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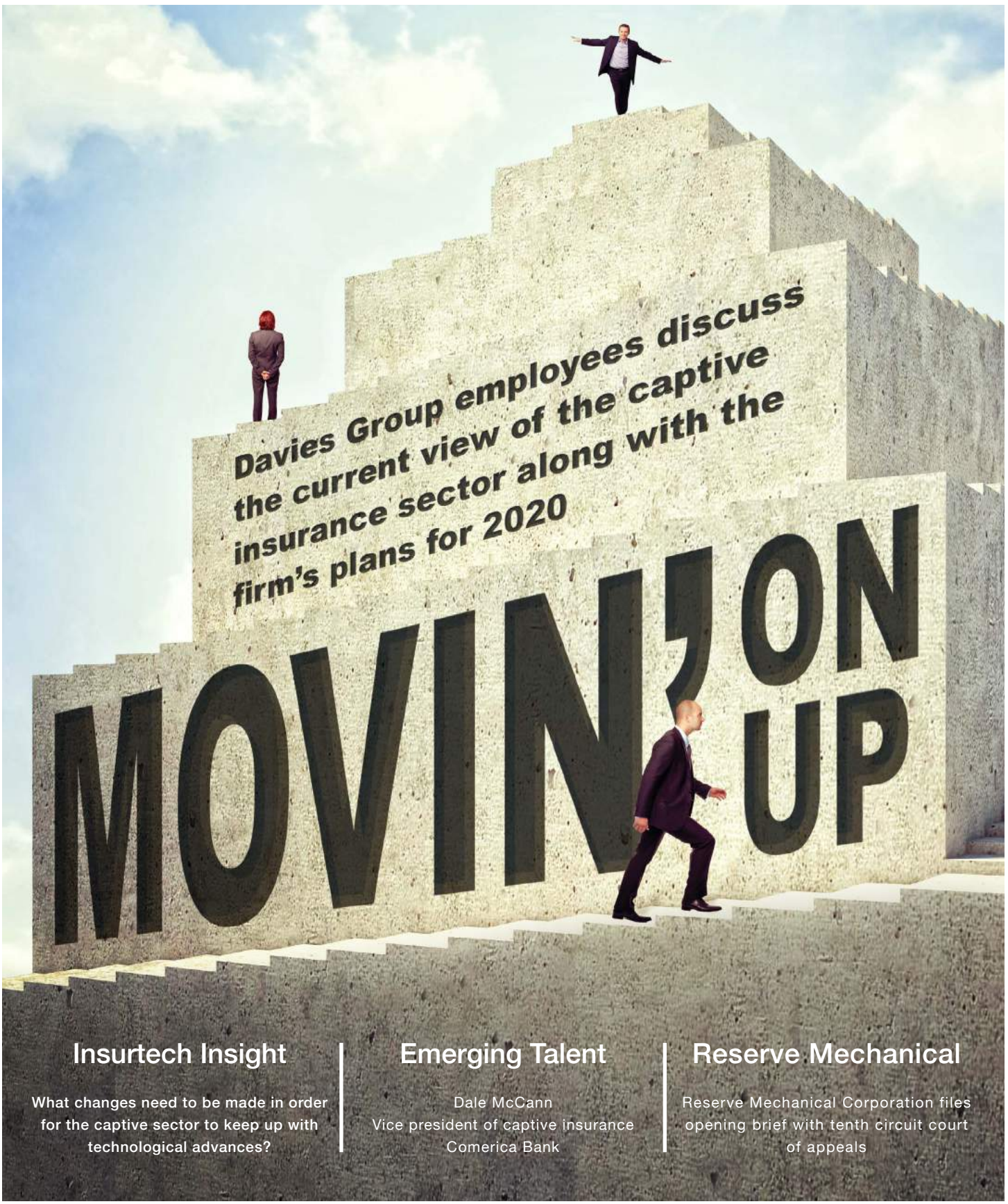
04 March 2020 - Issue 193



Insurtech Insight

What changes need to be made in order for the captive sector to keep up with technological advances?

Emerging Talent

Dale McCann
Vice president of captive insurance
Comerica Bank

Reserve Mechanical

Reserve Mechanical Corporation files opening brief with tenth circuit court of appeals

A window of opportunity

As technology advances, the pressure is on to keep up the pace, but with the 'technology generation' lacking in the captive sector - what changes need to be made?

The rise of insurtech, a combination of two words 'insurance' and 'technology', was recognised in 2010 following an initiative from the banking sector; 'finance' and 'technology' for 'fintech'.

It mostly refers to the use of apps, big data, machine learning, and other transformative technologies to automate and improve processes across the insurance market – from marketing and policy origination through underwriting, services, and claims.

As technology becomes more powerful, so does the pressure for businesses to keep on top of the trends and create technological programmes and products that can be cost-efficient or advance their business lines. According to Willis Towers Watson's Q4 2019 insurtech report, what has been "clear for all to see is the uptick in investment over the past year".

The report suggested that global investment into insurtech had started to stabilise at approximately the $1.4 billion mark looking at Q4 2018 to Q3 2019, however, it showed that Q4 2019 "bucked the trend" as it reached an all-time investment high of almost $2 billion.

It found that 2019 also saw a 90 percent jump in investment rounds that exceeded $40 million when compared with 2018.

But the latest technology is generally linked with the younger generation and with the captive insurance sector currently suffering from a talent crisis, is the captive insurance sector missing out on what could help them prepare for the present as well as the future?

Footing the bill

Like any new initiative within a company, it needs a financial aspect to help support the idea. This is certainly the case for any sort of technological plans, as they need to be trialled and tested while also keeping security as a priority.

Discussing technological innovations within the captive insurance sector, Rocco Mancini, vice president of Marsh Captive Solutions, suggests the sector is rapidly evolving. He states: "Captive service providers and a growing number of captive owners are investing in technological innovations."

Also weighing in, Helga Viegas, director of digital and innovation at MAXIS Global Benefits Network (GBN), explains: "We're seeing a growing interest and investment in technology innovations by the captive industry. Risk management is all about data, and technology provides increasingly sophisticated tools to collect, combine, model and analyse data."

Viegas says that technology will also allow captives to automate tasks like claims management, accounting and administration.

She suggests that investing in technology innovation "is a no-brainer" for the captive industry.

On the benefits, Peter Carter, head of captive practice at Willis Towers Watson, explains that the automation of manual tasks will improve accuracy and efficiency.

He says: "Installing the latest technology will allow firms to run analytical algorithms and data science projects to optimise the use of the captive and manage risk more efficiently/effectively."

Supporting Carter's comments, Laurie Solomon, strategic advisor at LineSlip Solutions, explains that new technology adoption will "drive speed, accuracy, data quality, data roll-up, decision-support, improved collaboration and security" for a company.

However, Viegas maintains that it's not about stating the benefits but more a case of survival.

She highlights that "technology has the great potential of reducing the cost of providing a product or service and also improving it. Combined with great people who can implement and use the technology to its maximum potential, it's a winning formula".

She stresses that "businesses need to implement technology and invest in up-skilling their people to survive in a competitive environment".

Keeping on trend

Although insurance industry experts believe the captive industry is up to speed with the latest technology, Soloman suggests that there's "a huge opportunity for further development as insurtech and technology in general expands."

She argues: "New industries will bring new needs. Captives will be willing and able to utilise data that comes from outside the traditional avenues. That's one of their strengths. I hope that the struggle to gain applicability acceptance isn't too prohibitive. That's an industry challenge."

Mancini agrees with Soloman on the sector not being behind in terms of innovation as he believes that the captive industry is one of the nimblest segments of the insurance industry.

He adds: "The nimbleness of the captive insurance industry creates an ideal and innovative environment for not only piloting captive specific technology innovations but also technology innovations that have implications for the insurance industry as a whole."

The dark web

As advantages of technology become greater so does the risks of cybercrime. Mancini says that cybersecurity will always be a leading reason that companies stray away from implementing the latest technology. However, he suggests that these concerns "should not stop people from at least discussing and exploring these technologies".

Exploring innovative technologies can create opportunities to perform a full review of the firm's cybersecurity practices and standards, which Mancini believes "can only help to improve cybersecurity and to reduce the risk of cyber breaches".

Soloman thinks "it's an important consideration", but points out that technology and innovation are not going to stop due to a fear of 'what-ifs'.

She emphasises: "The best firms and industries will find ways to continually adapt to new technology while protecting their data. Cybersecurity is an industry unto itself and what's exciting is that insurtech can leverage the best security practices without having to recreate the wheel and can instead focus on driving innovation and solving challenges in the industry."

Meanwhile, Carter disagrees, suggesting that technology solutions allow a firm to identify threats and vulnerabilities more effectively than traditional approaches and so develop appropriate mitigation strategies.

He says: "Technology is part of the solution to cyber threats, not the problem."

Time for school

It is normal for a business to change and adapt to keep up with the latest trends of the world, however, technology has changed so rapidly over the last 15 years, it can be hard for companies to keep the same pace.

One reason for the falling behind of some firms is the lack of education around new technologies. Viegas outlines that first, captive managers need to be invited to look at what's happening beyond their organisation.

Viegas suggests that attending conferences and events to hear directly from the innovators as well as collaborating with others in the industry is important to keep up to speed.

She continues: "By speaking to trusted suppliers and consultants, asking them about the latest developments, the most interesting projects and the innovations they're seeing in the market."

Collaborating with innovation labs and venture capital arms, speaking to scouts, seeing how new ideas are being

incubated outside and brought into larger organisations is also important, she adds.

Additionally, Viegas notes that reading about technology innovations, new products, services and case studies, not only within the captive industry itself but also in other data-heavy sectors like healthcare, broader financial services, transportation, technology and communications is important.

Soloman maintains that companies need to be open to change as well as being curious about new ways to tackle industry challenges.

> "The PCC is also appealing to some business owners that may want to get their feet wet in the captive insurance industry by first participating in a cell of a sponsor's PCC"

She suggests that they should engage with insurtech vendors in order to learn what's out there.

She adds: "There's no risk to seeing a demo or asking for more information. When it comes to technology adoption, they shouldn't be afraid to take calculated risks as this is the only way that we will be able to learn and advance innovation."

Millennials are known to be very good at using technology along with Generation Z, who grew up with new and advanced technology at their fingertips. With a talent crisis among the captive insurance sector, a view of having a younger generation working in firms would help advance technological innovations.

Mancini anticipates that the pace of innovation will increase significantly by having young people enter the sector.

He says: "Young emerging talent from a digitally native generation will bring a new perspective, however bringing a new perspective will not do anything unless that perspective can be shared throughout the industry."

The captive insurance industry can both attract and retain new talent by actively communicating with young emerging talent and by working to understand their perspective, he notes.

Actively asking young emerging talent for their perspective on innovation, according to Mancini, "can add autonomy to their role while also aligning them with the company's mission, which is two critical aspects in attracting and retaining these individuals".

Soloman adds: "There is such a window of opportunity right now for those who can bridge the gap between 'how it was' and 'how it could be'. Young talent is used to digital-first solutions and using data to drive decisions. These folks will demand innovation when they see today's insurance processes."

Swiping right on the future

In the next five years in terms of innovation within the captive insurance sector, Viegas believes that the industry will be seeing more innovations.

She notes that "a large driver for that is the current surge in publicity and media coverage for hot concepts like artificial intelligence (AI) and blockchain. Combined with the interactions we're seeing with insurtech, consultants and suppliers, the awareness around tech innovation is now higher than ever in the industry."

Viegas argues that captives are in a better position to innovate than large insurance companies, "as they are smaller and generally have been around for less time".

She adds: "As long as they invest now in up-skilling people and recruiting new talent and commit to exploring promising technologies, they are well set for adapting to future tech trends."

According to Carter, data and technology "will mean the discipline is more seamlessly integrated with broader risk management solutions".

He explains that the "skillset within the industry will shift from being predominated by skilled technicians and CPAs to technologists and data scientists".

Mancini foresees one of the most interesting changes in five years' time will be the rise of captive programmes that were simply infeasible before technological innovations were implemented.

He explains: "In the past five years, technological innovations played a role in enabling new commercial captive programmes, where the captive writes third party risks, and this trend will continue with new, unique captive programmes emerging over the next five years as more technological innovations become mainstream."

Soloman adds that there's no doubt that the use of AI and data analytics will absolutely become commonplace.

"These technologies will make risk-taking decisions faster, more accurate and more efficient. I definitely believe that captives will be doing amazing things with data that seems like fantasy today." ■