Insurtech: Demystifying the Hype

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Every insurance and reinsurance related event lately has had at least one panel on a particular topic that almost no-one had heard of a couple of years ago: insurtech.

What is insurtech?

Just as the name suggests, it is the combination of insurance and technology. Or, perhaps more accurately, the rise and use of a wide range of technologies within the insurance industry, from underwriting and claims to administrative functions. What has always been an extremely paper-intensive industry is now gradually dragging itself into the digital age.

This digital transformation is part of a new industrial revolution, sometimes referred to as 4^{th} industrial revolution or “4iR”, though it is anything but industrial. The transformation involves many things from the rise of automation and artificial intelligence (AI) within everyday work processes to the use of blockchain technology and smart contracts, simplifying claims management and underwriting processes.

An example: Lemonade

Lemonade Insurance Company is a poster child of the insurtech movement. Its CEO and co-founder Daniel Schreiber once stated: “The insurance brands we know today came of an age in the era of the horse-drawn carriage, but insurance is best when powered by AI and behavioral economics, which is why we believe that companies built from scratch, on a digital substrate and with a social mission, will enjoy a structural advantage for decades to come.”

What does Lemonade do? Using a mix of artificial intelligence, algorithms and chatbots, it allows its customers to download and use apps to purchase policies and make claims automatically, rather than liaising with human beings. Its most famous claim to fame was its ability to pay a claim (for a stolen coat) in three seconds. At its core, Lemonade is digital peer-to-peer insurance, similar to a mutual insurance company, except replacing brokers with AI. Its current, primary limitation is that it really can only handle small, simple claims; more complex claims are passed on to humans.

Prepare for disruption

Despite Lemonade’s limitations, it is a good example of the potential for technology to disrupt a traditional industry. A bastion of paperwork and old-style practices, the insurance world is slow to move, but there are many new technologies which are becoming relevant and beginning to make inroads: blockchain, AI and machine learning, big data, robotics, healthtech and medical wearables, and the ‘internet of things’.

No part of the industry is immune - insurtech comprises established insurance vehicles looking to re-invent themselves by embracing new technologies, new insurers setting up to write insurance in innovative ways, or simply new ventures that are offering specialized tech products to insurers and other market participants.

How fast will things change?

Blockchain-based, self-executing insurance contracts, or ones which are done on a peer-to-peer basis using AI, are likely to remain limited to small claims for the time being. It will be a very long time before a chatbot, robot or any other form of AI can replace the logic and analytical skills which a human underwriter or claims analyst is able to provide. In short, the technology driving insurtech is going to take time, not to mention many changes to the regulatory requirements which underpin the industry.

Regulation innovation

Those changes are already underway. Bermuda, once called the 'insurance laboratory of the world', is a good example: the jurisdiction is actively embracing insurtech innovation. Its primary regulator, the Bermuda Monetary Authority (BMA), is setting up an insurtech innovation hub to promote the exchange of ideas, and also an insurtech 'regulatory sandbox'.

The sandbox will allow for the formation and operation of new insurance (or intermediary) entities, either as brand new start-ups or affiliates of existing insurers, in a closely controlled environment. These new companies will, for a period of up to one year (which may possibly be extended), operate using and experimenting with their proposed new technologies under the scrutiny of the BMA. This will allow them to provide their insurance products and services to clients in a controlled-risk space, with the BMA determining what legal and regulatory aspects of the existing legislation should apply to them in order to ensure policyholder protection. The idea is that within or following the year of controlled development, an entity could graduate from the sandbox and become a fully licensed insurer.

Bermuda's insurtech sandbox regulations are still very formative and it remains to be seen how they will be implemented, and how successful they will be. But bearing in mind Bermuda's stellar reputation in the insurance, reinsurance and alternative capital markets, it is hard to see them not being an attractive proposition for both existing players and new start-ups.

Wherever we are in the insurtech revolution for now, there is a need both for regulators to innovate and adjust, and for companies to adjust to meet the needs of their customers who seek quicker and more efficient service. Like it or not, the insurance world is moving into a new digital era.

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