Insurance news analysis

Video transcript

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Abbey Compton
Marketing Lead—Insurance, Accenture
Welcome to Accenture's Insurance News Analysis. I'm Abbey Compton. Joining me, as always, is Kenneth Saldanha, Accenture's Global Lead for insurance. Hello, Kenneth. How are you?

Kenneth Saldanha
Global Lead—Insurance, Accenture
Very well. Abbey, how are you?

Abbey
Great. And I'm delighted that we have with us today Aaron Davidson, Global Head of Insurance at ServiceNow. Aaron, thank you so much for coming on.

Aaron Davidson
Global Head of Insurance—ServiceNow
Yeah, thank you so much. I appreciate the time.

Abbey
So let's get into our first story. PC 360 told the story of how a bank executive's personal information and material nonpublic business data were retained in hardware resold from a total lost vehicle. With all the connectivity that cloud enables, how are insurers going to work with their ecosystem partners to protect their customer and employee data across all these devices and systems? Kenneth, let's start with you.

Kenneth

Yeah. I think this is a conundrum that we see in terms of convenience versus security across the board. It's certainly not uniquely an insurance issue. It's one we face everywhere. I recall attending DEFCON with my son, who was in I.T. Security three or four years ago and sweating profusely as one of the talks talked about how when someone downloads their contacts to a rental car over Bluetooth, that gets retained. And so it's the kind of thing where you say it's very easy to do and it makes your life very much easier for the few days you have the rental car. But have you already stripped away the data once you actually return that car right? So but this tradeoff of the convenience versus the security is one that will, I think, continue to be a big issue for us in insurance, as it will for every industry. And I think in insurance in particular, given that we actually have the very regulated viewpoint on data privacy, on what our responsibility around that is, it'll be an elevated concern for insurers. I think, Aaron, as you look at the role that ServiceNow is playing and the expanded role that ServiceNow is playing in processing and moving workflows, I would assume that this is something that you spend a lot of time worrying about.

Aaron

It definitely is. And I think if you look back to kind of the beginning of, you know, back in the dot com boom, when essentially like if you weren't paying for something, you were the product, right? Your data was the product that was getting sold to other entities. I think what we've seen over the last couple of years has been a dramatic shift in how individuals think about personally identifiable information and how that information gets used. You're seeing regulation passed in the EU. You're seeing the rise of GDPR and CCPA and really thinking about how companies are responsible for protecting individual data. And it's important to note that that doesn't necessarily mean personally identifiable data in the sense of obvious things like, you know, for example, my name right there in Davidson or my address or my specific income or my specific family. But it's also things that are kind of implicitly looking at what is personally identifiable. So if you were to say within, say, the census area that I live in with a family of four, with two kids and two cars and a house of a certain square footage and an income range of whatever, and three dogs and certain other things you can actually back into things that are personally identifiable as well. And so I think about this as shifting away from the trend of what's been in the insurance industry for the last 15 years in big data and really thinking about it in the sense of smart data. So collecting the things that are needed and the things that are relevant, but not necessarily collecting everything and actually saying that there are some things that don't get you to a better answer. You don't necessarily get to a better price relative to the convenience that there is or asking for a longer application.

Kenneth

And I do think Aaron one of the interesting elements of that is that it also ties very much to what we hear from a customer experience perspective, which is the last thing that anyone wants to do is answer ten and 15 and 20 questions that don't have an immediate and clear link to what the issues are that they're trying to resolve. So there's also the added benefit of saying being responsible about the minimum amount of information that you're exchanging and flowing through your systems comes very often with that benefit where the customer doesn't feel like, you know, you're asking them a bunch of things that they don't really feel are relevant and are just expanding the process of making it more painful. So I think there's definitely an experience element that is accretive by saying, hey, we're going to work on just minimizing what information we need to gather and pass through our systems on our platforms.

Aaron
You're exactly right. I mean, think about what a change it was for the industry when by adding your address into an application, it could pull in all of your vehicle information about what's registered to that address. It all sits in government databases, and that's one of those areas you can't necessarily control what's actually stored in there. But, you know, not to have to go out to your car, to look up your Vin, to have to take a picture of it and then walk back to your computer and type in a really long number. That's been a huge improvement in the quality of how people apply for insurance. And so you're exactly right is what's that minimum needed, whether it's from pulling from other data sources; there's a bunch of data aggregators that are out there that are pulling non PII information that can be used for underwriting as well as trying to just really minimize and streamline the underwriting process.

I remember I think it was Insuria, one of their big, big, parts of their business model was trying to say what's the minimum amount of information necessary to be able to underwrite professional liability and say- how do you get all of the information ideally down to things like five questions and the five questions is predictive enough compared to the challenge of collecting 30 questions. They said customer experience is worth more than that incremental improvement; that I get in a regression fit by collecting that information. And so I think we are really moving into a new era of trying to say, how do I make this as easy as possible? How do I get our customers to 'yes' as easily as possible? And recognizing that more customers and better customers, especially those looking for convenience, can outweigh the granularity that you get by asking 20 or 30 questions on an application.

Abbey
So as insurers are looking at these complexities and trade offs, they still need to be sure they're offering customers the coverages they need. An insurance business reported on factors like inflation and supply chain disruption that are changing the risk landscape for middle market firms, and noted that many are struggling to understand their coverage needs. Aaron, are these challenges unique to middle market firms, and how do you see insurers evolving to help customers get the coverages that are right for them?

Aaron
Yeah, it's definitely not unique to just middle market. I was recently catching up with a former colleague of mine working at a very large personal lines insurer. They've said they've had to change their reserving methodology now for what was historically short tail risk because of things like supply chain disruption and inflation. The combination of those means that claims both close more slowly and to get replacement parts for a vehicle or a replacement vehicle or replacement things for a house, it actually costs more in six months or a year compared to what it used to be. So the combination of those two factors exacerbate each other and really turn it into a potentially very negative claims experience for many customers.

The other aspect of it too, is looking at things like coverage adequacy. So if you look back at the recent fires in Boulder, Colorado, in the last last year, about a third of individuals did not have adequate proper property limits for replacement costs. There's a variety of reasons for this. But if you look at the way that you think about, you know, insurance really is two parts. It's underwriting to be able to get to an appropriate price for risk. It's number two. It's the promise of paying if there's a claim. Well, a lot of these individuals, a third of them bought insurance with the expectation that their insurer was going to pay the full amount to replace their house. But unfortunately, because of replacement cost, increasing lumber costs, increasing labor costs, increasing this kind of perfect storm—a third of people didn't have adequate limits to be able to replace their house. That pretty much guarantees that they will have a terrible claims experience because there's no way to end that process with them actually getting a replacement for the house that got lost in a fire, a total loss. And so the way we think about this is how can we be proactive? Think about whether it's, let's say, for a workflow if you're starting in a claims area. One pain point is not having adequate limits. So how do you initiate an underwriting process or a servicing process to take up a request to say, do you have adequate coverage and limits? Does that need to get updated? And the real challenge is trying to figure out how do you do this in a way that doesn't feel like upselling?

Kenneth

I think, Abbey, on this one, two things that become really interesting. One is we've heard from all of our customer research a sharp decline in the willingness to pay for advice, right. And that customers, particularly those who are used to getting reviews and advice and suggestions off any of the social media platforms don't really see the point or don't see the value in paying for professional advice. And we have this dynamic playing out in the distribution of what could we sell direct to consumer through digital channels versus the traditional agent role. And what Aaron was describing very much is the balance conversation that doesn't feel like just a sales discussion that most people would say they had with their insurance agent. So I think we in an interesting place to say we do, you know, customers want and insurers need to move a lot of their servicing and discussions through digital channels. We have to do it in a way that still provides the advisory element of this framed again, as Aaron said, effectively enough.

Abbey

And one of your predictions for 2022 and Aaron mentioned workflow was a resetting of the underwriting workflow, largely because the underwriting operations and platforms cannot handle the volume and complexity of the data required. So is that reset playing out, as you predicted?

Kenneth

I think it is Abbey. I mean, if I listen to a lot of the conversations we've had with carriers and this topic of a need to reset the underwriting operation and the underwriting platform is very high on the list, right. In some ways, it's a great time to be writing insurance premium because it's the pricing of the market is relatively hard. There's certainly an elevated sense of risk associated with people having lived through the last few years. So there's a lot of interest and a lot of push in the market. At the same time, inflation's high, rates are high. So a lot of the risks that are being shopped in the market are not going to really end up moving from their current insurer, right. And so what you have is every carrier is facing a real decline in their funnel metrics of submission to quote and bind. And that's true for commercial. That's true on all of it. And so the way that actually I think carriers are absolutely saying we have to counteract that because we can't afford to run the underwriting funnel the way we run it today, it's just simply isn't feasible to take that increased amount of activity in the market, even though the end result of how much will actually move is really not that hot, right. And so I think we do see a lot more interest in automation and in triaging and data enrichment. So propensity models that say, should I in fact, bother to spend a lot of time on this submission? Because unless I actually have a good reason to believe that there's propensity to my appetite and propensity for me to win this risk, I don't want to spend that much time on it because I'm going to miss the opportunity to write that business where I have a higher likelihood of winning. And that's where I want to focus my underwriting capacity from an operations perspective, from a capital perspective, all of that.

Abbey

Well, in stark contrast to these areas in which there are huge volumes of data, there are lines of business like cyber insurance, where there's less to go on in terms of loss history and in order to accurately assess the risk. And how do you see insurers navigating these uncharted parts of the risk landscape?

Aaron

Yeah, so I love that you bring up about cyber insurance because that's where I started my career. I was a cyber and professional liability broker back in 2004 and 2005, so very much at the beginning of the of the cyber era. And I remember at the time, it felt a lot of the time as a broker, like insurers were just frankly kind of making up the price and trying to figure out what was willing to stick on the wall, what were insureds willing to buy. At the same time, there were far fewer breaches that were occurring. There were far lower number of cyber attacks. And so it was just a different environment than what you're seeing today. So I see this as really looking at this in two ways. One, right, the traditional view has been if you don't have adequate data, you need to move into things like stochastic Monte Carlo simulations and try to come up with it based on outside of parameters. It's a great starting point.

That said, I think that there's a next level of that which is actually coming up with iterative machine learning based models. So what that means is I'm not just going to build a model and set it and forget it, but especially because some things like cyber and professional liability and other areas with limited data often sit within the existing surplus space. You can dynamically update that price, right? And so these models, every time that a claim comes in, every time that a new file is underwritten, you can actually update your pricing methodology based on the information that you have. Right. It's essentially looking at sort of Bayesian methodology of saying, well, I know what I know today, but I got more information, so I'm going to update that. And then tomorrow I learn new information. So I'm going to update again. And then a day after that, I also learn new information. So I'm going to continue to update my pricing models and buy my claims models accordingly. There is a second approach to this though that is actually trying to identify data that you may not have seen before. So it's things like, let's say, data that sits within email. And this is an area that right back to that smart data, not big data approach of really saying what are the useful sources of information and how do I capture it. This is probably one of my favorite features actually at ServiceNow is something we call email to case. And so what it means is if an email comes in, it can automatically generate a case on the ServiceNow platform around underwriting, claim, servicing, whatever the application is. So the point of it is thinking about new ways of automatically collecting structured data without asking people to put information into other applications, and then trying to analyze that data to see if there are emerging patterns to be able to more accurately assess risk.

Kenneth

And the one thing I would add to that also is the notion of just fundamentally changing the product itself, which is what we see happening on things like all of the parametric offers that we saw starting to come up, particularly through the pandemic, the event cancelation being the one that really caught everyone's eye. In the news Abbey, I think we talked about, you know, the Wimbledon cancelation that was one of the most public kind of parametric products. Right. So I think what you're describing is what are the new AI and machine learning powered algorithms we can use to still do risk modeling and pricing? One of the other alternatives that we do see carriers moving towards is simply to say it's parametric. We're not going to try to price the service, simply going to say we have a known trigger event and we're going to pay out a certain fixed dollar amount, which while it doesn't take away the need to have some sort of prediction around what was your likelihood of loss, it suddenly takes out some of the modeling of exactly what is that loss going to be because it's a defined product upfront. So I do think along with the pricing methodologies that you're describing, there's also this to shift the product into, you know, a simpler parametric offer.

Aaron

Yep. Exactly.

Abbey
So Kenneth, we've talked a lot about a lot of these things and how the risk landscape is evolving. How do you see the pace of change in helping customers manage risk in real time?

Kenneth
I think it's actually very, I think it's fast and it's accelerating. And I think if you look at the personal line side and you look at the amount of, whether it's on the, you know, simple telematics discussion about I want to be on the usage and behavior based products for my driving. You start looking at all of our Inland Marine and commercial property sensors and all of that is feeding into, I think, a growing recognition by the insurers that traditional products and offerings are not going to be what keeps them central to the value chain. This is our, you know, compressive disruption issue that the industry stressed for a long time. If you're really going to stay with traditional products and services, you become the commoditized source of capital. So I think as I look at the industry, I think I see a lot of the personal and commercial and specialty lines carriers really starting to shift because the consumers are demanding it, the customers are demanding it. And for them to continue to be relevant in the value chain as opposed to just offering up traditional products, I think carriers are shifting. So I think we're going to continue to see this expand and accelerate. I think we're going to see in particular expansions around the health convergence point. We're going to see expansions around the embedded offers. So you don't need to buy insurance, you just buy your car and the insurance comes with it as the simplest example of that. So I think I feel like the industry has moved dramatically on moving towards this risk mitigation, ongoing sensor driven viewpoint of risk. I think we're going to see continued acceleration on topics like health, like embedded and offers that continue to make insurance more of a simple and ongoing engagement versus a once in a year approach.

Abbey
That sounds great. So I want to thank you both for your time and all of your insights today. Aaron, such a pleasure to have you on. Thank you for joining us.

Aaron
Thank you.

Abbey
And Kenneth, great to talk to you as always and hear your perspective on the industry.

Kenneth
Thanks, Abbey. Thanks Aaron.