DueDil

Digitisation in Insurance

How to use data and technology to build a more customer-centric future

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INTRODUCTION:

Shaping the future of insurance

Businesses are defined by how they respond to crises.

Insurers are defined by their ability to assist businesses when crises occur.

But, after a year of mass upheaval on an unprecedented scale, vast changes are needed – and the window to make them is shrinking. COVID-19 has impacted growth but accelerated the need for digitalisation.

SMEs remain concerned for their future but optimistic of new opportunities. The challenge for insurance companies is how they respond to meet these needs and support the right businesses.

So, what does that response, and the future that will be shaped by it, look like? DueDil spoke to experts from across the industry, as well as garnering insights from its own in-house team, to understand the key challenges insurers face and how to approach them.

Here's what the future of insurance looks like, according to the people helping to shape it.

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Chapter 1

The state of play

It’s difficult to estimate what the true fallout of the COVID-19 pandemic will be for SMEs, but the initial reading is troubling.

Since March 2020, 71% have experienced declining revenues, with 30% signalling drastically reduced sales. Just 35% believe they will be able to endure another year of similar fortunes. The vast majority (80%) do not expect their performance to improve over the first quarter of 2021.

As businesses are forced to restructure, insurers are under increasing pressure to provide suitable support that meets shifting needs. Failing to do so poses serious reputational risks for the industry at large, with many businesses already finding out that their existing cover is inadequate. Both policy wording and policy complexity have both been cited as reasons for this.

The implicit trust between customers and insurers is being tested as competing pressures mount and work needs to be done to re-establish it.

Rebuilding trust

Part of the work needed revolves around education. John Neal, CEO of Lloyds of London, believes there is much more work to do from the industry, with major players and fintechs alike needing to ‘put a lot more effort’ into ensuring customers are better informed about the products and policies they purchase.

Ultimately, this requires insurers to take greater responsibility for the risk they are underwriting, reducing complexity along the way. So far, this has not been the case: one fifth of UK SMEs are currently unaware of what types of insurance even exist and, as a result, 40% of UK businesses are thought to be underinsured.

The need for innovation

A slow pace of change is typical of the industry and has stymied the development of innovative solutions. Unlike banking that has been spurred on by the rise of fintech, insurers need to find other motivating factors to deliver exceptional experiences for customers and brokers that keep things simple, seamless and transparent.

With 43% of companies purchasing insurance through digital channels, there is an evolving expectation around a certain level of customer experience – automation, accessibility – that is simply not being met.

For SMEs, who make up 99% of the companies in the UK, it is at best a point of continual frustration; at worst, it's the difference between survival and shutting down. For insurance companies, assisting such a huge number of potential clients that find themselves in testing waters represents a significant opportunity.

As things stand, however, the SME market remains a grossly underserved one. Part of the problem insurance firms have encountered is the level of diversity across the 6 million SMEs out there, and the difficulties that come from attempting to underwrite them at scale.

The root of this can be traced back to a lack of data, something the industry has been aware of for a number of years but is slowly beginning to wrestle with.

Helen Bryant, Director of SME and Corporate Partners at Allianz UK, explained that this is the biggest hurdle when trying to provide effective insurance coverage for the market.

"It's about greater and more utilisation of data to inform pricing and improve customer experience – making it more effective and human at the same time," she said.

"We are looking at ways to use data enrichment so we don't have to ask so many questions of customers, which can mean fewer tripwires. It's a fine balance though, as SMEs still want that interaction and human touch."

Chapter 2

Accelerating the shift to digital

The fintech explosion over the last half-decade has seen financial services evolve at a rapid rate – and consumer expectations along with them. The banking sector is a key indicator of this change and, viewed next to the insurance industry, the contrasts are stark.

Stagnation in the industry means insurance as a whole is at risk of being left behind. As we continue through 2021, there is no equivalent to Monzo, Starling or Revolut in insurance; no evidently slick, easy-to-use digital platform to help consumers or business owners gain the cover they need to remain secure when they need it most.

Historic challenges around changing consumer perceptions of insurance have not been addressed. Business owners are looking for digital solutions to cut through the noise, and for the vast majority this isn't yet a reality.

The industry is responding to consumer expectations

2020 saw a record level of investment in InsurTech, despite the world being in lockdown and at the whims of a global pandemic. An astonishing £5.16 billion was invested in the industry, clear evidence the sector is moving forward.

Embracing new technology

Utilising digital channels is now an unavoidable area of focus for the entire industry. Part of this shift involves using them to deliver more relevant propositions to customers – without requiring them to spend vital hours filling out forms, or responding to questions that many don't know the answers to.

"Insurers can leverage company information providers to simplify onboarding processes", says Denis Dorval, DueDil's COO. "By integrating APIs with webforms that automatically feed in information, they remove friction at key points in the journey while also delivering opportunities to automate responses for insurers. From here you can begin to explore personalisation and customisation based on what you know about your customers. It's something that drives exactly what we do here at DueDil."

In the B2C sector, car insurance providers responded to criticisms of inflexibility by providing by-the-mile policies. In a year where many drivers were forced to stay at home, and with commuting patterns set to remain drastically altered, these reactive types of cover can only help to rebuild the trust between policy purchaser and provider provided there is a level of flexibility to amend policies mid-term.

Similarly, shifts in the business space are increasingly difficult to ignore, particularly in the wake of the COVID-19 epidemic. A recent McKinsey report highlighted companies like Zeguro, Tryg (both cybersecurity start-ups) and Thimble (payment protection) as examples of product offerings that "directly address the needs of SMEs for greater flexibility and focus on value while promoting trust and transparency."

Spotlight: Hokodo

DueDil client and innovative InsurTech, Hokodo, works with wholesalers and online marketplaces to make selling to business buyers easier.

Using APIs, it is able to credit score a company and determine whether a sale to that company can be insured against non-payment in "less than a second." This, in turn, enables it to embed solutions into customer journeys on partner websites – allowing businesses to **"benefit from protection against non-payment in real-time."**

As a small business itself, Hokodo can empathise with the frustrations felt by SME owners.

"We recently renewed our own insurance cover, and had to fill out multiple proposal forms all asking the same questions about our company registration number, our address, our financials, our payroll, our share capital, and more.

"All this information is available either from public sources like Companies House, from data providers (yes, like DueDil) or from my accounting system and our bank account. I would be very happy to grant read-access to our bank accounts and accounting system if it spared me filling out more forms."

Transformative solutions like these are powered by accurate data, and are ready to be adopted at scale. The industry cannot expect to evolve at the pace the post-pandemic landscape requires without them.

Chapter 3

Insurtech 2.0

Insurance providers now find themselves at a defining point for the industry. Simply being aware of the power of data no longer suffices. Instead, it must be used to solve new challenges – and for that, it requires a change of approach.

To reach this next stage of evolution – let's call it Insurtech 2.0 – the key lies in the way the data itself is collected, stored and utilised. A great example is the evolution of Machine Learning that can process data and use it to better predict outcomes or alter existing workflows in a constant feedback loop. The traditional model, using data that represents a snapshot in time of a business to build workflows and products, is outdated.

"Data about what a company does and how it operates is the most difficult to obtain, particularly where a company has multiple activities within its portfolio", says David Ball, Pricing Manager at QBE. **"Much of the insurance assessment is based on snapshots in time and this may not always give a realistic impression of the company."**

For policyholders, this approach allows for limited flexibility at a time when the opposite is required. For policymakers, a suitable risk appetite becomes harder to ascertain when it is arguably needed the most.

Realising the power of real-time data

Currently, most insurers need to go to a broker and ask for any relevant information on a company or client. From there, they will define a price and underwrite the risk. The data validation process is not automated, and has no guarantee of accuracy, creating potentially-damaging knowledge gaps later down the line.

Now, though, there is an alternate outcome.

“Insurers can do more in the SME market by using data and technology to segment and better understand their customers’ needs”, says Ball.

“This ability to differentiate product features for a market that contains a diverse range of companies will enable insurers to provide tailored products and services rather than selling a commodity.”

Jacqueline McNamee, CEO at C-Quence, a company leveraging this type of technology to transform its underwriting, is another who believes in the power of new data streams.

“By codifying underwriting rules, we are able to use algorithms to largely automate the process. When a risk falls outside the automated route and is referred to an underwriter, our technology suggests a solution to the underwriter.

“A.I. and machine learning use the underwriter’s decisions to further refine solutions or incorporate them into the algorithms thereby reducing the number of referrals over time. This helps underwriters to manage much larger portfolios than is possible using old world procedures.”

Leveraging validated business information

The technology now exists so that, simply by confirming a business's name, insurers can pull every piece of associated information about them immediately. Think 250 different data points, all ready to analyse and assess automatically through digital platforms.

From there, this data can be modelled around everyone who has historically claimed. Trends can be identified, tracked and utilised to anticipate change. A simple example of this would be that companies with diminishing turnover could begin to claim more regularly. Slightly more advanced, it could highlight which market segments claim more frequently.

All of this information feeds into risk models, which inform pricing, as well as provide a more personalised experience for the customer. Essentially, this creates a new platform to transform the way commercial insurance is approached entirely.

In short, *this* is what Insurtech 2.0 looks like.

Chapter 4

Spotlight: The risk of underinsurance

In its simplest terms, the challenge facing the industry is two-fold. On the one hand, insurers need to rebuild trust with their customers with streamlined experiences and policies that work better for them. On the other, it's about automation and efficiencies: how quickly new tools can be adopted, and how far the industry is willing to push transformation efforts and be more open and transparent about how it operates.

Sitting in the middle of those two challenges is the issue of underinsurance. During the pandemic, many SMEs found their policies lacking in substantial cover – some reported losing out simply because the exact name of the virus wasn't listed in the smallprint. Reform is needed, and technology can facilitate.

How many businesses are affected by underinsurance?

Research from the Financial Conduct Authority found multiple instances where British SMEs were not adequately insured against the multitude of risks and liabilities they face.

More than a quarter (28%) say their businesses would collapse if they were faced with a bill of £50,000 or more. This makes for worrying reading, particularly given the current climate: from employee redundancies, to the loss of future contracts and being put out of business, the consequences can prove disastrous.

Why is underinsurance still a problem?

Ultimately, many SMEs lack the time and expertise to assess their insurance needs. The cover they need is often underestimated, or they may undervalue their businesses to reduce premiums.

Estimating the rebuilding costs of a commercial property, for example, is often done based on market value. According to the Royal Institute of Chartered Surveyors and Building Cost Information Service, 80% of businesses in England and Wales are underinsured on their properties. Many fail to factor in market fluctuations in property prices and possible delays in repairing the property.

Another issue SMEs face is finding the right guidance.

“This is becoming a big reason for underinsurance,” says James Tingley, Head of the SME Commercial Division at insurance brokerage Aston Lark. “The fact is, insurance policies still comprise a lot of technical jargon, despite efforts to simplify the process. SMEs can therefore become confused about what they’re insuring for, and how much cover is required.”

This is one area where technology can resolve issues before they arise. Currently, SMEs are required to provide significant amounts of information to insurers around revenue and profits, and this isn’t always easily verifiable.

Instead, insurers can take the burden off their customer by automating this process, something that will reduce friction and streamline the underwriting process altogether.

A headache for insurers

The risks related to underinsurance don't just affect SMEs. Insurers also feel the hit as inadequate insurance premiums erupt into disputes and litigation between policyholder and provider. With SMEs making up 99% of all businesses in the UK, the time and resources spent dealing with these disputes can be significant.

For insurers, the challenge is to not only educate SMEs on the dangers of inadequate cover – such as insolvency – but also ensure they are being matched with the right blend of insurance products. Insurers want to model risk as accurately as possible and make sure the right claims are paid out.

This has proved difficult in the past because insurers and SMEs may have different definitions of what constitutes gross profit, or because companies experiencing rapid growth need to factor in rapidly rising revenues.

The solution to these challenges may lie in an underwriting process that makes better use of automation, injecting accurate insights into the process so risk can be assessed more accurately.

For time-poor SMEs, positive customer experience is not just a nice-to-have, but essential to the success of their business. Time spent on admin and form-filling is time spent away from other crucial areas, and anxiety about insurance cover can eat into their bottom line.

Insurers can help to ease their burden by offering a streamlined service that takes advantage of live company data to determine the right level of cover for their needs.

Without doing so, they stand little chance of rebuilding the trust needed for both policyholder and provider and the world continues its shift towards an uncertain future.

Chapter 5

An appetite for change

So, then, here we are, the most fundamental point of change the insurance industry has seen in more than a generation.

COVID-19 has essentially acted as the ultimate incubator, accelerating the digitisation of customer interactions by three years in Europe, according to McKinsey. As a result, insurance firms have been forced to consider the implications of this new reality.

"The coronavirus pandemic has been an eye-opener for many within the industry", says C-Quence. "Already, we are seeing winners and losers from the disruption it has caused. It has shone a spotlight on practice that, quite simply, broke under the pressure, as well as shining a light on those barely impacted.

"We must use it as a long-awaited catalyst to force the industry into action. Fortunately, Insurtech is well placed to take advantage of the opportunity; we're becoming much more sensitive and responsive to customer needs."

Place the customer at the heart of innovation

Moving to a more consumer-centric model is one thing but moving to a model that is fit for purpose – not just for now, but for the future – is another entirely. Embracing new technologies and data sources can help build this, and adoption can be achieved much quicker than perhaps many in the industry had initially anticipated.

As a result, customer journeys naturally improve. From seamless onboarding through to in-life monitoring, insurers can develop solutions that are proactive rather than reactive, while giving clients the flexibility they crave. As communication around policy becomes simpler, customers can bypass brokers and deal with insurers directly, rebuilding trust along the way.

By utilising the right innovations focused on the customer, at the right time, insurance firms give themselves the chance to vastly increase their understanding of SMEs across individual sectors. These insights have an impact on both policy maker and holder, with new products able to be developed that cater to these new sets of consumer needs.

Now is the time for change

None of this can happen, however, without a changing of mindsets from within the industry itself. Providers need to not only understand, but to embrace the fact that SME insurance is no longer static; it requires continual evolution and flexible solutions.

Developments in the insurtech industry are happening quickly, so be open-minded and invite people in to show you what their technology can do to help you meet customer needs more effectively and elevate straight through processing opportunities.

It also requires a realisation that things change.

Businesses, markets, owners – as an insurer, it’s vital you remain across any shifts that could have greater impact later down the line.

A small change in the directorship of a business, for example, may seem trivial. In reality, that difference in personnel could push a safe organisation into a riskier one, and expose your firm to more risk as a result.

This is as much about protection as it is providing SMEs with suitable policies. For a long time, insurance has not been considered a two-way street by customers; shifts like these will go a long way towards repairing this dynamic.

All of this points to the fact that the momentum of travel is only going one way. The choice is no longer about simply making changes. Now, it’s about how far you’re willing to go.

Conclusion

Build a customer-centric future leveraging data and technology

The industry must respond and work hard to bridge the gap with the way modern business is conducted. Data and technology need to become fundamental components of future business models. And transparency has to be more of a guiding principle.

The customers' needs should be placed front and centre. Consider how the banking industry has reacted to the surge of fintech organisations and how easy it is to do both personal and business banking today. The insurance industry must begin thinking in the same way, and quickly.

Leverage developments in insurtech and build an ecosystem of tools that put the customer experience at the forefront. Create more agile and efficient processes that increase straight through processing and reduce operational costs. Utilise the wealth of data available to accelerate and enhance your underwriting practice. Leverage data platforms to better assess, understand, and price risk - including identifying new opportunities in new markets.

When the industry starts thinking more clearly in this way and we see better collaborations centred around customer experience, we will see trust build again. Customers will get better products and services and insurers will reap the rewards of more efficient models tailored to their customers.

About DueDil

Founded in 2011, DueDil is a company intelligence platform that delivers insights on every UK and Irish company and the people behind them.

DueDil provides customers with a complete view of the UK and Irish market so the SME onboarding process is as robust as it is frictionless. All of these insights are delivered by a single KYB for Life platform that ensures compliant onboarding, efficient risk assessment, better pricing and proactive risk monitoring.

In 2020, DueDil was named RegTech Partner of the Year for the second year running at the British Banking Awards in recognition for its work transforming the digital customer journey for tens of thousands of UK SMEs.

DueDil has a number of well-known clients, including Santander, Metro Bank, Funding Options and TSB Bank.