Catching the INSURTECH WAVE

By Karrie Hyatt

Insurtech is rapidly advancing the insurance sector with new ways to work a long-established business model. Innovative technology is creating faster transactions and improved customer interactions, but traditional insurance can be resistant to change. Captives, always innovators in the insurance space, are both in front of and behind the wave of change.

What is Insurtech?

Insurtech is the advancement of insurance processes through technology. Whether it is reinventing data analytics or risk management, technology for the insurance sector is advancing at tremendous speed. Some of the advancements include cloud-based data, customer service and interaction automation, internet of things, and blockchain technology.

It has become a hot topic in the last several years as venture capitalists and angel investors have moved beyond the broader category of fintech (financial technology) and have set their sights on insurance. There have even been start-up accelerators, such as Startupbootcamp in the UK

and Global Insurance Accelerator in the U.S., to foster insurtech innovators. The reason it's getting so much attention recently is that the insurance sector seems primed to be disrupted and there is untapped revenue within its traditional systems.

Insurance has a much longer history than most other businesses and has often been considered a dinosaur in its inability to adapt at a pace that more modern business models do. While new efficiencies in the industry have been occurring at an ever-faster rate, the fundamental idea of insurance transactions remains the same. And for a good reason: insurance knows how to help mitigate the risk in their customers' lives and livelihoods. Venture capitalists, trying to squeeze a few more dollars out of an insurance transaction is not going to find the gold mine they are looking for in the insurance sector. Insurance companies have been successful because they know what they are doing and have been doing it for a long time.

Traditional vs. Captive

That is not to say that the insurance sector is not interested in innovations to their business. It's just that the disruption seen in other business sectors is not going to be so radical in insurance. Big insurers are heavily investing in insurtech and every business in the insurance space has an eye to new developments. In a report titled "Global FinTech Survey" published by PWC in 2016, three out of four insurance companies believe that some part of their business is at risk of disruption by insurtech.

Large insurance companies are investing heavily in proprietary technology. Smaller insurance companies and most captives generally will not have the capital to invest in developing their own technology. Insurtech development is costly.

Yet captives have been at the forefront of change in the insurance industry during the last half century and with their flexibility of coverage and openness to try new things, captives might be the best place to implement start-up insurtech.

According to Lynn Sheils, general counsel with EWI Re, Inc., "Captives seem ideal for launching new technology driven business models. Given that captives generally address risks unique to a specific group or group of related companies, a captive seems ideal to insure the risks around companies harnessing insurtech, risks that traditional insurance companies may not be comfortable with. Also, since captives have fewer insureds that have to give buy-in to new ideas, captives seem ideal for incorporating innovative products into the insurance process."

As much flexibility as captives enjoy, when it comes to insurtech developments in claims management, captives are likely to be following, not leading. Advanced claims management systems will likely be too expensive for most captives, even though using innovative claims management technology, that allows for sophisticated data analysis and risk modeling, can significantly lower the cost of claims handling and a reduction in fraud.

"It makes sense for large insurance companies to make the investment in systems with these new technologies because every improvement in the loss ratio of a billion-dollar insurer results in a substantial improvement in the company's bottom line," said Sheils. *"For most captives, when the cost benefit evaluation of a new system is performed, the captive is going to be priced out of these systems. Also, a captive is unlikely to have the volume of data needed for data mining, predictive modeling, or anomaly detection."*

Insurtech Applications and Blockchain

Even though most captives won't have the resources to develop their own insurtech, coming onto the market are programs and products that could allow them to harness the potential of insurance technology.

During the last year several large companies in the insurance space have launched insurtech programs for their clients. In 2017, Willis Towers Watson launched a program to automate claims using "decision engine" technology—also called smart technology or AI (artificial intelligence). The program is effective for handling a large volume of small claims—for example, parcel delivery. Earlier this year, Marsh partnered with IBM and ACORD (Association for Cooperative Operations Research and Development) to develop a proof of insurance blockchain for its client, ISN. To streamline money transfer capabilities for a client, Allianz Global Corporate & Specialty has developed a prototype using blockchain that will accelerate the process for its clients.

Other established third-party vendors in the insurance sector are also developing their own insurtech products. This is great news for captives who will be able to take advantage of innovative technology through their captive manager and other TPAs without having the outlay of capital.

According to Sheils, *"A third-party vendor, a captive manager or even reinsurers offering the use of insurtech products owned by the captive manager or reinsurer could be a value-added service and give a competitive advantage when attracting new clients. Captives may even seek out like captives to partner with to share the technology cost and to leverage their combined data and analytics."*

"There are companies targeting captives along with smaller insurance carriers, RRGs, and self-insured groups," continued Sheils. "You are also seeing a lot of interest in the development of products in this space around blockchain where there are multiple parties in the transaction all benefiting from the use of the technology."

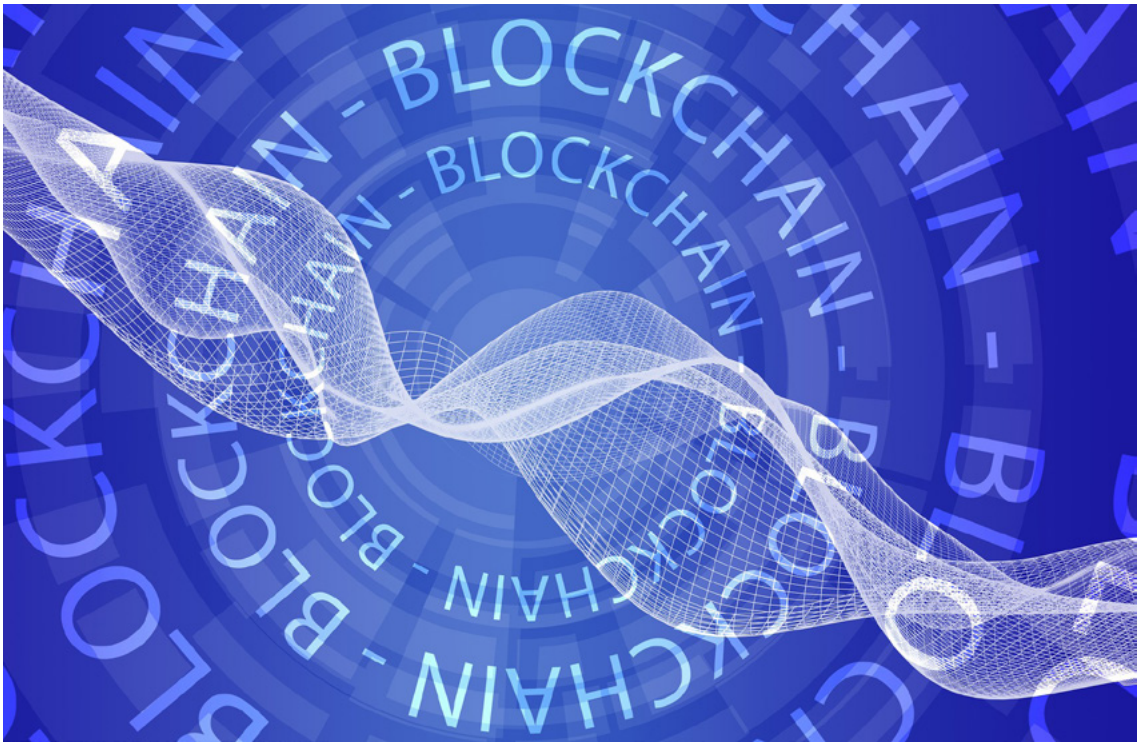
The use of blockchain technology in insurance, and especially captives, is beginning to take off. Blockchain is the technology behind Bitcoin and other cryptocurrency. It's essentially a digital database (ledger) that records data across a network of computers (nodes) allowing transactions to be verified and shared with no need for a central organization agency. Once the information becomes a "block" in the "chain" of data, it can't be removed or changed and is visible to all parties involved, leading to increased transparency.

Blockchain could be the disruptive force in insurance that venture capitalists have been looking for, if it can be harnessed effectively. Some applications for blockchain that are being considered are streamlining new customer in-take and customer engagement; creating efficiencies in verifying policyholders, underwriting criteria, and claims handling through automation; fraud detection; and sharing risk and claims data. All applications that could rapidly advance how captives do business.

Blockchain could be a solution for an individual captive's lack of historical data. Using blockchain technology in conjunction with similar captives, could offer a way combine data for improved data mining and analytics.

Insurtech and Captive Regulation

Insurance domiciles tend to react more to market forces than to lead them. Yet as technology is rapidly changing, regulators are picking up the pace by revising regulation to include these new processes.



Bermuda, the world's largest captive domicile, has opened its doors to blockchain technology and is positioning itself as the primary hub for blockchain business. Vermont, the top U.S. captive domicile, announced in May that they were experimenting using blockchain technology for new captives filing incorporation documents. Vermont has always been at the forefront of advancement in the captive sector, so it should come as no surprise that they are looking into tech innovation for regulating captives.

However, most U.S. captive domiciles are not in a position to either make big changes to how

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Commissioner Trinidad Navarro

STEVE KINION, DIRECTOR
Bureau of Captive & Financial Products
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In Delaware, the captive regulators are dedicated exclusively to our captive insurance industry needs, and work under the direction of our Captive Bureau leadership, directed by Steve Kinion.

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they regulate or in what they are regulating. Will captive regulators be able to keep up with the changes in the marketplace? According to Sheils, the answer is yes. "Domiciles are very competitive in attracting captives, so I think regulators will quickly start embracing insurtech."

"In the beginning days of insurtech, it was the smaller, entrepreneurial firms that were welcoming technological innovation in the insurance industry," she continued. *"Once consumers expressed their interest and demand for technological conveniences in insurance, traditional insurance companies recognized that they had to embrace the new technology or otherwise it could destroy the industry. Much the same way, captive regulators will, and are, recognizing the necessity of accepting of insurtech."* ■

Karrie Hyatt is a freelance writer who has been involved in the captive industry for more than ten years. More information about her work can be found at: www.karriehyatt.com.