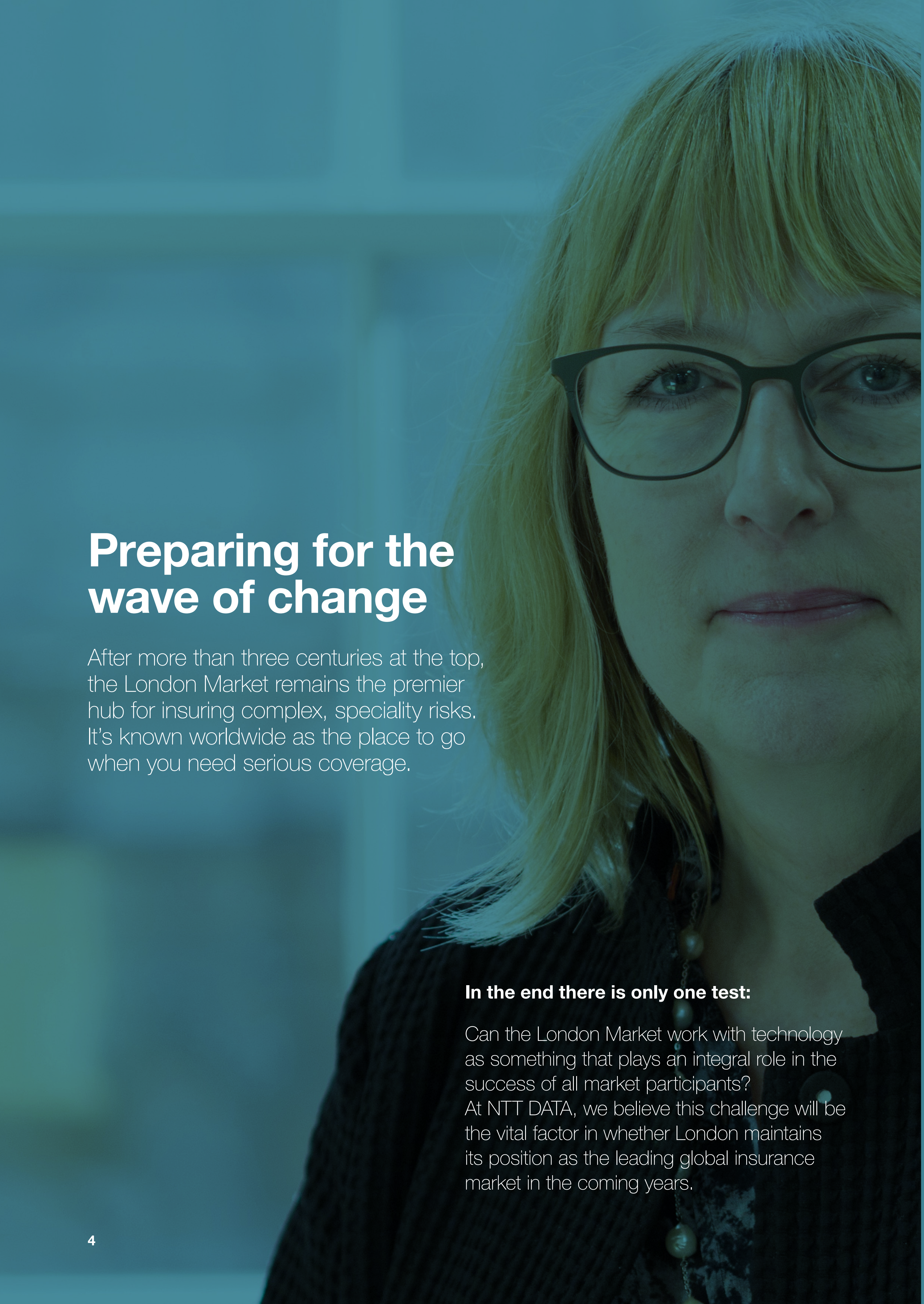
HISTORY ≫ MADE FASTER

PREPARING FOR THE WAVE OF CHANGE

Research Paper

NTT DATA

Contents



Preparing for the wave of change

After more than three centuries at the top, the London Market remains the premier hub for insuring complex, speciality risks. It's known worldwide as the place to go when you need serious coverage.

In the end there is only one test:

Can the London Market work with technology as something that plays an integral role in the success of all market participants?
At NTT DATA, we believe this challenge will be the vital factor in whether London maintains its position as the leading global insurance market in the coming years.

From steering cargo ships carrying vital materials through treacherous waters to quantifying the coverable value of David Beckham's right foot, the market has always managed to find a way to turn perceived problems into strengths.

However, today the market faces a challenge that is different from those that it deals with in the frontline of risk. How can it embrace the current wave of change, as solutions based on automation and machine learning are increasingly used to add value and provide customers with a better experience? Only by investing in new, smart solutions can the market hope to prevent the erosion of its expertise, reputation and industry-leading position in the face of newer, more agile competitors.

It is clear that leadership initiatives such as the Future at Lloyd's programme show a willingness to change. Lloyd's of London recognises that simply maintaining the status quo is not a viable strategy in the face of the emerging challenges to profitability. In fact, that status quo is already beginning to change, and delaying investment in digital solutions is no longer an option.

The legacy challenges facing almost everyone in the market are substantial and there's no overnight fix that can transform multinational insurance behemoths into agile technology start-ups.

In any case, the industry is not looking for a quick fix. Instead, the market must adopt the concept of exploiting technology as a core value. That doesn't mean making huge investments in cumbersome IT projects that run forever and cause mass disruption. Instead, incremental, iterative changes that bring improvement one step at a time can provide a more sustainable way forward. Lessons can be learned with each step and every iteration should provide measurable benefits to promote continuing support for modernisation at the highest level.

The London Market is unique in the business world. It's an interdependent ecosystem that requires nominal competitors to find joint solutions in their common interests. This is a great attribute that will serve the market well as it implements smart solutions to reduce friction and create added value. Crucially, the coming changes will also benefit customers in terms of drastically lower overheads, more accurate pricing and faster, hassle-free claims settlements.

That is why NTT DATA conducted this research into how companies in the London Market are readying themselves for the next chapter in their story.

It's clear from the report that the market is not yet where it needs to be. Technological change remains stuck in the IT department, with few companies reporting C-Suite involvement in transformation projects. Investment in many places remains moribund and capabilities are often hazy.

However, there is room for considerable optimism about where things are going. Around half of respondents view IT as vital to their business today. When asked about three years' time, that figure reaches 97%.

Of course, not everyone will get on board with the process. Some companies will fall behind as others double down on their technological advantages to save costs, increase profitability and ultimately offer a much-improved experience for customers.

Which camp will you fall into?

Succeeding at a time of great change

The London Market is in a state of flux. After years of heavy losses, rising competition and muted profitability, the sector has reached an inflection point where development and evolution are now imperative if it is to retain its place at the pinnacle of the global insurance world.

With Future at Lloyd's, PPL and others, participants in the London Market are taking steps towards a modernisation agenda that will set them up to meet the demands of the modern economy. This is much more than a cost-cutting exercise. Smart solutions can deliver a step-change in the level of service available to insurance customers, boosting the reputation of the London Market and its clients and cementing London's continued position as the market leader.

A lot of companies still resemble their counterparts of 20 years ago when it comes to how they operate and which platforms they use to do business. However, this is beginning to change.

Whilst there remains a long way to go, the market has recognised how transformational technology can be for business, unlocking the potential of these platforms to unveil new ways of working and providing opportunities that would previously have gone elsewhere. It's now time for London to follow through with these changes if it is to remain the dominant force in global insurance.

NTT DATA surveyed 100 London Market syndicates, brokers and managing agents as part of a drive to help the sector better understand where it is with technology and where it needs to be to meet its goals. The audience comprised a range of senior stakeholders with involvement in the IT process, including directors of broking or underwriting, heads of strategy, COO/CIOs and others.

The findings shed light on how the industry is beginning to rise to the challenge of the so-called digital economy, with responses indicating that companies are aware of the need to prioritise technological change – in theory at least.

They also show just how far some parts of the market are from getting to grips with the potential that lies within their organisation, particularly around data held and the variety of smart platforms available to help tap into that potential.

Researchers asked questions aimed at showing how London is dealing with different aspects of the digital journey:

- How are organisations and operations setting themselves up for success?
- Where are investments being made to implement technological change?
- How does London shape up against the competition?

NTT DATA's research shows a market that is willing and able to change but still hasn't quite got it right. What is clear is that the next few years will be crucial in deciding which firms survive and thrive in the digital economy and which will fall by the wayside.

What needs to change?

Business-as-usual is not a viable option going forward, say 60% of respondents, who believe the greatest need for change is in claims and back office, data analysis and modelling and market facing (broking/underwriting) functions.

Speed up claims handling

Speed is the key to customer satisfaction when it comes to processing and settling claims. It impacts directly on the reputation of the insurer, and often on that of the client too. There are several different smart approaches that can transform the way claims are managed.

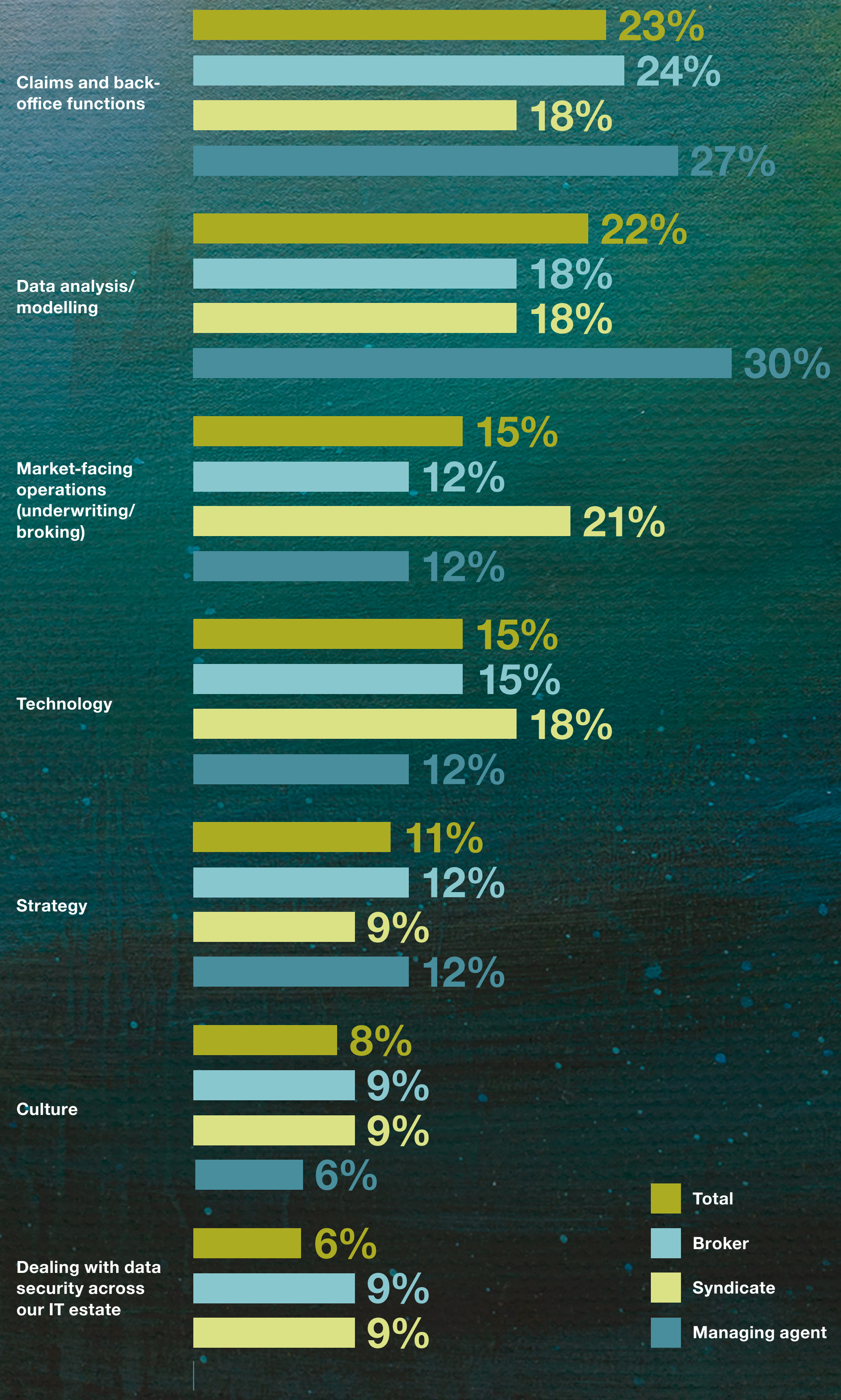
For instance, rather than assessing each claim from scratch, an automated system could use parametrics to pay claims automatically based on a series of triggers, such as weather, flood or fire reports. It's very efficient and results in happy customers, who could sometimes receive support from their insurer before they've even lodged a claim.

More generally, the increasing use of connected technology is set to transform processes such as monitoring assets and checking claims, thanks to the rise of the Internet of Things (IoT). From tracking ships using GPS and surveying tall buildings using drones, to using mobile devices to upload images in remote situations, technology will continue to make life easier for insurers and their customers.

The London Market is already taking its first steps in adopting some of these technologies. However, in common with most businesses, insurers tend to lag behind consumers when it comes to embracing new ideas. Even so, it's already clear that claims is one area where a range of technologies will make an enormous difference in terms of efficiency and cost, as well as massively improving the customer experience.

Q

In which area is there the greatest need for change?



Increase the accuracy of underwriting

Underwriting is extremely complex. Smart systems will enable more-effective pricing and make underwriters' lives much easier.

Underwriters rely on a vast range of historical data and other information to price their products correctly. Many rely on complex spreadsheets to try and manage the deluge of data they must wade through in order to make their decisions. Machine learning and artificial intelligence are ideal tools to sift through such data for meaningful patterns and predictors of future risks and liabilities. By freeing underwriters from the 'mechanics' of combing through the data, such systems will enable them to make significantly better decisions.

For instance, smart systems can triage information to highlight the most important factors that underwriters need to consider. They can also implement portfolio-based pricing and price similar products as a block, saving time and increasing efficiency. The resulting reduction in the routine workload will enable underwriters to focus more attention on high-value, hard-to-price business.

Customers of every type will benefit. Automation means that some will get their low-value policies issued faster, while others will enjoy more personal attention from the underwriter on high-value policies. Either way, happier customers boost business for insurers.

Make accurate predictions with improved data modelling

The insurance industry typically doesn't make more money by selling extra products. It makes more money by not underwriting bad risks. Feeding 'big data' into more-accurate modelling tools will help companies charge the right amount for premiums and make them more competitive. Increasing consistency will also help users consolidate high-quality data from different sources, making better models possible and ultimately promoting better business decisions.

More confidence around correct pricing enables brokers to shift their focus onto relationship management, again resulting in happier customers.

How are organisations addressing the growing importance of technology to deal with change?

Change requires the building of new processes and improvement of old ones if companies hope to take full advantage of innovation. Frankly, the London Market is not yet moving fast enough to keep pace with developments, not just in the insurance industry but throughout global businesses.

The technology exists to mitigate some of the forces that have held the market back, but organisations have either failed to grasp its importance or implemented it only on a piecemeal basis. However, with competition from countries such as Singapore intensifying, the UK industry needs to implement the necessary changes now or risk falling behind. Competitor hubs and InsurTechs are already poised to pick up any business that London loses.

Cost is at the heart of this competition and it's no secret that London can be an expensive place to conduct business. It continues to compete successfully thanks to its reputation for excellent customer service. Only innovation can drive down the cost base at the same time as boosting the quality of the services that make the market what it is.

While the London Market remains broadly confident in its leadership position, there are underlying factors that suggest many organisations feel more vulnerable to disruption than at first glance. For instance, around 64% of respondents said that technology makes new market entrants more agile than incumbents, thanks to their lack of legacy liability. Meanwhile, 43% said that they believed they were behind in the IT race compared to competitors.

This shows that technological change cannot be viewed as a business add-on. It is a core competency that must be mastered to retain a place at the top of the global insurance industry.

Recognising the need for change

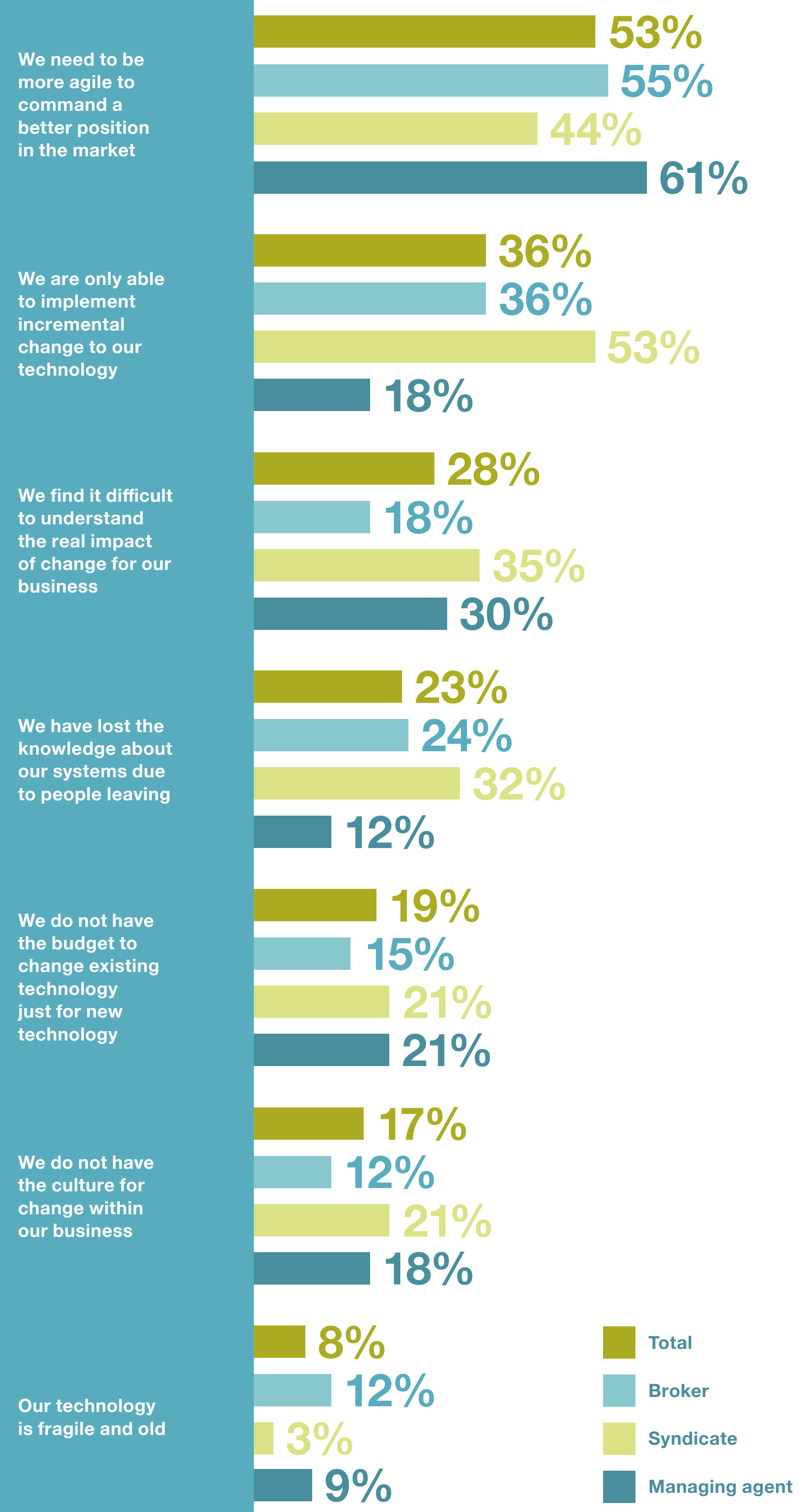
Perhaps the single most important statistic of the survey is the importance – or lack of it – that some firms attach to exploring new ways of working to reduce costs and improve customer experience in the coming years. Nearly half of those surveyed believed that improving their technological agility wouldn't be a barrier to competing in the market in the next three years.

Responses show that the London Market takes the view that it is on the right track when it comes to exploiting its own data and existing infrastructure to improve the business. However, this demonstrates a misunderstanding of just how far the market is behind many of its competitors and cross-industry peers.

In data analytics for example, there are waves of exciting new technologies that the insurance market could benefit from, but there is a gap between what the market believes is workable and what is available. There is often a belief that if the technology hasn't been used in the London Market, it is immature or unready to be tested in real-world conditions, despite being actively deployed throughout similar industries such as banking. This dangerous fallacy is distorting businesses' ability to grasp how far they risk falling behind.

Q

Which of the following applies to your business?



Key insights:

Organisations and operations

Around three quarters of companies have a formal digital strategy, with the figure slightly higher for brokers at 88%.

The IT/Technology team (48%) or C-Suite (46%) are most likely to be responsible for driving change. For brokers it was more likely to be the C-Suite (55%) but for syndicates it was more likely to be the IT/ Technology team (56%).

Almost all companies claim to have a data strategy that encompasses the entire scope of the business.

Most companies (90%) see themselves as being very successful in collecting, correlating and analysing all types of data and exploiting this for business, technical and operational insights. 95% see themselves as being extremely/very successful.

Cloud (36%), big data (28%) and IoT (26%) are the top three technologies or applications that are crucial to the ongoing development of businesses.

In search of 'bang for your buck'

Encouragingly, investment in IT is set to grow significantly over the next three years, doubling on average compared to the preceding three years. It will be critical that those investments are the right ones.

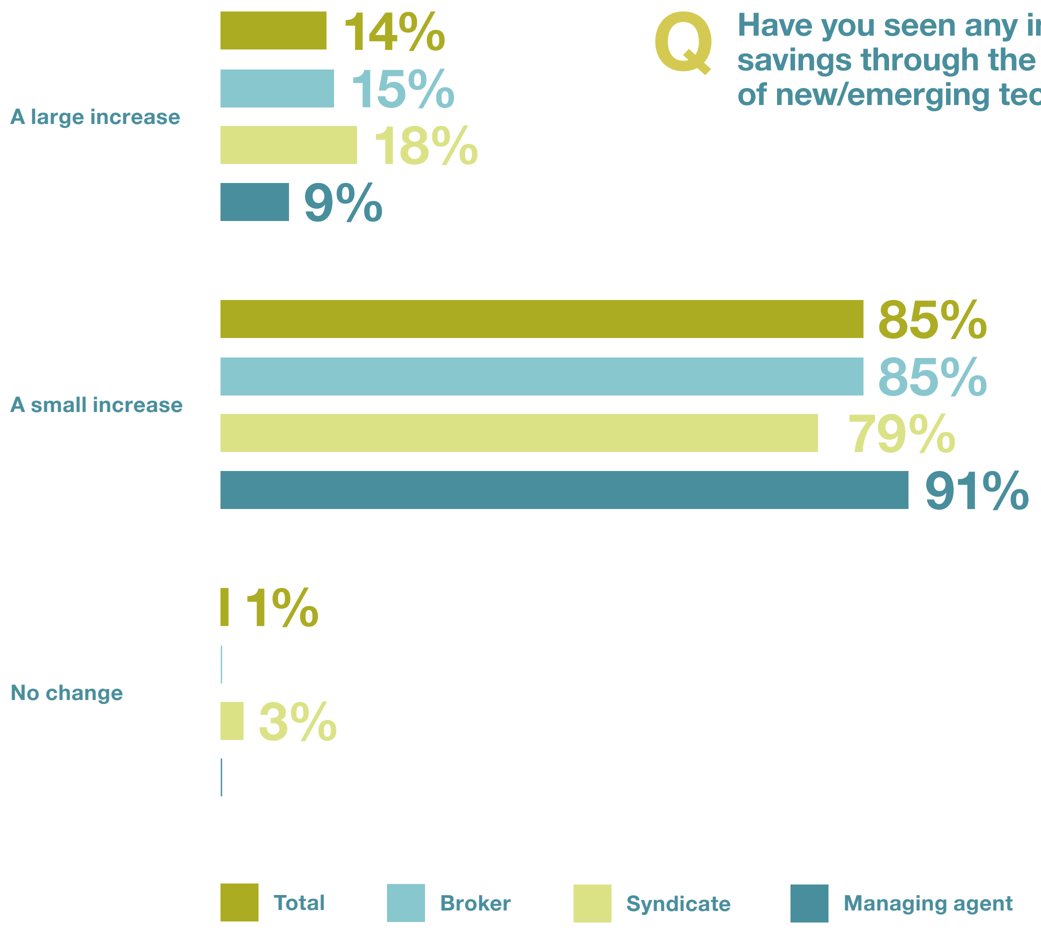
Some 67% of respondents said that innovation was key to their success. However, according to the research, the return on technology investments so far has been underwhelming for many. Most notably, a clear majority of respondents (85%) said that they had only noticed a small increase in cost savings by introducing new or emerging technologies, with as many as 91% of managing agents saying this was the case, compared to 79% of brokers.

This compared with 14% who said that they netted large increases in cost savings using new technology, and just 1% saying it had made no difference.

This clearly demonstrates that choosing the right technology investment is more important than simply throwing resources at the problem.

NTT DATA's experience shows that the chance of success is far higher when change is carried out in smaller iterations, rather than opting for an overall transformation that could take years to deliver measurable benefits. For example, why not identify some common processes and use machine learning to automate them? Every iteration will teach valuable lessons and provide a relatively rapid return on investment.

Q Have you seen any increase in cost savings through the introduction of new/emerging technologies?



Key insights:
Technology and innovation

In terms of how important new technology is to business now, just under two thirds (59%) said it is extremely/very important (Brokers 73%, Managing agents 48%). When asked the same question about the importance in three years' time – this rose to 97% (100% for managing agents).

Around three quarters of companies felt that their business was quite well informed about leading edge technology (a rating of 4 out of 5) in terms of how they use it to optimise and/or transform their business.

The most innovative ideas for transforming their business needs are most likely to come from the leadership team (70%).

Almost all the companies asked say they have a dedicated change function within their business, but two thirds say this has limited power.

4 in 5 companies have seen a small increase in cost savings through the introduction of new/emerging technologies.

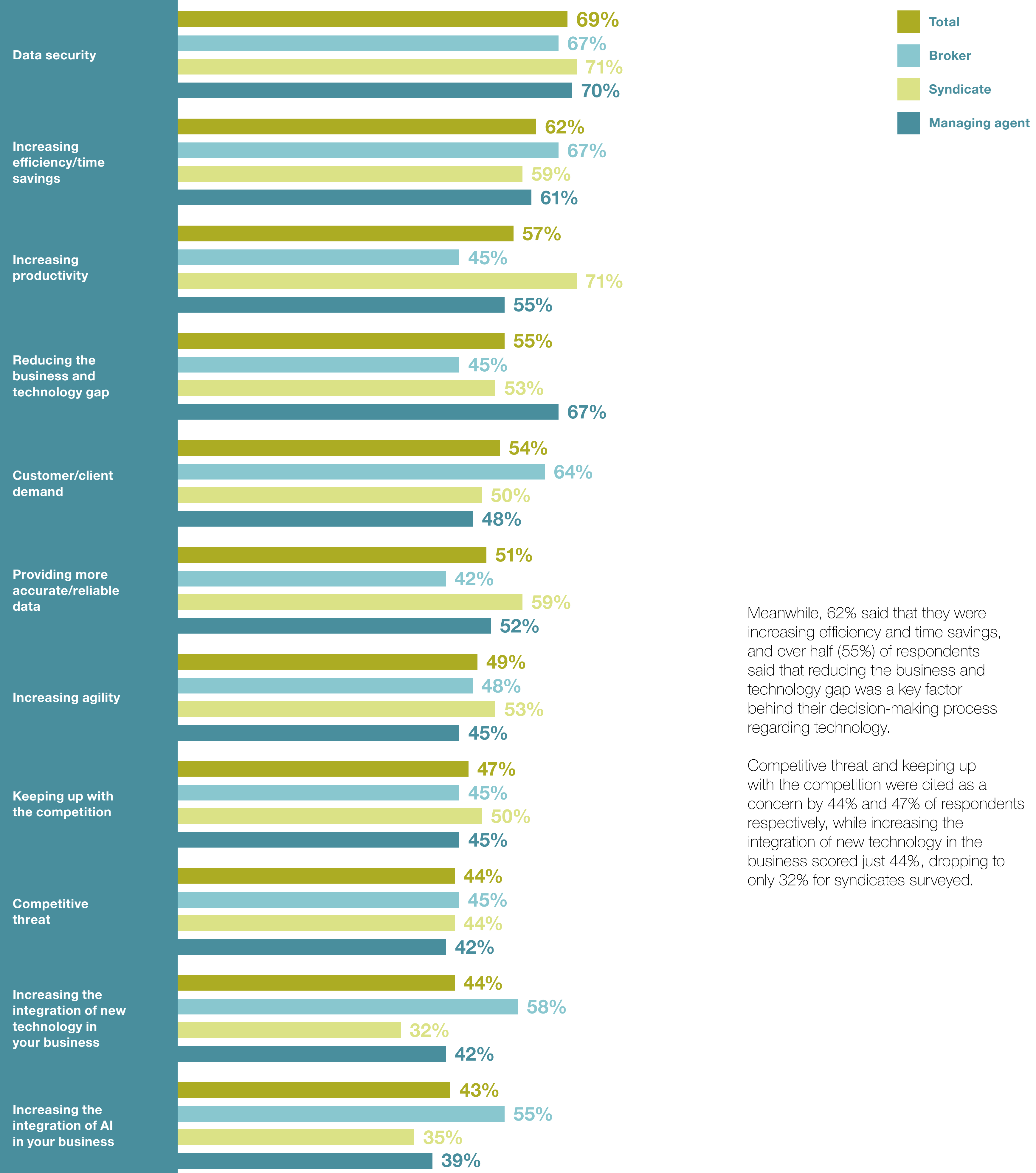
Around three quarters (70%) of companies feel that Robotic Process Automation (RPA) has the potential to have a significant impact on developing the business. Improving back-office operations was the area on which it was thought there would be the highest impact (73%) – 88% for brokers.

What's driving investment decisions?

In spite of the mixed picture regarding return on technology investments so far, two thirds of those questioned said they believed investments in technology were driven by a desire for greater efficiency in the business.

Q

What are the main drivers that would influence you to change in terms of your uptake/ increased uptake of the use of the latest technology within your business?



Meanwhile, 62% said that they were increasing efficiency and time savings, and over half (55%) of respondents said that reducing the business and technology gap was a key factor behind their decision-making process regarding technology.

Competitive threat and keeping up with the competition were cited as a concern by 44% and 47% of respondents respectively, while increasing the integration of new technology in the business scored just 44%, dropping to only 32% for syndicates surveyed.

New, innovative platforms are available that could have a strong positive effect on carriers and brokers, but companies feel that there are obstacles preventing them from taking full advantage of these, such as legacy systems or a lack of skills.

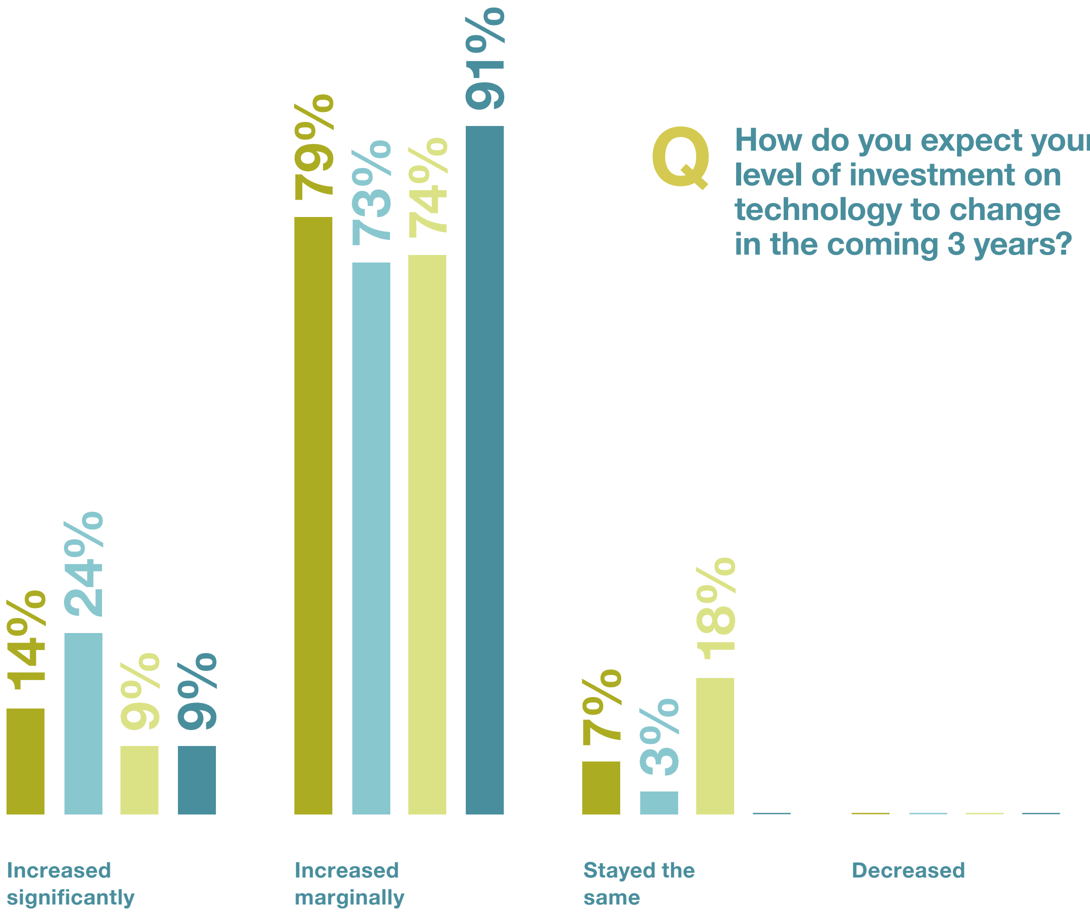
The data also shows how companies fear being left behind as the market around them changes. Some 69% of respondents agreed that they would be left behind if they do not invest in the business given the stance of Lloyd's, rising to 88% for brokers.

Meanwhile 54% said that they invested in technology just to keep up with the competition, while over 70% of brokers said this was the case for their companies.

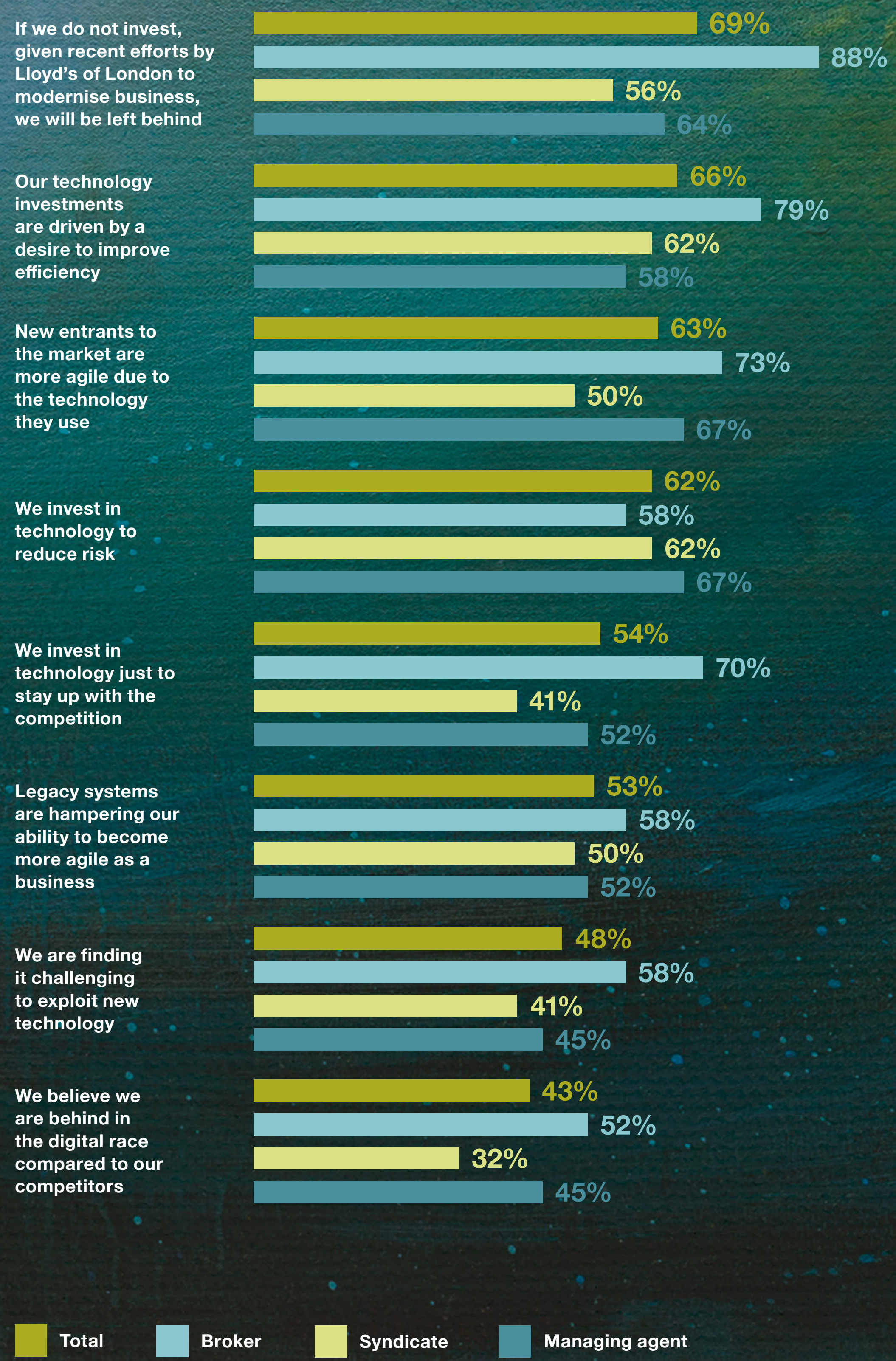
Despite the fears underpinning these views, some of the data suggests that London Market firms are in a stronger position than they at first seem. For instance, just 8% of those surveyed said that their technology was fragile and old, while only 19% said that they lacked a budget for investing in changing and developing new systems.

On average, respondents said 8% of their top line goes towards IT investment, while 79% expected this figure to rise over the next three years.

Q How do you expect your level of investment on technology to change in the coming 3 years?



Q How strongly do you agree or disagree with the following statements? Please use a scale of 5 for strongly agree down to 1 for strongly disagree.

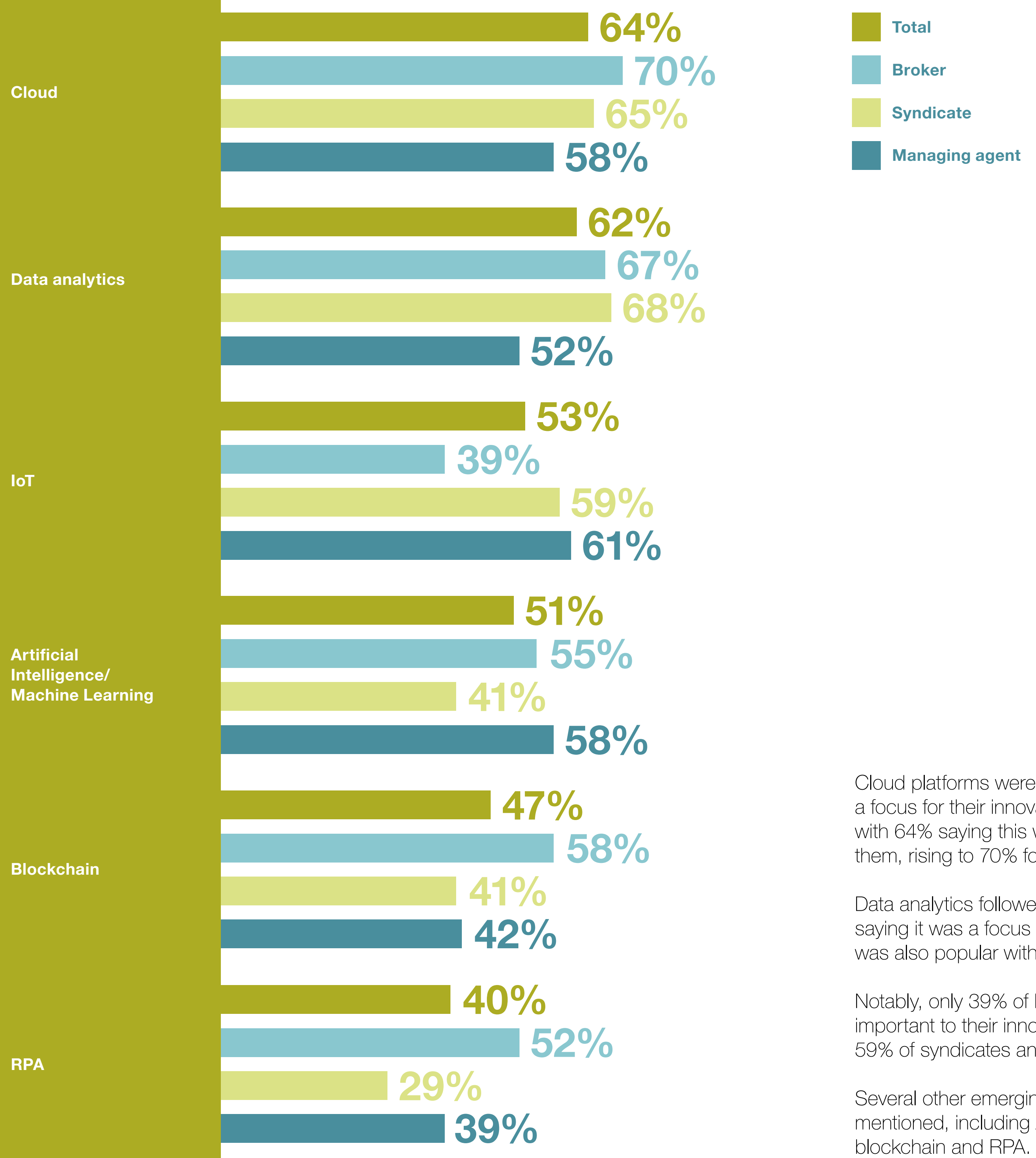


Which are the key technologies?

When it comes to which specific technologies the London Market views as the right areas to focus their efforts and capital, the verdict is more split. No single platform seems to have emerged as the dominant 'must have' as the sector sifts through different options.

Q

In which areas are you focusing your innovation budget and investment?



Cloud platforms were most cited by respondents as a focus for their innovation budget and investment, with 64% saying this was an important area for them, rising to 70% for brokerage companies.

Data analytics followed closely behind, with 62% saying it was a focus area, and the growing IoT was also popular with 53%.

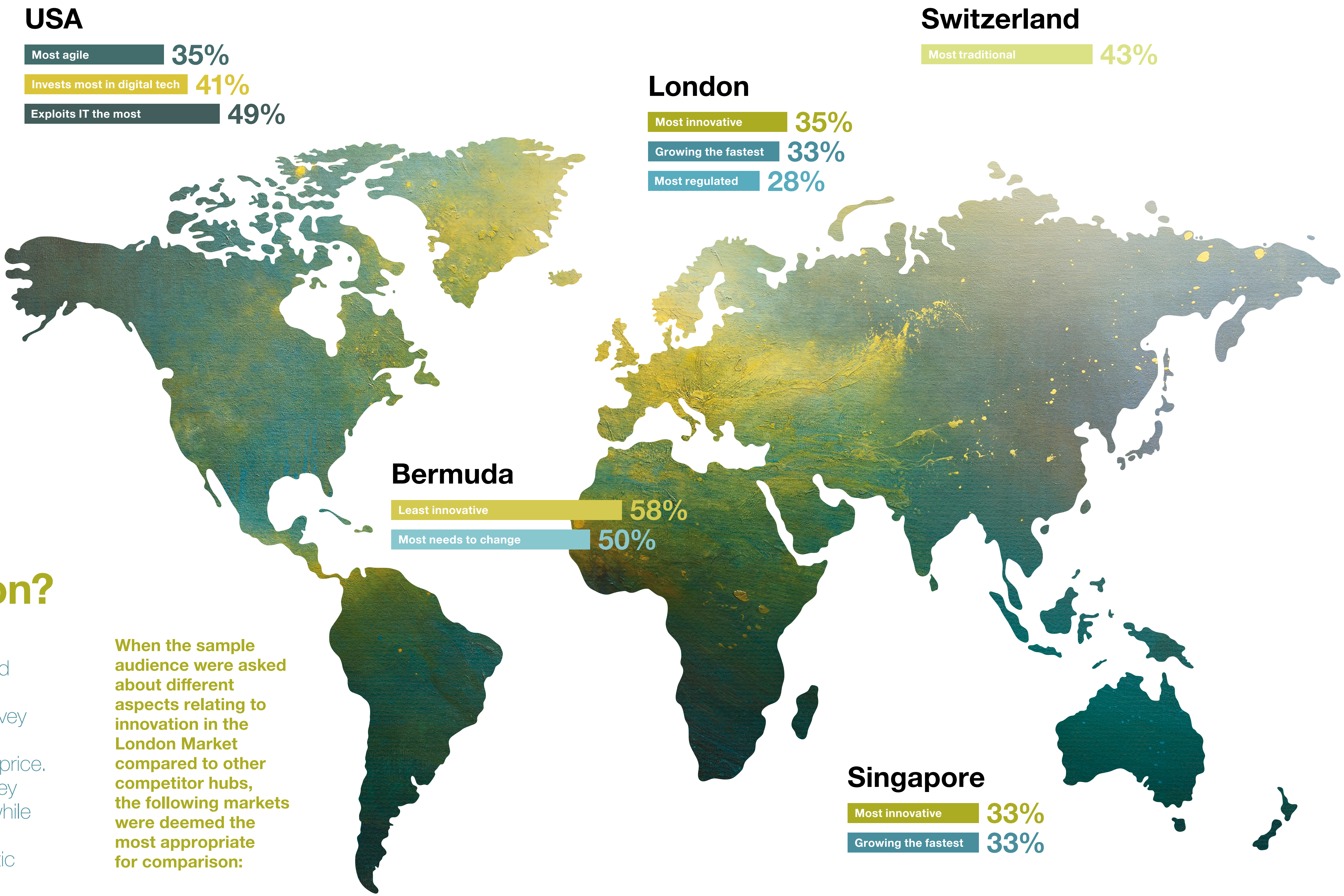
Notably, only 39% of brokers said that the IoT was important to their innovation efforts, compared with 59% of syndicates and 61% of managing agents.

Several other emerging technologies were also mentioned, including AI and machine learning, blockchain and RPA.

How does London measure up to the competition?

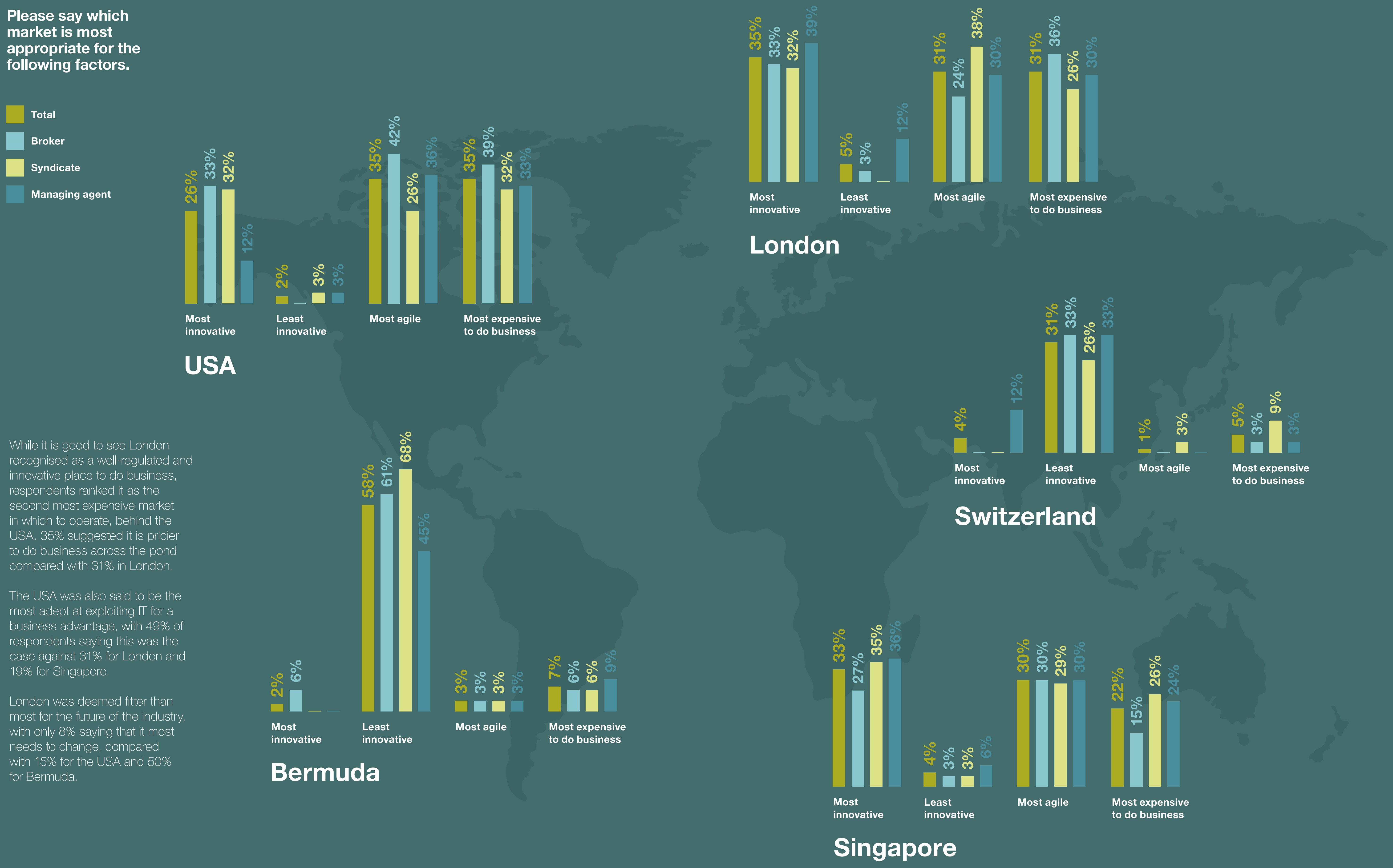
London is perceived as innovative, well-regulated and relatively fit for the future, according to survey respondents. However, that quality comes at a price. Technology holds the key to driving down costs while preserving the quality services so characteristic of the London Market.

When the sample audience were asked about different aspects relating to innovation in the London Market compared to other competitor hubs, the following markets were deemed the most appropriate for comparison:



Q

Please say which market is most appropriate for the following factors.



While it is good to see London recognised as a well-regulated and innovative place to do business, respondents ranked it as the second most expensive market in which to operate, behind the USA. 35% suggested it is pricier to do business across the pond compared with 31% in London.

The USA was also said to be the most adept at exploiting IT for a business advantage, with 49% of respondents saying this was the case against 31% for London and 19% for Singapore.

London was deemed fitter than most for the future of the industry, with only 8% saying that it most needs to change, compared with 15% for the USA and 50% for Bermuda.

What's holding organisations back?

Willingness to change is one thing. Being ready to make that change is quite another. While London Market companies seem ready to get on board with technological changes, there remain significant barriers to overcome before the sector is fully ready to implement them.

The drag on agility caused by legacy systems is one cause for concern, as is the skills/ knowledge gap. In addition, transformational change requires strong leadership and, for many respondents, the lack of a technology voice at the C-Suite table was also an issue.

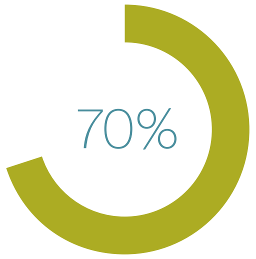
Addressing the legacy lag

Legacy systems remain key impediments to change in many organisations.

The survey shows that legacy systems still impede companies' ability to become more agile as a business (53%) and the same percentage of respondents recognise that they will need to be more agile to compete successfully. The flip side of this is that 47% of London Market companies said their systems were not an impediment to improving their ability to operate in the market and that they were sufficiently agile already.

This suggests a lack of understanding about just how far behind some segments of the market are compared to other industries. Competitiveness in the modern economy is almost synonymous with agile operating methods and systems, and without these companies can find themselves quickly falling behind competitors with more up-to-date platforms. The gap then compounds over time, pushing those who have failed to develop further and further behind the pack.

It is imperative for firms to develop an approach to new technologies and change that sets them up for success over the next three years. The coming years will be a defining moment for the market, and without investment in terms of both time and capital into overcoming the drag of legacy systems by building systems for the future, London's competitive edge will diminish.



think RPA has the potential to have a significant impact on developing the business

Focusing on future platforms

The survey results give a glimpse into how different players in the London Market view emerging technology and how it can help their business overcome 'legacy lag'.

Just under half of respondents (48%) said that they find it difficult to exploit new technologies for any advantage, while just 36% said they were able to implement incremental change in their existing tech stack.

Close to three quarters (70%) of companies feel that platforms such as robotic process automation (RPA) have the potential to have a significant impact on developing the business. Improving back-office operations is expected to show the highest impact for all types of companies (73%), with that figure rising to 88% for brokers.

This ties in with almost a quarter of respondents (23%), who pointed to the claims and back-office functions as those in greatest need of change, while 22% identified data analysis/modelling, rising to 30% for managing agents.

RPA allows companies to substantially reduce the amount of employee time spent on administrative and operational tasks, as well as allowing other functions to focus on the value additive aspects of their roles.

Skills and culture

Anxiety over a lack of appropriate tech skills was a concern for 16% of all respondents and 32% of syndicates. This combines with a fear of change (14% total and 21% for syndicates) to impact on the uptake and ease of integration of the latest technology within these businesses.

One thing is certain: Change will not succeed unless people embrace it.

Companies also appeared to be unsure as to how ready their business was to adopt the latest technologies and processes, with most saying they were only somewhat up to date with what was out there. Overall, not even half (48%) gave themselves a score between 3 and 5 out of 5 as to whether they have completely caught up with the latest technology and processes available.

Despite this, 68% of those surveyed said they felt comfortably ahead of the pack when it came to technology, processes and digital change. Whether that confidence is well placed in view of some of the other findings is debatable.

One thing is certain: Change will not succeed unless people embrace it. Support for change must be nurtured by involving everyone and repeatedly checking that any proposals can successfully meet their needs and help them overcome their business challenges.

Many people are simply frightened by change, but most will have justifiable concerns. For instance, incentive schemes may have to be revised to ensure they remain fit for purpose. Brokers will not want to forego incentives by handing over to automated systems, for example, so perhaps the answer is to shift incentive schemes and tie them instead to how many claims are made against particular policies.

Even so, the fact is that no concessions can hope to bring everyone on board. The other lesson to bear in mind, therefore, is that change does not have to happen overnight. Perhaps new ways of working can be adopted initially by newer recruits, allowing time for more established personnel to recognise the advantages?

Who owns the IT change function?

Some definite good news was the high proportion of those surveyed (64%) who said they have a technology change team in place. However, around two thirds said that this unit has limited power.

While it is encouraging that so many companies have a team dedicated to dealing with technological change, the worry is that many of them lack the clout to make serious headway with key decision makers in the organisation. Without that power, the tech team risks being relegated to a bit player, which will harm the company in the long run.

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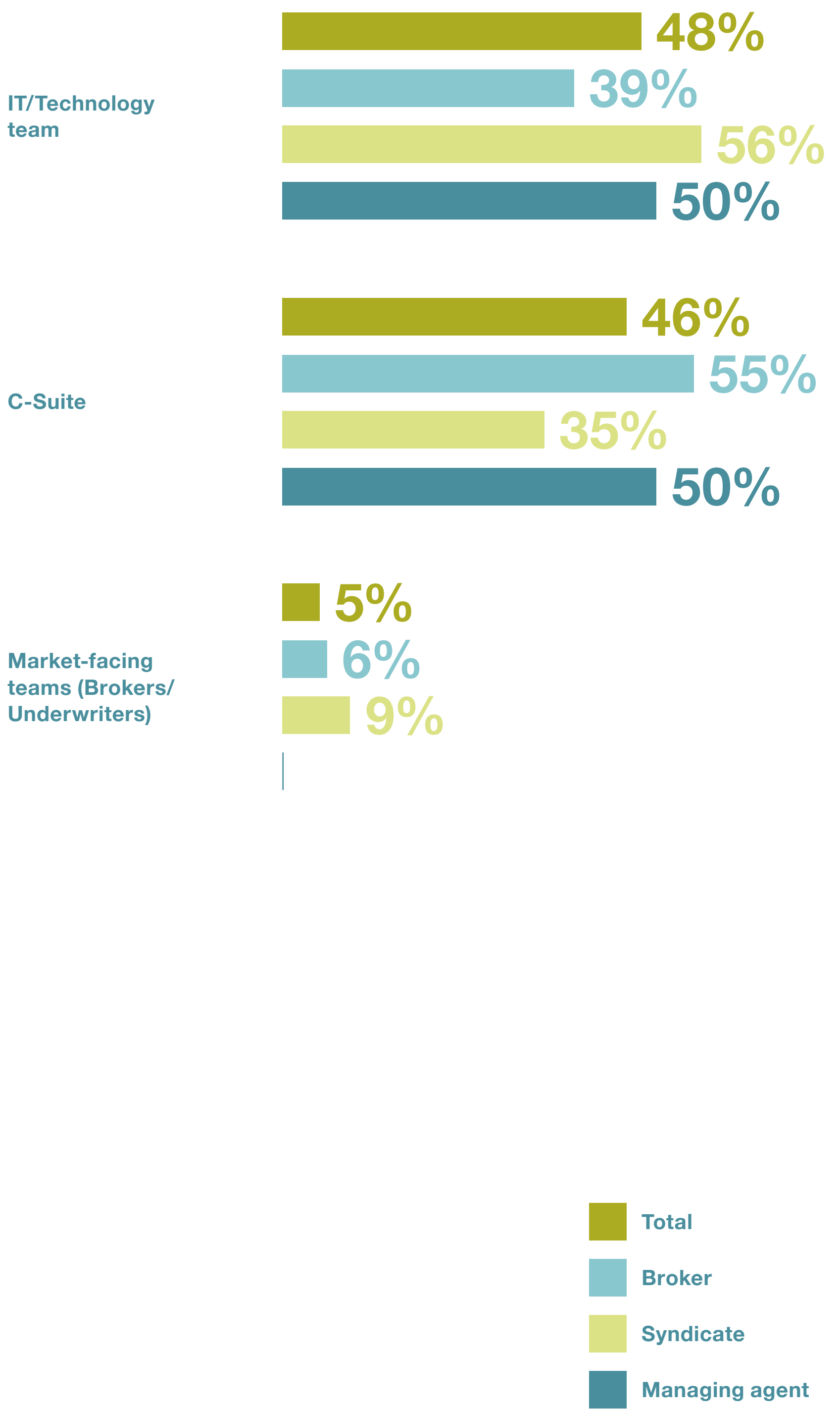
Which business function is responsible for the digital strategy?



The IT/technology team (48%) or C-Suite (46%) are most likely to be responsible for the technology-driven change. For brokers it was more likely to be the C-Suite (55%) but for syndicates it was more likely to be the IT/technology team (56%).

Positioning the responsibility for change within the IT/technology team or the C-Suite can both work, but there are major pitfalls to avoid in each case.

If the C-Suite takes charge, do the personnel at that level have the right skills and understanding of technology to drive technology-focused projects forward effectively? If the IT/technology team takes charge, are they sufficiently empowered to drive the transformation or are they stuck seeking approvals from the C-Suite at every turn?

An obvious solution is for the C-Suite to take responsibility for recruiting and assembling the right change team and then to step back and delegate genuine decision-making powers to the experts. However, effective delegation is often easier said than done.

Where is the top-level leadership?

NTT DATA believes that many transformation programmes fail because of the lack of senior management sponsorship. Strategies must be led from the top. They cannot be viewed as a separate, internal unit that has little to no connection with the overriding objectives of the business.

The C-Suite must be closely involved. Without that senior buy-in, projects are often left to wither on the vine, too often producing well-meaning but ultimately unfulfilled potential that ends up petering out without any real results.

As mentioned already, only 35% of Lloyd's syndicates reported in the survey that the responsibility for digital strategy lay with the C-Suite decision makers in their organisation.

Technology will need a strong voice at the top table, whether directly or through committed sponsorship and the delegation of genuine responsibility for change to specialist teams in charge of modernisation efforts.

Conclusion

This research demonstrates the great challenge facing the London Market as it seeks to modernise and deal with the economic demands of the coming years. Businesses need to drive down their cost base and, even more importantly, raise their game when it comes to designing customer satisfaction into their products and services.

The research identifies several hurdles that companies in the market recognise are holding up progress, ranging from inconsistent data and the culture of the business, to finding the right talent, budget and infrastructure to improve.

The good news is that all these issues are surmountable. While there remains a long way to go, London is gearing itself up to retain its place at the top of the global insurance market for many years to come.

Contact our experts to discuss the research further and find out how NTT DATA can help.

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HISTORY >> MADE FASTER

Harbinger, oil on canvas, 2014, Samantha Keely Smith

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