Disruptive Thinking for the Insurance Industry

Insurance in a hyperinflationary Environment
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Presenter
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Structure of the presentation

- Video
- What happened to these companies?
- Defining disruptive thinking
- What are some of the industry practices?
- Business unusual
- Disruptive thinking in the insurance industry
- Conclusion
- Video

What happened to these companies?

- Kodak .
- Xerox
- Blockbuster

Closer home

- Greatermans?
- IGI Life
- Rixi Taxis
- PTC – call boxes

Defining disruptive thinking….

- Breaking free from the confines of routine thinking and getting a new larger perspective.
- It's about gaining new, fresh perspective and seeing things from another angle or in another light.
- Radically reconfiguring a particular field of business, as by implementing new technologies or a more competitive business model
- In business it's moving from simply working "in" your business to working "on your business."

What are some of the industry practices?

- Regulator – publishing of quarterly reports 3 to six months later.
- Actuaries – providing actuarial valuations 2 to 4 weeks later.
- Insurers /Brokers and Consultants – traditional processes in underwriting, claims assessments, management; renewal processes, traditional methods of recruitment, training and engagement of staff etc.
- Pension Administrators – publishing benefit statements 3 to 6 months after year end, sending letters.
- Asset managers – pooled investments for different categories of pension fund members.

Business Unusual

- The Zimbabwean insurance industry is faced with a unique situation: a crisis of confidence in the value and form of insurance cover.
- Premium rates are increasingly unaffordable.
- Covers, decreasingly capable of restoring the insured to their predetermined level.
- Previously uninsurable events such as, political instability and civil unrest decimate businesses and individuals with increasing frequency.
- Global issues such as climate change, have a local impact. For example, Cyclone Idai ravages Chimanimani.
- Trade wars between geopolitical powers impact commodity prices and affect profitability of local extraction industries.

Change no longer becomes a luxurious option, but an urgent and imminent need.

Disruptive Thinking is inevitable.

The question is, who authors it?

A collective responsibility

- All players in the industry need to be part of the authorship of a new course.
  - The Regulators
  - Life insurance companies
  - Short term insurance companies
  - Consultants
  - Brokers
  - Actuaries
  - Universities
  - Reinsurers
  - Pension funds and Administrators
  - Asset managers etc
- To boldly embrace new solutions, for emerging problems

The presentation draws both from global sources as well as local industry perspectives. Reference is made to:

- ❖World Insurance Report 2018
- ❖World InsurTech Report (2018)
- ❖Report of the Commission of Inquiry - from The Zimbabwe Dollar to the United States Dollar (2017)
- ❖IPEC Quarterly reports

Disruptive Thinking in the Insurance Industry

We focus on seven areas that may be adopted in the industry

1. Digitization
2. Data Analytics
3. Index Pricing
4. Offshore Investing
5. Self Insurance
6. Collaboration and Partnerships
7. Human Capital

"Customers expect fully digital companies. Other industries have strong digital capabilities and new competencies and may disrupt the insurance industry."

TOR HAKON BALLO, DIRECTOR OF PRODUCT AND PRICE, EIKA FORSIKRING

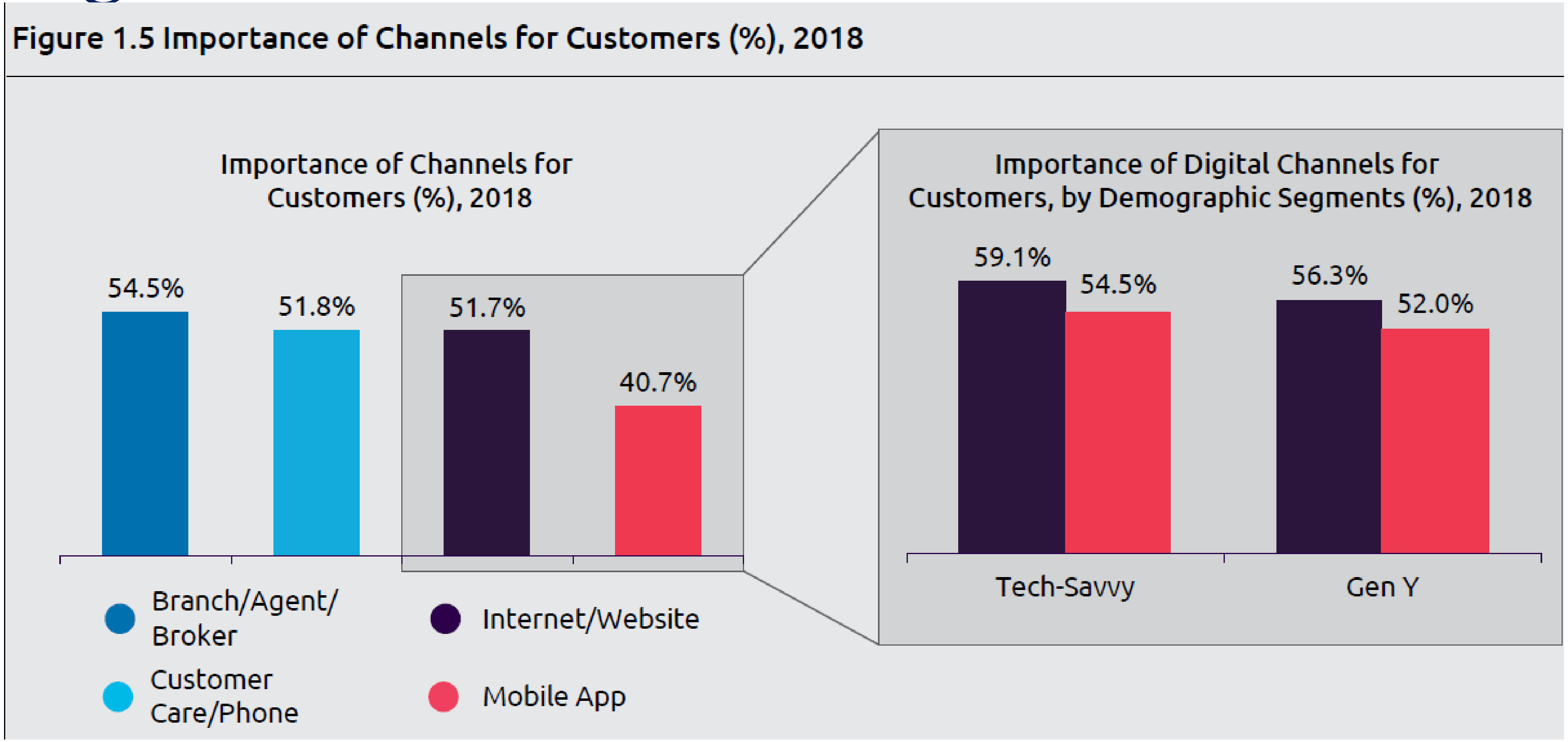
"Digitalization is evolving at a very high speed and the digital revolution will not stop. To stay competitive, insurance companies should be open to changes and quickly adapt to new technology trends."

PIETRO LANZILLOTTA, BONDING DIRECTOR, ATRADIUS

Digitization

- The Zimbabwe Insurance penetration rate is estimated at 4,7 % (IPEC 2018)
- The internet penetration rate is estimated at 62.9% (POTRAZ 2018).
- To say there is potential in leveraging technology for growth is an understatement.
- Stakeholders in insurance must begin to leverage on digital capabilities to attract and retain customers and ensure business sustainability

Digitization



From World Insurance Report 2018

Digitization

- Digitization needs to happen across the business value chain, especially on client facing touchpoints
- The front office needs to have integrated, multi-channel marketing
- It must embrace self service processing capability
- In terms of Policy Administration, there should be automated renewal notice / premium reminder
- Policy documents are to be distributed in electronic format
- Automated Billing must exist with multiple payment options
- Anytime access to view the status of the policy/claim

Digitization

- In terms of claims management, digitization enables instant notification of the claim through hand held devices such as smartphones and tablets
- Digitally enabled claims documents submission, for example scanned quotations
- Real time claims status monitoring
- Analytics based fraud monitoring
- Automated status alerts such as emails and sms

Digitization

- Digitization is especially relevant in the face of competition
- BigTech firms- large, multinational technology organizations such as Google, Amazon, Facebook, Alibaba and Apple have been eyeing the financial services sector and are taking deliberate steps to establish their presence
- More locally, Econet has disrupted the market through its Ecosure service offerings
- To that end, traditional insurance players must improve their digital presence so as to remain relevant to their customers

"Capturing real-time data through sensor based connected devices and social media can help build a rich database of customer information. Collaboration with InsurTech firms can help insurance firms to quickly and cost effectively implement these new high impact capabilities."

World Insurance Report 2018

“New Insurance products with real-time, data driven solutions can have a far-reaching impact on an insurer’s topline, bottom lime, market share and risk management.”

- CHRIS SMITH, EVP AND HEAD OF GLOBAL OPERATIONS, METLIFE

Data Analytics

- As an industry we sit on huge sums of data.
- Insurers, pushed by changing customer expectations, must adapt their service offerings
- There is an expectation for personalized services instead of a traditional standard product / policy
- By leveraging data analytics, the insurance industry can gain actionable insights into customer behaviour, risk profile, lifetime customer value etc
- Using this knowledge, a service provider can tailor make service offerings that deliver superior value

Data Analytics

- Telematics can enable usage-based insurance services.
- Social media can give cues to customer preferences and enhance targeted marketing abilities
- Wearables can keep track of physical activity, such as walking, running, step climbing, sleep patterns, smoking habits and heart rate
- Smartphones and smartwatches may recommend and prompt important behavioural actions such as reminders to take essential medicine
- Predictive analytics, moves from a historical risk perspective to a future loss probability operating model
- Predictive analytics would enable the modelling of emerging risks, such as technology dependant new pathologies

Data Analytics – Case Study 1

- Discovery, a South African based insurer introduced the Vitality programme.
- Discovery Vitality Health rewards you for healthy living
- One earns “points” for joining a gym, playing a round of golf, eating healthy foods and even giving up smoking which influence the Vitality status and associated rewards.
- As a result, the customer gets discounts on premiums for healthy habits
- The insurer improves its claims by inducing a healthier customer base

Data Analytics – Case Study 2

- FBC Insurance, a Zimbabwean short term insurer, introduced a disruptive product in 2019 known as "MyDrive."
- MyDrive is a motor insurance cover where you are charged for the kilometers you travel.
- MyDrive is an innovation that allows customers to get charged on a case by case basis dependent on their mileage.
- A telematics device which monitors accelerating, braking, cornering and the mileage covered within a specified period is fitted on the vehicle.
- According to FBC, one can make savings of up to 50% of their premiums using the MyDrive product

> The shortcomings included [a] failure to index premiums and benefits, resulting in the prejudicial transfer of value from old to new generation policyholders, as well as from policyholders to the shareholders of the insurance company.

- Report Of The Commission Of Inquiry into the conversion of insurance and pension values from The Zimbabwe Dollar To The United States Dollar

Index Pricing

- In 2017, the National Social Security Authority (NSSA) undertook a financial review of the minimum amounts payable to retirement beneficiaries, invalidity beneficiaries and dependants of members.
- These were set at RTGS$ 80, $32 and $32 respectively.
- By 2019, the minimum pay outs were still RTGS$80, RTGS$32 and RTGS$32.
- This, in the context of 50% inflation in 2018 and a galloping annual inflation rate in 2019.
- The loss of value is acute.

Index Pricing

- Ad hoc reviews of prices: both on the premium side and benefit side is commonplace.
- This provides a significant strain on resources such as
  - actuarial valuation fees
  - communication costs which has to be engaged to all stakeholders
  - and opportunity costs of time lags built into such a bureaucratic process
- Index pricing: linked to inflation, stock market performance, industry benchmarks, wages growth (or indeed any other metric) has the power to unlock value for both consumers and service providers.

Index Pricing

- Accepting the pace and quantum of inflation, index pricing enables both the customer and the insurer to plan for their costs and benefits with relatively more certainty than ad hoc increases
- Discretion may still be applied periodically to align prices with a leaner operating structure or other variables
- Importantly, it makes for smoother transitions between premiums, which makes it easier for customers to adjust to escalating costs compared to less frequent but higher jumps in premium

“

In 2015, after a period of recovery (2010 to 2014), Zimbabwe’s economy began a downward trend, that saw a decline in gross domestic product (GDP) growth due to a drought and fall in commodity prices; an expansionary fiscal policy that led to a burgeoning fiscal deficit; rising vulnerability and poverty because of weather and financial shocks; and acute foreign currency shortages dampening demand and supply.

”

- World Bank 2018

Offshore Investing

- Zimbabwe has had a VUCA operating environment:
  - Volatile
  - Uncertain
  - Complex and
  - Ambiguous
- There is a need to protect shareholders and policyholder funds, especially pension funds given the 2008 hyperinflation challenges
- Certain problems are systemic. These macro-economic factors affect all players in the industry
- For example, the February 2019 Monetary Policy Statement to allow the floating of the RTGS $ decimated some values overnight

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Offshore Investing

- Exchange control limits the capacity for institutions to transfer money outside the country.
- This is understandable in the context of
  - a crippling foreign currency crisis
  - minimal foreign direct investment
  - sizable demand for capital to finance government investment
  - a current account deficit
  - and other constraints.

Offshore Investing

- However, there is scope, legally, to engage in offshore investments. It is possible to tailor, mould, and initiate financial arrangements that optimize returns on “free funds” through offshore investing.
- This is disruptive, risky, new and demanding
- Yet, provides long term value to those that engage.
- IPEC, on Capitalk FM, on 30 June 2019, accepted the options of offshore investing
- They invited institutions that want to deviate from the investment guidelines to approach the regulator and request for a portion of their funds to be invested outside the country

"Many organizations will come to the conclusion that their captive still brings benefits and value."

- Paul Hopkin, technical director of Airmic

Self Insurance

- With the growing distrust in financial institutions in general, and insurance-related products in particular, there is a growing trend for people to, ‘retain’ certain risks.
- The principal aim of self-insurance is to improve a company’s operating profits by reducing its claims and premium costs. By assuming the role of an insurer, costs such as the overheads for policy administration, the assumption of risk and underwriting profit are retained by the self-insuring company.
- Often, however, appropriate modelling is not applied, prudent reserving not employed and competent administration is not engaged.
- Such risk acceptance would be misguided.

Self Insurance

- A captive insurance company is the epitome of a self-insurance program. A captive insurer may be defined as a wholly owned insurance subsidiary with a primary function of insuring all or part of the loss exposures of the parent organization.
- Self-insurance involves a formal decision to retain risk rather than simply purchase it from a conventional commercial insurance company.
- Whilst the main objective of self-insurance is to save premium and improve a company's financial performance, self-insurance differs from standard insurance programs in that it requires a company to adopt many of the functions of a traditional insurance company.

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Self Insurance

- Self-insurance can bring improved loss experience as the company (or group) that is self-insuring becomes accountable and is at risk for its own losses.
- As much as a company can gain from improved loss experience, it can also lose out from poorer than expected loss experience.
- Being at risk makes the self-insurer more aware of its exposures and this often results in the establishment of new loss prevention techniques such as safety programs.
- Aggregate insurance or reinsurance is generally available to provide a known maximum total potential loss from an unexpected series of individual claims.
- Larger companies are generally able to project what their losses will be with some degree of certainty since because of their size, they are less prone to fluctuation

Self Insurance

- According to IFRS 17, self-insurance does not constitute an insurance contract because there is no agreement with another party. Therefore, from the point of view of consolidated financial statements, there is no insurance contract for the group when an entity issues an insurance contract to its parent, subsidiary or a fellow subsidiary.
- Self-insurance is a private arrangement that does not take business from the public, therefore it will not fall under the IPEC purview.
- IPEC advises that one approaches the Commission before embarking on any insurance related operations to ensure that one operates within the confines of the law.

Collaboration and Partnerships

- Industry players need to identify suitable partners and partnership models in order to maximise opportunities and minimise collaboration risks.
- More and more established insurers and InsureTech firms are collaborating as they increasingly acknowledge each other as valuable partners. Think of the FML/Econet partnership!
- For insurance industry players to build competitive positions and early mover advantage in a dynamic market, it will be important to identify strategic partnerships at different stages of business and to prepare for the future of collaboration.

Human Capital

- In today’s volatile business landscape, adaptability and creativity are more crucial.
- Its not desirable to learn one set of job skills and work your way up the ladder.
- A commentary on Jay Samit’s book DISRUPT YOU says

“To survive in today’s economy, everyone needs to think like an entrepreneur. Samit shows how we have the power to succeed in business by disrupting our internal limitations, turning obstacles into opportunities, and killing our best ideas

Be Bold

Coronation Risk Advisory

Conclusion

- Disruption must not be an alien or cosmetic process.
- It must be an intentional, focused, strategic endeavor to unlock value and maximize the opportunities that insurance holds.
- In a VUCA environment, the Insurance industry has unique skills that give exceptional capacity to profile, transfer, mitigate, evaluate and exploit risk.
- This is the call, may it be answered resoundingly.

Disruptive Thinking in the Insurance Industry