Fostering innovation in insurance

Exploring the potential of Insurtech

November 2023

Kennedys

Contents

Foreword

Technology and innovation play a significant role in driving transformative change and – with the right policies in place - shaping the global economy.

The insurance and legal industries have been relatively slow to adopt innovative technologies. However, the latest advances in artificial intelligence and related innovations have signalled the need to embrace digital transformation with increasing urgency.

Insurance has been an essential part of the global economy for centuries. It enables mitigation of losses, financial stability and promotes trade and commerce activities that underpin sustainable economic growth and development. However, businesses today face more challenges and complexity than ever before. Attracting and retaining customers in today's competitive and ever-changing environment means that insurers – like all businesses – need to be agile in order to survive.

Innovators in the insurance industry must now anticipate threats with ever-greater acuity. They are required to keep up with changing customer expectations and offer new preventative solutions to evolving and emerging risk; rather than just merely offering and repeating cover for historic types of loss.

To maximise impact, innovation in insurance needs to remain customer focused. It requires a bold and curious mindset to find and address unmet needs and untapped markets in order to continue to protect society and business; and to do so at pace. Insurance innovation needs to be achieved by ensuring authenticity to the innovating organisation, whilst continuing to horizon scan for emerging and future risks.

Other challenges exist alongside those requirements. Insurers must manage any friction caused between new growth, alongside managing legacy systems that are typically complex and expensive to maintain due to outdated technology. In particular, data silos created through legacy systems pose a risk to growth and that picture is compounded by a shrinking pool of developers who are skilled in such systems. In addition, the highly regulated nature of the insurance sector places considerable compliance pressure on firms with regard to the digital age. By comparison, start-ups entering the Insurtech market are not always subject to the same regulatory oversight.

Together, these pressures add further eddies for the innovator to plot courses around: *How can insurance providers innovate effectively, and execute dynamically? How can they maximise potential and reach a stage of sustainable growth alongside sustained value generation?*

Similar and growing anxieties also exist among global regulators who are watching a world changing so quickly before their eyes. *With the rapid pace of evolving technologies and the promise of new capabilities, how can the innovator negotiate pending regulatory reactions?*

Overall, the insurance industry is at a pivotal moment. The last decade has seen technological growth and change across all sectors, and the insurance sector is experiencing its own rapid evolution. The shape this evolution takes can only be decided by individual insurance businesses re-aligning their strategic priorities to create their own innovative solutions. Looking forward, the insurance ecosystem will be re-shaped and innovation will be vital to securing success; transforming claims handling and the underwriting process.

Richard West
Partner and Global Head of Client Innovation, Kennedys
t +44 20 7667 9166
e richard.west@kennedyslaw.com

Executive summary

Fostering innovation within the insurance industry requires an increasingly strategic approach. **Traditional businesses are increasingly appreciating the organisational-wide impact that innovation can have at multiple points across the insurance supply chain**, so choosing which innovations to adopt and when to implement is becoming critical.

Levelling the playing field

Innovation in the insurance industry is starting from different baselines globally. Understanding this variation in the maturity of the market, and the regulatory and policy landscape, will shape how businesses are able to innovate across different countries.

Market growth

For those markets that have been traditionally under-insured, innovation is bringing new insurance products to those that previously could not access insurance, such as in Latin America.

Expansion into new lines

Innovations to the insurance industry over the last decade have been ad hoc, predominantly targeting high volume product lines at different stages in the insurance supply chain. Taking time to review holistically what the potential learnings and applications are for other product lines could help improve chances of success in implementing successful innovations.

A balancing act

While innovation in insurance is providing new solutions, it is also creating new challenges for regulators. Regulators globally are trying to strike the balance between ensuring adequate safeguards are in place to effectively protect the customer while not stifling the market appetite for enabling new innovations.

Customer first

Questions are increasingly being asked about what the motivation around future innovation in the insurance industry is. In the UK at least, businesses will now be challenged by the regulator to demonstrate how innovation is supporting improved customer outcomes.

Attracting talent

Finally, while the prospect of innovation remains enticing, it requires the right skillset to be successfully implemented at scale. For the insurance industry, the ability to attract and retain the right talent poses a real threat to being able to deliver on the promise of innovation.

Calls to action

For insurers

Invest in innovation

Review and adopt successful innovations, and apply these laterally across insurance lines and markets, as and when they are successfully implemented.

Adopt a customer-centric approach

Increasingly demonstrate what value innovation is bringing to the insurance industry, in particular the positive impact it can create for the end customer.

Cultivate digital talent

Ensure that the insurance industry remains an attractive sector to work in for securing the talent needed to continue to innovate.

Collaborate and build industry partnerships

Proactively work with the regulators to encourage the adoption of regulatory frameworks that support ethical design and use of generative AI capabilities.

Adopt an innovation mindset

Foster a culture of creativity and innovation that is continuous and integrated with business aims. This requires a change in how leadership engages with employees, and not just the introduction of new tools or processes.

For regulators

Build partnerships

Listen and collaborate with industry about the future direction of innovation, and likely implications for future regulatory regimes.

Adopt an outcome-focused mindset

Recognise that a robust, but principles-based approach to regulation is required that is technology agnostic and allows for the adoption of successful innovation.

Customer safety

Continue to champion the importance of protecting the end-customer through the innovation process, and where appropriate, challenging the motivation behind some innovations.

Methodology note

H/Advisors Cicero conducted proprietary research on behalf of Kennedys, exploring the changing insurance market globally and the role innovation plays. This included: an online survey of 4,681 consumers across nine markets globally (Australia, Brazil, China, France, India, Singapore, South Africa, United Kingdom, United States) between May and June 2023, and a series of in-depth interviews with both Kennedys partners globally, and key stakeholders within the insurance market.

“Insurtech” is the term being used to describe the new technologies with the potential to bring innovation to the insurance sector and impact the regulatory practices of insurance markets. This report examines how Insurtech is reshaping the insurance industry, bringing with it both technological advancements but also new risks. It also provides insight on global consumer perceptions on receptiveness to innovation and explains the challenges that regulators are facing globally in adapting their approach to regulating innovation.

Maturing and emerging markets for insurance innovation

Revolutionising the insurance industry

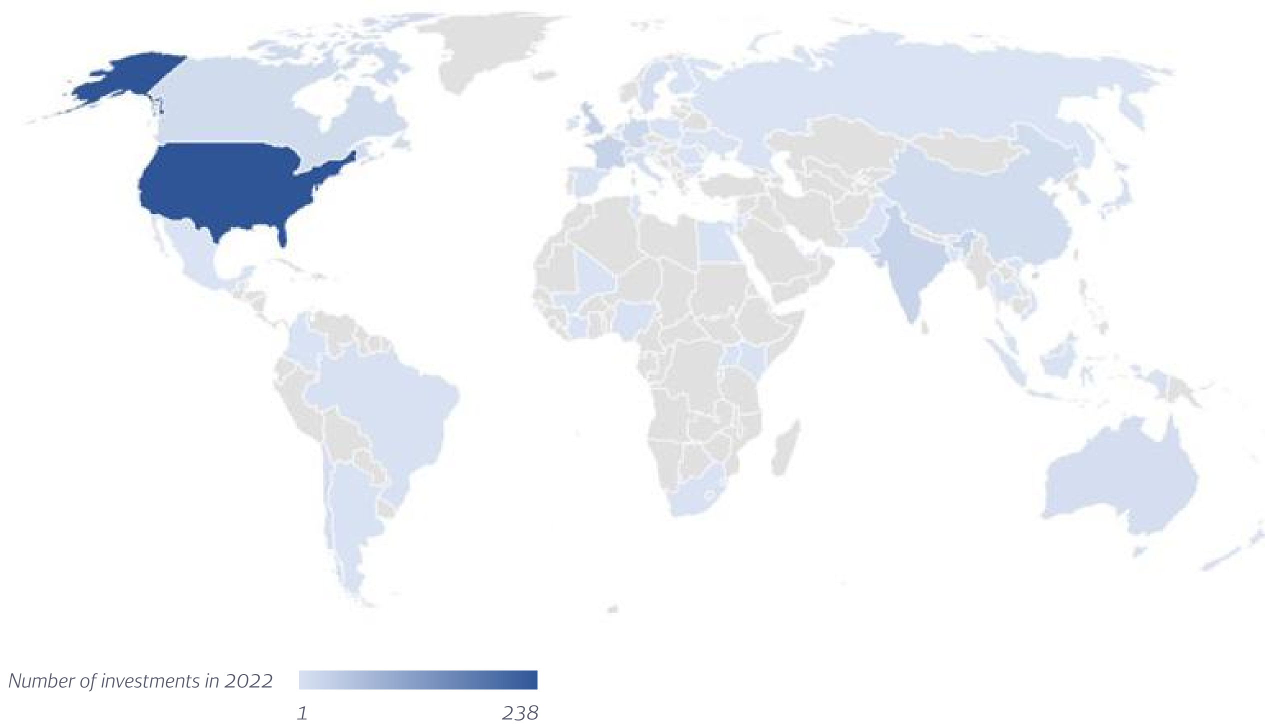
While the phrase 'Insurtech' has been a useful catch-all term to generate communications around the sector for the last decade, it has also **created an oversimplification of understanding in what is happening within the market**. In reality, innovations are being developed across the insurance supply chain, and for different product areas.

Over the last decade, the insurance sector has seen unprecedented investment that aims to streamline the insurance value chain. In 2022 alone, $7.9 billion was invested across 521 deals completed globally, while almost $50 billion has been invested globally since 2012.[1]

2022 saw the number of countries seeing growth in the insurance technologies sector expand. While, perhaps unsurprisingly, we saw the greatest number of deals in the United States (238), there have been deals in as many as 56 markets globally, including South Korea (8), Spain (5) and El Salvador (1)[2] to name just a few.

In 2023, innovations in the insurance sector continue, although investments and deal volume has declined since the heights of 2021-22. In the established markets of the US and UK, investments have dropped off as the market for insurance innovations has begun to mature. In emerging markets, previously with low insurance penetration, such as Chile and Brazil, we see a rise in demand for insurance products and more optimism and openness towards innovations in the insurance sector.

Figure 1: *A global map of "InsurTech" deals in 2022.*



© Australian Bureau of Statistics, GeoNames, Microsoft, Navinfo, OpenStreetMap, TomTom, Zenrin

[1+2] Gallagher RE Global Insurtech report for Q4 2022, *February 2023*

2022-23 has seen a changing narrative around how investments are made into the insurance technologies sector. Increased interest rates have seen investors become more cautious with the innovations they choose to invest in. This has put a spotlight on the short to medium-term profitability of the Insurtech start-up, placing the onus on the innovator to demonstrate their value and scalability.

> In the last 10 years, there has been so much excitement about doing things differently. When you look at what's happening commercially, things aren't actually all that different. Businesses are still selling their products, just in a slightly different way. For that reason, investors are putting the brakes on funding: what is your product, is it scalable?
>
> **Matthew Poli**
> Partner, Kennedys

The businesses that are thought to be most likely to succeed are the ones that focus on complementing existing incumbent offers, bringing innovations that can offer scalable value. However, the reduction of investment sizes may be seen by some larger insurers as a welcome opportunity. Managed correctly, this will give industry – both incumbents and new entrants – the chance to fully adopt existing innovations and to transform processes to become quicker, more accurate, more cost effective and, ultimately, lead to better customer outcomes.

The result of this extensive M&A activity over the previous decade is greater consolidation within the insurance technologies sector. For incumbent insurers in more mature markets, this last decade of disruption has served as the realisation that they too will need to adapt their legacy models to incorporate the capabilities of new technologies. This is driven not simply by the potential threat posed by new entrants into the industry, but also by the more sophisticated and data-driven approach that is enabling firms to better track and monitor emerging risks.

However, re-engineering these new data-driven approaches onto legacy systems continues to be a cause of friction. This is only being exacerbated by the varying maturity of regulatory regimes towards new innovation globally, with different jurisdictions reacting at different paces.

The consolidation of the insurance market has also given space to allow a rise in the number of Managing General Agents (MGAs) operating within the insurance sector. These MGAs are focused on niche products and use innovative data collecting approaches to carve out their own space within the market.

We spoke with the Head of Insurance at Parysl, a U.S. MGA company founded in 2017, that offers B2B insurance coverage for cargo ships couriering perishable goods.

Case study

> By breaking commodities down to their inherent properties, we understand how they need to be shipped and stored and what their potential exposures are as they move through the supply chain.
>
> **Gavin Spencer**, Chief Insurance Officer, Parsyl

"The company was founded on the belief that you should have confidence in what you're sending, that it is going to arrive in the manner that you intended to, and that data can prove it." Spencer acknowledges that Parsyl didn't start off with the intention to grow into an insurance business. However, it quickly realised that through its hardware used to monitor cargo, it was collecting data that held a unique value across the insurance value chain. Those already in the insurance industry also recognised the novelty of Parsyl's offer to the market, which is why the company was invited to participate in the inaugural Lloyd's Lab back in 2018. Parsyl is now a market leader, having just launched the Essential Consortium which is the first consortium at Lloyd's to focus on perishable goods.

Capturing supply chain data and integrating it with underwriting has enabled Parsyl to cover risks that were previously seen as challenging to insure, such as blueberries which only have a four-week cycle. "We are one of the world's largest insurers of blueberries, but before we ever insured a blueberry shipment, we captured data from 25,000 shipments of blueberries. We inherently know the value and shelf-life of the commodity as we have data scientists as part of our staff. By breaking commodities down to their inherent properties, we understand how they need to be shipped and stored and what their potential exposures are as they move through the supply chain." Parysl uses this same technology to monitor vaccines and medicines and notably has expertise in monitoring vaccines in developing countries where supply chains are especially challenging.

A large part of Parsyl's success has been to create and develop its own data platform, leveraging data from its own devices and integrating it with other sources such as telematics, equipment data, shipping routes and more, to capture the full picture of risk and bring clarity to the claims process. By automatically offloading data from its devices, Parsyl can often reduce losses and mitigate claims by collecting an objective analysis of what happened to cargo whilst moving through the supply chain Parysl decided to take the development of its hardware in-house as they recognised the value in creating a device that was affordable and easy to use. "This is about making technology cheap and ubiquitous because it's the right thing to do, because that empowers the collection and sharing of data. In terms of price, a key piece of our hardware costs $12 for one. It costs less if you buy more. The next nearest rival costs over $50. It's about what we can do with the data, not about the device itself."

Spencer explains the value in what the device can deliver, with the example of a container of pasteurised crab that got stuck in the Chesapeake Bay, arriving to port 103 days late. Using one of Parsyl's devices, the client was able to demonstrate to the FDA that the goods were fine for sale and were allowed to be released into the supply chain. "Out of the 70 containers on board that vessel, this was the only one which had one of these devices and was the only one that was allowed to continue its journey to the customer. For us as an insurance company, it saved $350,000 and most importantly we have not wasted $350,000 worth of food that just gets dumped into landfills." Because the client was monitoring its shipments, Parsyl was then able to extend a reduced premium come renewal time.

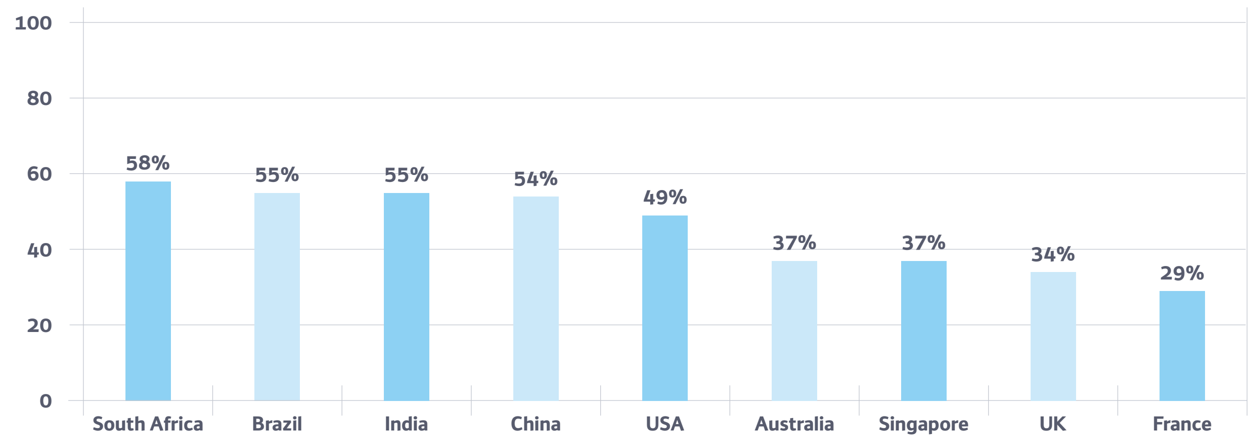
For Parysl, being able to prevent wastage like this links to their wider mission as a business, to create a more efficient and sustainable supply chain and ensure people can trust the quality of essential goods, no matter where they live.

Spencer recognises that, deployed effectively, insurance can be a source for social good. "We need to embody the change that we want to see, and for us that means incentivizing behaviours that strengthen supply chains. If we can continue to help clients reduce their own risk, and build better infrastructure that supports that process, we will demonstrate to the wider insurance industry what is possible."

Emerging markets: Green shoots of growth

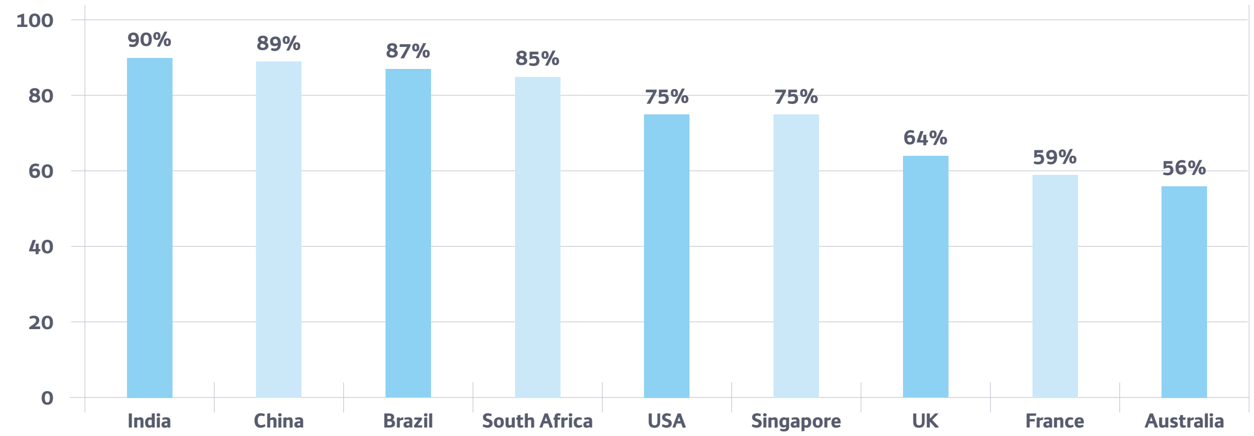
The insurance technologies market is expanding in regions across the world with the potential to reach new customer bases. We conducted a global survey to find the markets that are the keenest in adapting innovations in their domestic insurance sectors. So long as a firm has sound insight into potential legal risks and the evolving regulatory landscape, our findings present an opportunity for firms looking to expand globally.

Figure 2: *Percentage of respondents who noticed a "significant change" in the role of technology when buying insurance products.*

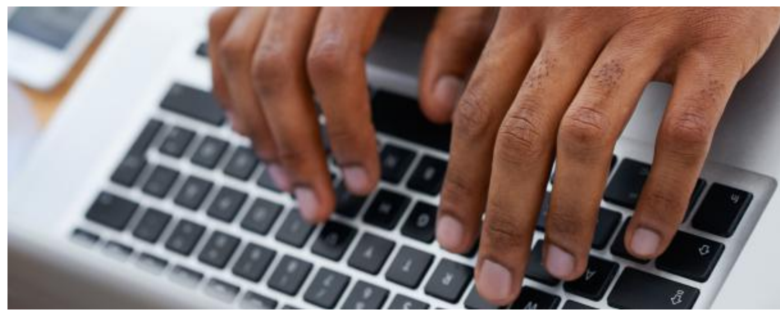


There is a noticeable difference in consumer perspectives regarding the usage of technology in emerging markets when compared to more mature markets. These perspectives underline where new growth phases are occurring for insurance firms that are experimenting with innovative techniques when selling insurance products. These same results were mirrored when we examined the change in consumer perspectives regarding the role of technology when using insurance products.

Figure 3: *Percentage of respondents that "positively" factor in a technology offering to enhance the customer experience of insurance products (when price is excluded).*



In Figure 3, we see the markets where consumers are more likely to factor in the use of technology when purchasing a policy. However, this is only if the technology enhances the customer's experience and that the alternative offers no additional usage of technological innovation. Here we see which markets have more demand for insurance technological innovations, and this correlates with Figure 2, showcasing the emerging markets in the global insurance technologies space.



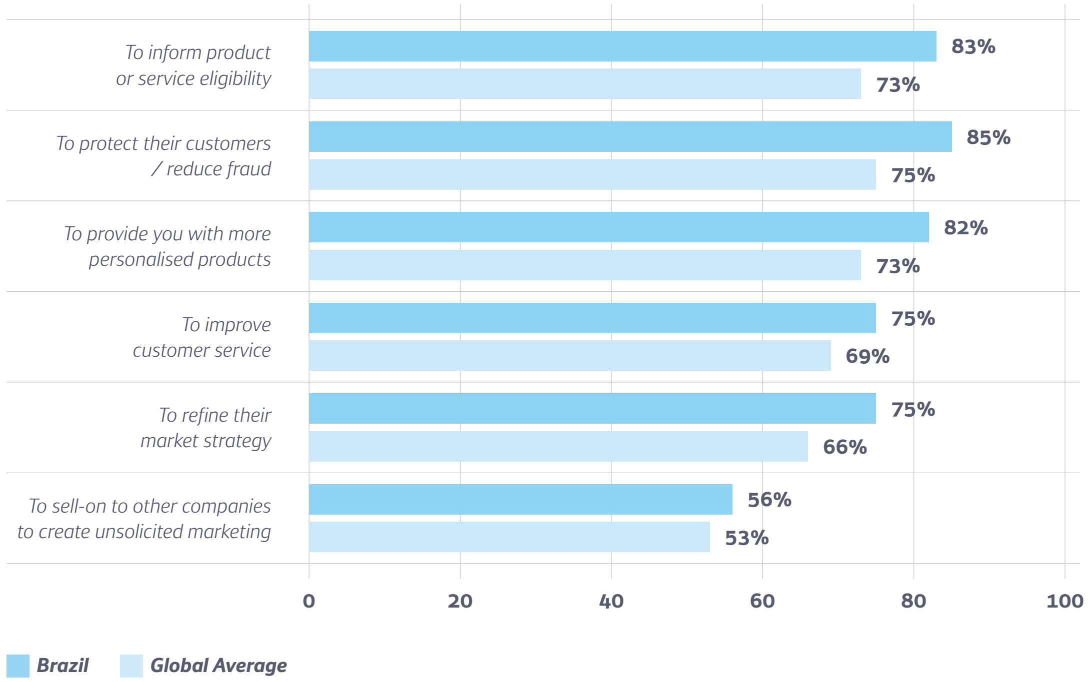
The case of LatAm

Insurance technologies start-ups are currently experiencing a boom in Latin America as the market size continues to expand. This expansion is through the increase of demand for insurance products among the public and a growing interest in non-traditional automated and data-driven forms of insurance.

In 2022, the LatAm Insurtech market grew by 29%, with 37% of all Insurtech firms choosing Brazil as a base to start-up.[3] This growth comes with a fresh wave of disruption as traditional insurers must contend with competition from new market entrants and the reaction from regulators. However, companies that offer data-driven insurance products in LatAm have managed to carve out their own space in the market as many are MGAs. As many as 56% of innovative insurance companies in LatAm offer services solutions for small or niche issues, compared to 33% of the entire insurance industry.[4]

In the case of Brazil, our research found that consumers are generally more comfortable with sharing their data to insurance firms than the global average. However, this differs depending on how their data is being used. In Figure 4, we see that insurance customers in Brazil are keen to see data-driven approaches for the protection of customers and fraud reduction, information about product and service eligibility, and to provide more personalised products.

Figure 4: *Percentage of respondents in Brazil that are comfortable with sharing their personal data to insurance firms for the following purposes compared to global average.*



[3+4] The Digital Insurer: The reality of Insurtech's in Brazil v the rest of Latin America, Jan 2023

Case study

// We're not yet there on Insurtech, but we are walking at pace.

Radoslav Depolo, Partner and Head of Commercial and Corporate - LatAm, Kennedys

For countries in the LatAm region, overall levels of insurance product penetration have been low. Beyond car insurance, consumers have previously not seen the need, nor been marketed to, about a wider range of insurance products.

However, in Depolo's view, and as part of the wider wave of FinTech innovations that are targeting a younger, digital-first population, that is quickly changing. "The industry is very growth orientated. The level of insurance penetration into the region is not that high – there's a lot of leeway. There's plenty of room to grow. Car insurance is quite popular, but all other areas of insurance are very green. Most of the start-ups are trying to fill that gap."

Partly, this has been enabled by new legislation within Chile, with the FinTech Act coming into law this year. The legislation and regulatory regimes being introduced have taken inspiration from what has worked, or rather what hasn't, by other global regulators in how they approach new forms of technological innovation. "Our traditional legislation has been highly stringent, but there is a new legislative wave on its way – not only in Chile, but in Brazil, Argentina and Mexico. Everybody's catching up to give a more flexible legal framework for Insurtech."

This has enabled digital-only products to launch into the market, which consumers in the region are welcoming and using. "We're not yet there, but we're walking fast at pace. We hope to be in a significantly enhanced Insurtech environment within the next five years."

While the region is currently seeing significant growth in the start-up environment, Depolo's view is that over time, the same market consolidation will start to occur as is currently being seen in other global jurisdictions. "Over the next five years we'll see a decrease in start-ups and a consolidation and integration of the one's that have survived. We'll have fewer players around, but they will be bigger players providing insurance products to more of the market."

The regulatory response to innovation

Regulating in a constantly evolving sector

As technology and innovation has been uprooting the insurance sector over the past decade, **regulators have increasingly found themselves on the backfoot playing catch up with the latest product developments**, and therefore regulatory implications.

> Insurance regulators are playing catch up in terms of the legal issues arising from technologies that have the potential to bring innovation to insurance. Those issues include concerns around data privacy, bias and discrimination, and have triggered several legislative and regulatory initiatives. While the EU is arguably leading the way through the EU AI Act; elsewhere, the approach is focused on providing principles and guidance, as in Singapore. However, some of those principles don't fit with some existing regulations which begs the question: how do you fit a square peg into a round hole?
>
> **Richard Bates**
> Partner, Kennedys

For some regulators, the initial response to innovation had been to try to continue to apply the same rule-based approach to new forms of technology. Regulators in several jurisdictions, such as Hong Kong, Singapore and Chile, have been looking to IAIS (International Association of Insurance Supervisors) as standard setters for how best to manage innovation in their own market. In IAIS' Roadmap for 2023-24 though, on the agenda of AI, only this year is their FinTech Forum exploring "the need for the IAIS to develop global guidance for the insurance sector".[5] This has led to a growing regulatory tension between what is possible from innovation and how it is currently being regulated.

As such, the regulatory regimes globally remain heterogenous in their approaches, with many waiting to see how the first mover will attempt to define a prudent regulatory regime that remains attractive to innovation.

For more mature insurance markets, such as the UK and US, the historically highly regulated environment around insurance products can make the reshaping of the regulatory system more challenging, than for those regimes which – often through resource constraint alone – have opted to take a lighter touch approach to regulation.

> At the recent Global AI Summit, it is noteworthy that the UK government indicted it does not plan to introduce legislation to regulate AI, notwithstanding the international context where the EU, US and China (amongst others) are already implementing regulation to address the risks of AI. Nevertheless it is encouraging that The Bletchley Declaration on AI safety - signed by 28 countries and the EU – advocates transparency, accountability and safety as the opportunities of AI innovation are taken.
>
> **Deborah Newberry**
> Corporate Affairs Director, Kennedys

[5] IAIS Roadmap 2023-2024, January 2023

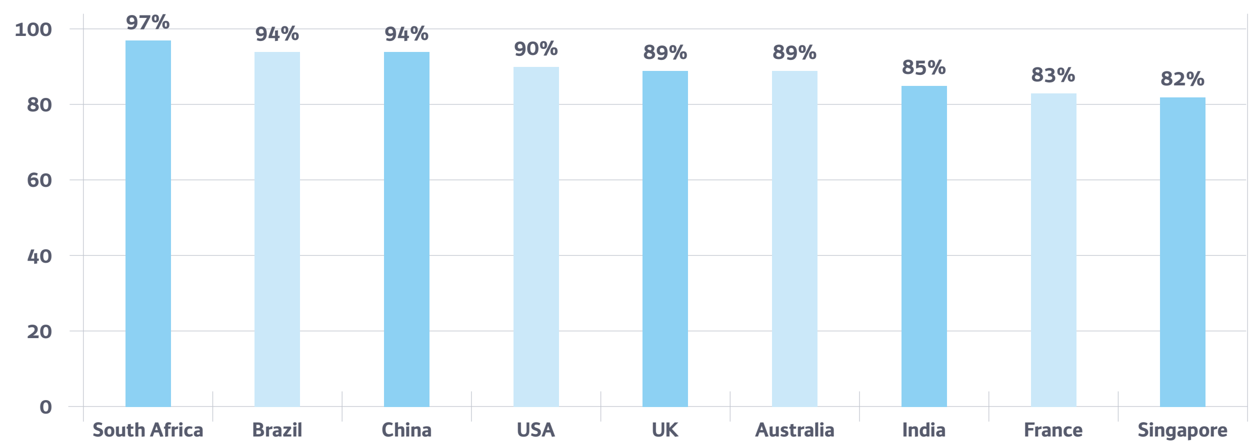
Finding that balance between ensuring regulation provides adequate protection to customers (particularly consumers and SMEs), while maintaining an attractive prospect for inward investment to encourage innovative start-ups and talent base, is increasingly an agenda issue that regulators must reconcile.

Of particular concern to regulators in 2023 is how they should regulate large language models and generative AI that are starting to be used to make decisions about insurance products, or financial services products generally. Our research showed that from a consumer perspective, having transparency around the claims process is a top consideration. Consumers want to have the ability to know why and how claims decisions have been made.

> There's no let-up in keeping pace with what's happening in the technology space in Singapore. Everything is in an anamorphous state. Things will have to settle down in order to come up with a set of globally recognised rules. We need to keep up in our reading and knowledge gathering in order to advise sensibly.

Matt Andrews
Regional Managing Partner - APAC, Kennedys

Figure 5: *Percentage of respondents say claims process transparency is "important" when buying an insurance policy.*



However, the increased use of AI in resolving claims poses a growing regulatory concern around transparency. In particular, where "black box" solutions are being used in lieu of claims handlers for decision-making, scrutinising this process is becoming both more complex and impenetrable for regulators. For example, there have been concerns raised that the underwriting decisions made by large language models can often perpetuate demographic stereotypes in evaluating risk, with the implication that protection gaps widen rather than shorten for vulnerable customers.

For those regulators that are increasingly prioritising products that focus on achieving good customer outcomes, such as the FCA in the UK, squaring how innovation supports these ends in a constructive way will be the focus for the years to come. We may see a period of over-regulation in this space, while regulators and policymakers gain knowledge and understanding of the technology, risks and opportunities. Much will come down to the political party of the day and the extent to which they want to be seen as pro-business.

UK Snapshot

FCA Consumer Duty impact on innovation

For those insurance firms based in the UK, the FCA's Consumer Duty – introduced last year and which came into force for new and existing products and services on 31 July 2023 – has had led to a fundamental reassessment of how insurance products are regulated.

The new Consumer Principle states that "a firm must act to deliver good outcomes for retail clients", with this being measured by four outcomes:

1. **Products and services**
2. **Price and value**
3. **Consumer understanding**
4. **Consumer support**

Furthermore, the scope of the Consumer Duty extends to suppliers and parties across the entire insurance supply chain, rather than just for the policy provider. As such, any technology-based partner organisations that are involved within the creation or distribution of insurance products, can expect to be covered in the scope of the new duty.

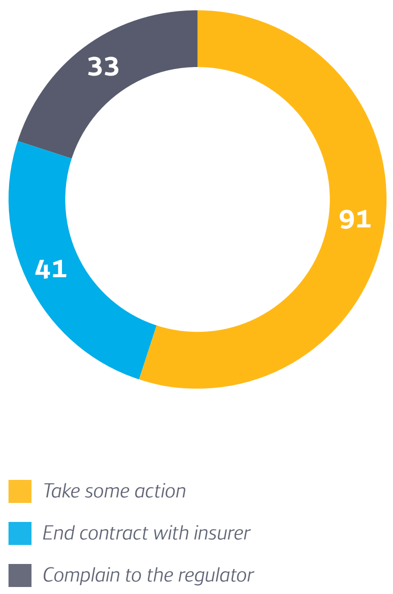
The new Duty is likely to steer where and how UK-based insurers look to develop products in the future. Firms will be required to demonstrate how they are delivering good outcomes for customers, rather than only meeting the needs of the business (e.g. through increasing operational efficiencies).

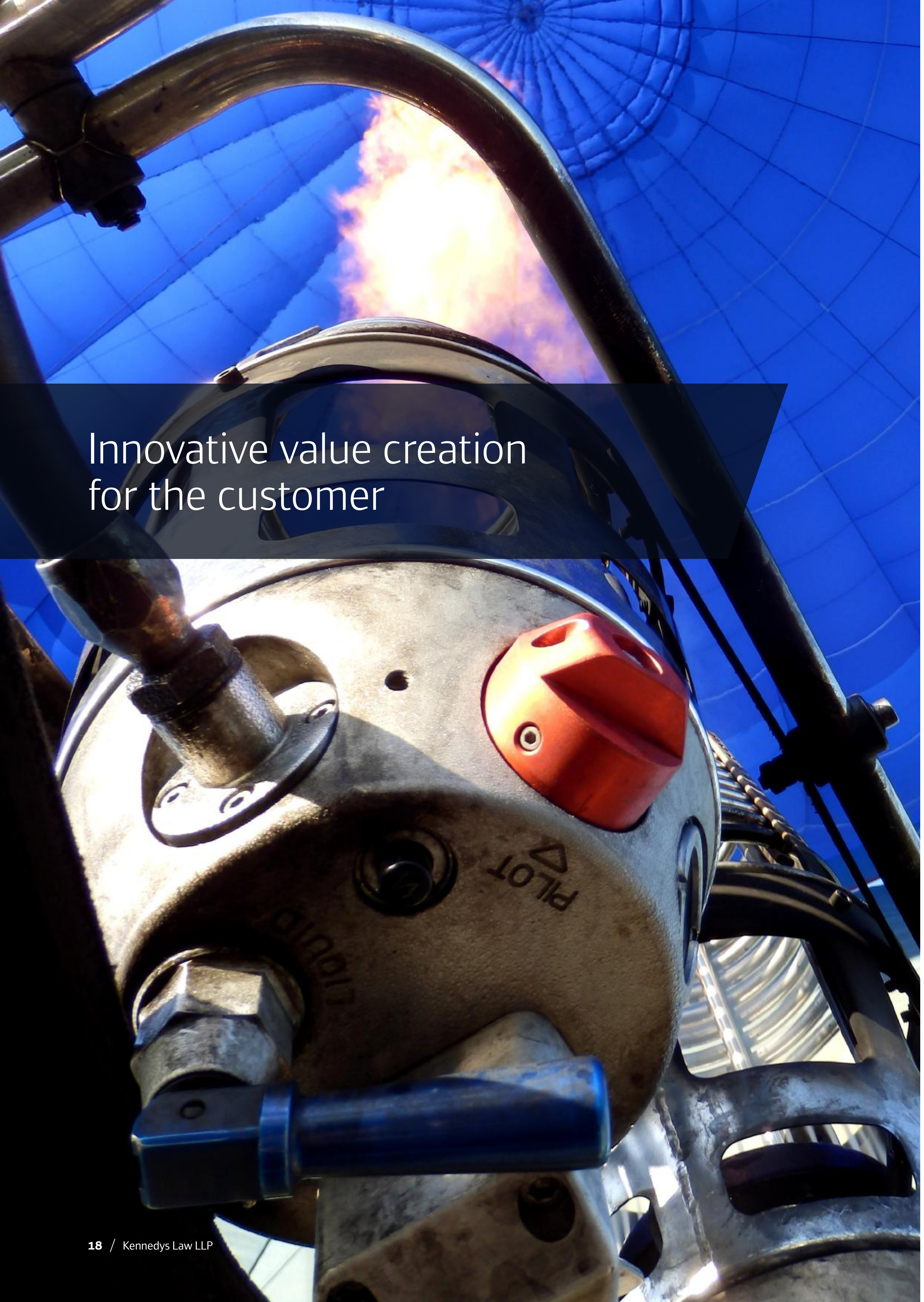
Consumers, though, have high expectation of regulators' design of their regulatory oversight. Use of data and data privacy is a pressure point in how consumers view insurance innovation. Where insurers are seen to have overstepped the mark, either in how they collect or share consumer data without being clear, our research showed that consumers are willing to act – with a significant minority threatening to turn to the regulator.

> At what point does innovation go so far, that regulation simply is no longer fit for purpose anymore? What motivation does the regulator have to go with pace of change and the innovation and try to make the regulation work to that new environment, rather than taking the easier approach of saying: We're going to stick with what we know.

Tobin Ashby
Partner and Head of Insurance Transactions and Advisory, Kennedys

Figure 6: *Percentage of respondents who would take the following steps if they found their insurance company was tracking and using their personal data without their knowing (select all that apply).*





Innovative value creation for the customer

Transforming the customer experience

Reconsidering the motivations for innovation poses insurers with a potential trade-off. For the past decade, **data-driven innovations were focused primarily on driving higher efficiency or improving price point within the insurance value chain**. However, recentring this with innovative value creation for the customer will require organisational refocus.

The impact of this will vary given who the intended end-customer is, with differing issues and volumes between product lines. Nonetheless, the potential innovative crossovers between the B2C and B2B markets should not be underestimated, with clear learnings for the B2B market for what innovation is already working well in higher volume settings.

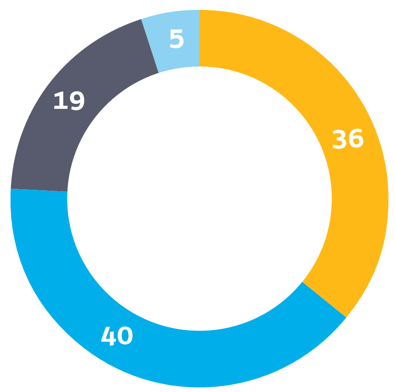
Business-to-business considerations

The insurance needs in the B2B space have arguably never been as complex as they are today, with a growing array of emerging risks across different jurisdictions. Companies see themselves as needing to be insured on multiple new fronts - with business interruption, cyber risk and the enhancement of D&O coverage taking centre-stage.

Historically, innovation in insurance has largely been focused on the high-volume products, aimed typically at consumers. However, the market distinctions between insurance product lines should be encouraged to blur, particularly as it relates to innovation. For example, the systems being used to make underwriting decisions for consumer products, could hypothetically be used for B2B insurance products, such as financial lines. This would allow for much of the manual information gathering phase to be automated, facilitating a wider review of data and evidence, with the focus instead being on underwriters analysing the information and deciding on policy wording.

> There is a widely held view that it is difficult to replicate what is happening in terms of innovation in the volume space of insurance in the higher value, lower volume space of insurance. However, as soon as someone has managed to do so, that will drive significant first mover advantages.
>
> **John Bruce**
> Partner, Kennedys

Figure 7: *Question – You are given the option to choose between two insurance policies from different companies that provide the same quote. One company offers more technological solutions to enhance the customer experience, would this factor in your decision making?*



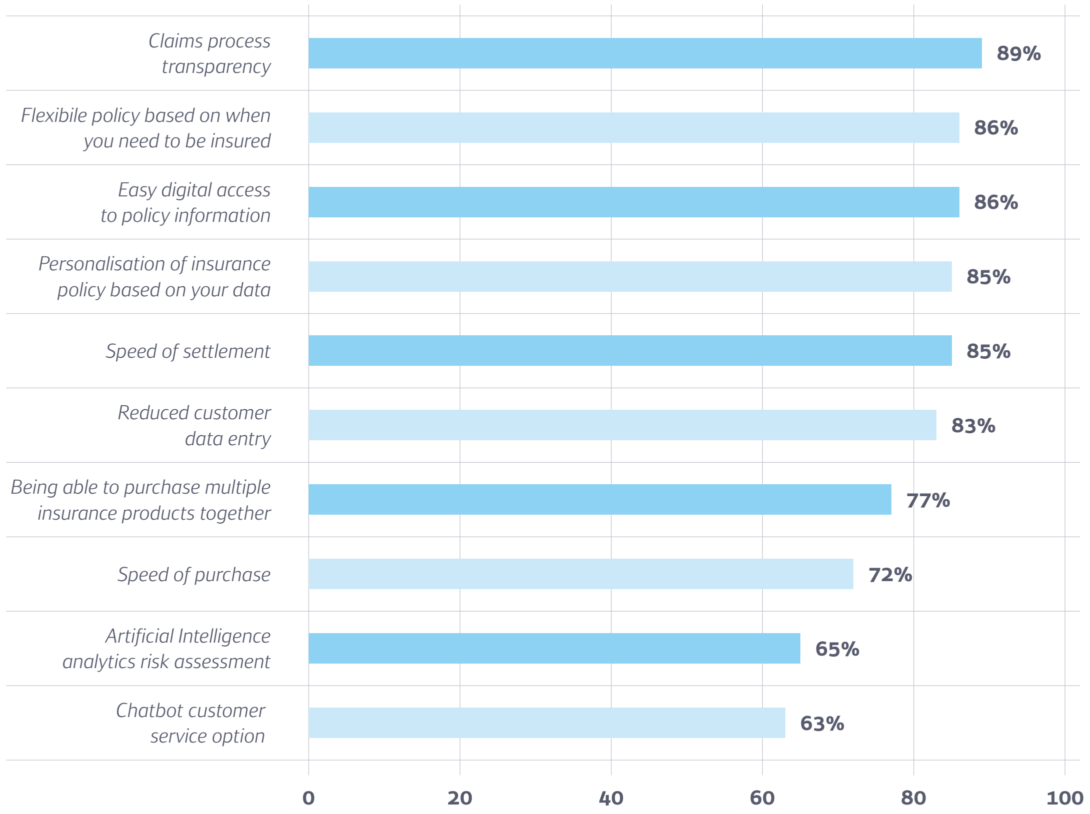
Yes, definitely more likely to choose a policy that offers more technological solutions

Yes, likely to choose a policy that offers more technological solutions

It would not factor into my decision making

No, less likely to choose a policy that offers more technological solutions

__Figure 8:__ Percentage of consumers saying "important" to the following factors in decision making process for buying or using insurance (excluding price)?



When we look at the decision-making process for buying, consumers have a clear set of priorities in terms of what they see as being important to product development.

We found that consumers are most likely to value innovation that makes their lives easier and quicker. After a transparent claims process, easy digital access to information (86%) and flexible policies based on when you need to be insured (86%), are seen as the most important factors when buying insurance products. These findings are a useful reminder when considering whether an intended innovation is solving or improving an issue that matters to the customer.

Some innovations that consumers are most exposed to, such as chatbot customer services, may not be meeting their needs if seen just as a driver of business efficiencies. While 63% of consumers said a "chatbot customer service option" was important, this falls to below half (49%) for those aged over 65.

> // The sensible insurance companies will comply (with the new Consumer Duty), because firstly, they've got no choice but to comply. But if they do embrace them, then they can say hand on heart that they're doing things for the interests of their customers. There are positives to be taken from it.

Tobin Ashby
Partner and Head of Insurance Transactions and Advisory, Kennedys

Case study

> // Generally, the narrative has been that value is financial. However, that isn't the only definition. For me, if your product has made the consumer's life better – that's a really powerful driver of value."

Shân Millie, Specialist Advisor

As a specialist advisor working with insurance firms in the data and technological value creation space, Millie approaches the subject of innovation with a healthy dose of realism. Having worked within Insurtech for the last decade, her reflection still holds that "the industry is hampered by poor processes, dated technology, and really old-fashioned approaches to business culture."

In Millie's view, innovation is not one particular solution or company. She divides these 'disruptors' into two entities: MGAs and specialist tech vendors. "It's well established now that you are either a specialist tech vendor or a specialist distribution outlet. That defines you in terms of where you sit on the value chain, rather than all this talk about 'disruption'" - she explains.

Millie poses numerous questions on what value creation looks like and she ties this to the consumer. "How do you do data enabled innovation in insurance so that it sticks? How do we do it so that it generates real value for the consumer?" In Millie's view, it is about recalibrating what good look like around building trust, creating a "validated, audited, data enabled verification of trust."

In the UK, generating value for the consumer is also tied to the FCA's Consumer Duty, which Millie describes as "revolutionary." For Millie, this can lead to sustainable growth through sustainable value generation: "This is a core point of sustainable value generation: are you actually doing anything that can be measurably shown to be benefitting the consumer that you are innovating for?"

Going forward, Millie believes that trust must be a key part of a successful insurance business. When mentioning regulation and compliance, her view is that the UK's current regime presents a prime opportunity for insurance firms looking to embrace it in how they innovate. "Regulation, if you do it right and you respond to it correctly is a kite mark of trust that you can't buy through any amount of clever marketing." She believes this will be a driver for how and where firms look to innovate going forward.

Millie believes that all innovations tie back to the consumer, that this should be what is driving the narrative for innovation, rather than corporate messaging. "Generally, the narrative has been that value is financial. However, that isn't the only definition. For me, if your product has made the consumer's life better – that's a really powerful driver of value."

Understanding that not all consumers will appreciate or be able to access innovations in the same way is important in providing customer service that – while digital-first - is not digital-only in approach. In fact, over three-quarters (77%) of consumers we spoke to said they were concerned about not being able to contact a human to discuss a claim when needed.Understanding that not all consumers will appreciate or be able to access innovations in the same way is important in providing customer service that – while digital-first - is not digital-only in approach. In fact, over three-quarters (77%) of consumers we spoke to said they were concerned about not being able to contact a human to discuss a claim when needed.

For some innovations, such as AI risk assessment, we see nuances in importance across consumers that hold different types of insurance products. For example, 81% of consumer respondents who purchase personal income protection insurance – a more complex insurance product to underwrite for - view AI risk assessment as an important factor, compared to only 63% of those who purchase home or car insurance.

Where is innovation happening now?

Across the insurance sector, after a decade of start-up disruptors, market consolidators are now experimenting with different methods to test the capabilities of innovative approaches. These experiments are typically conducted in 'innovation hub' series, laboratories, or short-term programmes, such as the Lloyd's Lab accelerator programme. These initiatives intend to find areas where innovation can bring the greatest scalable value across the insurance value chain.

Spotlight on: QBE

QBE Group are an international insurer and reinsurer with both a B2B and B2C offering. The company formed their Digital Innovation Laboratory in 2016 through their U.S. subsidiaries. The Lab has grown since then, providing full research and development capabilities for the purpose of implementing innovative data-driven approaches into their internal structure.

The Lab has already demonstrated the value of its foundation, with this year's partnership between QBE North America and Guidewire to develop a data-driven approach to QBE's property and casualty claims offering allowing QBE to optimise its capabilities in claims processing. This is due to the SaaS model offered by Guidewire Cloud, which analyses claims management and loss management.

Spotlight on: Lloyds Banking Group

In 2020, Lloyds Banking Group began their Launch 23 programme which brought together cohort firms within the insurance industry. The programme offers firms a space for experimentation with advisory guidance in selected areas and is intended to place the bank as a primary partner for insurance and retail banking firms.

The programme takes the structure of presenting challenges to companies in order to develop innovative approaches towards customer understanding of insurance products, firm's compliance towards consumer duty, and ESG. This helps companies develop their perspectives on creating additional value to consumers when forming strategies or product offerings.

Building on rocky foundations

Wider sectoral challenges

In order to effectively deliver innovations across the sector, simply coming up with new approaches alone is not enough to implement them at the scale needed to make a difference for customers. **Acknowledging the wider challenges in the sector in parallel will be essential if innovations are to succeed.**

Integration challenges

Although technologies like AI and blockchain can optimise several aspects of the services offered by insurance companies, the integration of these new solutions into the existing IT and digital infrastructure is often complex. For global insurers, creating enterprise-wide approaches to innovation across multiple markets comes with challenges. This has driven the decision by some larger incumbents to bring innovation in-house, to guide initiatives towards particular unmet needs they currently face in how they operate.

> The challenge that insurers have in the innovation space is vast friction in their businesses around process – rising from long term growth, legacy systems and consolidation.
>
> **Richard West**
> Partner and Global Head of Client Innovation, Kennedys

Skills and talent gaps

Similarly, the integration of new technologies and the adoption of digital business models require different skill sets, and firms within the insurance sector must ensure that they have the talent to effectively deliver this transition. Therefore, attracting – and retaining – 'tech talent' has become even more of a priority for insurers to channel the potential of new technology into tangible business improvements and outcomes.

> People have appreciated for a while now that the talent pool is aging out in the insurance industry, but it's hitting a bit of a crisis point right now. You can have all of the tech products in the world but if you don't have the right people that's going to be an issue for everybody.
>
> **Meg Catalano**
> Regional Managing Partner - US, Kennedys

As insurers compete for talent to develop their in-house tech capability, they must make sure that the employee experience they offer remains attractive and provides high quality, relevant work as well as the flexibility which – in a post-COVID world – is a key factor in workforce retention.[6] Alternatively, many insurers decide to partner with external specialists to guide them through their digital integration process.

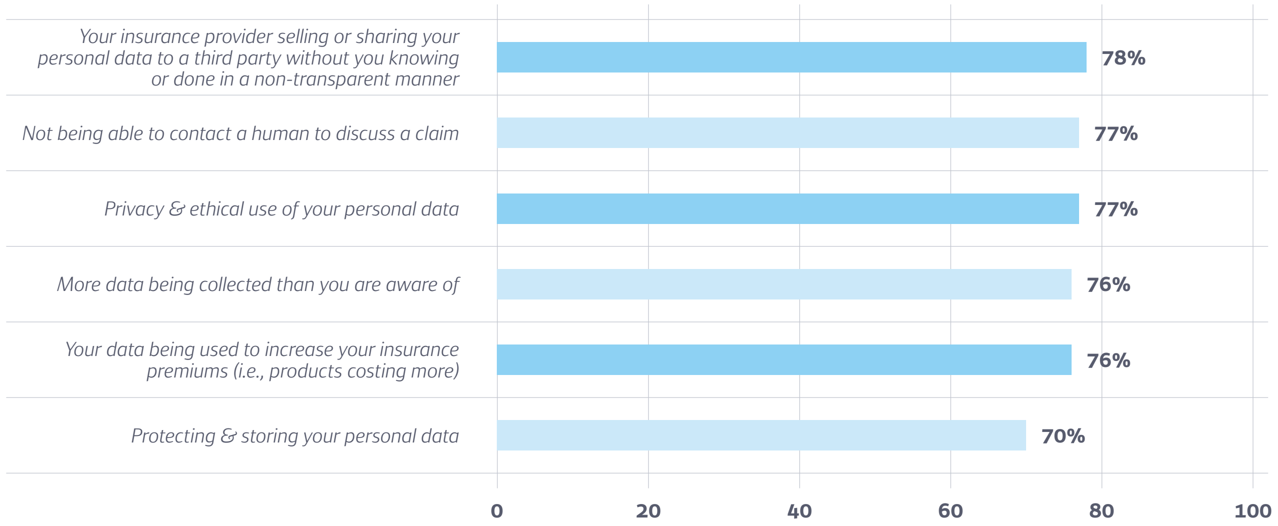
Keeping access to the data that fuels innovation

Many insurance innovations have built on the ability to both collect and evaluate more customer data, to either allow for more precise underwriting, speed up claims decisions or insure risks previously difficult to monitor and price.

However, firms find themselves facing increasing scrutiny around how much customers trust, and want, them using their personal data to reach decisions. While the EU's GDPR is now taken as standard practice in data protection almost globally, concerns around what data is being tracked and how it is being used continue to be top of mind for consumers.

[6] Deloitte, 2023 Insurance Outlook: Global Insurance Industry at a Crossroads to Shaping Long-Term Success, 2022

Figure 9: Percentage of consumers saying "concerned" to the following factors in relation to insurance companies collecting customer data or automating services



How firms are using consumer data to develop better insurance products will increasingly be a necessary proof point in building and validating trust, particularly under those regulatory regimes, such as the FCA in the UJ.

Adapting innovation to an evolving macro risk landscape

With elections forecasted within the U.S. and EU in 2024, and the UK general election scheduled to take place in early 2025 (although this is likely to occur earlier), innovators may be wary of the potential risks posed by a reshuffle. This creates an uncertain macro-risk landscape, which poses challenges for insurers. In the U.S., this uncertain macro-landscape is impacted by a rising in incidents of nuclear verdicts, or large and excessive jury verdicts on insurance claims amounts. This has a rippling effect on the insurance industry causing a rise in the cost of insurance products, otherwise known as social inflation.

The impacts of social inflation and nuclear verdicts are likely to play on the mind of legislators, insurers, and customers. Nuclear verdicts are currently on the rise, with the number of nuclear verdicts doubling in the U.S. between 2020-22 and the median nuclear verdicts against corporate defendants increasing by 95% in the same timeframe.[7] As a knock-on effect, social inflation is also increasing and is found to be most virulent among the corporate lines of insurance, such as commercial automobile, professional liability, product liability and D&O.[8]

The emerging risk of nuclear verdicts has insurance firms looking for new ways to assess and predict the risk factors of a nuclear verdict taking place. There is a high incentive to develop a technological product to assess this risk, particularly due to the lines of insurance that are currently most affected by social inflation.

> The political climate in the U.S. makes assessing the risk factors far more difficult. You have what will inevitably be a period of turmoil that we're expecting over the course of the next couple of years with the election looming – and that creates even more uncertainty on a jury verdict perspective. Our clients are grappling with this; are there products that can help us predict and assess that risk factor?

Meg Catalano
Regional Managing Partner - US, Kennedys

[7] New York Law Journal, As Nuclear Verdicts Rise in New York, 2023
[8] Center for Insurance Policy and Research, Social Inflation, 2023

Case study

> What doesn't change, dies. If you don't change fast enough and efficiently enough, your business will die too.

Philippe Gouraud, CEO and **Owen Dacey**, Head of Claims and General Counsel, Rising Edge

"Innovation is so important to us that it is one of our key values. We expect everyone in the business to apply an innovative mindset, to wake up in the morning and ask how can we do things better?" Gouraud explains that to deliver on their business commitment to be fast, consistent and reliable, a valid business model must embrace innovation. As an underwriting agency, Rising Edge's commitment is to both their capacity providers and to brokers – when reaching underwriting decisions, Rising Edge use data and insights to make an adequate pricing choice. "We don't believe in sticking our finger in the air and following the wind wherever the market goes. All our decisions must be based on our ability to interpret different sources of data for what an adequate pricing should be."

However, in Gouraud's view, the insurance industry as a whole has been notoriously resistant to embracing the efficiency-saving potential of technology. "If you don't have technology, then you get bogged down both with the pre-binding work and the post-binding work. This can be really time-consuming, meaning you become slow and expensive." He gives the example of calculating different rates of insurance premium taxes across different jurisdictions. Manually allocating how each tax is calculated is prone to errors, given the various calculations that must align by different stakeholders. However, at Rising Edge they realised that nearly all providers were using the same piece of technology to make these calculations, but manually interpreting the outputs. "We realised we could just connect to the cloud of this provider, which we all trust, and download that information directly into our system. This way, there is no wasting time, no risk of making mistakes and no doubt that it will work effectively." While Rising Edge have implemented this approach for the last year, they don't know of others in the industry that have followed them yet. Gouraud views larger firms in particular as sometimes becoming too big to move.

For Rising Edge though, this can present a challenge to their own innovations and the speed of change. In Dacey's view, several of the innovations that Rising Edge have implemented not only support their business but would lead to making the whole market more efficient by smoothing transactions. "We need to build coalitions and consortiums, as it is much more difficult to innovate in isolation."

Gouraud believes the motivation of larger insurance firms to innovate has often been hampered by the criticism of the costs involved in implementing the change, which has created high levels of industry inertia. In particular, insurance firms need to avoid finding themselves in situations where "tech debts" have to be written off. "The problem comes from capitalising the often-huge cost associated with trying to digitalise a legacy business, which are often conceived as building a cathedral; through this approach you build something, which were built over a thousand years, and to last forever. This means that legacy carriers struggle to change it", and, Gouraud says, "these projects end up in the "too difficult" bucket, or simply sitting capitalised, and obsolete, on their balance sheet."

Instead, Gouraud advocates for a much shorter-term approach to innovation. "You have to start the year by saying you are going to burn X amount on innovation. If it doesn't work out as planned or it has done its time, you throw it away." This mentality has prevented Rising Edge from getting stuck in legacy systems, and continually enabled their team to think with an innovative mindset that welcomes change.

Where to next?

At Kennedys, we think ahead. Our clients have a great deal to think about in their business, so we make it our responsibility to think ahead about where they will need us next and what they will need us to deliver.

Case study

> If you look at the history of real big innovation in the world, there's usually a step change when the pressure builds to such as extent that there's a breakthrough and then transformation.
>
> **Karim Derrick**, Chief Products Officer, Kennedys IQ

Karim leads a team on the development of innovative new tools. In 2019, his team won the FT Innovative Lawyers award, and he is a vocal key opinion leader in the areas of insurance, innovation, and technology.

Karim tells us that the impetus for innovations in insurance through data usage is reaching a fever pitch. However, the legacy systems that dominate the insurance industry persist as a roadblock to these innovations: "It feels that the industry; that professional practice in both claims and underwriting, remains largely unchanged.

He remains critical of the industry's lack of flexibility to innovate, particularly in the areas of underwriting and claims which he says are in a prime position to utilise larger quantities of data and transform capabilities. "There's a lot of automation going on. But when you get into the detail of it, insurers are taking exactly what they were doing before and making it more efficient. Generating poor outcomes more efficiently isn't innovation" – he explains.

Karim also maintains that the role insurance plays in wider society is critical to innovation. "Insurance made creativity and innovation itself viable by sharing risk across society." He notes that, in modern economies, "insurance has been instrumental in levelling out the peaks and troughs of economic growth." However, he is critical on the industry's slow adoption of the capabilities of twenty-first century technologies to address intangible risk – "corporate risk is increasingly intangible and not insured, it feels like an important thing to fix. The insurance industry is falling short of its societal responsibility to reduce the froth of modern economic life."

With the recent developments in AI analytics and the scale of data available to insurers, Karim notes that the pressure to transform is mounting. "These language models are able to read, search and extract from unstructured data and draw insights in a way has not been possible before. It's going to ramp up the pressure to enable substantially more effective ways of running claims and underwrite in a way that is more reflective of corporate risk in 2023."

Our discussions on AI naturally led us to the future of innovation more broadly. He used the case of Amazon to explain what a highly data-driven approach is capable of. Through the tracking of behavioural data, Amazon can anticipate purchasing activity of their consumers – "it's not humans making those judgements. It is machines - machines that analyse eye watering amounts of data. If we can anticipate consumer purchases then we can better anticipate claims and start to mitigate loss rather than simply compensating for it ."

As Chief Products Officer at Kennedys IQ, Karim naturally looks to the future. However, to do this, he charts the present from the past – "If you look at the history of really big innovation in the world, it's step changes that we see, less so incremental change where the pressure builds to such an extent that there's a breakthrough and then, genuine transformation. Think personal computers, think ecommerce."

Acknowledgements

We would like to thank the following Kennedys Partners and wider industry stakeholders for their time in contributing to this report:

Matt Andrews
Regional Managing Partner - APAC, Kennedys

t +61 2 8215 5934
e matt.andrews@kennedyslaw.com

Tobin Ashby
Partner and Head of Insurance Transactions and Advisory, Kennedys

t +44 20 7667 9362
e tobin.ashby@kennedyslaw.com

Richard Bates
Partner, Kennedys

t +852 2848 6308
e richard.bates@kennedyslaw.com

John Bruce
Partner, Kennedys

t +44 20 7667 9459
e john.bruce@kennedyslaw.com

Meg Catalano
Regional Managing Partner - US, Kennedys

t +1 908 848 1222
e meg.catalano@kennedyslaw.com

Radoslav Depolo
Partner and Head of Commercial and Corporate - LatAm, Kennedys

t +56 2 3202 7245
e radoslav.depolo@kennedyslaw.com

Karim Derrick
Chief Products Officer, Kennedys IQ

t +44 20 7667 9776
e karim.derrick@kennedyslaw.com

Deborah Newberry
Corporate Affairs Director, Kennedys

t +44 20 7667 9508
e deborah.newberry@kennedyslaw.com

Matthew Poli
Partner, Kennedys

t +44 20 7667 9220
e matthew.poli@kennedyslaw.com

Richard West
Partner and Global Head of Client Innovation, Kennedys

t +44 20 7667 9166
e richard.west@kennedyslaw.com

Special thanks to our industry stakeholders:

Owen Dacey
Head of Claims and General Counsel, Rising Edge

Philippe Gouraud
CEO, Rising Edge

Shân Millie
Specialist Advisor

Gavin Spencer
Chief Insurance Officer, Parsyl

About Kennedys

Kennedys is a global law firm with expertise in dispute resolution and advisory services and over 2,500 people in 21 countries around the world.

We handle both contentious and non-contentious matters and provide a range of specialist legal services, including corporate and commercial advice, but with a particular focus on defending insurance and liability claims. Insurance claims and coverage expertise is deeply ingrained in every Kennedys office globally. Our lawyers provide a range of specialist legal services to insurers and reinsurers, corporates, healthcare providers, public sector bodies and other organisations, for all lines of business, delivering straightforward advice even when the issues are complex. We support our clients, beyond the law. By providing them with innovative products and thought leadership, we empower them to better position their businesses for the future.