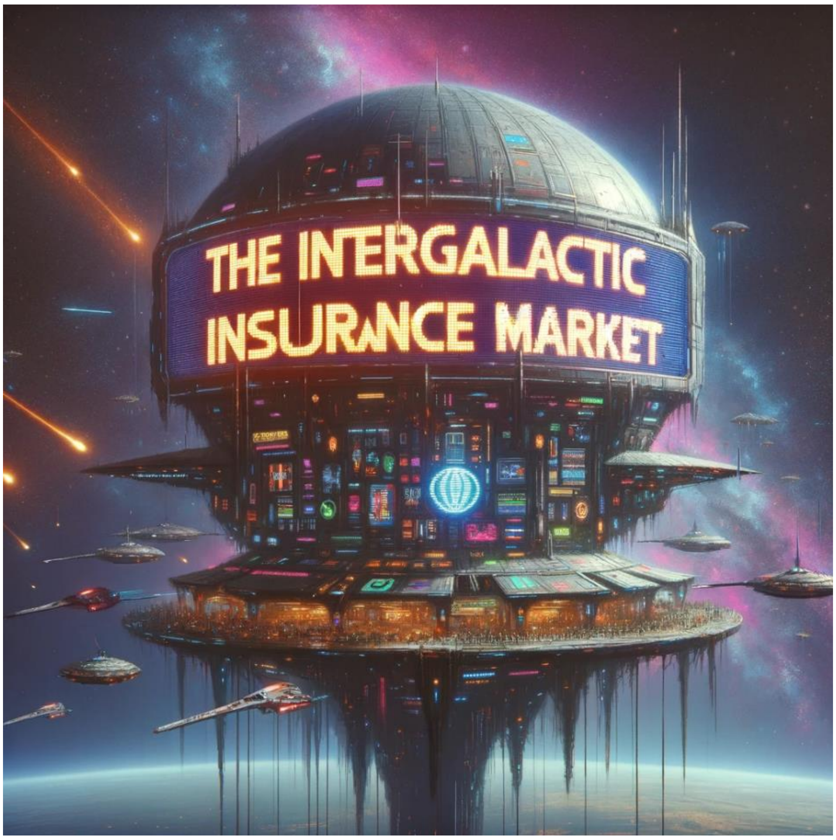


How do you envision the future of the insurance industry? Are you enthusiastic, optimistic, concerned, perplexed, or do you have a different sentiment? We often come across articles discussing the "Future of the Insurance Industry." We'd like to offer a fresh perspective and highlight a tremendous opportunity to redefine the way we serve our customers.

To put things in perspective, let's draw an analogy from another industry. Imagine being the CEO of A-Z Maps in 1993, enjoying substantial profits from selling physical maps of the UK and its cities. Would you have foreseen the transformative impact of technology on your business? It's heartening to note that A-Z Maps adapted to the changing times and remains in existence. However, they've since undergone changes in ownership and their core offerings are distinct from what they were in 1993.

So what happened to the physical Map Making industry?

Navigation satellites existed since the 1960s, albeit with limited accuracy. Numerous costly technologies were developed to address these limitations. By 1981, Honda pioneered a system that integrated stored maps with motion sensors. This allowed for approximate location determination and displayed it on a screen. While it was still pricy and not entirely precise, it marked the beginning of a significant technological shift.

In 1996, recognizing the growing relevance of GPS for both civilians and the military, the U.S. President designated GPS as a "dual use" system and a national asset. By 2000, the precision GPS data stream was made available, synergizing with mapping protocols. This gave birth to a burgeoning "Sat-Nav" industry. Come 2008, the iPhone introduced a mobile GPS version, democratizing navigation for the masses and truly opening the technological floodgates.

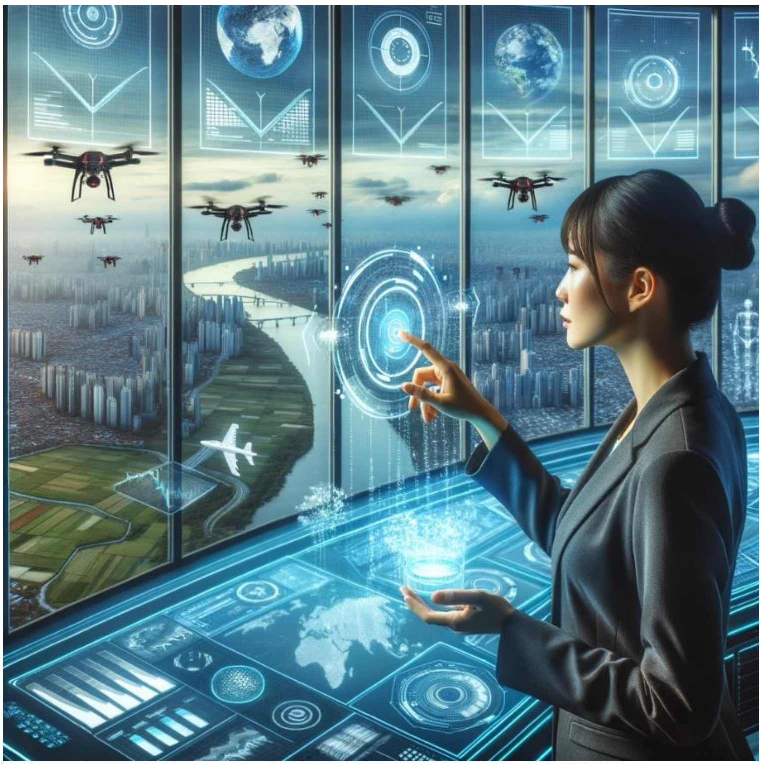
Fast forward to 2023, our technology not only suggests places to go and things to see, but also offers recommendations on when and how to travel, optimal routes (in real-time), environmental impact, associated costs, contingency plans for delays, and even suggests related services we might find beneficial. This continuous evolution has immensely enriched our lives. While it's uncertain when the mobile phone will be superseded with wearable technology such as smart glasses, wearable devices, and even early iterations of smart contact lenses, etc, one undeniable lesson stands out: rapid technological advancements can swiftly disrupt and potentially make redundant even industries that have been dominant for centuries. In this context, having a historical stronghold, like the age-old tradition of physical map-making, offers no assurance of ongoing relevance in the face of innovative alternatives.

Relating This to Insurance

While many argue that the specialty insurance market is too entrenched, regulated, sophisticated, and capital-intensive to be supplanted, it's undeniable that it's becoming—and will continue to be—susceptible to innovative and enhanced alternatives that better serve customer needs. Not every new solution will gain widespread acceptance, but their emergence underscores the current inefficiencies and shortcomings of traditional insurance.

To put it candidly, the industry is in a fight to maintain its relevance. We're not predicting the end of insurance as we know it, but we do anticipate growing challenges from alternative risk management strategies and methods that enrich our lives. And, like so many things today, we believe the pace of this change will only quicken.

The scrutiny on the insurance industry is intensifying. Hardly a week passes without customers or the media—including industry-specific outlets—voicing concerns about product offerings, service quality, or another facet of the insurance experience. We must reflect: Are we merely offering indemnity products, or are we genuinely adding value to people's lives? Some are already re-evaluating the value insurance brings and identifying areas for improvement or potential alternatives. It's crucial for both the industry at large and individual providers to challenge the current and envisage the new.



Navigating the Changing Tides of the Insurance Industry

In a rapidly evolving world, how can the insurance sector adapt and maintain its relevance? Let's pause and recalibrate our understanding of insurance. At its core, it's a method for managing risk, either by transferring or sharing it. However, once a risk is comprehended, merely transferring it is just one approach. Risk can also be accepted, evaded, mitigated, or its effects can be minimised, reducing the urge to offload it. With the rise in risk transparency and analysis, we can now address risks tailored to specific needs and refined appetites. This shift isn't just aspirational; it's increasingly practical, with numerous initiatives bringing it closer to reality. Emerging solutions are empowering clients to view and manage their risks more comprehensively, enhancing their overall life experience. Sound familiar?

Innovation often springs from the desires to grow, to save, or to comply to regulations. Yet, its fuel is a trio: Data, Distribution, and Processing Capability. This cycle thrives on the continuous influx of data from myriad devices, distributed via the internet and IoT. The might of AI, with its ability to discern patterns in vast datasets, can then forge novel ways to address risks. This isn't some distant future; it's unfolding now. For instance:

- In agriculture: John Deere's advanced 8RX tractor, equipped with over 300 IoT sensors, processes 15,000 measurements every second.
- In manufacturing: A single machinery's performance logs can churn out about 5GB of data weekly, with a standard smart factory generating approximately 5PB weekly.
- In mobility: Modern vehicles are functioning as mobile computers and produce nearly 25GB of data hourly.

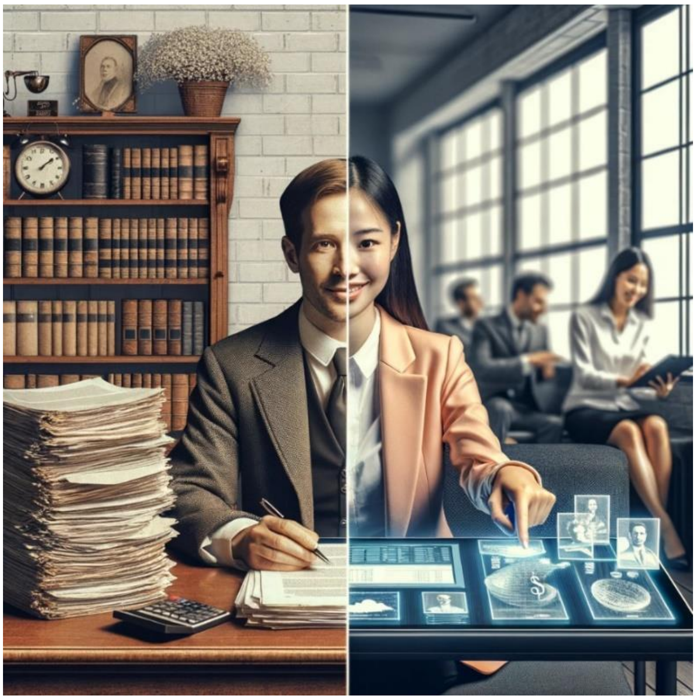
By 2024's end, projections indicate over 207 billion devices will be intertwined in the vast web of the Internet of Things (IoT). Spanning sectors like healthcare, manufacturing, and retail, IoT's applications are boundless, encompassing sustainability, vehicle communication, digital replications, and brain-computer interfaces.

However, we shouldn't “Man-the-Lifeboats” yet. While technology’s potential is vast, it can't address every challenge. No technology could avoid the physical impact of a Tsunami. The insurance sector shines in areas like handling complex risks, ensuring trust and security, capital robustness, diversification, and regulatory compliance. But, as alternatives arise, we must ponder if indemnity-based products are universally applicable. It's crucial to broaden our horizons.

In essence, parts of our industry might seamlessly blend into the broader risk management landscape. This would exist alongside advanced risk management tools, leading to the rise of risk management services occasionally backed by risk transfer products, aptly termed "service-led, product-backed."

The danger isn't from our traditional rivals but from substitution. Technological innovations and "non-insurance" solutions are stepping in where once only insurance would tread, such as factories harnessing IoT to diminish risks and premiums or Agri-tech safeguarding farmers from localised droughts and diseases.

To highlight these transformations, we've segmented them into three overarching categories, showcasing their diverse maturity levels.



Current Evolutions in the Industry:

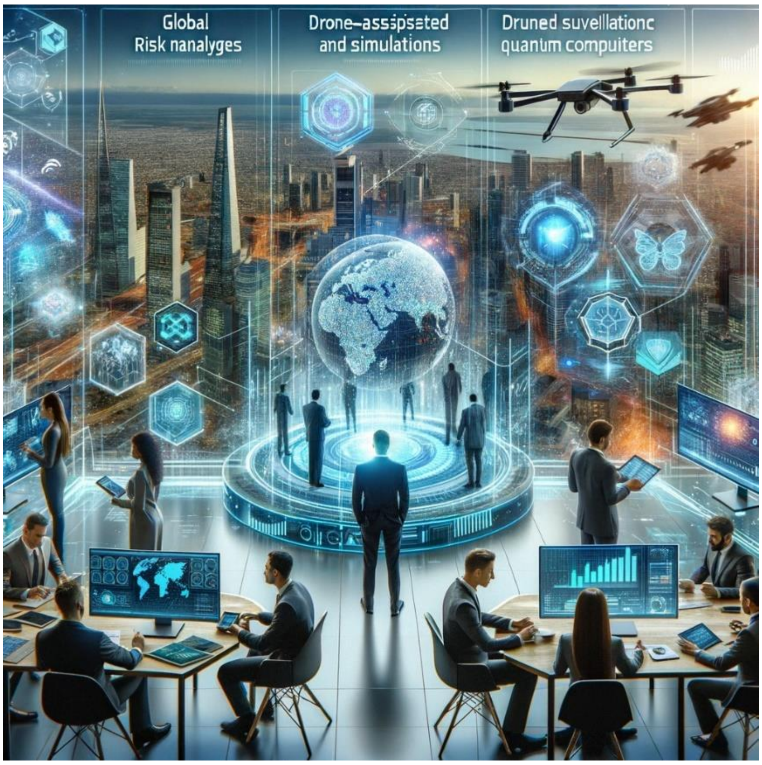
- There's a noticeable gap between the needs of client risk managers and the coverages from insurance products, with insurance often providing only a partial solution.
- Clients are increasingly questioning the value of traditional insurance.
- A growing trend sees clients retaining more risk, with an uptick in Captives and the emergence of peer-to-peer models.
- Global connectivity is facilitating the creation of vast data sets, streamlining processes, and enabling the delivery of self-service products.
- Alternative Risk Transfer models are emerging, either as replacements or supplements to traditional indemnity-based solutions.

Emerging and expanding trends:

- The rise of new perils, larger catastrophic events, and shifting liabilities.
- IoT is actively driving dynamic risk management tools and enhancing asset value.
- Algorithms and AI are being leveraged for enhanced rating and portfolio insights.
- Insurtech startups are bringing innovative models, often collaborating with established industry players.
- The integration of Embedded Insurance is on the rise.
- Service-driven offerings supported by products are becoming more prominent, with cyber insurance serving as a prime example.
- The influence of retail exchanges is now being observed in other segments of the industry, signalling the emergence of specialised risk exchanges.
- Automation and AI are making significant inroads across the value chain, potentially reducing dependence on traditional standards – these technologies are seen both as essential catalysts and as previously cited obstacles to change.

Weaker signals and indicators to watch:

- There's a broader comprehension of risk, leading to a diverse array of treatment options, whether it's acceptance, avoidance, mitigation, or transfer.
- The trend towards atomization is evident, with policies being distilled down to individual coverages at specific risk or peril levels. These can be tailored for varying durations and processed automatically. Technology being critically important in keeping the costs of this to a minimum.
- The increasing role of automation and AI continues to expand.
- Peer-to-peer trading is gaining traction at both individual and organizational levels.
- The rise of community-driven safety nets indicates a shift towards localised risk management.



The evolving role of the Risk Manager

The landscape of risk management is undergoing transformation, and this shift touches everyone involved in the process – from clients, brokers, and advisors to carriers, reinsurers, and the capital markets. At its essence, each one of us is a risk manager, making risk-related decisions both consciously and subconsciously throughout our daily lives.

Today's risk managers are diving deep, aiming to grasp risks at the granular level, dynamically and in real-time. Guided by technology, they'll discern how best to adapt behaviours—whether that means accepting, avoiding, mitigating, or transferring risk. In time, the reins of these decisions will be handed over to technology itself. But this evolution isn't solely about cutting costs. Risk managers are also pinpointing strategies to enhance lives and results in Corporations.

Zooming out, there's a notable shift in behaviour and solutions. New alternatives are emerging, both complementing and rivalling existing products. So, let's envision some potential scenarios...

Role	Now	Tomorrow	2030
Consumer	Policyholder - purchasing traditional policies	Uses "atomised" coverages based on specific needs and events, led by or bundled with services. Example - Cyber.	Engages with enhanced services, benefiting from proactive interventions and value-added advice.
Distributor	Provides risk management advice and crafts solutions based on a predefined set of products.	Innovates by designing atomised, intelligent products tailored to individual needs.	Offers macro-level risk management enhancement advice and interventions, seamlessly integrated into the client's ecosystem.
Risk bearer	(Re)insurer – relies on broad market data for underwriting.	Harnesses individualised data for underwriting, leading to the creation of flexible, adaptive products.	Pioneers' insurance-backed services aimed at enhancing client's financial health, well-being, and overall assets.
Funder	Employs static capital at a general balance sheet level.	Leverages smart capital applied directly and devises indices to detach from traditional indemnity models, thus reducing costs.	Strategically deploys resources to both mitigate risks and share in rewards with consumers, dynamically adjusting coverage in tune with the shifting risk landscape.

This table outlines a transformative journey, showing how each role in the risk management arena is evolving to better serve the ever-changing needs and demands of a technologically advanced society.

The entire business model is affected. Emphasis now lies on holistic risk management, viewing both risk transfer and traditional capital merely as tools within a broader strategy. With emerging alternative models, traditional insurance could face significant demand challenges. As such, (Re)insurers must prepare to streamline or restructure their operations. And the technology? Critical, in providing data, decisions and interventions.

So, what lies ahead?

In an era defined by choices, discretion, and enhanced assistance, the insurance industry is poised for substantial evolution, enabling a world where technology universally enhances lives and mitigates risks. The Insurance sector has a critical role to play in this, but a different role to the one it plays today.

Real-time risk management and decision-making will be the norm. Traditional Insurance, while pivotal in risk management, will serve as a supplementary safeguard, reinforcing the technology that optimises our lives. The real challenge isn't just about competing – it's about ensuring our relevance in the face of innovative alternatives. We believe that we can lead this change, to our and the world's benefit. However, intention, attention and action are very different things...

Enough from us, over to you

We've offered our perspective on the present and speculated about the future. Now, we're eager to hear from you. What's your vision, and how do you anticipate things unfolding? Are you a sceptic, a believer, a spectator a player, a leader, or a follower?

We'd love to hear your thoughts, please contact us via Linked In (links below) or email us at enquiries@resilientchanging.com

Footnote: we've asked some LLMs and will share their views in a future article, we'd love to see how your views compare.

Mark Simpson and Tim Page are independent consultants supporting working with (re)insurers, brokers, market bodies, MGAs, service, and software providers helping to improve risk protection and better align customer and market interests.