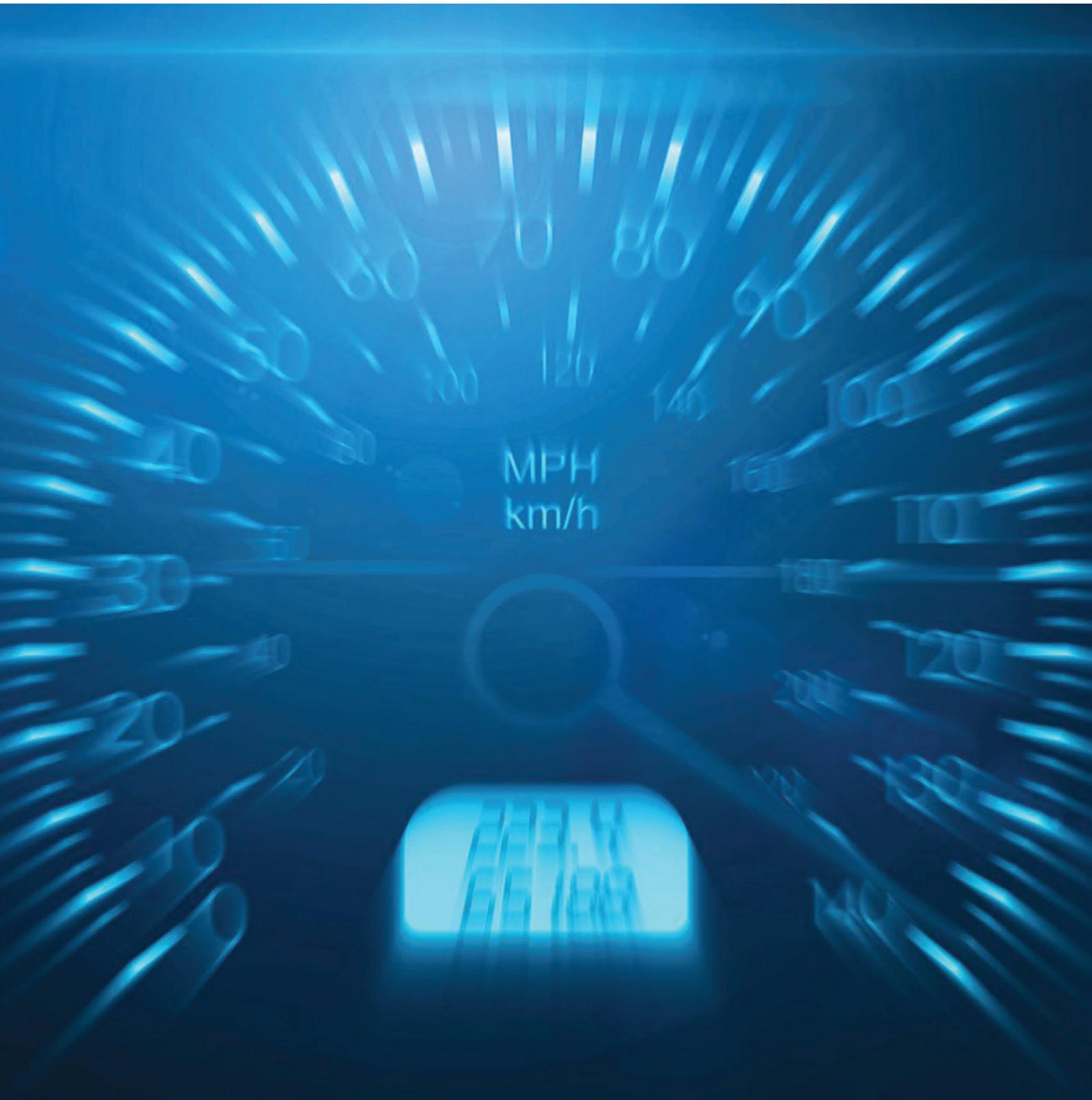


Your Guide to Becoming a Canadian Insurer of the Future



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Insurance Nexus in association with Opta Information Intelligence explores the trends that will disrupt Canada's insurance market to 2025 and beyond.

Two words describe the Canadian insurance experience of the future: informed intuition. It means that insurers will be coming closer to the customer experience ideal of being able to intuit individuals' insurance needs based on the huge amounts of information they hold about them.

That information will, as it does now, pour into the insurer from mobile devices, from customer journeys, from the Internet of Things and from the growing number of partnerships insurers will be making that enable them to provide next generation risk protection and prevention.

The outcomes from informed intuition will be faster, seamless interactions from the moment of enquiry, through purchase to claim. It's going to usher in a new workflow change that will enhance customer experience. Crucially, informed intuition will help map out new product concepts and consumer trends that will allow insurers to adapt in a sector more open to disruption than ever before.

Greg McCutcheon, President of Opta Information Intelligence explains: "The period between understanding the customer journey and delivering on experience has to condense. The consumer is demanding it. If the industry is unprepared it will be disrupted. I would rather be a part of the change, leading it rather than waiting to see what will happen."

Of the large number of potential directions the Canadian insurer of the future could take, executives interviewed for this report agreed that there were four characteristics that would define the insurance landscape to 2025 and beyond.

1. Data and segmentation, allowing differentiation and innovation
2. Product simplification and development through digital capabilities
3. Rapid claims management
4. The rise of machine learning

The enduring influence of data and analytics

Data and analytics is already the story in 2017 but over the coming decade, Canadian insurance customers should expect their data to drive seamless, personal and hassle-free experiences from search to claim.

To do this, insurers are going to have to start looking beyond their own borders: "The biggest obstacle I see is cultural willingness to embrace the fact that nobody has all of the data. Insurers really have to get their minds around the fact that there is a wealth of information outside their business," McCutcheon warns.

Sources of data are of course subject to regulator pressure and McCutcheon hopes that insurers will be able to work with regulators in the future to liberate some of that information. He believes it can only have a positive outcome for consumers. "We are currently so restricted on the traditional data points that could be used to enhance the accuracy of the quote. Insurers aren't allowed to use information that could drive better discounts. Will regulators allow insurers to use IoT and Big Data

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in a way that doesn't just improve the experience but decreases premiums?" He cites government intervention in Ontario, where that pressure has driven automotive premiums down 15%.

Cindy Forbes, Executive Vice President and Chief Analytics Officer at Manulife Canada adds: "Currently the focus is on protecting personally identifiable information, personal health information and personal credit information. Regulations in the future may evolve, requiring companies to ensure that they are using information in a fair and just fashion. For example, much can be inferred from the data from an individual's smartphone but it may not be fair and just to act on those inferences."

Dennis Nilsson, Assistant Vice President Advanced Analytics at TD Insurance, suggests that the task insurers face today is interpreting the growing quantities of data and in turn, using it to drive customer insights. It also powers personalization of relevant products and communications. The consensus also seems to be that more is better, but it is equally important that organizations do not lose sight of what data might be useful:

"While it may be somewhat daunting at first glance, the huge amount of data being generated offers us almost endless possibilities. Whenever you switch on a device or use an app, huge amounts of data are generated about your behaviour and lifestyle. These insights are critical because they can drive the overall business strategy and help companies design products to better meet the needs of our customers," he says.

Building product suites for the future reality

There is already a global shift towards 'Insurance as a Service,' seen predominantly today in the area of health with the Vitality product. There are certainly projections that the IoT universe of sensors and wearables is going to drive a prevention-focused product set in the future. It comes about as consumer technology reduces risk in some areas (fire, home security) and generates new ones - cybercrime and autonomous vehicles for example.

"There is a big shift from today's protection to tomorrow's prevention. New technologies using sensors and devices are becoming more widespread and can prevent incidents from happening. Broadly speaking from an industry perspective, it has potential for huge savings on claim costs and creates happier customers," Nilsson states.

"Technology is having an impact. In the P&C space we are seeing a real focus on IoT and how devices can give better information and be part of an insurance programme. Wearables are going to make even more inroads into health and wellness products," Forbes agrees.

Forbes believes that insurers could play a much bigger role in customers' lives in the future. "There is an opportunity to use data to provide added value for customers. For example, to show people how they compare relative to the universe of wearable device users in terms of their activity levels. With the decline in defined benefit pension plans and the social safety net in general, people need to provide for their own future financial security, and this is an area where insurers can help them using data from external sources."

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Simplicity as a product benefit

Some of the biggest gains in improved customer experience don't come from revolutionary new products or the creation of service partnerships. Data has the potential to dramatically simplify and speed up the insurance process in general. For most customers, reducing the time taken to apply for policies or process claims will be a massive leap forward.

"There is a huge opportunity to use data and technology to drive workflow efficiency. Too often insurers have become enamoured by a particular process because it's a cherished workflow. But hanging on to these processes can turn insurers into dinosaurs. It's common sense that drives great customer experience. Adding value to services that no-one knew existed, that's going to change the experience of insurance. Using artificial intelligence and cutting edge technologies is one thing but the ultimate goal is to go to clients in a simple way and be relevant," McCutcheon explains.

Purchase and Claims - pared down, sped up

It is amazing what a simple experience can do for improved customer relations. Insurers including Lemonade and products like Berkshire Hathaway Travel's AirCare are garnering publicity across the border in the US because of their fast, simple policy purchase and claims process. Insurers in Canada predict that similar innovations that eliminate tedious form-filling and claims uncertainty will be a real boon. Once again, there is hope that regulators will support change.

"In Canada there has been an appetite for simplicity for a long time. What we're struggling with right now is that when customers buy car insurance for example, they still get a pink slip in the post. We can't convince the Government to let us send it electronically even though this method is couched in all sorts of security. We want to work with regulators to provide that better experience," Opta's McCutcheon insists.

"We have to think about developing digital engagement with customers," Forbes adds. "Customer expectations are set by their interactions with digitally native companies such as Amazon and Google. They will expect to file claims from their mobile device and receive automate updates on where the claim is in the process and when it will be paid."

"Customers expect simple, intuitive solutions that happen with speed. It's no different from any other sector," Nilsson adds.

McCutcheon agrees that claims is ripe for renovation. "It's a wonderful opportunity. I look at the way claims are processed and I see the chance to change traditional thinking."

The data at the heart of this opportunity already exists today, as do many of the back-office systems. Forbes points out that using data, streamlining and digitising back-office systems all help meet customer expectations. "Companies have to reinvent how they deal with the customer. We launched an underwriting programme that streamlines the process for most applicants up to age 40 and with coverage up to \$1m. It used to take six to eight weeks to write that policy. It now takes three to five days."

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“Fortunately in Canada, the data training wheels are off. Insurers understand how to differentiate themselves. But still, too many haven’t begun implementing these strategies. Claims experiences have always been a time for the industry to shine. The message is, if you’re wondering where you need to spend the money, you can’t underfund data because your loss cost will rocket,” McCutcheon warns.

Automation provides options, not alternatives

There is an enjoyable amount of sensationalism around automation, artificial intelligence and machine learning. News reports are falling over themselves to suggest the whole insurance industry could be replaced by robots in the near future¹. The reality is somewhat more... practical.

“I don’t think we’re currently close to fully digitized insurance but in longer time frames channels like call centres will have made inroads into using virtual agents,” Forbes admits.

The result will be displacement rather than replacement for the human element. As McCutcheon points out, machines can drive efficiency but it’s people who are irreplaceable when it comes to instinct and empathy:

“Artificial intelligence, natural language processing and mobile can have humans re-deployed to personality match with claims adjusters, redirect sensitive claims or parts of claims to more hands-on or reduce the travel time and still get the needed human touch to fulfil high quality customer service.”

The use of automated service technology also introduces an element of choice into the process, something the customer has felt very much lacking in the traditional process and regulation-driven insurance environment.

“Millennials for example may prefer not to deal with an advisor when buying insurance so it’s imperative to be able to have a digital offering where they can do research themselves. But, the ability to access an advisor if needed is also vital,” Forbes insists.

Cultural change

That all of the above evolutions are inevitable over the next decade is certain. But if insurers aren’t able to alter their corporate cultures to match, they’ll find the going tough.

Manulife’s Forbes is quite clear: “You have to change your culture and embrace experimentation. We’ve set up labs around the world where we incubate innovation. It’s about embedding it through the employee base and being attuned to the customer. And it has to be top down to be effective.”

Nilsson argues that the fail fast mentality is about failing fast, but also about smartly and rapidly adapting: “It saves money and time. We have to be prepared to provide employee feedback far more regularly than just the annual review. More frequent feedback allows you to constantly improve in an agile manner.”

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¹ <http://www.insurancebusinessmag.com/uk/news/breaking-news/robots-taking-over-jobs-underwriters-most-at-risk-59215.aspx>

McCutcheon concludes: "Legacy cultures are hard to change. The demographics of employees, corporate governance, policies also make it difficult to be nimble. How often does leadership ask: "What has changed, what are our risks operationally, strategically or insurance-wise that we haven't thought of and evaluated?" Companies need to stay in touch and embrace change."

Conclusion

It can feel as though we are already in a whirlwind of change. McCutcheon reminds us that: "The concept of Insuretech didn't exist 14 months ago." Other sectors reflect just how fast the market is moving for everyone. Facebook's acquisition of virtual reality headset manufacturer, Oculus Rift, was met with incredulity some two and a half years ago. In December 2016 Sony announced it had just sold its one millionth VR Playstation headset.

But if the technology moves on, customer needs remain largely the same. It's just the method of delivery that changes. Here, an IBM future-gazing report from 2006 projected what the insurance landscape might look like in 2020:

"Another imperative for the insurance industry is to make the switch to customer versus product centrality. In the highly connected world of 2020, policyholders will have much greater access to products and the ability to make decisions on their own. The concept of agency will eventually succumb to the power of advocacy so that individuals will look to financial services advocates to provide advice as they navigate insurance and financial services markets. The traditional agency channel will not be gone by 2020, but will likely be in decline in the face of smart software and the salaried advocate model."²

Prescience about the highly connected world of 2006 aside (YouTube was barely a year old, 3G networks were still poor and expensive, the iPhone was still a year from launch), it is difficult to predict the precise shape of insurance products in nearly a decade's time. But there is a wealth of trend data that can point insurers towards an intelligent guess. Add an innovation-focused organizational mindset and insurers should be ready to meet disruption head-on.

"The technology is evolving fast and we need to have the right technology and culture in place to support innovation and move quickly enough. An agile mindset and culture places emphasis on short development cycles and constant testing. So embracing a test and learn culture is essential to get customer feedback quickly and innovate in an agile manner to meet customer expectations," Nilsson states.

Setting insurers on the path towards future change should be exciting rather than daunting, concludes Opta's McCutcheon. "Today's insurers are looking at disruptors and they're afraid. They don't know what to do. Lofty policy administration replacement projects can paralyse insurance companies for years. There needs to be a lot of thought leadership because I understand the concerns - millions of dollars have been lost in the past on failed strategy. Get help. Find good partners and focus on key capabilities to grow. If ever there was a time to get on board, it's now."

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² <https://www-935.ibm.com/services/us/gbs/bus/pdf/g510-6291-01-insurance-2020.pdf>

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They will be joined by 350+ leading insurance executives and innovators attending the event, with speakers from RBC, Great West Life, Sun Life Financial, WSIB, Economical Insurance, Chubb Insurance and more.

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- **Exploit Internal and External Data For More Valuable Insights:** Get an edge on your competition with business-critical intelligence, by integrating disparate data from across the organization with big data and new data such as IoT, weather, social media and more
- **Build an Unshakable Technology Foundation:** Make excellence possible with a flexible, scalable and secure technology framework that enables best practice analytics both now and in the future, including data visualization, storage, management and governance
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For more information, including the conference agenda and speaker line-up, please see <http://events.insurancenexus.com/canada>

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