The digital transformation of the MENA insurance industry: Myth or Reality?

Author: Constantinos Hadjigeorgiou FCII, ARM

March 2015

ABOUT DIGITAL TRANSFORMATION

Technological innovations are breaking up traditional insurance processes and practices. The insurance industry is experiencing a major, although silent, revolution resulting from technology. The traditional insurance distribution model is also changing. It is expected that premiums from digital channels will more than double between 2012 and 2016 to approximately $33.8 billion from $16.2 billion at 110.5%[1].

Digital transformation is the use of technology to radically improve performance or reach of enterprises. It requires strong leadership to drive change and requires vision to ascertain the parts of the company to be transformed. Digital transformation is about transforming the organisation to take advantage of the opportunities which new technologies provide.

At a global insurance level, digital transformation is a top priority of executives aiming to identify and penetrate new customer segments, improve efficiency and to remain relevant in their markets.

There are a number of different ways in which this transformation can take place, though it typically refers to a full and meaningful change, rather than an adjustment in focus or understanding. Once digital transformation occurs, then a business is likely to be better able to utilise new technology and digital services to reach customers, organise and leverage company data (e.g. for predictive underwriting) and allow greater workflow and throughput between departments within the company.

DRIVERS OF DIGITAL TRANSFORMATION

Technical excellence remains the imperative driver of profitability and insurers continue to focus on traditional divisions such as underwriting, claims and pricing. At the same time, technology provides innovative opportunities for improving these capabilities with big data and advanced analytics. Investment priorities include social media, Customer Relationship Management (CRM) and risk management tools. Technology unavoidably reduced barriers to entry and technology-driven market entrants with wide customer base, such as Amazon and Google, could potentially disrupt the industry starting with personal lines.

Asymmetry of information which lies at the heart of all insurance contracts is apparent on both sides. Insureds not having as yet access to a wide range of statistics are still unaware of the fair price of risk. Conversely, insurers who suffer from information asymmetry in terms of the individual risk factors of the insured, leading to adverse selection, still to a great extent do not have access to huge databases and telematics to facilitate more granular risk assessment. Digitalisation could enable insurers to reduce information asymmetries and dramatically improve underwriting performance.

[1] New Insurance business obtained via digital channels: Accenture data and analysis, 2013

Operational efficiency is also vital. Moving data electronically between trading partners is becoming normal business practice by using ACORD[2] insurance standards. International reinsurers and brokers joined forces under the umbrella of Ruschlikon initiative aiming to reshape the insurance/reinsurance industry, through the design and implementation of processes that reduce operational cost and enhance client service. Ruschlikon members represent 60% of worldwide reinsurance premiums.

Enablers such as culture and innovation could release substantial future value and empower insurers to better grasp digital business prospects as they arise. Insurers have traditionally been late adopters of technology. Conventionally, the insurance industry is considered to be rigid, resistant to change and the strong insurance culture has been the main challenge to introducing digital transformation. The top two key challenges faced by life and non-life insurance companies in delivering their digital strategy are (1) "Internal company structure or culture constraints" and (2) "Creating culture for rapid innovation and development"[3].

Insurance has been a prime example of failed digital transformation and 70 million pounds over a period of five years have been wasted on the Kinnect programme that commenced in 2002 with the objective of implementing an electronic trading platform at Lloyd's. At that time, electronic trading in the banking sector flourished with the implementation of SWIFT[4] messaging. In MENA, Qatarlyst -based in Qatar- attempted unsuccessfully to promote electronic placement. Transformations require change in culture and are not just a technology solution.

BUT HOW RELEVANT IS DIGITAL TRANSFORMATION FOR THE INSURANCE INDUSTRY IN THE MENA REGION?

The MENA region is at different stages of development with Gulf Cooperation Council (GCC) countries being more affluent and countries in North Africa and Levant i.e. Libya and Syria battling for political stability. The insurance industry in the MENA region is comparatively young and underdeveloped as reflected by its low penetration and low insurance density. The region contributed less than 1% of the world's insurance premiums in 2013, compared to almost 5% of global GDP. Insurance penetration is low at about 1.3% compared to an average of 7% for the rest of the world[5].

The MENA insurance market, characterised by low catastrophe exposure and low loss ratios, is emerging. Historical high insurance growth in the region provided insurers with adequate business growth to meet profitability requirements and in some way deferred the need to seek growth through technological innovations.

The maturity level of the insurance industry is considered a significant driver of digital transformation and the MENA insurance market is in a transition stage. With low retention levels at around 66%, the MENA insurance industry will find it difficult to genuinely grow and mature. The current retention model

[2] ACORD – Association of Cooperative Operations Research and Development
[3] Insurance in a digital world: The time is now, EY Global Insurance Digital Survey 2013, Ernst & Young
[4] SWIFT - Society for Worldwide Interbank Financial Telecommunication
[5] Swiss Re – Sigma, 2014

which is closer to the nature of risk trading does not encourage sustainable development and proactive digital transformation.

During the last decade the most notable developments in the MENA insurance industry were the introduction of Takaful and the development of Bancassurance as an alternative distribution channel for insurance products. More recently, a sporadic use of mobile applications and social media is observed but in most cases digital strategies are lacking or are not aligned with business strategies. Aggregators, that have revolutionised the distribution of insurance in the UK, have made their appearance in MENA but with minor impact.

Improving trust and the level of confidence between the insured and insurers is vital. At a market level, MENA does not demonstrate customer centric characteristics and interests of institutional players – insurers, brokers – usually prevail. At the same time, regulators are confined in the rule-based approach and struggle to follow the pace of developments. As a result, insurance companies are becoming complacent and provide business opportunities for new entrants that envision operating technology-driven models to disrupt the market.

Enforcing regulations with appropriate use of media to increase insurance awareness and inform insureds about their rights will increase competitiveness and improve customer experience. Effective online complaint systems with the support of appropriate reporting procedures will enable customer centricity. Essentially, digital transformation initiatives will come up as a solution for meeting increased business needs and to execute transformational strategies.

Establishment of DIFC as a regional insurance hub will create the much needed ecosystem to further develop insurance industry in the region. The subsequent influx of capital will be associated with underwriting expertise, claims, risk management, advanced technology and analytics. Strategy focused regional players with aspirations to incorporate strategic improvements in systems, processes and analytics, in line with the industry's best practices, will benefit. Regional markets will have to invest in technology and operational infrastructure to enable them to remain competitive and relevant. Likewise, investment in human talent is a key factor for increasing the ability to execute demanding business strategies.

The insurance industry does not operate in silo and before concluding we need to also consider other industries and consumer behaviour trends. MENA is becoming the fastest growing market in the world for data traffic growth with an anticipated CAGR of 70% between 2013 and 2018[6]. Consumer behaviour changes rapidly and the customer experience provided by other industries such as banking and telecommunications is unprecedented. The MENA Insurance Industry is catching up.

The fundamentals of global insurance industry are currently going through an unprecedented series of technology driven changes. Digital transformation spreads beyond distribution channels to a variety of digital technologies: mobile, social media, big data, telematics and analytics. These technologies can be applied across the entire insurance value chain and the MENA insurance industry is not an exception.

[6] Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2013–2018

Developments in global insurance and changes in consumer behaviour indicate that digital transformation of the MENA insurance industry has a long way to go but it is not a myth. The reality is that it has been substituted with a more balanced view of digital transformation that is adjusted to the maturity level of the MENA insurance industry.

REFERENCES

1) Platforms for Growth: Technology Innovation in the Insurance Industry, State Street 2014 Insurance Survey, conducted by the Economist Intelligence Unit, Global Results, September 2014
2) Digital Transformation: A Roadmap for Billion-Dollar Organizations, MIT Center of Digital Business and Capgemini Consulting, 2011
3) The Nine Elements of Digital Transformation, MIT Center of Digital Business, January 2014
4) Digital Distribution in Insurance: A quiet revolution, Swiss Re, Sigma No2/2014
5) New Insurance business obtained via digital channels: Accenture data and analysis, 2013
6) President's Annual Lunch at the Mansion House, Address by Denis Kessler, Chairman and CEO of SCOR, 21th March, 2014
7) Ruschlikon Press Release, Published: 30/7/2014
8) Insurance in a digital world: The time is now, EY Global Insurance Digital Survey 2013, Ernst & Young
9) Transforming Insurance: Securing Competitive Advantage, KPMG, 2014
10) World Insurance in 2013: steering towards recovery, Swiss Re, Sigma, No 3/2014
11) Digital Transformation in Insurance: Differences Across Continents, Celent, September 2014
12) The people, companies and issues shaping the industry in 2015, Insurance Day, December 2014
13) Summing up the MENA's insurance market 2014, Global Reinsurance, December 2014
14) Why Lloyd's walked away from Kinnect, ComputerWeekly.com, first published in February 2006

Constantinos Hadjigeorgiou FCII, ARM,

Head of Planning and Performance Management, Trust Re

constantinos@trustre.com

Disclaimer: The views and opinions expressed in this article are those of the author. They do not represent the official opinion of the company with which the author is employed nor of any organisation to which the author may be affiliated.