



DIGITAL TRANSFORMATION IN THE INSURANCE SECTOR

2014

2015

2016

2017

2018

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EXECUTIVE SUMMARY

For Insurers today, an effective digital strategy is critical for long-term success. Insurers need to innovate, both to stay ahead of legacy competitors and to pre-empt the erosion and disruption of established business models by ambitious and nimble digital start-ups.

In this paper we focus on Digital Transformation in the Insurance Sector; and examine the legal, regulatory and commercial challenges facing Insurers as they seek to optimise their operations and processes using new technology to empower a digital revolution within their organisation and the wider global marketplace. The prize for effective implementation is clear: greater visibility in the market; smoother and more effective customer journeys; better speed to market and customer retention; ability to cross-sell products and services, as well as scalable and agile processes, which can all contribute to increased profitability and shareholder value.

This paper explores the following key Digital Transformation themes from an Insurance Sector perspective:

REDESIGNING THE CUSTOMER JOURNEY:

The digitalisation megatrend is transforming the expectations of consumers across the globe, as internet and mobile phone usage increase year-on-year. Its pace and scale mean Insurers need to re-evaluate and transform the customer experience and journey to adapt for Generation C (Connected); and use new products, apps and tools to enhance customer interactions and relationships.

AGILITY AND SIMPLIFICATION:

Several Insurers are developing agile working environments, within their business in the form of new innovation “labs” and “hubs” bringing together different parts of the business, or by partnering with innovative tech companies and consultants using new approaches to drive their business. Insurers also see the need for re-designing business processes to help ensure transformation of back-end systems, internal processes and end-to-end customer interaction models. Business simplification and agility will help more traditional Insurers become like start-ups, so they are better placed to meet the challenges of digitisation and the rapidly changing Insurance marketplace.

RETHINKING TRADITIONAL MODELS:

Digital Transformation is now seen as a key “game changer” and catalyst for growth in the Insurance Sector; with the Sector being ripe for disruption. Many Insurers are adapting and taking innovative approaches – key examples of innovative solutions include: Insurers using corporate venture capital and creating strategic corporate venturing funds with a focus on digital and new technology to complement their core insurance offering; using the ‘internet of things’ to create new products and services that are more tailored to a client’s needs and create greater customer interaction; using alternative business models to capitalise on growth of internet and mobile usage, such as peer-to-peer insurance; and investing in microinsurance to protect low-income households against risks.

MACHINE LEARNING AND ADVANCED ANALYTICS:

With the emergence of increasingly sophisticated technology, the ability to capture – and extract value from – ever increasing amounts of data is rising. ‘Big Data’ can help Insurers understand, and record, customer buying patterns to transform relationships. This can result in business development opportunities and significant cost savings for insurance companies, as well as more sophisticated risk management and modelling. But as the volume and variety of data increases, so do the challenges associated with the use of Big Data. Where operations rely on extensive processing of “personal data” they can give rise to data protection and privacy concerns in many countries, particularly under the new European General Data Protection Regulation. For many insurance players navigating the complex landscape of data protection, privacy and cyber law and regulation will be key to unlocking the full power of Big Data, advanced analytics and machine learning.

FROM PEOPLE TO SOFTWARE

As people are being replaced by software and technology across a wide range of activities in the Insurance Sector, technological change is driving changes in Insurers' human resources needs. Existing skill sets are no longer required and Insurers face the challenges of restructuring and re-skilling workforces. Attracting the right "digital" talent is seen by many Insurers as a key investment area to build the platform for change and drive competitive advantage.

HOW DIGITAL IS CHANGING THE REGULATORY LANDSCAPE

Keeping up with new innovative and digital focused products in the Insurance Sector is proving to be a challenge for regulators who must balance encouraging innovative new products, with ensuring that they are implemented in a safe and compliant manner. Some regulators (including notably the UK's FCA, ASIC in Australia and the Singapore Monetary Authority (MAS)) have worked hard to encourage innovation, and international competition to attract or retain tech business may drive more significant regulatory change as requirements are adapted and updated to make them more suitable for the rapidly changing digital world.





REDESIGNING THE CUSTOMER JOURNEY

The digitisation megatrend is transforming the expectations of consumers across the globe. The number of internet users has risen from 400 million to 3.2 billion in the past 15 years, according to the latest figures from the ITU's 2015 ICT report¹, and there are now almost as many mobile phone subscriptions as people in the world. The pace and scale of this digital phenomenon means that Insurers, as well as other sectors, need to re-evaluate and transform the customer experience to adapt for Generation C (for "Connected"), in order to avoid lagging behind the curve.

A recent EY Global Insurance Digital Survey² found that the top two drivers of insurer companies' digital strategies were enriching the customer experience and regaining more direct control of the customer relationship. Therefore, it is clear that the Insurance Sector is aware that adapting to customer needs and fighting off more nimble digital challengers is fundamental for survival.

Despite this awareness, many in the Insurance Sector are still digitally immature, with less than half of Insurers having the mobile digital functionality to provide a quote, and only 23% able to submit and process claims digitally.³ Entrenched barriers, including the huge investment required to transform legacy (and often clunky) technology systems, fluctuating regulatory requirements and internal cultural constraints, are often cited as the main factors preventing digital growth in the industry.

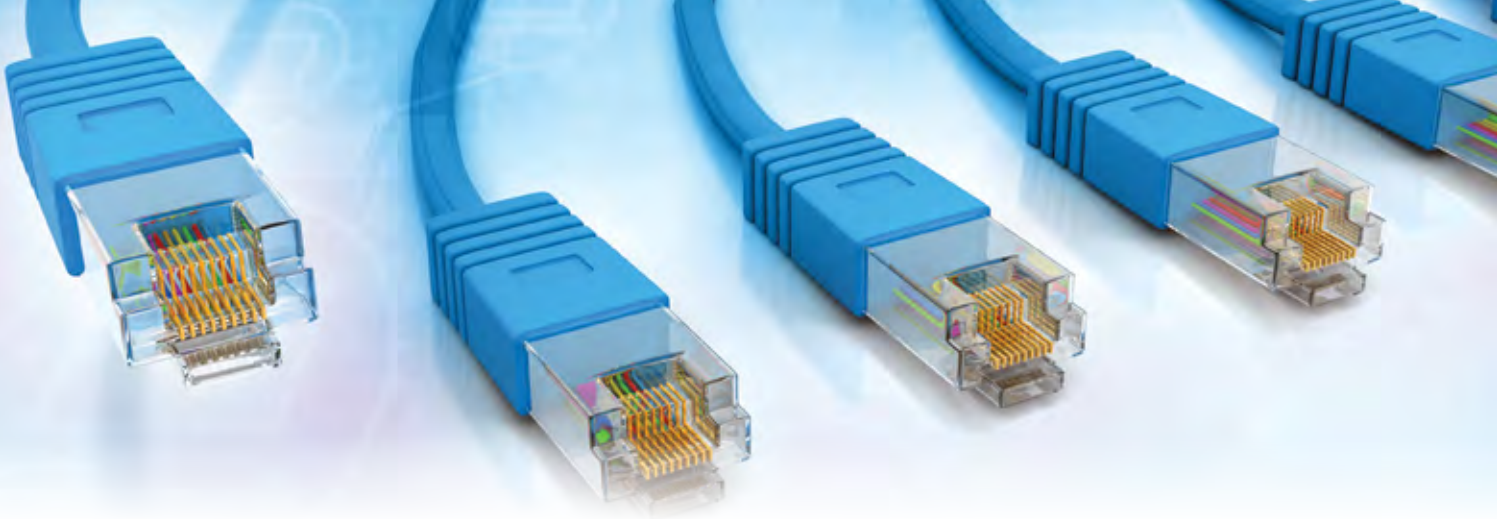
However, those Insurers that have already started to embrace the digital revolution are illustrating the future

interface between Insurers and their customers. They are moving away from periodic transactional relationships to on-going customer interaction and engagement, and helping build more effective customer trust. For example, the "Panasonic Smart Home & Allianz Assist" service, a partnership between Panasonic and Allianz, connects smart home monitoring and control systems with home protection services. This integrated solution protects people's homes and prevents further damage from break-ins, glass/window breakage and water leaks, so as to provide an enhanced service to customers as compared to many traditional home insurance products. AXA's "Health Keeper Platform" is another example of this changing interaction, with an application that tracks user's activities, offering discounted health services based on the user's level of activity, and creating greater opportunities for AXA to connect with its customers.

¹ <http://www.itu.int/en/ITU-D/Statistics/Documents/facts/ICTFactsFigures2015.pdf>

² [http://www.ey.com/Publication/vwLUAssets/EY_Insurance_in_a_digital_world:_The_time_is_now/\\$FILE/EY-Digital-Survey-I-October.pdf](http://www.ey.com/Publication/vwLUAssets/EY_Insurance_in_a_digital_world:_The_time_is_now/$FILE/EY-Digital-Survey-I-October.pdf)

³ [http://www.ey.com/Publication/vwLUAssets/EY_Insurance_in_a_digital_world:_The_time_is_now/\\$FILE/EY-Digital-Survey-I-October.pdf](http://www.ey.com/Publication/vwLUAssets/EY_Insurance_in_a_digital_world:_The_time_is_now/$FILE/EY-Digital-Survey-I-October.pdf)



AGILE WORKING AND METHODS

In the same way that “Agile” development is shaking up the traditional IT development landscape, “Agile working” and “Agile methods” (where organisations utilise new collaborative working styles, approaches and technology, often in a “lab” or “hub” style environment) can help drive an insurance company’s digital agenda and enable them to implement change in a more rapid and scalable way. Agile processes and methods are more likely to provide the speed and style of delivery commensurate with the scale of the transformation required. In Aviva’s “Digital Garage” and Allianz’s “Digital Accelerator”, we see large Insurers creating new innovation hubs that bring together different parts of their businesses to create agile workforces disrupting their traditional business models and driving change. More traditional insurance players can also develop this agile capability internally through commercial partnerships with nimble technology companies or consultancy firms.

These new ways of working, however beneficial, can come at a price, and companies need to prepare for the key legal and commercial issues that can arise when partnering with third party consultancy or technology companies to support their Digital Transformation activities. Creating robust contracts to leverage agile methods and processes can be somewhat counter-intuitive, as there is a risk that the flexibility required for agile development to be a success, could be hindered by the strict governance and compliance requirements Insurers operate under.

Hence, we are beginning to see the rise of a hybrid contracting method – “contractualised agile”. This hybrid approach is better suited to more conservative organisations with the ability to define overarching objectives at the outset, while still accessing the benefits (and beauty) of leveraging agile methodologies and processes.

The level of specificity, customer dependencies and commercial structure will still need to be carefully considered, but by placing greater contractual emphasis on the strategic and business outcomes (with appropriate incentives and remedies if these are not achieved), the business should still be able to hold external suppliers accountable without being overly prescriptive as to the specific outputs.

DIGITAL BUSINESS PROCESSES AND SIMPLIFICATION

The major challenge for Insurers, however, is achieving, a “true” Digital Transformation of back-end systems, internal processes and end-to-end customer interaction models – this means much more than just creating a “digital wrapper” for their existing business models.

Most global insurance groups are very large and complex organisations working across various platforms supporting hundreds of different business processes in multiple regions and countries. To adapt to the digital world, Insurers need to consolidate and simplify these processes across their entire business.

Insurers are not naturally agile. Their capacity to react to market changes in a responsive, flexible way is often restricted by heavy regulation, the needs of countless disparate stakeholders and investment in costly legacy systems. Ensuring that a digital strategy is aligned with Insurers’ strategic objectives; simplification of the technology landscape and business processes; fostering a start-up culture; and empowering digital change, are all essential ingredients to transform a more traditional insurance business.

Insurers that recognise and grasp the opportunity that “digital” can bring to its business will be the ones that successfully transform their interaction with customers and increase market share in a digitally evolving world.



RE-THINKING TRADITIONAL MODELS

Technological change is now reaching unprecedented levels, with many labelling “Digital Transformation” as the next industrial revolution. This brings with it dramatic challenges to traditional business models, and the Insurance industry (having until recently lagged behind more innovative sectors such as Retail and Banking) is clearly ripe for disruption.

Many organisations are finding an “innovation gap”, which is hampering their ability to produce innovative solutions that are relevant to their core business, and to go to market in time to deal with shifts in interests.

Following the example of technology companies and other corporates who use corporate venture capital to invest in digital and tech savvy start-ups, many large Insurers are now creating their own strategic corporate venture funds to address the innovation gap. Aviva, Munich Re and Allianz have all recently set up significant venture funds to invest in early stage technology companies which will help keep them abreast of innovation and drive their digital agenda, while potentially adding complementary services to the verticals they insure. Insurers have entered the market with a bang; CB Insights reported that by November 2015 start-up investments by Insurers were up 43% compared to 2014, and a 725% increase from 2013’s figures with even stronger growth predicted for 2016/2017.

Another key area driven by changes in technology, which presents a unique opportunity for Insurers, is the ‘internet of things’ (IOT) phenomenon. With the widespread availability of low cost and ubiquitous connectivity (especially wi-fi) and the decrease in cost of hardware, (such as sensors and iBeacons) a whole raft of ‘things’ are now internet connected devices. This ranges from more familiar consumer products like the ‘Fitbit’ delivering data to the user on personal activity levels, to large scale manufacturing enterprises using connected sensors in their “smart” manufacturing processes. Such technology

can provide data and enable consumers and businesses to manage outputs, optimise assets and create greater efficiencies.

For Insurers, connected user data could prove invaluable when selling their products and services. As fitness monitoring devices become more sophisticated, they could provide data to Insurers on users’ overall health habits. This in turn may provide a better picture to the Insurer of premiums to charge for life or health insurance, compared with the normal questionnaire which only provides an infrequent glimpse of the insured. One such recent example on the forms on IOT is the venture investment made by Aviva Ventures in Cocoon; a next generation smart home security device which detects noises and movement at levels which human ears cannot. In time, the device learns to distinguish between ‘normal’ noises in the house and those which are of concern. A better understanding of the house could provide more accurate analysis of the home to derive more comprehensive insurance packages. The benefits of connected devices are not only limited to consumer products; business machinery which is connected can alert the manufacturer when “at risk” of malfunctioning, thus reducing risks to employees by providing both business and Insurer with a comprehensive view of the enterprise and enabling better risk management. It is clear insurance companies need to be directing spend towards technology in order to stay ahead of the curve; corporate venturing provides an opportunity to leverage and bring new technologies and know-how in-house to help achieve this.



The technological shift also provides increased competition for Insurers, as companies with a strong online presence can challenge the traditional insurance players and utilise their Big Data processing capabilities, extensive customer base and significant brand presence to potentially move into the insurance space. This means that technology, retail, e-commerce and non-banking financial institutions can (and do) enter the market, offering insurance services to their customers, and we see this as an area where there will be continued growth. However, this shift is not without its challenges, and these new entrants will need to navigate the myriad of regulatory issues and ensure they are operating to internationally accepted standards to be successful and sustainable.

Insurance companies and start-ups in the Insurance Sector are increasingly using alternate business models to capitalise and react to the exponential growth we have seen in terms of number of internet and mobile users and the advent of technological change. Insurance companies are moving their business to an online and mobile business model. We are also seeing all manner of new market entrants disrupting and dramatically changing the traditional way of purchasing insurance, and how their

customers engage with their services and interact with them, such as the growth of peer to peer insurance, with new players emerging in this space like Lemonade in the US and Bought By Many in the UK.

As insurance companies develop their online presence and evolve their business model to tap into the billions of online users, they are also turning their attention to those current non-customers by investing in Microinsurance. Microinsurance policies are being offered to protect low-income households against risks such as death in the family, crop failures and sickness. An estimated 263 million people worldwide are now covered by Microinsurance, predominantly in Latin America, Asia and Africa. Microinsurance requires significant initial capital investment, and with small premiums Insurers face the challenge of reaching the required scale to enable a good distribution of risk. However many large insurance companies are eager to be involved in this space including Munich Re, who through its foundation has set itself the target of making a contribution to the goal of eradicating poverty, and Zurich who has established a Microinsurance Practice embedded in the business at the Group level to fund various Microinsurance projects.



MACHINE LEARNING AND ADVANCED ANALYTICS

BIG DATA

With the emergence of increasingly sophisticated technology, the ability to capture – and extract value from – data is rising. 'Big Data' involves using large amounts of data, often including individuals' "personal data", from a variety of sources, to demonstrate patterns of behaviour and provide insights which can inform the development of new products and services. The nature and extent of the data means it can be difficult to process it using traditional database and software techniques, but with the value of Big Data ever growing, new technologies such as machine learning or artificial intelligence (AI), that provide effective analysis, are in demand. Machine learning, a method of data analysis specifically designed for Big Data, uses algorithms to learn from data. It looks for patterns to produce reliable decisions, predictions and results on a vast scale.

Machine learning can provide analysis of data as soon as it is recorded. For example, this could include up-to-date information to assist with fraud identification. It can identify opportunities for subrogation, shorten claims cycle times, improve forecasting of claims and calculation of loss reserves, and can help predict which claims are most likely to result in litigation. These benefits can transform customer relationships and can deliver potentially significant cost savings for insurance companies.

Machine learning can also be an effective tool in overcoming internal silos. Organisations often face obstacles when trying to extract value from data, due to the way the data has been stored or the basis on which it has been obtained.

Many Insurers collect large amounts of unchecked data, and consequently do not have adequate oversight of what data is held by, or coming into, their organisations. Data may be held by different entities or departments, and have been obtained subject to different consents or notifications. As a result, although Insurers are keen to extract value from the data they hold, they do not know where their most valuable data is stored or on what basis it was collected. Machine learning can be used to break down internal silos by analysing a range of data sources and types and forms on the executable data.

IMPACT OF DATA PROTECTION/PRIVACY LAWS

As the volume and variety of data for analysis increases, so do the difficulties and challenges associated with the use of Big Data. Although not all Big Data analysis involves personal data, a large part of Big Data operations often rely on the extensive processing of such data. Globally, legislators have sought to keep up with changing technology by introducing a range of laws and regulations restricting the use of Big Data.

For example, in the Asian insurance market, Insurers are embracing insurtech – opening innovation hubs and launching initiatives including: online health and wearables programmes aimed at life insurance policy holders; collaborating with car manufacturers to make available "one-click", one-time motor policies for connected cars; and generally looking towards more direct online engagement with policy holders in place of the traditional agency model.



In China we have even seen schemes allowing family members to top up a policy holder's cover via popular social media payment platforms. At the same time, cybersecurity is a growing risk and an area of heightened regulatory focus. New and updated guidance has been published by regulators around the Asia region. In light of these combined developments, Insurers' compliance and risk teams in Asia are advised not only to focus on the immediate cybersecurity compliance obligations arising from the latest regulations, but also to ensure that cybersecurity compliance programmes are developed to take into account increasing reliance on technology and data at the core of an Insurer's operations.

Within the European Union, the processing of personal data within Big Data strategies is governed by the EU legal framework that provides individuals with specific rights, which are often held to be incompatible with Big Data operations. For example European Directive 95/46/EC ("**Data Protection Directive**") requires that data controllers, which will include Insurers who process Big Data using machine learning, collect personal data only for "specified, explicit and legitimate purposes" and require that personal data must be "adequate, relevant and not excessive" in relation to the purposes for which they are collected and/or further processed. However, Big Data analytics usually involves collecting the maximum amount of data from the largest number of data sources, and then repurposing such data for other uses.

The EU Parliament has recently adopted the General Data Protection Regulation ("**GDPR**"), a landmark set of reforms that will significantly alter the way companies and individuals manage their data. The GDPR will replace the Data Protection Directive and will apply automatically in all member states. Organisations subject to the GDPR will have until 25 May 2018 to prepare themselves for compliance and many Insurance companies are already starting to build and deliver their compliance strategy to be ready for GDPR.

One of the key changes under the proposed regulation are the stricter conditions for the use of data for "profiling" purposes, where "profiling" is broadly defined to cover many Big Data projects. Individuals will have a right not to be subject to a decision which is based solely on automated processing, and which produces legal effects concerning that individual. This is likely to include, for example, calculations of insurance premiums and analysis on how likely an individual is to make a claim on their car or health insurance. It could potentially also include automatic calculations of insurance premiums. Profiling based solely on sensitive data, such as

health data, is prohibited. Profiling based on pseudonymous data will be acceptable, provided the data cannot be linked to a specific individual.

The new GDPR requires a more active consent based model to support lawful processing of personal data; wherever consent is required for personal data to be processed, consent must be explicit, rather than implied. The GDPR will require organisations using information for data analytics to be able to demonstrate that the individual really understands, and is in agreement with, how their data are being used. This new requirement may prove difficult for Insurers and is likely to require a significant change to the way consent is currently obtained from customers and managed within insurance companies (including historic databases).

With the UK's recent decision to exit the European Union, the GDPR will no longer be directly applicable to Insurers in the UK (unless the Insurer is targeting EU citizens). However, it is clear that the UK is and, remains committed to, data protection compliance. The UK Information Commissioner's Office (ICO) has recently issued a statement indicating that it would wish to see equivalent laws in place to the GDPR in the UK, to provide the "adequacy" needed to support data transfers to the UK from the EU, and that the ICO will be recommending to the UK Government that reform of the law is needed given the growing digital economy. Whatever the resulting UK law may be, it is clear that some important changes will be introduced which will have an impact on the use of Big Data within the Insurance industry. Furthermore, it is unlikely that the UK will have fully exited the European Union by the date for compliance with the GDPR in May 2018.

With this changing compliance landscape, the sphere of Big Data is likely to continue to see an increase in regulation. However, this can also be seen as an opportunity for Insurers. Actively seeking solutions to ensure compliance with regulation will allow Insurers to not only build on innovative methods to monetise their customer data, but also ensure that the organisation maintains and builds trust with its customer base, which is hugely vulnerable in terms of customer ownership and ability to promote and cross-sell other products and services. Setting up the infrastructure and the data governance framework and policies to support the use of Big Data effectively can help drive the business forward and build a greater connection with customers and potential customers, particularly when using enhanced analytics and Big Data techniques.



FROM PEOPLE TO SOFTWARE

The dramatic shift in technological usage within insurance companies is throwing up various workforce issues as organisations struggle to adapt. We are witnessing ever greater pressures in managing internal capability and talent.

Self-service checkouts, drone parcel deliveries, and driverless cars illustrate the move from people to software, we are seeing across all industries. Customers now expect effective and efficient technology before, during, and after the purchase of goods and services. Although technology typically replaces people, customer service teams are increasingly expected to be as technologically savvy as the technology itself.

In the investments arena, robo-advisors can provide portfolio management advisory services online. Applying algorithms based on the investors' risk profiling, robo-advisors can place and manage investments, without any recourse to a human advisor. The "decisions" made by robo-advisors accounted for billions of dollars of investments in 2016 and this is expanding globally.

In the Insurance Sector, automisation and simplification of processes, such as servicing customers, sales, and dealing with applications and claims, means a reduced requirement for people.

Whatever the purpose and function of new technology, once it is ready for launch, employers in the Insurance Sector must consider the impact on the current workforce:

- Does the new technology impact on the number of employees required?
- What new skills are required in light of the new technology?
- Do existing employees have the requisite skill sets to work with the new technology?

A degree of restructuring is inevitable within the Insurance Sector; implementing these changes brings a range of challenges.

REDUNDANCIES

Insurance companies considering redundancies on an individual and collective basis will require formal processes, consulting employee representatives and in some cases trade unions so as to minimise the risk of claims and liabilities. Subject to the number and location of the applicable redundancies, these consultation processes may be required to run for set periods of time in particular

countries. Making redundancies will also generate a cost to the business, due to the need to make redundancy and notice payments. Flaws in the procedures may also encourage claims via Employment Tribunal, whether or not credible, which will need to be addressed.

Technology and the age of employees are a common tension. Experience and knowledge may be rendered obsolete by new technologies, meaning that older employees are first in line for redundancy selection. This must be approached with caution; an insurance company may risk age discrimination claims in certain countries if this is connected to the reason for their selection for redundancy.

Redundancy programmes will need to be carefully considered, mapped out, and effectively implemented by insurance companies effecting such technology change, so they can minimise the risk of fallout across their global footprint. Experienced HR teams with legal support will need to co-ordinate and lead what may be complex processes driven by digital change.

INTERNAL CAPABILITY AND TALENT MANAGEMENT

Restructuring is not limited to redundancies. Insurance companies may consider that the existing skillset of its workforce needs to be adapted to work with the new technology and enhance their digital offering. It may look to change or develop employees to up skill them. This may include changing working patterns as well as re-training.

Wholesale changes to working patterns will bring challenges for employees. The style and substance of an employee's role may change entirely. This creates opportunities as well as problems for employers, who must be careful in many countries not to make such changes without employees' engagement and consent. In some circumstances, formal processes to change terms and conditions may also be required.

HR teams will face a difficult task of managing the ensuing battle between man and machine when an Insurance company has decided to introduce new technology that is going to dramatically change its business model or disrupt its organisation. For this reason, the importance of HR should not be overlooked especially when considering the cultural impact of mixing machines and people in the Insurance Sector (considering the issues early) and helping you drive and succeed with your digital agenda.



HOW DIGITAL IS CHANGING THE REGULATORY LANDSCAPE

DOES REGULATION SUPPORT DIGITAL INNOVATION AND TRANSFORMATION IN THE INSURANCE INDUSTRY?

Regulatory compliance is a major challenge for innovators bringing “insuretech” or insurance focused fintech to market, and regulators in many countries have been taking steps to mitigate that challenge.

In the UK the FCA, which launched its Project Innovate in October 2014, has been seen as a front runner globally in helping to make the UK regulatory environment more friendly. Regulators elsewhere have shown varying levels of enthusiasm as they balance the need for a benign supervisory environment in which insuretech and fintech can develop and flourish, with the risks of a regulatory free for all.

WHAT ARE THE REGULATORY BARRIERS TO INNOVATION IN INSURETECH AND FINTECH?

- Establishing whether a particular activity is regulated, and identifying, interpreting and applying the rules, all of which represent formidable challenges.
- Outdated requirements, – significant amounts of financial services and insurance regulation is outdated and refers to concepts and terminology from the days of fax machines and floppy disks.
- The uncertainty, cost, and delay of authorisation and approval processes.
- Regulation in many countries imposes consumer protection rules on the sale of insurance products which are not suited to distribution in a fast moving digital environment.

- Data protection and privacy laws restrict how data can be used in an industry where marketing and successful underwriting is very dependent on understanding the customer’s individual features, and the risk he or she represents.


WHAT CAN BE DONE?

The FCA’s Project Innovate, and its Innovation Hub, has been underway since October 2014, and the FCA has been very clear that it wants to be seen as opening its doors to businesses that are developing innovative approaches that can benefit consumers. It sees supporting digital innovation as essential to furthering its statutory objective of promoting competition, and in this it is aligned with UK government policy to promote the digital sector.

The Innovation Hub provides those looking to develop new concepts with dedicated caseworkers, advice, and, where appropriate, guidance on specific regulatory issues. Crucially, it seeks to smooth the authorisation process for innovative businesses. This has led to lots of interest and innovation in this area; it helped 177 start-ups in its first year of operation, and rejected applications from 150 more that failed to meet its criteria.

REGULATORY SANDBOXES

In May this year, the FCA formally launched its “sandbox” as a safe space in which insuretech and/or fintech products can be trialled by unauthorised start-ups, and already authorised firms wanting to test concepts that do not fit easily within the existing regulatory framework. It is hoped it will lead to reduced time to market, better access to finance (by reducing regulatory uncertainty) and more products ultimately reaching the market. In the confines of the sandbox, firms can be authorised



subject to restrictions while they test their ideas. When the FCA is satisfied that full authorisation requirements are met, restrictions can be lifted. The FCA will use “no enforcement action” letters to provide individual guidance, and where it is able to do so may waive compliance with specific regulations.

Elsewhere, other Regulators are following the FCA’s lead to drive and encourage digital innovation and growth. In Australia, ASIC is also looking to establish a sandbox on a similar model, and it already has an innovation hub in place. ASIC also boasts of a significantly speedier authorisation process for new firms. ASIC will licence a new firm within 60 days of application; in the UK and other jurisdictions the process can take up to six months. The Singapore Monetary Authority (MAS) is also looking to develop a sandbox, and is generally seeking to help Singapore develop as an Asian insurtech and fintech hub.

Other regulators have been less sympathetic. BAFin in Germany, for example, has rejected calls for a German sandbox, and has emphasised that insurtech and fintech organisations operating in an area subject to mandatory authorisation must comply with the same regulations as established institutions.

AN INCREASING REGULATORY BURDEN- WILL WE SEE REFORM TO HELP INNOVATORS?

In many jurisdictions, regulators and governments are keen to see regulation reshaped to encourage innovation and growth of digital where this is possible. The FCA has said it will consider how legal requirements can be made more innovation friendly, and has sought input from stakeholders to identify rules or policies that currently create barriers.

In Europe, however, financial services regulation is largely decided at EU level, and in the European insurance sector the regulatory burden is continuing to increase, with the

recent implementation of Solvency II and the Insurance Distribution Directive (IDD) coming soon. Changes to the European data protection regime when the General Data Protection Regulation comes into force are likely to impact use of “Big Data” and profiling to support fintech solutions in the insurance sector.

There is currently relatively little that regulators and national governments within the EU can do, acting individually, to mitigate the impact of rules decided at European level. Elsewhere governments may be able to be more quickly to address specific regulations that are seen to hamper innovative insurtech or fintech. The UK electorate’s recent vote to leave the EU may mean that UK regulators and regulation may have scope to be more flexible in future (although much will depend on how negotiations for the UK’s departure from the EU unfold). Continuing EU countries see Brexit as an opportunity to draw tech sector business away from the UK to jurisdictions where they can be more sure of unrestricted access to a wider talent pool and membership of the European single market. This international competition may lead to EU regulation being reshaped and modernized, as countries seek to present themselves as “tech friendly” places to operate.

However, whatever detailed regulatory framework applies, regulators will continue to face the challenge of balancing encouragement of innovation with other objectives. Bob Ferguson, the FCA’s head of Project Innovate put it this way in a recent speech – *“being innovative is not some kind of universal solvent that does away with the need to observe requirements that are there to safeguard consumers or to safeguard the integrity of financial systems. Innovation is not a license to cut corners”*.



CONCLUSION

Digital transformation is now a critical business issue for the Insurance Sector and it is clear that Insurers are embracing this. They are addressing the core challenges of innovation, seeking new ways to optimise operations and processes while focusing on driving and implementing their digital strategies.

It is important for Insurers to maximise and build relationships and interactions with their clients and customers; and a Digital Transformation strategy is crucial in this approach to create smoother, more effective customer journeys, generate better customer retention and enhance the overall customer experience. Building trust with clients and customers while also being dynamic and leveraging your digital strategy is still a challenging area, but one that many are navigating well, and, subsequently, reaping the rewards of their business innovations. Big Data offers a wider range of opportunities to engage with customers and can help organisations to better understand those customers (and their habits) but this is still very much a developing area with regulatory headwinds such as GDPR potentially dramatically changing how such techniques can be used and implemented in practice. The fact that some regulators in particular countries do not seem to be keeping up to speed with the rapid rate of change and pervasiveness of Digital Transformation could potentially stifle innovation in the Insurance Sector in those countries which is concerning.

Creating a more scalable and agile business to increase profitability and shareholder value is also a key focus for many. Insurers are already adapting to this by creating new platforms to bring together different parts of the business, to create agile workforces via labs and hubs and

disrupting traditional business models. This area is ever evolving and agile working within the sector is starting to generate exciting results. How Insurers deliver services is also undergoing a major transformation with robo-advisers and automation of insurance processes now taking hold and major investment into online and mobile channels. New pioneering software to make current processes more efficient combined with greater pressure on costs within the Insurance Sector are likely to lead to a reduced headcount overall, although we are also seeing shortages of new “digital” skills. There is risk associated with adapting to such changes, but Insurers must continue this proactive approach to stay ahead of the curve.

To further embrace change and look to the future, Insurers are re-thinking traditional models. Innovative and dynamic solutions that have already been applied by some large Insurers include using corporate venture capital and creating strategic corporate venturing funds, taking advantage of the opportunities for Insurers via the ‘internet of things’, and using alternate business models (e.g. peer to peer insurance) to capitalise on growth of internet and mobile users. Those Insurers that are implementing these new models are already gaining vital traction in gaining market share, that will only expand as time and technologies develop.

It is a game changing time for the industry, and those organisations that can harness and leverage the Digital Transformation and disruption that we are seeing in the sector; while still navigating the legal, regulatory and commercial risks, will be the ones that best capitalise on the digital revolution taking place. It is certainly not a time to be staid or complacent.

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