when I insure my skis for this week's trip?

Insurance propositions stand and fall with their ability to identify and exclude the fraudulent 1%.

Even if 99% of a startup's customers are honest, insurance propositions stand and fall with their ability to identify and exclude the fraudulent 1%. This will be the big test for many of these propositions, not least because major insurers with huge budgets struggle to identify and control fraud.

Personalisation

The second category to consider is personalisation.

These insurers are trying to make the insurance experience more aligned to an individual's interests or needs in a number of different ways.

Perhaps most simply, companies like Grün Versichert in Germany and Emerald Life in the UK are simply online brokers who have tailored their proposition to specific groups, in these cases environmentally conscious people and homosexuals. This is not just a case of marketing, but also of limited product re-design. For example, Emerald Life includes an extension for discrimination cover as standard. In the customer journey, it makes a point of not making assumptions in the question set, for example it does not assume that your partner is of the opposite sex like some standard forms.

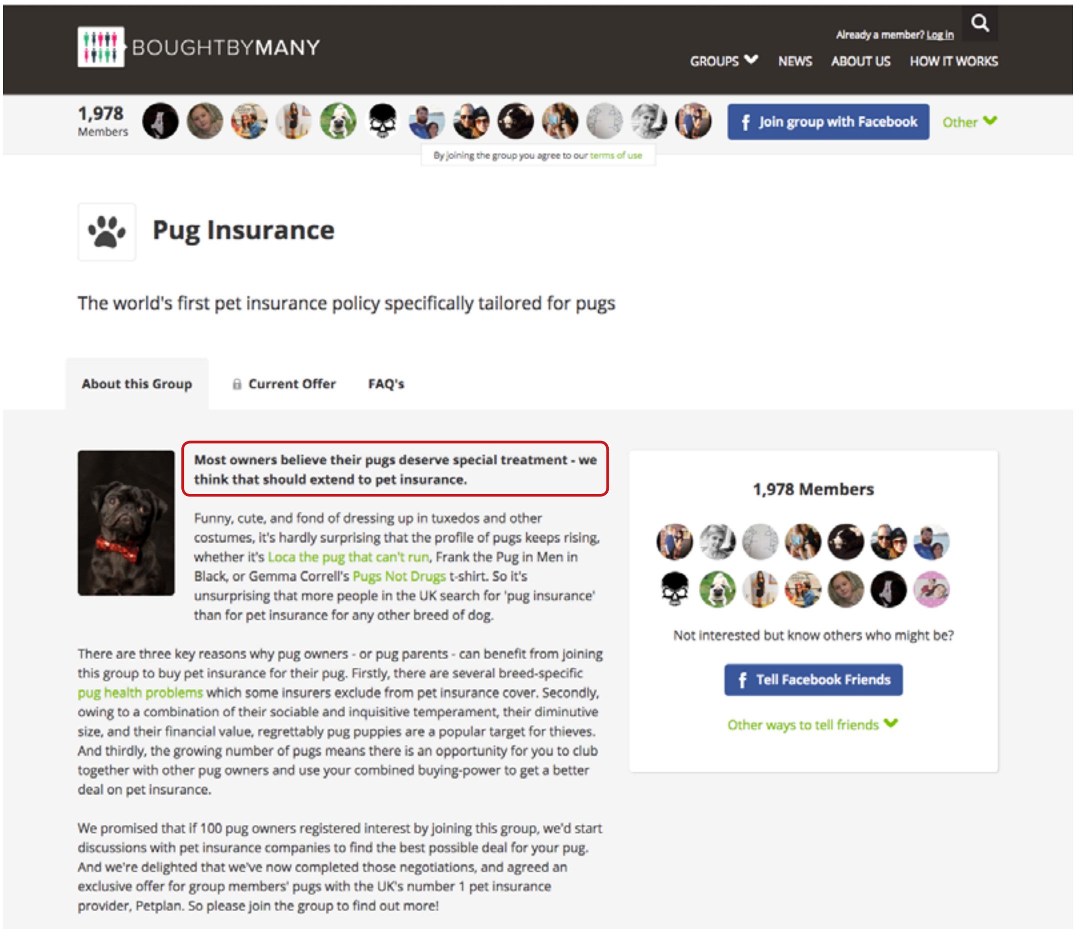
A model requiring more sophistication is Direct to Customer SME broking. This is a category that has attracted a lot of interest ever since Travelers, the large US insurer, acquired Simply Business earlier this year. SME is a notoriously complex segment – there are literally thousands of classifications, and two window cleaners can have a very different risk profile, as you will know. Not only that, though – if you ask too many questions in an online journey, you risk customers dropping out of the process; if you ask too few then SME customers feel like you don't understand their exposure, don't trust you and buy elsewhere.

Simply Business has spent the last decade tailoring customer journeys to each customer segment that it identifies. If you think that is easy, then ask yourself why Travelers paid 50x EBITDA to buy them.

SME has been particularly hot in the USA over the last 18 months or so. Next Insurance has built bespoke propositions for personal trainers, photographers and contractors – simple professions. It will add more over time. Other startups include Cover Wallet (which has raised money from the highly respected New York VC, Union Square Ventures, which has had a $1bn dollar exit every year since 2011), Embroker and indeed Simply Business USA. You can read more about all of these businesses on the Oxbow Partners blog where we add a profile of an InsurTech business every week.

An interesting, and I think unique, model is Bought By Many. This business uses social media and highly targeted search to find people to join groups with specific needs, for example pet insurance for pugs.

I can tell you that pug owners are not like other dog owners: they are completely obsessed with their pets – and it is these emotions, not only about pugs but also bikes or goldfish, that Bought By Many exploits. Here is an example of its interface.



Once groups like this are big enough, Bought By Many goes out to insurers to develop personalised policies. For example, dog policies are tailored to the health requirements of the breed, or home insurance for bike owners might have standard extensions for high value bikes that get stolen.

So is InsurTech driving a trend of personalisation?

Perhaps – but then personalisation has been a feature of insurance since the days when contracts were underwritten in Edward Lloyd's coffee shop in London.

Insurers have customised policies for brokers and customers for years – and actually standardisation has been, and remains, a big theme for most of our clients.

Also, a feature of the UK market, which is not so common in continental Europe, is the multi-brand strategy of many insurers.

> Personalisation has been a feature of insurance since the days when contracts were underwritten in Edward Lloyd's coffee shop in London.

Admiral's UK Brands

Diamond

elephant

Admiral

Bell
part of the Admiral Group

GLADIATOR

A company like Admiral has numerous brands in each of its markets, each aimed at a different customer demographic. This slide shows its UK brands: Diamond for women, Bell for good drivers, Elephant for good value and Gladiator for vans. This is a form of personalisation that has existed for decades.

What we are, perhaps, seeing now, is an evolutionary step – and evolution is generally a good way to view InsurTech. We are seeing deeper and more sophisticated personalisation enabled by technology. You could argue that in the past, personalisation either occurred "above" the IT system at the brand level, or "below" the IT system as bespoke customisation, with changes probably stored as PDFs without ever being tracked in the system.

Technology enables insurers to be highly targeted in their marketing and compile bespoke propositions for their customers through things like modularised policy components.

Full risk partner

The third category is that of the "full risk partner".

These startups have decided that the alignment of coverage and exposure in insurance is the key problem to solve. There are two main models here.

First is the insurance "concierge" service. In this model, startups are encouraging clients to upload their insurance policies to a portal in order to identify gaps and overlaps in coverage and then to help customers optimise their insurances. A high profile, yet pre-launch, UK startup in this field is Brolly.

The model has also been adopted outside personal lines. For example, Liimex in Germany and Cover Wallet in the USA have similar functionality to advise SMEs on their coverage situation and requirements.

The second model I'd like to cover is that of the "comprehensive policy". These startups are trying to provide customers with one single policy that covers all of their insurance needs. This is the principle behind Sherpa, a startup set up by the former head of BCG's insurance consulting practice in Asia. When he moved back to Europe, he was frustrated by the hassle of re-creating his BCG benefits package as an individual – separate policies for health, dental, life, and so on. The result is a soon-to-launch single-policy proposition for health and benefits that he hopes will save the consumer both time and money.

Digital Integrators

The final category of start ups I'd like to cover are "distribution integrators".

These startups are selling through other people's platforms. One European example is SimpleSurance in Germany, whose technology integrates with over 2000 ecommerce retailers to provide product insurances, for example coverage when you buy a phone.

However, the reason I really wanted to include this category was so that I could briefly mention Zhong An.

In November 2016 the Financial Times reported that Zhong An had sold 5.8 billion policies to 460 million customers.

This is a Chinese InsurTech, that was founded in 2013 and is the country's first completely online insurer. In its first year of operation it sold policies to over 150 million customers; on 11 November 2016 alone – Singles Day in China – it sold 210 million policies. In November 2016 the Financial Times reported that it had sold 5.8 billion policies to 460 million customers.

The way the business sells such eye-watering volumes is primarily that it integrates with Alibaba, the Chinese e-commerce site, to provide insurance for product returns. However, it has also developed a whole suite of other insurance products and, interestingly, some of them aim to make insurance fun. For example, their travel insurance product gives you vouchers instantly when you experience a delay – the main benefit of which is that it gives the policyholder something to go and do whilst they wait at the airport.

They also provided insurance against injuring oneself when drunk and watching football – a risk that is excluded from standard health policies in China apparently – although the regulator has now closed that product down…

InsurTech business models — Conclusions

So, to conclude this section, what can we say about the impact of InsurTech on the future of insurance distribution?

First, I suggest that InsurTech is global and that there is nowhere to hide for incumbents in any country.

Many InsurTechs are building propositions that could scale internationally even if it is not their current business model. And some InsurTechs are already multi-geography, for example, Trōv is operational in Australia, the UK and the USA; Bought By Many has licensed its technology in China and South Africa.

The natural language processing technology that Brolly must develop to read insurance policies in its concierge model would work in any English-speaking jurisdiction.

It is also my contention that the nature of demand is standardising across geographies. So whilst older people might be used to a certain way of purchasing insurance in their country, the younger generation just wants to do things quickly and easily on the internet. They are used to global propositions: Facebook, Amazon, Hotels.com and so on.

Traditional insurance, on the other hand, is still an inwards-looking, local business. Most global insurers are organised by country, few have customer strategies that look across multiple countries and many are not even very good at sharing best practice between them.

If my assertion that demand is standardising is true, then insurers might quickly find their younger customers are being attracted by propositions developed outside their borders.

So when we speak to Continental European insurers about InsurTech they sometimes say things like "Austria is not affected by InsurTech".
At that point, Austria and other countries that are not currently feeling the InsurTech wave, will very much be affected by it.

Insurers might quickly find their younger customers are being attracted by propositions developed outside their borders.

Slovenian insurers need to ensure that they are investing sufficiently in their offerings that customers are not tempted away by global InsurTech propositions in the future.

Second, InsurTech is creating the customers of the future.

I think it is easy for incumbent insurers to see InsurTech only in the context of their own business models: "what does InsurTech mean for my business".

However, I think this too narrow.

Many InsurTechs talk about how the insurance needs of millennials are different to those of older customers to which traditional insurers cater. They don't own as many things as older people, but have some things that are valuable like an iPhone. They find filling in forms tedious, they want to do things on the move.

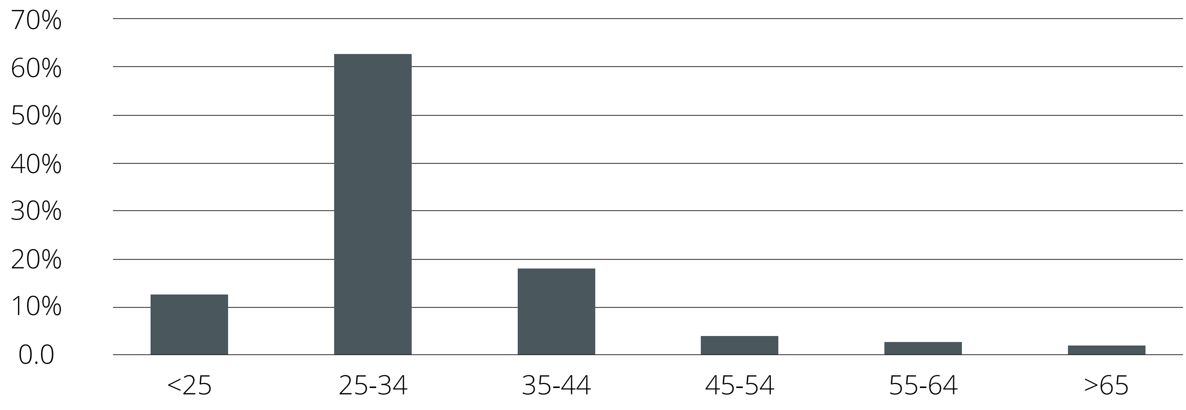
I therefore think it is true that InsurTech is creating the customer of the future.

The closest we get to data here is from Lemonade's Transparency Chronicles – a series of blog posts where the company released data at the beginning of the year.

InsurTech is creating the customer of the future.

This slide shows the age distribution of Lemonade's customers. As you would expect, there is a weighting to people aged under 35.

Age Distribution of Lemonade's Customers

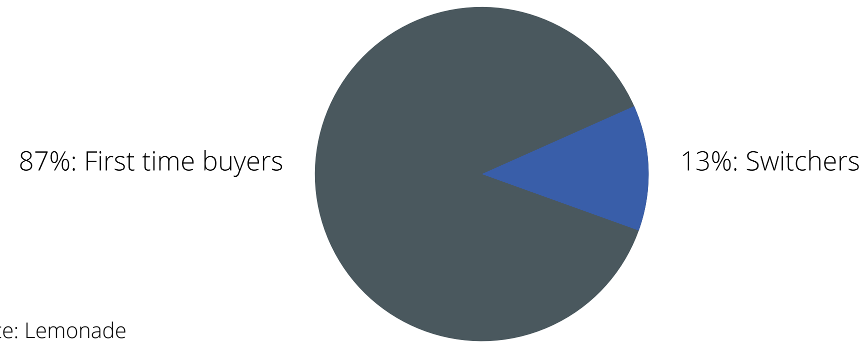


Source: Lemonade

This slide is, perhaps, more insightful. A full 87% of Lemonade's early customers did not previously have a home or renter's policy – the products that Lemonade is currently selling.

Coupled with what appear to be very high conversion rates of around 25%, Lemonade is inviting us to draw the conclusion that young people feel underserved by existing insurance propositions, and are desperate for a new approach.

Source of Lemonade's Customers



Source: Lemonade

Slovenian insurers need to ensure that they are targeting the younger generation so that they build the customer base for the future.

Third, I would like to argue that InsurTech is unlikely to trigger a major channel shift of existing customers.

To some extent, this is an extension of some of my previous arguments. If it is true that proposition and distribution InsurTechs will continue to focus on creating new customers, then the impact on incumbents will be marginal in the short term. Sure, they will lose some customers, but they are unlikely to lose too many highly profitable, loyal, older customers to InsurTech.

A word of caution first, however: I might be wrong. Traditional markets can move channel and the best example is UK motor which shifted from brokers to the internet and then to aggregators in the late 1980s through to the early 2000s.

But on the other hand, the UK is unique in this respect. Aggregators were launched in numerous other European countries where there was an equally obvious use case, maybe even more – but they have been much less successful.

In other words, insurance customers are sticky, even when offered a seemingly superior proposition.

> Insurance customers are sticky, even when offered a seemingly superior proposition.

Indeed, it is not clear to me that any InsurTech currently offers a proposition or distribution model that is so superior to existing channels, or indeed solves a mainstream customer problem, that they will be the catalyst for a major channel shift of existing customers.

Finally, I believe that, overall, InsurTech is an opportunity for insurers.

The reason is that there is no evidence of risk capital being replaced by new models.

None of the companies I have highlighted in my presentation are fully replacing the risk carriers in the value chain. Sure, Lemonade is eroding their importance, both in its peer-to-peer model and its marketing, but it still has traditional capacity behind it and is likely to continue requiring it as it grows. Zhong An is a rare example of a genuinely full stack insurance startup.

I don’t think this will change soon, and my evidence is the MGA market. Private equity has been investing in MGAs for decades, often substantial sums. However, very few private equity funds have sought to take the underwriting risk as part of their investment.

I cannot see why investors would be more attracted to underwriting risk in this InsurTech wave than they have been to date, especially as the risk profile of an InsurTech portfolio is arguably more unpredictable than that of an established MGA in traditional lines.

Insurers need to review their propositions and in particular their cost structures to be able to provide low-cost capital for those InsurTechs who don't require their full service propositions.

That said, I do think the nature of insurance capacity will change, and we are already seeing this. Reinsurers will be more active, and some alternative risk capital will also start to emerge in the value chain. I think insurers need to review their propositions and in particular their cost structures to be able to provide low-cost capital for those InsurTechs who don't require their full service propositions.

So what are insurers, reinsurers and brokers doing about InsurTech?

In answering this question, I will highlight where incumbents are seeing opportunities, and what the challenges are.

And in fact this is going to be about insurers and reinsurers because brokers are not exactly leading the charge on InsurTech.

There are basically three structural models available to insurers:

- Invest in startups;
- Support incubators & accelerators; and
- Set up digital labs & innovation teams.

Invest in startups

Several insurers and reinsurers have set up corporate venture funds to invest in startups. Examples include HSB Ventures (Munich Re's venture vehicle), Aviva Ventures, AXA Strategic Ventures and Allianz Ventures.

Investor	Example Investments			
Munich RE	neos Insurance Reimagined	METABIOTA BOUGHT BY MANY	helium	trōv
AVIVA	cocoon	appyparking	Opun MAKE LIFE EASY	neos Insurance Reimagined
AXA	BIOBEATS NEURA	WELLTH	policygenius LimelightHealth HEALTH. INSURANCE. SIMPLIFIED.	ClimateSecure autolina.ch
Allianz	Lemonade	SPIXII	simplesurance	

This slide gives a brief overview of some of the investments made by four major insurers. Aviva Ventures, for example, wants to invest £100m by 2020 (but has so far made only three startup investments). AXA Strategic Ventures is perhaps the most active corporate VC with a focus on connected health, artificial intelligence, big data and user interfaces.

As you can see from the examples they are all looking across the value chain – not just distribution – and also looking at some adjacent services such as Aviva's investment in Appyparking, which is an app to help motorists find parking places.

It is tough to be a successful investor as a corporate venture fund. All of the funds I just mentioned compete for the same investments – the small number of InsurTech businesses that are showing signs of traction.

Furthermore, venture investing is not the sort of activity where investors can use analysis to identify winners, and even the most well-known VCs expect only one or two investments in their portfolio to be major exits. Even the largest corporate venture funds are small and undiversified compared to the dedicated VCs, and that is to say nothing of track record, network and so on.

It is tough to be a successful investor as a corporate venture fund.

The challenge for insurers is, therefore, how to use investment capital smartly.

Munich Re does this nicely in that its Digital Partners division only offers investment capital if it has first secured the product partnership.

At this point, it might just be worth talking more broadly about Digital Partners at Munich Re.

At the beginning of 2016, Munich Re noticed that there was significant activity in the InsurTech world, but that it was not necessarily taking full advantage of it. It wondered what its response should be and asked Oxbow Partners to do a piece of strategy work to form a view.

The answer was quite clear: InsurTechs lacked two things.

First, they wanted to talk to people in companies who had authority to act quickly. Startups move fast, and they go bust if things happen too slowly. InsurTechs reported that it was easy to speak to people in insurance companies, and that these people would often get very excited about their propositions. However, as soon as urgent “business as usual” turned up on their desks, the startups were immediately forgotten. This was frustrating and a waste of time.

Second, InsurTechs wanted access to products in a way that complemented their own online journeys.

A good example here is Bought By Many and I can offer my own experience on this. Back in 2014 or so I joined a group on Bought By Many for home owners who liked cycling. I went through their very pleasant customer acquisition process and then clicked “buy”. At this point I was transferred to an insurer’s website.

The site was grey and had a series of those HTML boxes where I could indicate when they should call me back. Obviously I would have preferred to buy online immediately, but nonetheless I selected a time. In the end they called me back 2 days late and neither acknowledged nor apologised for this delay. Either way, I had already bought my policy elsewhere.

Digital Partners solves these problems, and in my view is the globally leading insurer proposition for InsurTech startups.

Digital Partners solves these problems, and in my view is the globally leading insurer proposition for InsurTech startups – but remember that I am biased on this point as we helped build it.

First of all, Digital Partners is a separate team, based in a different building to the rest of Munich Re in London. They recruit a mixture of profiles including tech, product management, insurance and consulting. This is allowing them to build a culture that is genuinely different to the rest of Munich Re.

Second, it has a technology stack that allows it to deliver innovative products to digital startups. The platform allows startups to link to the Munich Re system through a secure API, giving them access to both core services like a white-labelled quote and buy platform, and ancillary services like sanctions checking. The platform is set up in such a way that Munich Re can build almost any kind of product very quickly – a home policy for people who own three-legged dogs, for example. The constraint is Munich Re's pipeline of work and appetite, not the technology.

To summarise, therefore, we think insurers need to have a clear strategy for investing in startups. If they are deploying capital alone they will not be the go-to partner for startups and will likely struggle. But insurers have assets that are valuable to startups, which can be the honeypot to attract the best InsurTechs.

Incubators / accelerators

Next I shall consider incubators and accelerators – and I should point out that the two terms are used interchangeably by most industry commentators.

These are designed to help startups test, refine and grow their ideas by bringing them into contact with companies and industry experts. Possibly the best known examples are Startup Bootcamp in London, and Plug and Play and Global Insurance Accelerator in the US.

Startup Bootcamp in London has been hugely successful in raising the profile of InsurTech over the last 18 months. At its recent demo day in London, it got around 1,000 attendees.

Some insurers are ploughing vast amounts of money into partnerships with accelerators to get them preferential access to startups. The largest players are also running their own; for example Munich Re in Spain with MundiLab and Swiss Re in India.

Some insurers are ploughing vast amounts of money into partnerships with accelerators to get them preferential access to startups.

For insurers, we think that accelerators can be a useful (if expensive) way to get familiar with startups – what they're doing, how they work, how they think. It is also a good way to develop partnerships and test ideas – startups are as desperate for an insurance partner as insurers are to try out new ideas. The challenge comes in the operationalisation of any of these ideas.

We are aware of dozens of pilots being run between insurers and startups and these are announced with considerable fanfare sometimes. However, it is much harder to find examples where these pilots have become broad implementations.

The issue is that pilots are easy to arrange: they are sponsored by the CEO, they are limited in scope, and done without significant distraction to the core business. However, a major implementation requires the cooperation of sometimes many dozen stakeholders, not to mention IT integration. For this reason, and as I shall discuss in the context of digital labs, insurers need to think hard about how they enable change in their organisation.

Digital Labs & Innovation Teams

Third, I'd like to say a few words about digital labs and innovation teams.

I describe digital labs and innovation teams as teams who are scouting for technology for an organisation, and trying to find a use for it. The focus could either be core business processes, for example using technology to improve credit checks on customers. Alternatively, they could be focusing on new distribution channels, a bit like Digital Partners at Munich Re.

Other examples of digital labs are Aviva's "Digital Garage" in London and Singapore or Euler Hermes Digital Agency in Paris.

Digital labs are extremely difficult to make work.

If they focus on enhancing the core proposition of the business, then they quickly run into challenges with the business: a lack of interest in innovation, a lack of resources to work on unproven ideas, or compliance teams trying to run their standard process on a startup.

On the other hand, if they work on ideas that are distant from the core business, then they risk being seen as irrelevant.

It is important that companies think about the whole innovation value chain when setting up digital labs.

Innovation Value Chain

Phase	What's required	Is weak if...
Idea generation	Collaboration within units	People within units can't generate ideas on their own
	Collaboration across units	People collaborating across units don't produce good ideas
	Collaboration with outside parties	Your company doesn't produce enough good ideas from customers, competitors, inventors and other external parties
Idea conversion	Screening and funding of new ideas	Your screening or funding criteria are so strict that they shut down most ideas or are so loose that your company overflows with projects that don't fit your strategy
	Developing ideas into viable products, services or businesses	Ideas selected for further development languish in parts of your organisation that are too busy doing other things or don't see their potential
Idea diffusion	Spreading developed ideas within and outside the company	Developed ideas don't get buy-in from customers, internal constituencies, distribution channels, or desirable, geographic locations

Source: Morten T. Hansen and Julian Birkinshaw, published in Harvard Business Review (2007)

Innovation is not limited to idea generation – many companies are good at that. Equally important, and often much harder, is turning that idea into a business proposition ("conversion"), and then moving that to implementation ("diffusion"). In other words, a large part of the innovation process is operational, or project management.

This is sometimes forgotten when companies rent a new office space and fill it with distressed furniture and iPads – not to mention their most creative, up-and-coming stars.

When you set up your Digital Lab, you should first consider your strengths and weaknesses on the innovation value chain: are you ideas poor or execution poor? That should drive who you put in your team. You should challenge your instinct to put your smartest and most creative employees in this team – your best project manager might be more suitable.

Insurer, reinsurer and broker responses

So what might the implications for Slovenian insurers be?

First, companies need to have a clear InsurTech and innovation strategy to allow prioritisation and focus.

"The essence of strategy is choosing what not to do".

Michael Porter

I hope I have made it clear in my presentation that InsurTech is an incredibly broad topic. It is not possible for insurance companies to cover everything. Those who try will fail because doing lots of things badly is not as good as doing one thing really well.

This is an opportunity to back up my view with a quote from someone much more respected than me – Michael Porter, the strategy and management guru. "The essence of strategy is choosing what not to do".

Companies should stop worrying about InsurTech, and instead define, very clearly, what they want to achieve strategically, and then consider how InsurTech – and technology and innovation more broadly – can help them. Do you want to get more control over the agent channel by digitalising it? Do you want to innovate with products across all channels? Do you want to update your claims experience?

In the short term, investors might reward those insurers who shout loudest about InsurTech but in the long term they will value those who generate larger profits through the sustainable use of technology more generally.

Second, execution is key and companies need to be more agile. I have already mentioned that insurers sometimes prioritise idea generation over execution. This has to change – and the way companies operate needs to adapt.

Technology generally is increasing the velocity of change in the insurance industry – it enables a more diverse set of ideas to be executed and allows ideas to be promulgated much more quickly.

This is a challenge for insurers, who are used to working on slower development cycles. They have long change backlogs and will only implement ideas that are perfect and complete; never a limited pilot. Clearly there are reasons for this – insurers are regulated entities and known brands – not startups.

Specifically, companies need to move away from long research and analysis phases to agile "build-measure-learn" methodologies.

But the reality is that all of our clients are overwhelmed by the huge number of options they have in the InsurTech and innovation space – there is so much they could do and so few resources. This problem will not go away, so companies need to get better at working out very quickly which ideas are likely to work and which are not.

Specifically, companies need to move away from long research and analysis phases to agile "build-measure-learn" methodologies. We call this approach Agile Strategy™.

Of course, how quickly you can move from analysis to action depends on the company and the situation. But I believe that the people in this room are critical to nurturing this change. First of all, management needs to stop insisting on full analysis before commencing a project, but be willing to accept a sensible business rationale backed up with a credible testing process. Second, management needs to create a cultural change in the organisation which encourages employees to move to action as quickly as possible, and not get stuck in analysis and contemplation.

Final Comments

So, ladies and gentlemen, those are my view views on InsurTech. There is a lot of activity and hype in the sector, and I hope I have helped you see through some of this and understand what the real trends might be. I look forward to discussing how InsurTech could impact Slovenia with you over lunch. Thank you.