August, 2021





What will the insurance business look like in 2031?

APPETITE TO INVEST TECHNOLOGY AUTOMATION APPROACH TO PRODUCTS CORE INSURANCE SYSTEMS PARTNERS

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#### **KEY FINDINGS**

- $\bigcirc$  The Cloud will be the most influential technology
- $\bigcirc$  An automation rate of 70% is achievable
- Reporting and policy administration to be broadly automatised
- ⊘ Traditional and modular products continue to prevail

## Foreword

#### 20 years of Sollers Consulting – 20 years of technological progress

When we founded Sollers Consulting 20 years ago, we knew that there would be fundamental changes happening. Paper based processes were a common practice in the financial industry at that time. Companies such as Axa, Allianz, Zurich, Generali, LV=, Cardif in the insurance industry and ING and Santander in the banking industry have made significant achievements in creating modern flexible IT infrastructures. Now they are preparing for the next steps.

During the year of the 20<sup>th</sup> anniversary of Sollers Consulting, we asked our customers in Europe and beyond about their goals in digitalisation and how they want to achieve them. The willingness to innovate is widespread and innovation will affect crucial functionalities such as reporting, policy administration, claims handling and sales. Insurers will look for more partnerships. In order to scale up their IT, they will focus strongly on cloud solutions. A detailed summary of the Sollers survey can be found in this white paper. The 20<sup>th</sup> anniversary of Sollers Consulting brought fundamental changes to our company as we sharpened and bundled our expertise to better serve the industry. Cloud and DevOps have become an important part of our offering as companies in the financial industry need to speed up their innovation efforts. Banks and insurers make great efforts to digitalise insurance sales. To support this, Sollers has increased the flexibility of its insurance platform RIFE. Data services, process automation and software quality assurance have become an integral part of our offering.

We would like to thank you for the trust you put in our company and we are looking forward to new projects to build the financial industry of the future.



Michał Trochimczuk Marcin Pluta



Technological trends that will change the insurance business



A music producer who would have tried to predict the future in the year 2000 would have wondered a lot about the changing styles of music, singers, bands and shows, but probably not about the distribution. Record stores were by far the dominant channel of distribution, a cornerstone for most music studios throughout the 20th century. It seemed unthinkable that this would ever change. Some small-scale experiments which distributed music over the Internet were starting to show up. They were considered exotic and small newcomers. Over the next couple of years, the non-physical distribution of music continued to exist, but it remained a novelty, taking over only a modicum of market share.

When the first iPod was presented in December 2001, this began to change. But many managers made the mistake of relying on experience and looking at historical data. The change was slow at that point, but soon it would be too late to react. When the first smartphones appeared in 2007, the digital distribution, especially streaming, picked up the pace. In 2014 non-physical distribution overtook physical channels, and by 2017 streaming alone became the main source of music sales. It took time, but at a certain point the conditions on the market caused a major turn – the technology improved a lot and was now also cheap enough to allow for a large-scale business case, habits had changed to allow a wider adoption of novelty models, and suddenly the industry was completely changed.

The insurance sector finds itself today in a situation comparable to the one of the music industry 20 years ago. Something is going to change; nobody just really knows what. There are several trends and technologies which will have a deeply transformative impact on the insurance sector.  $\rightarrow$ 

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#### The Cloud

# **T**he Cloud will play a significant role in change, and we already see clear developments among insurers in all markets. Within the next ten years cloud-based systems are expected to become the standard approach in the industry. Insurers will benefit from cost optimisation, scalability, flexibility, and a shorter time to market. Insurers, banks, and other companies from the financial industry have just started to exploit this potential. Today, they often lack a clear vision and a strategy as they are concerned about the uncertainties resulting from data security or the regulatory frameworks. But there is a tremendous potential in the Cloud as it enables insurers to uncover new potentials for growth. There are many reasons why insurers will move to the Cloud.

#### **KEY FINDINGS**

- ⊘ Cloud increases flexibility.
- It allows to ramp up and down capacities.
- Sudden load peaks can be handled easily and without performance bottlenecks.

#### Data

As insurance is a virtual product, it potentially can be completely digitised and automated. The insurance market has been lagging behind other industries. To overcome this gap insurers will need to redefine their approach to data. Data and artificial intelligence will enhance customer experience and automate almost all the insurance business processes, ranging from risk assessment, tariff calculations, payments, product offering, fraud detection and claims handling. The enormous potential of data analytics, machine learning, and artificial intelligence is mostly untapped. It will have a fundamental impact on the industry's changing business processes and even on the approach to products. The following trends will lead insurers towards an improved use of data:

- Digital: Traditional insurance activities and products will become fully digitalised
- Distribution: Digital customer contact channels will be dominating
- Ecosystems: Product providers, services and partners will be seamlessly integrated

#### **Devops and Agility**

Insurers have skilled IT people and these specialists are now among the drivers of change. In the next ten years the technological development will accelerate, and insurers will look for ways to cope with it. To speed up, they will look to implement Devops and other methodologies of agile development in their organisations. DevOps promotes agility, which is something insurers still lack. It will be crucial for them to overcome silos and ensure a close, agile, and scalable cooperation between the IT departments and the employees from the business side. DevOps will change the industry as companies will be creating flat organisations, different from the traditional insurer we know. Insurers will seek, achieve, and introduce:

- a shorter Time-to-Market in their IT systems
- on-demand releases, allowing for more flexibility
- considerable time savings on configuration of environments and testing
- a higher quality and reliability of IT solutions



#### THE FUTURE OF INSURANCE

#### **Telematics/Usage Based Insurance**

**T**elematic motor insurance is a trend that has already been investigated and tested by many insurers. Its adoption is still not measuring up to the hopes of those who saw telematics as the future of insurance. Apart from Italy no major European market has witnessed a significant rise in telematic insurance products. The problem seems to be to track the usage. In Italy, the adoption of telematic motor insurance is supported by the regulator. Agents are obliged to present two offers to a customer looking for a car policy: a standard insurance and a telematic policy. Trov, one of the first insurtech start-ups to explore the field of usage-based insurance (UBI) with a simple on-off policy, has exited the field and now focuses on providing the technology to other companies, including Waymo, the autonomous driving technology development company of Alphabet/Google.



This shift is related to another major trend – the sharing economy. Insurance policies automatically switching between two different "modes" for Uber drivers or AirBnB renters are already present on the market. In the long term, UBI may face a kind of competition from a model in which owners of a large amount of insurable goods (e.g., vehicles or apartments) insure them in a fleet-like model, providing a service to their customers with insurance cover as part of the package. Which of these models becomes more prevalent remains to be seen, as there are numerous large-scale factors at play.

#### **5G standard**

The new data transmission standard 5G can bring several, more concrete benefits. With the possibility to service a million devices per square kilometre it is seen as a major enabler for a wide adoption of the Internet of Things. 5G will help somehow to connect devices. The Internet of Things will provide masses of data that can be used for add-on services. Insurers must create IT architectures and the infrastructure to store the data and build the organisational capabilities to manage and use the IoT's data properly.

Current networks are likely to face frequent bottlenecks in terms of performance, especially with many people working from their homes and the increasing popularity of video streaming. For insurers 5G and the rise of the IoT will bring a strong shift from merely insuring against risks to preventing damages from happening. Sensors monitoring industrial machinery will become more widespread, the same will apply to smart home devices. Drones are already used for the assessment of large-scale claims. They will become more efficient and cheaper, allowing to use them in more situations.





#### **Autonomous cars**

Already present on the market, autonomous and semi-autonomous cars still represent a small fraction of the market. However, their impact can be truly transformative. It starts with a significantly reduced risk of accident, but similarly increased costs of settling a claim once an accident occurs. Furthermore, the ownership of data is going to change. Car manufacturers have already announced that they will be insuring their vehicles themselves, taking advantage of vast amounts of data they will be able to collect. In this construct, insurers will act as providers of capital with some underwriting capabilities. In the long term, 80% of the current car insurance market could disappear, replaced with self-insurance, or some form of fleet insurance for manufacturers. The reduction of risk will, however, have a strong impact on the industry, as both drivers and car manufacturers will look to limit the number of accidents thanks to technology.



#### Ecosystems

**D**igital ecosystems create considerable growth opportunities for insurers, and their market power is expected to increase further. Platform providers will continue to expand their range of services and conquer new spheres of life, from health to finance and mobility. Insurers have already taken initial steps in ecosystem economics, but this has been a tentative start so far. There is still a lack of consistent focus on technology to participate in the ecosystem economy. Those companies that have modernised their IT infrastructure at an early stage will profit. Success will come to insurers who will manage to be consistently customer-centric. Currently, when it comes to ecosystems, companies too often focus on their problems, not on those of their customers. There will be insurers who will learn how to approach the platform economy in the next ten years and find ways to implement it and create growth.

#### **Augmented reality**

**C**urrently, the most touted applications of Augmented Reality (or Virtual Reality) revolve around remote training, or more engaging and innovative marketing campaigns. These use cases are, however, not insurance-specific, and as such have little relevance. This technology can still be utilised in other ways, which would bring more value to insurance companies. One example is the estimation of potential damages, especially for large industrial buildings: a live picture can be augmented with the information about risks and their potential costs. The AR technology can be used to prevent certain kinds of damages before they arise, supporting the trend of transitioning from insurance to prevention.

#### **Quantum computing**

Quantum computing is the most far-reaching technology, as there is yet to be a confirmed, commercially viable usage of quantum computing on the market. There are still significant challenges blocking a wide-spread usage of quantum computers. Their nature of non-binary values means that while they have vastly superior computing powers, their results have a certain degree of uncertainty. Mathematical algorithms trying to remedy this drawback are still too imperfect to allow effective operations of quantum computers.

Yet, their promise is undeniable. A quantum computer would be able to provide solutions to problems too complex for currently available machines to handle, especially exponential algorithms. This could be used for stochastic simulations used for Solvency II. An improvement in this area can free up significant financial resources. The introduction of quantum computers will, however, also bring some new perils. The increased ability to tackle extremely complex mathematical problems, currently unattainable for computers, would allow owners of quantum computers to break any security mechanism with relative ease. There might be a new "armaments race" between hackers trying to use quantum computing to break down old security standards, and companies trying to protect their assets. One way or another, if quantum computing starts to become widespread, security mechanisms will need to change both significantly and fast.



#### Prepare your IT for innovation

**T**he problem insurers face today, which is the same problem that music producers faced 20 years ago, is to identify the moment when a sudden transition starts. With a high number of emerging technologies, a lot of new paths will appear for insurers. While it is unclear which ones will become most prevalent, the key is to create an organisation ready to embrace whatever innovation turns out to have the strongest impact. This readiness must be demonstrated on both the organisational level and in the IT landscape for the company to be ready for innovative technologies. Currently, too many insurers use outdated systems and programming languages. They are blocked by chaotic system landscapes with a myriad of tools overseen by different departments.

Before your organisation is ready for quantum, 5G, or any other ground-breaking innovation, it needs to get the fundamentals right. Otherwise, you may find yourself buying a top computer only to realise that you have no Internet access at home. Build your house on a rock, not on sand.



**Focus:** A world map of the achievements & challenges for the insurance industry



#### Canada

- Achievements: +Modern insurance core systems (partially)
- (×) Challenges: -The modernisation of insurance core systems

#### **USA**

- Achievements: +Modern insurance core systems
- $\times$  Challenges: -Moving the IT structures to the Cloud

#### France

- Achievements: +1st steps in the introduction of standardised insurance core systems
- $\bigotimes$  Challenges: -The adoption of the Cloud

#### UK

- Achievements: +The introduction of standardised insurance core systems +The telematic motor insurance
- $\times$  Challenges: -London market digitalisation Core systems modernisation

#### Denmark

- Achievements: +Standardised insurance core systems
- (×) Challenges: -The establishment of a digitalised bancassurance

#### Norway

Austria

Achievements:

systems

(×) Challenges:

+1st steps in developing standard

+1st steps in digital front-ends

-The introduction of modern

insurance core systems

- Achievements: +The introduction of standardised insurance core systems
- (×) Challenges: -The establishment of a digitalised bancassurance
- (×) Challenges: -The core systems modernisation -Machine learning -Complex IT-landscapes

insurance core systems

+The introduction of standardised

#### Finland

Sweden

 $\bigcirc$  Achievements:

- Achievements: +1<sup>st</sup> steps in implementing modern standard systems
- Challenges: -High IT costs -Complex IT-landscapes

#### Japan

Achievements: +Modern CRM systems +1st experience with standardised core systems +Telematics introduced

#### Challenges:

-Modern insurance core systems -The introduction of agile methods of working

#### Poland

- Achievements: +The use of standard insurance core
- systems
- +A quick IT integration after mergers +The establishment of a digitalised bancassurance
- (x)Challenges:
- -The implementation of new technologies
- -Data standardisation
- -Increased automation & The Cloud

#### **Switzerland**

 $\bigcirc$ 

Achievements: +1st steps in implementing standard systems +1st steps in establishing digital ecosystems

#### $\times$ Challenges:

- -The introduction of modern insurance core systems
- -The establishment of a digitalised bancassurance

#### Germany

- (~) Achievements: +Customer friendly front-ends
- - insurance core systems

- The establishment of a digitalised bancassurance
- The Cloud

- +Modern CRM systems
- Complex IT-architectures
- Data standardisation

- - - × Challenges: -The introduction of modern

## Interview

## "The future of the Financial Industry – 20 years of Sollers Consulting"

Interview with Michał Trochimczuk and Marcin Pluta about Sollers Consulting and how the insurance industry has changed in the past twenty years



It is now exactly twenty years since you founded Sollers Consulting. What has changed in the insurance industry in this time?

**Michał Trochimczuk:** The industry has become much quicker and more process oriented. Twenty years ago, a change in pricing took several months. New tariffs were printed and had to be distributed to agents. These paper-based tariffs could not contain too many parameters or details. With policies issued from central systems the world changed dramatically: insurers can now change their tariffs in a couple of minutes. In practice, it happens once a week, and the tariff can include as much as a thousand parameters. What used to be the domain of one actuary has become an organizational effort of many specialists and Al powered analytical tools.

**Marcin Pluta:** Traditionally, insurance companies focused on a single risk. But for some products such as household or travel insurance it was necessary to bundle several risks. Insurers started to package risks, and it  $\rightarrow$ 

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**Marcin Pluta:** Traditionally, insurance companies focused on a single risk. But for some products such as household or travel insurance it was necessary to bundle several risks. Insurers started to package risks, and it was done on paper. Bundled insurance packages for small enterprises, however, could not be processed easily in this way. There are hundreds of segments and the premium income from these policies is relatively low. Digitalisation has revolutionized this kind of business.

#### Did these changes affect the business processes as well?

**Trochimczuk:** Basic functionalities in the industry are the same as they were twenty years ago. Insurance companies must be able to manage sales, process new business and manage their product portfolio, policy administration, billing and claims.

But the way these basic processes are handled has changed fundamentally.

**Pluta:** 20 years ago, insurance operations were conducted entirely in branches and on paper. Clients and agents had to physically transfer a paper claim file. Insurers had computerised systems, but these systems offered just basic functionalities and had trouble coping with the complexity of the insurance business. These early systems were offline-solutions and had many limitations and problems. New standard systems were developed and have become more sophisticated over time. In the 2000s many companies switched to insurance core systems developed by a provider and not by individual insurers. This has contributed significantly to the professionalisation of the industry, from my point of view.

You talked a lot about back-end systems that most often remain invisible for the clients. But what about sales? Today, insurance is to a great degree sold in a traditional way.

**Pluta:** That is true. In the early 2000s there were many attempts to establish insurance sales portals on the Internet and almost all failed quite soon. But many things have changed. Today, insurance agents work on computers and their offering is processed digitally. Twenty years ago, many insurance agents did not have computers at all. And those agents who used computers had to issue and process the policy on paper. Agents did not have access to the systems of insurers.

**Trochimczuk:** We should not forget the power of price comparison websites. In the UK, one third of new business is generated by the so-called ag-

gregators or online brokers. They were designed and created 20 years ago, now they have become powerful players on the market. Some of them are in fact market makers. Even if the clients do not buy their motor insurance on the Internet, they still check the price before they ask their agent.

**Pluta:** Aggregators have changed the insurance industry also from a technical point of view. Insurers have set up systems that are able to serve price comparison websites very quickly. Speed and price have become overwhelmingly important in the insurance business. It is still a challenge for insurers.  $\rightarrow$ 

"Insurers had computerised systems, but these systems offered just basic functionalities."



#### THE FUTURE OF INSURANCE



After Sollers was founded in August 2000 it served companies in many different industries such as health care, telecommunication, and even online gambling. Why did Sollers focus on the insurance industry?

**Trochimczuk:** We had some difficult times when we started Sollers. It was the time of the crash of the dot.com boom of the late 1990s. As a startup we had a hard time finding clients under these circumstances. But we were flexible, and we somehow muddled through. Quite soon we realised that there was a huge demand for

technological innovation in the insurance industry. It was a natural start for us since we were mainly focusing on insurance before we founded Sollers.

**Pluta:** In the beginning we worked in my apartment. We started to review business processes, operating models, strategies, and IT roadmaps. We had a multimedia company among our clients, a medical company and an Internet provider. Alongside with this we started our first project in the insurance industry.

**Trochimczuk:** There was a huge disparity between the visions of managers and the problems they had to solve during that time. Insurers work in complex structures and this has become even more true today. A lot of know-how is needed to support these structures. There was much to do twenty years ago, but there is still a lot of work to be done now. Insurers have to catch up with other industries.

Sollers started quite early to operate internationally. Has the insurance business become more international?

**Trochimczuk:** To some degree. We see an increasing number of insurers operating in more than one country. EU regulations made it quite easy to establish new business units in other EU countries. In its core, however, insurance still is a national business. Without local market knowledge insurance companies find it difficult to succeed. Many fail and give up. On the other hand, we have helped several insurers to build competencies that they use on an international scale quite successfully.

**Pluta:** If you look at the core functionalities, the insurance business works in the same way, all over the world. But there are huge differences in sales structures and sales strategies. Twenty years after the dot.com euphoria, traditional sales channels are still very strong in most markets, except for the UK and some other countries. But I am convinced that this will change.

**Trochimczuk:** The way traditional channels operate changes as well. Insurers are deploying tools to optimise traditional sales processes, support advisory and implement the omnichannel approach.  $\rightarrow$ 

## "The speed of digitalization has not reached its limits."

In 2011 you decided to adapt Agility. What is your experience with it?

**Pluta:** We decided to switch to agile principles because we observed that they help to enable a fruitful communication between team members and set the right focus on business value. In large scale IT projects, there are many unforeseen and maybe unforeseeable factors. If they are not addressed properly, the project will fail. Traditional "waterfall" project methods tend to ignore this fact.

**Trochimczuk:** Agility helps, especially in large implementation projects. We use the agile methodology to manage the scope of these IT-projects. As a rule, transformation takes many years.

**Pluta:** We have introduced agile working principles in all parts of Sollers Consulting. From our experience, employees enjoy this working style. It makes it easier for us to avoid siloed structures, remain flexible and scale up.

What is your personal prediction of what will happen in the industry in the next ten years, Marcin?

**Pluta:** From my perspective, the speed of digitalisation has not reached its limits and there are clear signs that indicate this. Let us look at data, for instance. The insurance industry talks a lot about data driven business models. However, the whole value of data is used only in very isolated areas. We are still at the beginning here. A couple of weeks ago the first 5G-enabled mass market smart phone has been released. It is certain that 5G will come and it will increase the amount of available data dramatically. It will be a challenge for insurers to use this data. Will technology change business models in the insurance industry, Michał?

**Trochimczuk:** Insurtechs have promoted new revolutionary business models but they have learned how difficult it is to be successful with these ideas. The same happened to the first aggregators that popped up in the year 2000. Most of them gave up, but some have become a decisive market factor. The same will happen now. We have seen how other industries such as gastronomy, tourism and media have been disrupted by the Internet. The products have not changed much, but the way they are offered and sold has changed completely. I am convinced the same will happen in the insurance industry as well. It will even go beyond that.

# **Survey:** Impacts of Innovation



Automation will be a key business driver in the insurance industry and the Cloud will be a crucial factor supporting it, a survey conducted by Sollers Consulting reveals.

Innovations dramatically change the business and operating models, and the way companies compete on the markets. This happens in almost all of the industries and business areas. Insurance is no exception, even though to some, the sector might appear to be a little behind others. There is still a low level of automation and digitalisation in the industry and the potential for innovation is substantial. A full automation of key processes is a considerable challenge. There are many great ideas, but no concrete answers to this. It is therefore difficult to predict what specific solution will be the key driver of future competitiveness on the insurance market. To what degree will Al-driven solutions allow to automate processes in claims handling and underwriting? Will investing in digital interfaces and customer experience pay-off?

Sollers Consulting conducted a survey among insurers about their approach to innovation, as we believe it is important to share knowledge and exchange plans for the future.  $\rightarrow$ 

#### THE FUTURE OF INSURANCE

Our respondents from the insurance industry indicated that cloud computing will be a common technology in the insurance industry in 10 years. Robotic Process Automation (RPA) is considered more important than Artificial Intelligence and Machine Learning. This was a surprise for us as RPA is usually used for a quick fix in IT driven processes. Artificial Intelligence, on the other hand, is critical to automate key insurance business processes of the knowledge-driven industry.

Telematics and the Internet of Things (IoT) score relatively low among managers and specialists from the insurance industry, which is a bit surprising as there are already several examples of how these technologies can change the approach to underwriting and claims handling. For blockchain the industry still seems to be looking for a use case.

Respondents of the Sollers survey predict that the insurance core systems will rather be developed nationally than on an international scale. At the same time, they expect the systems to be maintained in the Cloud. From a technical perspective, however, the transborder core system development will become much easier with the cloud technology. The globalisation trend visible on the insurance markets will make it easier to standardise business models, a practice we see in many other industries.

#### An appetite to invest

Insurers in all countries express a high willingness to invest. This is especially true in Germany, whereas in Poland the willingness to invest in innovations is significantly lower. There is no respondent that declares that his or her company is not willing to invest in innovation, and just 2,6% of respondents say that they will only invest slightly in it. The differences in the attitude to innovation in different countries might be linked to different levels of digitalisation and to the awareness of the disruptive power of innovation in the respective countries.

#### **Chart 1:** The willingness to invest in innovations



Scale of willingness to invest in innovations

📕 4 - extremely 📕 3 - very 📕 2 - moderately 📕 1 - slightly 📕 0 - not at all 📗 n/a

Source: Sollers Consulting, 2020-2021. Question: To what degree will your company invest in innovations within the next ten years? Basis: N=78. Representatives of insurers.

#### The technology

**T**echnology is perceived as a key enabler of innovation and automation in the insurance industry. However, there are significant differences in how important specific technologies will be. While there seems to be no way around the Cloud and Robotic Process Automation, there is still no use case for Blockchain. By ranking cloud computing the highest, insurers aspire to achieve greater flexibility and efficiency. The Cloud enables insurers

Average number of insurers

Chart 2: The most important technologies



to smoothly integrate and build ecosystems and to easily profit from big data solutions. Robotic Process Automation is meant as a quick fix for complex IT landscapes. RPA was ranked second which shows that insurers see the value it brings to existing architecture models, especially when combined with Business Process Management (BPM) systems.

Insurance is a knowledge-driven industry that is highly dependent on the correct interpretation of data. Artificial Intelligence and Machine Learning have a strong and beneficial impact on processes. However, it might not be clearly visible for insurers yet how they can create value with these data-based technologies. There still seems to be a lot of preparation necessary as many insurers keep their data in siloed architectures. The Internet of Things (IoT) and telematics were ranked the lowest, which might be surprising as there are many examples of how they can be applied in insurance. The low score might reflect the fact that IoT and telematics are adequate only for specific customer segments or business lines. In many cases, the IT-architecture is not ready for insurers to make use of these technologies within the next 10 years. Implementing telematics and connecting to IoT devices require an appropriate IT-ecosystem as well as the tools to monitor and analyse the streams of data.

Source: Sollers Consulting, 2020-2021. Question: What is your best prediction - How many of the Top 10 insurers in your market will use the following technologies and features in ten years? Basis: N=78. Representatives of insurers.

Scale: 0 = none | 10=all of top 10 insurers

#### **Automation**

Insurance is a highly virtual product as it does not have many physical features. A high level of automation, supported by digitalisation, seems to be a natural step for this industry. Bearing this in mind, it might seem surprising that a relatively small percentage of respondents (less than 10%) believes that they will achieve a complete automation of processes in the next 10 years. An automation degree of 70% or more, however, seems to be achievable. Between 68% and 81% of respondents think that administrative processes such as back-office, policy administration and reporting will be automated to a relatively high degree.

Other core operational processes will be more automated as well. 64% of our respondents believe that claims handling will be automatised by 70 to 100% in the next ten years. Sales are still considered to require a human face-to-face interaction in the industry. However, 33% of insurance managers and specialists are convinced that sales will be 70% automated or more in the future. There is an obvious potential for automation in other insurance processes such as asset management and project management. Even marketing and reinsurance can be significantly automatised, according to the belief of the insurance managers.

#### Chart 3: The degree of automation



Scale: 0% = not at all | 100% = fully

Source: Sollers Consulting, 2020-2021. Question: To what degree will the following functionalities/areas be automated at your company within the next ten years? Basis: N=78. Representatives of insurers.

#### The approach to products

**T**here are many examples of start-ups and insurers trying to redefine the approach to insurance products. However, traditional insurance products will remain an important part of the offering in the next 10 years, as our survey reveals. Modular insurance is considered even more important. The concept allows customers to choose from predefined options, which is a common product feature on many markets.

Parametric insurance has been offered for more than a decade now, but it has never expanded beyond being a niche product. Nevertheless, there seems to be some potential for it. As claims are triggered by measurable events, the parametric insurance is more cost-efficient than other insurance products. Insurance managers and specialists rank parametric insurance third among products in terms of its future relevance. Indeed, there is potential in this type of product as the digitalisation allows for its further development.

Usage-based insurance is considered less important. This corresponds with the low score of the Internet of Things and the telematic insurance (chart 3). Hyper-individualised insurance that can be precisely tailored to the customer's individual needs is considered the least important among the product concepts. Respondents seemingly perceive these products as too complex, businesswise as well as IT-wise. They seem to be relevant only for a narrow customer segment and would require a long and steep learning curve for both insurers and customers.



#### Chart 4: The approach to products



• Average importance

Scale: 0 = not important at all | 10=extremely important

Source: Sollers Consulting, 2020-2021. Question: How important will the following product approaches be at your company within the next ten years? Basis: N=78. Representatives of insurers.

#### Core insurance systems

**C**ore insurance systems are a strong foundation to foster innovation and there are a lot of developments in this crucial part of the insurance infrastructure. Insurance managers and experts are convinced that core systems will be moved to the Cloud. Core systems "on cloud" score the highest among our respondents whereas "on premise" – the lowest. Members of the insurance industry understand that the Cloud ensures greater

**Chart 5:** The future of insurance core systems



4 3 2 1

n/a

Average number of insurers

Scale: 1 = very unlikely | 5 = very likely

5

business flexibility and operational effectiveness. Both become important in the era of integrated and intelligent ecosystems.

Nationally developed core systems rank much higher than core systems that are developed on an international scale. Looking at globalisation, one could be surprised by the national mindedness in this regard. But insurance is still a very country-specific business. Regulation is one among many reasons for this, but there are many other factors. Shared databases that are so crucial for the insurance industry are country specific, so are partner companies and their IT-systems. Markets also differ fundamentally in products and customer needs. While insurers seek more flexibility, their core systems remain an important part of their national ecosystem. This might be one of the reasons why insurers prefer national core systems.

"Standardised" systems are ranked only slightly higher than "customised". This response reflects the need to find the right balance between the core system maintenance and the appropriate IT-support for specific business needs. Obtaining this balance will become even more difficult while moving to the Cloud. It is not advisable to use systems that are not upgradable in the Cloud. Allowing to customise without sacrificing how easy it is to maintain the system remains a problem to be solved.

Source: Sollers Consulting, 2020-2021.

Question: Will these attributes fit the insurance core system of your company in ten years? Basis:N=78. Representatives of insurers.

#### Partners

**F**inding the right partners is crucial for insurers looking for ways to transform their business. People from the outside of the insurance company itself can support it with new ideas and solutions as well as specialist skills. According to our respondents, the importance of Fintechs and Insurtechs will increase significantly in the next ten years. Start-ups are at the forefront of innovation and insurers expect them to significantly contribute to their business model.

Tech companies and aggregators are almost equally important. Insurers need to catch up in the Cloud and digital marketing, both areas being dominated by the big Tech companies. Insurers have recognised that insurance aggregators and e-commerce providers allow to access customers who are difficult to reach. Bancassurance has been an important distribution channel for ages. It might be the reason why, on average, respondents do not expect a lot of change. Digitalisation, however, might be an opportunity to redefine and strengthen bancassurance. While Insurtechs might provide new technologies, insurers will seek help from IT Consultancies to redefine their business and IT architectures. Although most kinds of partnering companies will become more important, strategic consultancies are perceived by managers as less important for the future. Insurers are aware that they need to build their own business transformation capabilities. Being ready for the accelerating pace of change has seemingly become a core competence. Insurers want to drive change themselves rather than seek external help.

#### **Chart 6:** The change in the importance of partners



Source: Sollers Consulting, 2020-2021. Question: Will the importance of the following partners increase or decrease within the next ten years in your company? Basis: N=78. Representatives of insurers. Note: Categories are sorted based on average score.

#### Conclusion

Insurance is in most cases a purely virtual product. It therefore might seem obvious that it will become an entirely digital business. However, digital transformation will take time as insurance is a knowledge-driven industry which requires appropriate solutions.

At Sollers Consulting we expect innovation to foster changes in the business models as well as the IT architectures. For many years, insurance has been perceived as an industry rather reluctant to change, but now companies seem to be ready to transform. They experiment with new solutions, learn and develop new capabilities and are better positioned to leverage new technologies than they were in the past.

#### **Sollers Consulting**

is an international business advisory and software implementation expert. Established in 2000, the company supports insurers, banks, and leasing firms in business transformations and adapting to new technologies. Over the last 20 years Sollers has helped 80 financial groups, including Allianz, AXA, LV=, BNP Paribas Cardif, Basler, Generali, Zurich, Santander Consumer Bank, and ING to enhance their digital capabilities.

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Sollers Consulting cooperates with more than 15 technology providers such as Guidewire Software, Tia Technology, Fadata, Oracle, AWS, and Microsoft. About 700 business and IT specialists from Warsaw, Lublin, Poznan, Gdansk, Cologne, Tokyo, and Paris are helping financial institutions in Germany, Great Britain, Poland, Scandinavia, France, Japan, and many other countries in the world, to reap the benefits of digitalisation. For more information please visit







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#### The Future of Insurance

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