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INTELLIGENCE IN DESIGN, EXCELLENCE IN EXECUTION

Seeking Harmony

Connecting the Property and Casualty Insurance Industry with Insurtech

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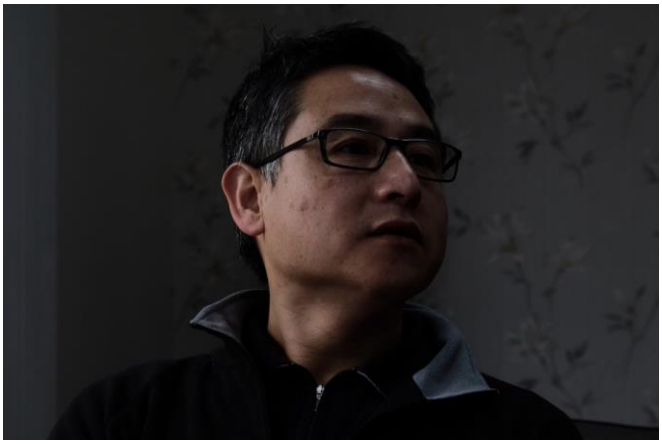

MD’s Introduction

The insurance industry has long held a reputation for being late to adopt technological advancements. As an industry founded on a risk-averse attitude, it comes as no surprise that disruptive technological business models and strategies that diverge from the traditional have historically been difficult to implement.

However, this proves an inaccurate perception of the industry today. Insurance technology, or Insurtech, has been driving innovation and development – with cloud computing, big data, artificial intelligence, blockchain and the Internet of Things – throughout the entire industry. New applications of these technologies have helped (re)insurers to improve their company operations and to better meet the demands of the market.

We at Symfos believe that the future of the insurance industry is an interconnected one, where the entire insurance enterprise, from underwriting to enterprise risk to claims management, are unified through Insurtech. It is with Insurtech that (re)insurers can improve their efficiency, flexibility, speed and accuracy, meet more insurance needs of more customers with more comprehensive risk-management systems, and ensure continued growth and competitiveness in the market.

Introduction

With several core systems, from CAT models to legacy systems, having integrated themselves into the fabric of the industry, (re)insurers find their monitors cluttered with an array of software co-existing in a dissonant ecosystem. The precipice one finds oneself balancing on threatens a collapse from either the inefficiency and cost to business of juggling these core systems or the cost and risk of replacement. To make matters worse, the desirable solution of integration between CAT models or between legacy systems is withheld from (re)insurers due to the intrinsic inflexibility rooted in these systems since their inception. This disconnect, hidden in the shadow of continued growth and success of the industry in the past decades, has emerged as a distinct threat to the industry's future.

The solution to this disparity is seeking harmony between our CAT models and legacy systems through a platform where multiple departments of the insurance enterprise, from underwriters to exposure and portfolio managers, can co-exist with the same user interface.

The Problem

The challenge faced by the P&C industry today is friction between multiple systems. CAT models suffer from incomplete model connectivity which leads to uncertain integration points and conflict between models, with similar consequences to business processes and management strategy. As it is generally accepted that the implementation of multiple CAT models helps (re)insurers to incorporate an updated view of risk, this disconnect presents a significant barrier to effective risk management.

A similarly costly hurdle presents itself with the industry's legacy systems. Outdated and separated IT systems represent a primary concern for limiting growth opportunities and growing frustration within the industry. Yet, Deloitte finds that even though an estimated 90% of innovation resources go towards maintaining the legacy system status quo, it would require more cost, effort and risk to pursue a rip-and-replace strategy of these systems.

This outlines the stagnant balance in which the industry has remained settled. On the one hand, current technical strategies are limited and costly, yet the costs and risks of a total upgrade inhibit the mandate for change.

The Cause

A key pattern that emerges from these barriers to change is that of a distinct disconnect within the P&C industry.

It would be erroneous to claim that the competent variety of CAT models other than TouchStone and RiskLink currently available to P&C (re)insurers today does not mark a revolution within the industry. However, with such variety and concomitant disparity comes a lack of consensus on standardised data formats. Whilst it is true that models such as Oasis promote the use of OED, an innovation in a universal standard, (re)insurers cannot simply hope that AIR will move on from their cede format and stochastic data sets for loss models or RMS to move on from EDMs. Furthermore, proposed solutions, such as blending techniques, are not sustainable practises as they are difficult to execute in real time.

The pattern of disconnect is similarly recognised in the industry's legacy systems. This issue can be traced to the divide within the entire insurance enterprise. A (re)insurer manages risk through a rather linear process:

1. Identifying catastrophe risk appetite
2. Measuring catastrophe exposure
3. Pricing for catastrophe exposure
4. Controlling catastrophe exposure
5. Evaluating the ability to pay catastrophe losses

This process of writing risk has resulted in a certain misalignment within the industry, between exposure managers, underwriters, and portfolio managers. Moody's writes that the average insurer has, as a result, 10 to 14 core systems installed to run their entire risk management. Typically, the data to support the required calculations, analyses, and reports will often be scattered in non-integrated silos or within disparate data architectures, application, and methodologies, which can inhibit complete and accurate calculations and business management.

It is clear that this pattern of disconnect that runs through the P&C industry and enterprise has significant ramifications to not only the efficiency but the sustainability of the current business model.

The Solution

Whilst this paper has outlined the weaknesses of current CAT model legacy system connectivity, to unilaterally associate these systems with connotations of ‘old’ and ‘obsolete’ does not do them justice. CAT models and legacy systems have been in place for many years and have provided a secure foundation for business transformation in the industry. Yet, it has been shown that a continuation of present technical strategies will spell a gradual demise of the industry.

As such, this paper argues there to be a case for a third option: combining the old with the new. What the P&C industry needs is a system that is model vendor agnostic to bring CAT models and their varying views of risk together on a single collaborative platform, whilst bringing the P&C enterprise together to work in a more efficient space of cooperation.

Using API technology and processing automation, Orchestra can sit on top of any and all CAT models to provide (re)insurers with the ability to view all their exposures and modelling data from all vendors on one screen. (Re)insurers can align their business processes to help meet their business objectives with Orchestra by enabling Underwriters, Exposure Managers and Portfolio Managers to manage their cat and non- cat risk together on one platform. With Orchestra, (re)insurers can reach harmony with their core systems whilst simultaneously creating a space for growth through innovation.

Conclusion

To advance in how we as an industry view and manage cat risk, we must orchestrate harmony between our CAT models and legacy systems to allow companies to perform at peak efficiencies with minimal risk. With modern technology, this is now a tangible possibility. Orchestra marks a technological revolution in risk management, simplifying how the P&C enterprise works together whilst maximising data capacity and consumption.

It is understandable why companies hold reservations about change, however, those who fail to sufficiently innovate will inevitably be overshadowed by those who recognise the imperative of remaining competitive. By leveraging Orchestra, the industry can overcome the challenge of disconnect and move towards greater process and resource efficiency. Companies should incorporate the old with the new to ensure a competitive advantage and differentiate themselves as leaders in the years to come.