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Turn unworkable reporting processes into unstoppable systems successes

Reinvigorated insurance M&A enriches capital management strategies

Legacy-free markets in Asia are becoming InsurTech incubators

Are silent cyber and related behavioral risks in your line of sight?

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Rethinking how work gets done in the insurance value chain

New technologies, new work options, new opportunities to unlock value

By Ravin Jesuthasan and Day Bishop

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Insurers who can navigate the many emerging options for getting work done, including artificial intelligence (AI), robotics and talent on a platform, stand to gain significant competitive advantage.

The digital revolution, with its unprecedented pace of change and innovation, is transforming how work gets done across the insurance value chain from sales and underwriting to claim processing and payments. It is now possible for insurers to deconstruct jobs into component tasks and choose among many emerging options for completing these tasks, including AI and robotics, machine learning and talent on a platform. To capture the opportunities in this new world of work, insurers will need an understanding of the enablers of automation as well as a framework to guide their decision making as they redefine employment relationships and organizational boundaries.

The Fourth Industrial Revolution

We are at the beginning of the Fourth Industrial Revolution, which is characterized by the convergence of technologies blurring the lines between the physical, digital and biological spheres. Its impact is being felt throughout the insurance industry. For example, auto insurers are using telematics to capture data on driving habits in order to better manage risk and set rates. And both P&C and life insurers are starting to employ virtual assistants to enhance customer service and help customers select the right coverage. For instance, Allianz's virtual online assistant "Allie" is available 24/7 to answer questions about insurance products.

In addition, common technologies and platforms are bringing global industries closer together and changing the competitive landscape. InsurTech players offer a good example of how companies with expertise in areas ranging from AI and robotics to blockchain and the Internet of Things are disrupting and reshaping the insurance industry.

Two key themes are essential to understanding the Fourth Industrial Revolution:

- **Democratization of work.** Today companies have the ability to deconstruct a job and have component tasks completed anywhere in the world faster, better and cheaper than ever before contemplated. In turn, this trend is leading to new work relationships that are shorter in duration with a greater equality of power between employers and talent.
- **Technological empowerment.** Machine learning, 3-D printing, mobile technology and algorithmic analytics are some of the many innovations that are transforming work, and both replacing and augmenting human capability.

These forces are challenging our traditional notion of jobs and full-time employment, and enabling a paradigm shift in how work is organized.

But before organizations can unlock value from this new work ecosystem, they need to be able to assess their various work options. The following metrics can be helpful in weighing different possibilities:

- Speed to capability: How do we develop new capabilities as quickly as possible, recognizing how rapidly competitive advantage can be dissipated?
- Cost: How do we acquire new capabilities as efficiently as possible (i.e., with an optimal mix of fixed and variable costs)?
- Risk: How do we develop new capabilities without taking on unnecessary risk? This involves two key aspects. As work moves outside the organization, it is critical to mitigate the risks associated with the potential "lack of control" of the workforce (e.g., liability, loss of intellectual property). In addition, as the half-life of skills within the organization continues to shrink, it is essential that an organization insulates itself from the rapidly rising risk of obsolescence.

These metrics will guide organizations as they make decisions on how best to accomplish different tasks. Our analysis reveals that companies in many industries, including insurance, that deconstruct jobs and distribute the work using the most efficient and effective means can typically realize savings in the 60% to 80% range. This is a significantly greater savings than the 30% typically achieved through outsourcing.

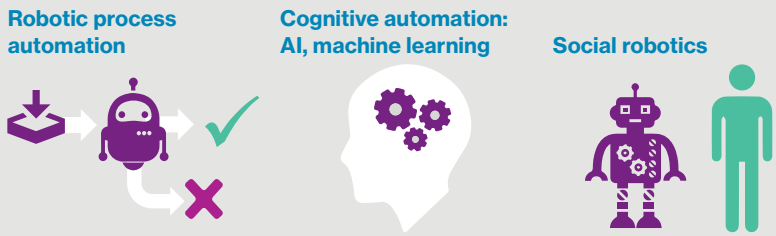
Enablers of automation

In this new world of work, it is critical for employers to understand which tasks might best be completed using intelligent automation versus other options. Three key automation technologies are of particular importance *(Figure 1)*:

- **Robotic process automation (RPA):** Organizations use RPA to automate high-volume, low-complexity, routine business processes. RPA is especially effective in compliance work and claim processing where data need to be updated and/or transferred from one software program to another, such as from a spreadsheet to a client relationship management or enterprise resource planning system. Today teams of software robots, or bots, can perform these tasks, freeing up employees to focus on customer-facing tasks and other activities requiring creativity or empathy.
- **Cognitive automation:** The emerging area of cognitive automation, which includes AI and machine learning, is used to supplement or replace humans in nonroutine complex tasks. Because cognitive systems have the ability not only to quickly sift through massive amounts of data but also to reason and form hypotheses, their expertise in different areas improves over time and adds to an organization's knowledge base.

  Cognitive automation offers insurers many opportunities to deconstruct jobs. For example, auto insurers are already using the power of AI and big data to disaggregate the job of human agents and transform the claim handling process. Instead of having an agent assess the damage to a vehicle following an accident, photos of damaged parts taken with a cell phone camera can now be submitted to the insurer's database. AI powered by massive volumes of data then recognizes the damaged part, assesses the damage, looks up what was paid out on similar claims in the past and makes a determination as to the payout, which is then sent to a human agent for approval. This process improves the accuracy of the claims process and reduces the claim handling time, thereby improving the overall customer experience. And this streamlined process also dramatically reduces the cost of processing claims.

Figure 1. **Enablers of work automation**



Tasks	Routine, high-volume	Nonroutine, creative	Routine, collaborative
Maturity	**High**	**Emerging**	**Medium**
Impact	**Medium**	**High**	**High**

Source: Willis Towers Watson

Our analysis reveals that companies in many industries, including insurance, that deconstruct jobs and distribute the work using the most efficient and effective means can typically realize savings in the 60% to 80% range.

Case in point: Using regtech to automate compliance

Because regulatory compliance is often a labor-intensive, costly and error-prone process, many companies are exploring new ways of completing compliance-related tasks. We recently helped a life insurance company that was facing compliance pressures deconstruct its compliance jobs and automate the process.

This insurer relied heavily on manual processes that increased the risk of inaccuracies and the potential for incurring fines. In addition, as regulations increased, more employees were needed to handle compliance-related tasks, which further pushed up costs.

To address its compliance challenges, this insurer turned to regtech, that is, automation solutions especially designed to streamline regulatory compliance. Combining RPA and machine learning, regtech automates the compliance process. In assessing a potential solution, the life insurer determined that regtech offered many advantages over its current system from a speed-to-capability, risk and cost perspective.

First, regtech would improve its productivity, as it took 10 days on average to contract and engage with a regtech vendor as opposed to the average 60-plus days required to hire a compliance analyst. In addition, regtech was a relatively low-risk solution as most of the risk would be borne by the regtech vendor. And the insurer would not be facing the turnover risk associated with hiring new compliance analysts, nor would it face the risk of analysts' skills becoming obsolete.

Moreover, an AI-based regtech solution would dramatically improve the accuracy of the compliance process, and because of its self-learning capabilities, would add to the life insurer's knowledge base. Consequently, the insurer could avoid the many costly fines due to employee errors. Lastly, the cost of implementing a regtech solution, which was estimated at $20,000 annually, would be far less than that of hiring a compliance analyst whose compensation and rewards could cost the life insurer approximately $120,000 per year.

As a result of implementing a regtech solution, this life insurer was able to transform its compliance process, making it faster and cheaper, and reducing the risk of errors.

Cognitive automation can transform many different processes, creating greater efficiencies and enabling employees to focus on higher-value activities. For example, some property insurers are using drones with cameras to inspect structural damage after major weather events, thereby reducing the claim processing time by over 80%. Allstate and Farmers Insurance used drones for this purpose following Hurricane Harvey. In addition, auto insurers are providing clients with various mobile apps that enable customers to perform a range of tasks, from paying bills to submitting claims, to getting roadside assistance. The use of these apps significantly reduces the burden on agents.

- **Social robotics:** Social robotics involves the combination of physical equipment, AI and sensors, resulting in machines that interact with humans. The classic example is a driverless car or truck. While the insurance implications are just emerging, it is clear that autonomous vehicles could have the ability to radically transform insurance from shifting the very basis of risk (from the driver to the asset) to enabling greater micro-pricing of risk.

Overall, automation can help insurers get work done more efficiently and improve the customer experience as well as the utilization of talent.

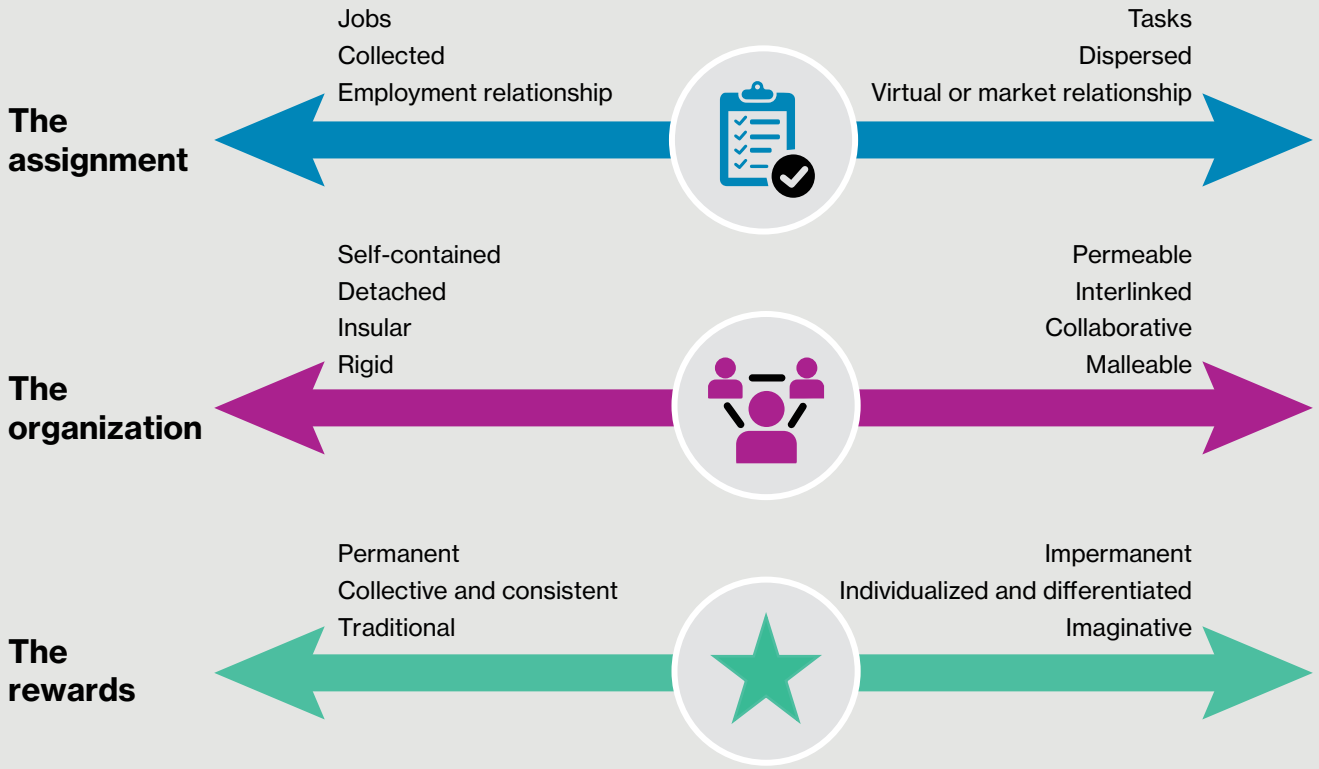
A decision-making framework

But to capture the opportunities, organizations also need to think about work differently. In particular, it is important to understand the key decisions that need to be made in three areas, as illustrated by the continuums of choice below (*Figure 2,* next page):

On the left, we see traditional employment. Work is "constructed" into jobs, collected at a point and space in time, and executed through an employment relationship. The organization is self-contained, detached, insular and protective, and has a rigid shape. The reward package is permanent, collectively consistent and uses traditional elements (e.g., money, hours, working conditions).

On the right, we see a world beyond employment. Work is deconstructed into tasks, dispersed in time and space, and executed through many virtual and market relationships other than traditional employment. The organization is permeable, interconnected and collaborative, and can change in shape. The rewards are impermanent and individually defined, and use imaginative elements (e.g., game points, reputation, mission).

Figure 2. **The opportunity: lead the work**



Source: *Lead the Work: Navigating a World Beyond Employment,* John W. Boudreau, Ravin Jesuthasan, David Creelman, Wiley, 2015

Start experimenting

To get started on this journey, insurers should experiment by selecting a few jobs to deconstruct.

First, you might want to identify jobs in areas where your organization is having difficulties attracting talent. For instance, the ability to compete in emerging areas, like advanced analytics, often hinges on getting the right data science talent. This type of critical talent can be difficult for insurers to attract and costly to hire, so you may decide to deconstruct several key analytical jobs. Once these jobs are deconstructed into tasks, evaluate the speed-to-capability, risk and cost implications of different work options. You might find that your best option is to access world-class talent via a talent platform for tasks requiring highly sought-after skills.

Alternatively, identify areas where work has been done in the same way for a long time and where you suspect that the work might be done faster or cheaper. For example, an organization might decide to deconstruct a claim processing job that's been done the same way for 20 years and use RPA to complete some of the routine tasks and hire someone on a talent platform to tackle the nonroutine tasks.

Because regulatory compliance is often a labor-intensive, costly and error-prone process, many companies are exploring new ways of completing compliance-related tasks.

It's essential to communicate your plans to all stakeholders – leaders, managers and employees – who will need to understand this new way of getting work done. Finally, share the lessons learned as you go along and stay current with how other organizations, including those outside of your industry, are approaching the future of work.

Being able to deconstruct jobs and make decisions as to how best to complete the work using resources inside and outside of the organization can confer significant competitive advantage to insurers.

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Turn unworkable reporting processes into unstoppable systems successes

A step-by-step guide

By Joyce Simmons and Richard Waller

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Many insurers' existing reporting processes have become increasingly unworkable and unsustainable as stakeholder pressure has grown, a state that will only intensify with new IFRS 17 accounting regulations.

In recent years, the burgeoning and sometimes contradictory information needs of regulators, rating agencies, analysts and other financial stakeholders have left many insurers fighting to deliver more from their already strained reporting processes. In Europe, for example, the Solvency II Directive has peppered insurers with myriad new reporting obligations, such as quarterly reporting templates and the annual Solvency and Financial Condition, and Regulatory Supervisory reports required for the first time in 2017.

IFRS 17 will only ramp up the pressure as companies around the world are forced to revisit their core reporting processes and underlying calculation engines in anticipation of the new global accounting standard's 2021 implementation date.

Short-term solutions

Many companies are keeping pace with daily reporting demands by opting for a patchwork solution. The result is often burdensome, with reporting that relies extensively on manually compiling inputs, performing a series of calculations and generating output reports in multiple formats.

What's largely taken a back seat are such underlying issues as time involved, resource inefficiency, overreliance on key individuals, lack of controls and governance, limited validation and rising costs. But with the amount of process work growing, and deadlines shrinking, companies may need to bring the situation under control — sooner rather than later.

This article consolidates a recent series of blog posts on Willis Towers Watson Wire — see http://blog.willis.com/.

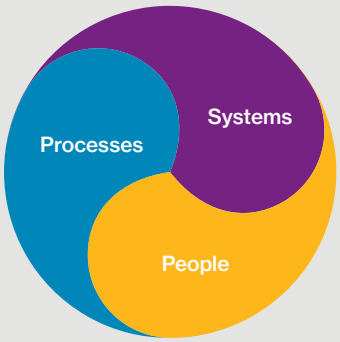
The road to transformation

Solutions are complicated by the notorious difficulty of transformation projects, not to mention the expense. Some bad market experiences have also undoubtedly caused hesitation.

Our experience and market observations have convinced us that successful transformation projects have three essential and overlapping elements: effective tools (systems), engaged people and a fit-for-purpose process. And a blend of all three is needed, whether at the beginning (to enhance the chance of success), during (to manage it effectively) or at the end (to ensure the good work continues) of a project *(Figure 1)*.

We offer a series of tips to help frame and guide transformation projects that draws from our experience.

Figure 1. **Effective process transformation is likely to involve a combination of elements throughout well-defined project phases**



Source: Willis Towers Watson

The project's start

Tip 1 — Be clear on the objective

Projects can flounder because they lack a clear purpose at the outset. Transformational objectives may include accelerating the process, reducing cost of ownership or improving the quality of management information. Each of these is a valid objective that deserves individual, focused attention. For example, if the objective is to speed up the process, companies shouldn't be distracted by things that will change the numbers and expose them to unnecessary reconciliation activity. Such clarity is also important because transformation projects can become a magnet for wish lists of model improvements and pet projects.

Just as important is to avoid framing an objective based on the current way of doing things. Yet the industry default is to start mapping out current processes in great detail. Process mapping not only is time-consuming and potentially disruptive, but also anchors views and potential solutions on the current state. Further, if the objective is to construct a fundamentally different process that delivers results in 15 days instead of 50 days, then detailed process maps of the status quo are of limited value.

Tip 2 — Get the right people

Any process transformation involves a complex, multidisciplinary program. It needs a variety of skill sets: creativity, systems knowledge, people who understand the work methodologies and flows, and project management to name a few.

Some of those skills will exist within the business, but some won't – and will necessitate external partners. Equally, internal resources have to be used appropriately. For example, most internal finance teams are there to operate established processes and perform analyses; they are not usually process design or change experts. Therefore, putting them in project roles where they will need these skills may not be that useful, especially if they are going to revert later to being process operators and analysts.

Combining talent from different sources to get the right people in the right roles may mean a bit more management overhead, but it is definitely better for reducing project delivery risk.

With the amount of process work growing, and deadlines shrinking, companies may need to bring the situation under control — sooner rather than later.

Tip 3 — Buy versus build?

When it comes to process transformation projects, companies may need to curb the desire to start building new systems and processes. Do-it-yourself building projects don't usually turn out that well; they nearly always create key person risk, and they are likely to offend the company's IT protocols.

It's nearly always much more efficient to buy into vendor solutions and focus efforts on how to implement those within the business. The vendor community offers a range of solutions across the end-to-end reporting process and can spread the necessary maintenance and development costs across its entire client base.

Mid-process

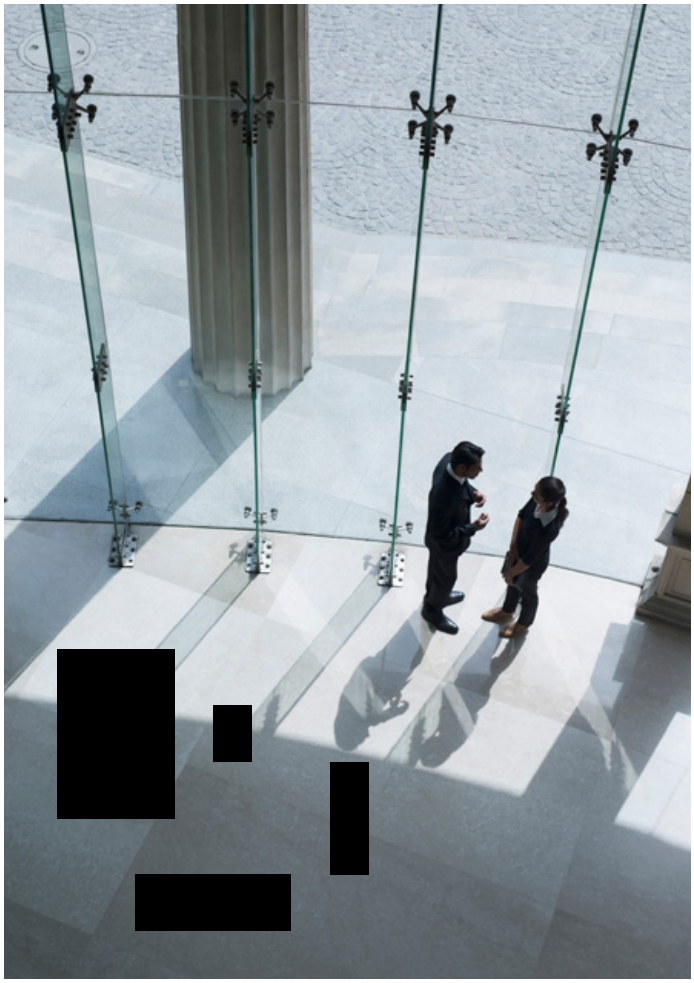
Once the objective is clear, the right mix of people is on board and there's a defined systems approach, attention can move on to making the transformation work for the business.

Tip 4 — Leverage technology

Whatever the predetermined transformational objective, operational efficiency will be an overarching theme – if it is not the primary goal itself. The target process must be quick, stable, repeatable and tightly controlled while delivering the right information to the appropriate people. Achieving the desired efficiency will rely on two fundamental tasks – process acceleration and process improvement – with the mix and order tailored to meet the objective. Power and automation are essential to achieving both.

Computing power is needed, with options available, including grid computing and pay-as-you-go capacity on the cloud. The automation is provided by workflow management technology and is essential to building in controls and to limiting the manual interventions that are frequently at the root of growing reporting pressures.

True reporting transformation without good and adequate technology is next to impossible.



Successful transformation projects have three essential and overlapping elements: effective tools (systems), engaged people and a fit-for-purpose process.

Tip 5 — Take your people on the journey

Companies in transition underestimate the people element of reporting process transformation at their peril. It's not all about systems and technology; the main impact will be on people and their way of working. Most people are naturally resistant to change, and as a designed change, the transformation program must take this into consideration.

Elements within the "people work stream" will include: new organizational design, revised job descriptions, training plans, redeployment guidelines, key person risk planning, and impacts on performance targets and rewards.

Tip 6 — Manage interactions with other corporate initiatives

As important as a transformation project may be, it won't be the only strategic program in which the company is engaged. So it is critical that it dovetails with other related business initiatives.

Although there may be multiple and different stakeholders across these initiatives, consider implementing the following elements to gain the best outcome: one lead stakeholder to oversee consistent project governance, combined success targets where appropriate and aligned remuneration. Knitting together the related business initiatives as closely as possible will be key to overall success and lessens the risk of one project running off track.

The project's end

Companies that have invested the money, time and effort to implement a reporting process transformation project with a well-defined objective want to be certain that they enjoy lasting benefits.

Tip 7 — Ensure you realize the benefits

Keep these two points in mind:

How are new parts of the process introduced? Typically, a transformation project's core objective is to reduce manual tasks. Toward this end, the new process needs to be introduced into the live environment in stages of sufficient scale to drive head count reduction and free highly skilled staff for reassignment to more productive activities. It also reinforces the message that what is taking place is truly different and will make a difference.

At the same time, implementation must be manageable for those expected to deliver change in a timely fashion. And the reporting team needs to be able to absorb and master (and perhaps further improve) the new process, including incorporating any new tools and technologies. This should happen in stages rather than presenting an overwhelming set of process components to comprehend and act upon in one fell swoop.

When is a project finished? Experience shows that it's best to consider a project completed when the old process is fully decommissioned, so that all pet spreadsheets and workarounds that might gradually creep back in and degrade the new process are eliminated. Only when a company has stopped using old, redundant tools; terminated surplus software licenses; and eliminated inefficient, outmoded processes should the project be considered closed.

Figure 2. **The nine tips summarized**

Source: Willis Towers Watson

Hard-earned time and cost savings can wither on the vine without appropriate ongoing investment in the new process.

Tip 8 — Preserve the investment

Hard-earned time and cost savings can wither on the vine without appropriate ongoing investment in the new process.

Companies need to train the reporting team to operate the new process and technology efficiently, and to think about whether the organization structure, role profiles, skills mix and rewards support their longer-term needs. Periodic health checks of the new process, including reviews with vendors, are also an important part of establishing a control and continuous improvement cycle.

Moreover, the technology on which reporting processes rely will inevitably change. Historically, insurers have faced spikes in technology costs when systems are refreshed or new business requirements trigger expensive IT projects. Pay-as-you-go cloud computing options, software-as-a-service delivery models, and the new analytics capabilities coming on stream from artificial intelligence and machine learning can change this for reporting or any other function.

Tip 9 — Celebrate success

Successful reporting process transformation isn't easy; hard work should be celebrated when it pays off *(Figure 2)*. Read how reporting process transformation paid off for one insurer in the sidebar on page 10.

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SIDEBAR

Bring words to life

One major European insurer faced the threat of being unable to meet the fast-approaching reporting deadlines set for the Solvency II working day timetable ahead of full implementation in 2019. This possibility drove efforts to transform its reporting process. However, as is common in these kinds of projects, the company also wanted to target other improvements, such as cost control and higher-quality output.

Acceleration versus improvement

The transformation process initially combined acceleration tasks (typically using technology for speed, without changing the underlying function) and improvement tasks (changing the way something works and, potentially, the results). Three key acceleration tasks that were critical to meeting the Solvency II working day timetable were left until the project's end because of sequencing. As a result, there was significant and largely avoidable project delivery risk.

The plan was changed to first focus on acceleration. It started with a four-week design phase where core principles of the revised process were also established, so that it would be event-driven, not user-driven, and that more importantly, spreadsheets would only be used as a display tool, such as to facilitate results validation.

Implementation took place over six weeks and involved reengineering both the end-to-end actuarial process and the stochastic model execution runs that generate the regulatory numbers. Notably, although some modeling processes had been identified as prime targets for improvement, the initial focus remained on accelerating them.

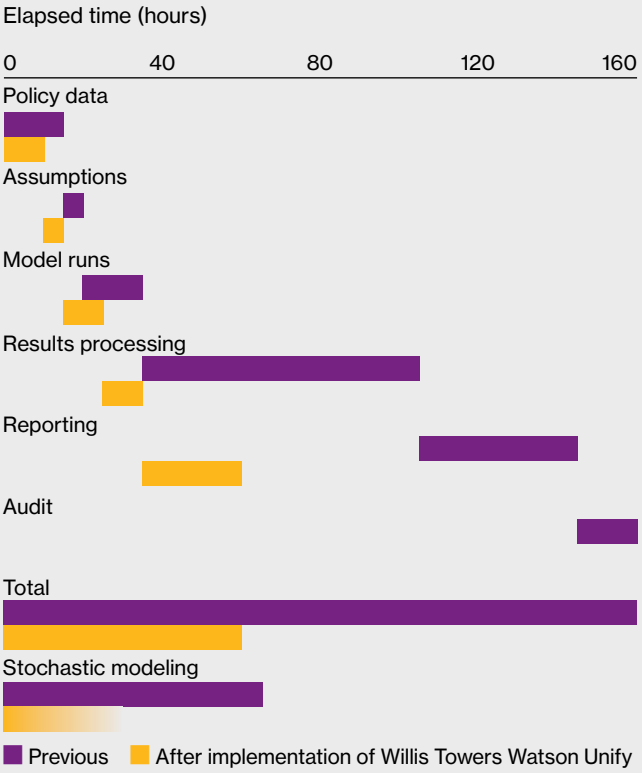
Outcome

The early introduction of new technology not only improved speed but also enabled greater system agility and clarified where subsequent process improvements could have the most impact. It also freed up analyst time for value-adding activity and embedded the technology early so that employees could more easily adapt to and shape the overall process transformation.

This "technology first" approach had a huge impact. The elapsed time for the end-to-end actuarial process dropped by more than 50% *(Figure 3)*. The duration of stochastic modeling runs was also halved. In both cases, the human input into the model runs was reduced to deciding what actual runs to do.

The attention paid to having a fit-for-purpose process and keeping the people on board with the changes was also critical to ensure gains don't subsequently drop off. This insurer is now well placed to meet the ongoing demands of the Solvency II working day timetable. And the freed-up employee time can now be redeployed on more value-adding activities, such as achieving its wider process transformation objectives, as well as preparing for new requirements such as IFRS 17.

Figure 3. **Before and after comparison of the end-to-end Solvency II reporting process**

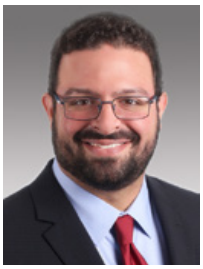


Source: Willis Towers Watson

Reinvigorated insurance M&A enriches capital management strategies

Focused, purposeful deals

By Joseph Milicia and Fergal O'Shea



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Insurance merger and acquisition (M&A) activity by value rebounded in 2017, with a growing emphasis among (re)insurers on transactions that help structure their businesses and portfolios to optimize available capital.

After a significant decline in insurance M&A activity from 2015 to 2016, many insurers and financial investors regained their enthusiasm in 2017.

The 2017 edition of our annual joint study of global insurance M&A trends* with global intelligence provider Mergermarket shows that completed deal values increased by 170% in the first half of 2017 compared with the same period in 2016, while deal volume dropped 17.7%, suggesting shifting priorities (*Figure 1,* next page).

One notable trend is the prevalence of very large deals, as companies seize the opportunity to realize their growth objectives in fewer, more targeted transactions. The study recorded 11 deals worth more than US$500 million in the first half of 2017, when only 14 were completed in the whole of 2016 – and that's without two megamergers that were blocked on anticompetitive grounds in the U.S.

More broadly, the study uncovers some changes in the motivations for the buying and selling of insurance assets, driven in particular by a greater focus on deploying capital to optimize returns.

Capital optimization

Insurers face hurdles that make the efficient use of capital imperative. In recent years, a combination of tepid growth in premiums, low interest rates and the burden of regulatory requirements has created a tough environment to achieve reasonable returns, particularly in developed markets. Already this is evident in some insurers' asset strategies, with many turning to alternative assets in the search for higher yields. Indeed, furthering this trend, more than three-quarters of survey respondents said they expect to increase their exposure to alternative assets over the next three years.

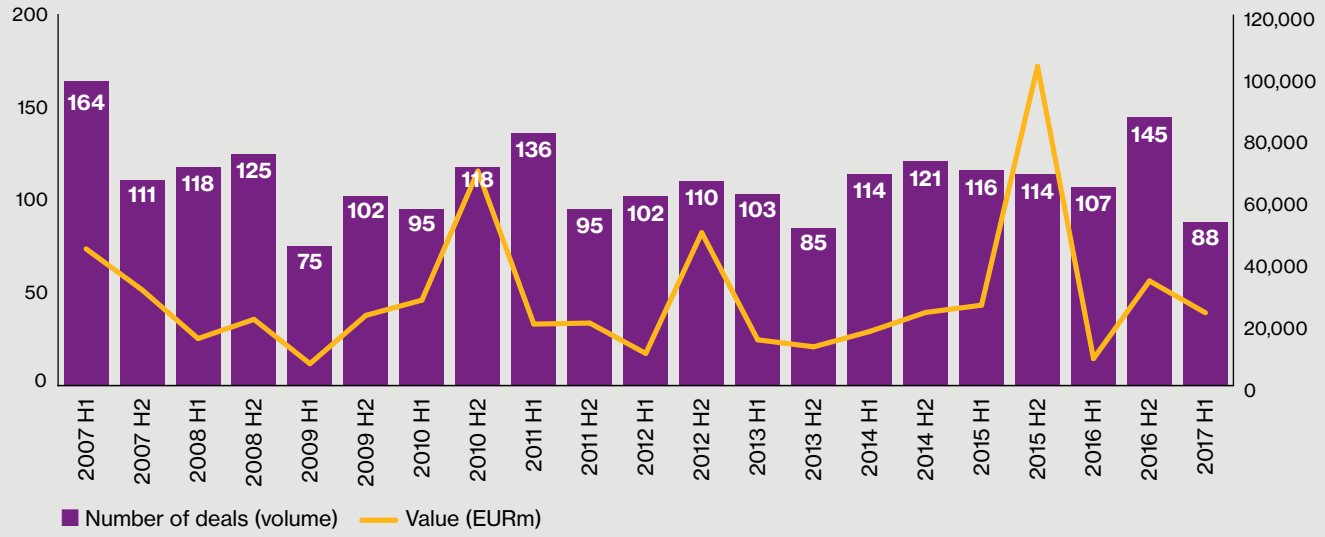
Now, it seems, similar priorities are being reflected in divestment and acquisition strategies.

On one hand, preferred capital optimization strategies often involve the divestment of capital-intensive businesses or divisions that are expensive to manage and/or difficult to scale up. Over half of survey respondents said they had reduced their exposure to capital-intensive products or increased their exposure to less capital-intensive products, while 65% intend to act over the next three years.

*Download report on willistowerswatson.com: *Hitting the targets: How insurers are optimizing their capital strategies and what this means for the M&A market.*

Figure 1. **Volume and value of global insurance M&A H1 2007 to H1 2017**

(Global insurance underwriters; does not include brokerage)



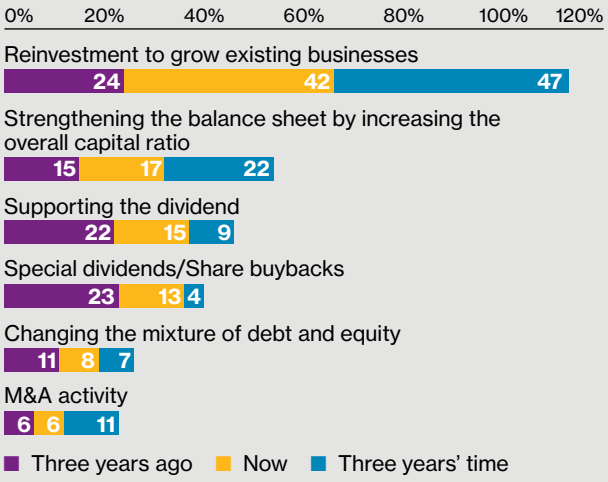
Source: Willis Towers Watson and Mergermarket

Activity is most pronounced in the annuities market, where large closed books are increasingly up for sale. For example, Solvency II has been the catalyst for regulators in certain European countries, such as Germany and the Netherlands, to require many insurers to strengthen their balance sheets. "Lower for longer" interest rates have made the problem even more acute for companies with traditional participating business. These two factors have badly damaged the dividend potential for many companies, and some of these are now seeking to shed portfolios with high capital requirements, low return on equity, or both. Consequently, the closed book deals that have become relatively commonplace in the U.K. are likely to rise in frequency across Continental Europe.

Others are firmly on the growth trail. After years spent retreating in the face of heightened regulatory scrutiny, many companies are growing more confident and looking to expand their operations in tandem with optimizing capital. This is reflected in how companies expect to use their capital in the next three years *(Figure 2)*. While maintaining a strong balance sheet and capital ratio will remain important, more companies say they are aiming to scale back dividend support and share buybacks to invest for growth, including M&A.

Figure 2. **More firms intend to use capital to invest for growth**

What was your top use of capital three years ago? What is your top use of capital now? What will your top use of capital be three years from now?

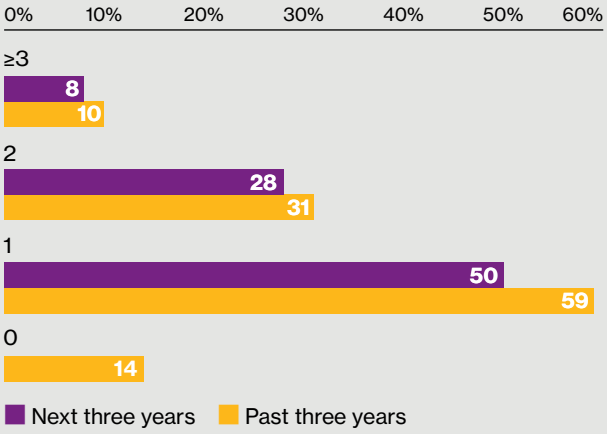


Source: Willis Towers Watson and Mergermarket

Completed deal values increased by 170% in the first half of 2017 compared with the same period in 2016, while deal volume dropped 17.7%, suggesting shifting priorities.

Figure 3. **Number of acquisitions undertaken in the past three years and anticipated in the next three**

How many acquisitions has your firm undertaken in the past three years? And how many do you expect to undertake in the next three years?



Source: Willis Towers Watson and Mergermarket

M&A can put capital to work

Nevertheless, there are strong indications that insurers are becoming more selective in seeking M&A targets, as the volume figures for the first half of 2017 confirm.

Detailed survey responses point to a flight to quality over quantity, with activity driven by factors such as the need to create synergies, build brand equity and tackle technological advances. As a result, companies expect to complete fewer deals in the next three years than in the past three *(Figure 3)*. This finding belies a small group of serial acquirers, many of whom indicate they remain hungry for further deals. The majority (78%) of respondents said they expect to undertake one or two acquisitions in the next three years, compared with 90% that have made one or two acquisitions in the past three years. Moreover, 17% of companies expect at least one of their acquisitions over the next three years to be a major deal (greater than US$500 million), compared with 8% that have made one such acquisition over the last three years.

Figure 4. **Drivers of acquisition activity**

What have been the drivers of your acquisition activity over the past three years? And what are the drivers of your anticipated acquisition activity over the next three years? (Select all that apply.)

Source: Willis Towers Watson and Mergermarket

Deal motivations

So, what are insurers looking for *(Figure 4)*?

The most common motivation for acquisitions over the next three years is to build brand strength, which survey interviews suggested is heavily influenced by the demands of technology-based distribution and industry digitalization. This fits with a recognition that the transition to digital sales requires a strong, recognizable brand. The need is accentuated by lower rates of insurance purchased by millennials, which insurers believe signals a need to work harder than ever to win and retain business in this age group.

Unsurprisingly, given the pressures of a soft market and continuing – even if better understood – regulatory burdens, 65% of respondents noted revenue, cost and financial synergies as a major driver.

Also fairly predictably, the third highest motivation for deals in the next three years is to access innovation and technology. Yet, as we found in our report published earlier in 2017, *New horizons: How diverse growth strategies can advance*

More companies say they are aiming to scale back dividend support and share buybacks to invest for growth, including M&A.

digitalization in the insurance industry, firms are pursuing multiple avenues in their technology strategies, including internal innovation incubators and corporate venturing arms. This may account for the decline from 66% to 59% in the number of companies that expect technology goals to anchor future M&A deals.

Target refinement

The study data show that a more value-oriented approach to estimating return on capital is a priority for more respondents and is how companies assess potential targets. This again speaks to the defining trend of the study: insurers' overall pervading aim to ensure that capital is efficiently invested in a low margin, low interest rate environment.

With this as the common starting point, other factors that insurers expect to help refine their M&A targets include areas of operation offering growth potential, the goal of staying closer to customers in order to boost retention, and the perceived need to boost competitiveness in the face of technological innovation and new market entrants.

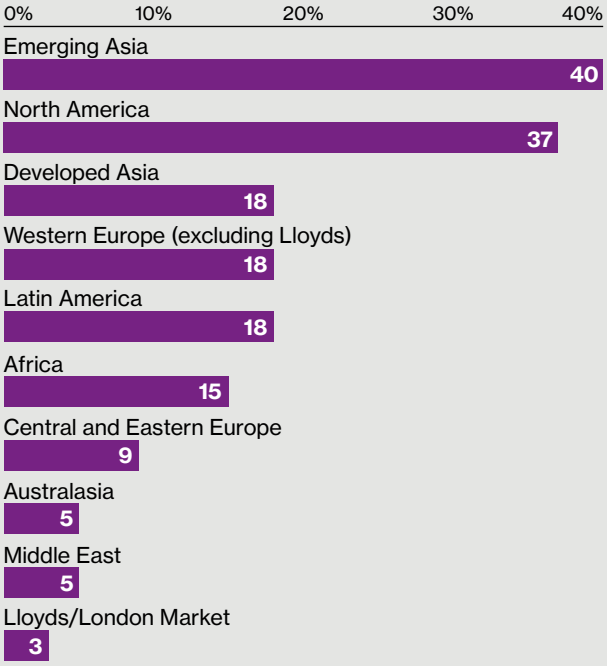
Notably, with low growth in developed economies, insurers are beginning to seek higher returns in geographies such as Asia. There is a home bias: Only 5% of respondents currently generate more than half of their profits outside their home region, but 15% expect to do so in the next three years.

Economic growth prospects are the main factor in determining attractive target geographies, far exceeding the next most important consideration: a favorable regulatory environment. Consequently, 40% of respondents expect emerging Asia to be a focus of M&A over the next three years, driven by rapidly growing middle classes and relatively low insurance penetration levels in populous countries such as Vietnam and Indonesia. North America follows, reflecting recent, strong economic indicators *(Figure 5)*.

Even so, growth potential must be balanced with operational pragmatism. For example, the existence of strong incumbents and the known challenges of operating in the Chinese and Indian markets, in particular, mean that only 18% of insurers anticipate their acquisition strategies will focus on developed Asia, despite the obvious growth potential.

Figure 5. **Where companies expect to focus their M&A activity in the next three years**

In which regions/markets is your acquisition strategy likely to be focused on over the next three years? (Select all that apply.)



Source: Willis Towers Watson and Mergermarket

That said, respondents expect deal making to tilt further toward emerging markets over time. Emerging markets over developed markets are favored by an average split of 51%/49% over the next three years, with that lead edging up to 54%/46% over the next six years.

Another extremely important determinant of M&A targets, according to the study, is the ability to create value by retaining the acquisition target's customers. The expectation, therefore, is that companies will place an increasing emphasis on the stickiness of customers and businesses or technologies that can help them achieve higher retention through renewals and strategic upselling. The dangers of getting this wrong – in other words, leaking customers – are also well appreciated and a commonly mentioned hindrance to creating post-acquisition value.

Practically speaking, this is increasingly steering acquirers toward organizations that harness data analytics and technology effectively to give customers the best experience possible. Indeed, our *New Horizons* report found that 82% of insurers say that over the next five years digital technologies would substantially change customer retention/management. Claim handling, the area where insurers typically have the most interaction with customers, was identified as a particular area for development and investment.

Companies that pay the closest attention to their strategic aims, and how managing their capital and pursuing M&A can underpin those goals, are likely to have the best chance of success.

Funding mirrors the value agenda

Preferred methods of financing deals are also revealing and consistent with the increased emphasis on capital optimization. One benefit of the regulatory scrutiny that insurers' balance sheets have undergone in recent years is a clarity about capital and cash reserves and where they may be overly prudent. Further, benign trends in recent years have led to significant favorable prior-year reserve runoff for property & casualty companies, which has led to a capital buildup.

Consequently, the vast majority of firms (95%) plan to finance their next deal with existing cash reserves, with 38% saying this will be the most important way of bankrolling a transaction. This is followed by 46% that will use the proceeds from the disposal of a business, with 27% ranking this as the top source of financing. Just 4% of respondents expect to pursue M&A with a debt-led approach.

Clear purpose

For the growing cohort of companies that the study shows intend to pursue a capital efficiency agenda, those that pay the closest attention to their strategic aims, and how managing their capital and pursuing M&A can underpin those goals, are likely to have the best chance of success.

Interestingly, only just over half of firms say they have a capital optimization strategy in place. That leaves more than two out of five with no such strategy to determine where capital would be best deployed. Some will undoubtedly also need to revisit their portfolio strategies to reinforce an in-depth understanding of suitable geographies, disruptive technology and intellectual properties, and the ability to recognize existing business lines that are either unscalable or overly capital intensive.

As the industry's M&A focus increasingly turns to strategic considerations and growth, insurers will benefit when they dedicate resources to understand how the most efficient use of capital can protect and create value.

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Legacy-free markets in Asia are becoming InsurTech incubators

Will they transform traditional insurance delivery?

By Mark Hvidsten

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New York

Asia, free of many unwieldly legacy constraints, is the prime example of how emerging markets may more immediately offer favorable conditions for InsurTech breakthroughs.

Despite the great enthusiasm over InsurTech's potential, barriers to entry in developed insurance markets remain difficult for the vast majority of start-up and early stage businesses. Although regular reports suggest that the global insurance industry is under attack from many disruptive forces, there is scant proof this is the case. When we remove the extraordinarily high, self-evaluated price tags from most InsurTech start-ups, their true value is usually quite limited.

In North America and Europe, in particular, there have been a relatively small number of new players that were genuinely successful in squeezing themselves into the value chain. That's not to say others cannot or will not, but for now, at least, their long-term contribution to the insurance industry is still far from known.

The continued excitement in the space is because select new entrants will undoubtedly be successful in introducing new technologies or applications that improve or streamline the insurance process, whether as businesses with stand-alone value or by being absorbed into existing organizations. Yet, no one can say which ones with much certainty. Currently, we believe InsurTechs that complement incumbent legacy processes – and specifically those that are able to lower expenses through automation and better use of data – will add value.

The advantage of a legacy-free marketplace

It's worth emphasizing the word "complement." InsurTechs in developed insurance markets are typically forced to contend with decades' worth of incumbent experience. The resulting legacy market infrastructure has fostered established protocols, which newcomers to the industry invariably have to master or circumnavigate in order to become part of the value chain.

This hurdle proves too difficult for the vast majority, as the relatively high infant mortality rate for start–ups suggests. Disruption in these markets is frequently limited by a combination of domestic regulation, consumer acquisition costs, market penetration, capacity and legacy infrastructure constraints.

The Asian, South American and African markets, however, are less encumbered by legacy processes, providing InsurTechs with a relatively greater opportunity to compete with fewer barriers to entry.

It is becoming increasingly clear that legacy-free markets are more forgiving operating environments for innovative start-ups. These markets allow certain InsurTechs to fill gaps that might otherwise be filled by traditional incumbents. Nowhere is this more the case than in Asia.

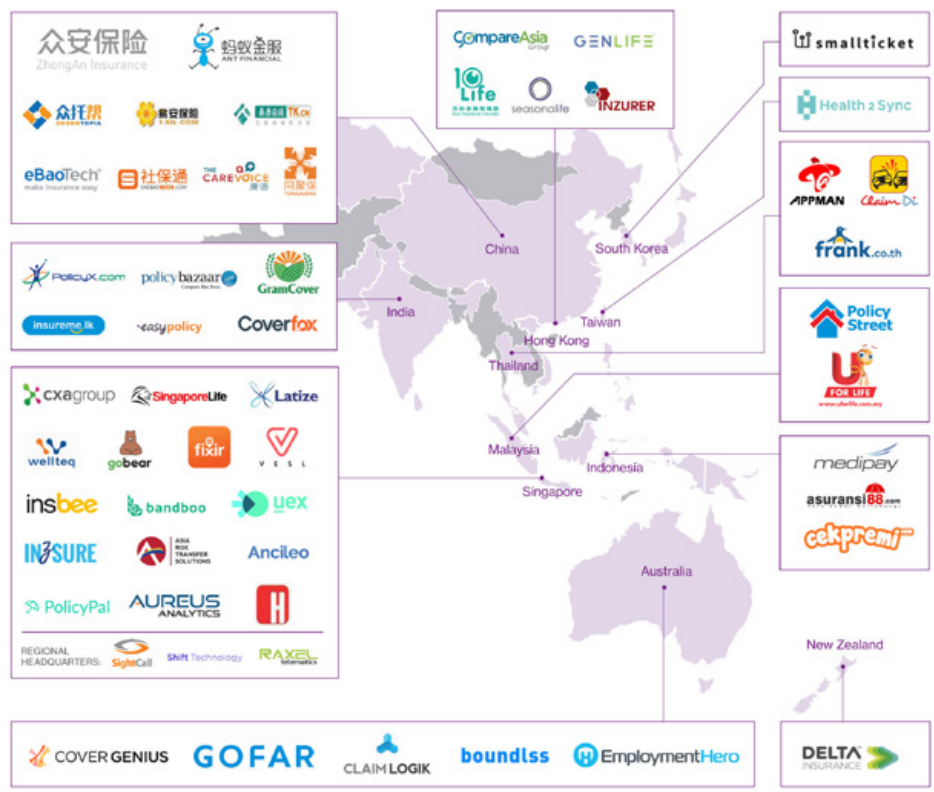
Digital distribution and aggregator platforms in Asia

Digital propositions and InsurTechs focusing on life and health, and microinsurance (specifically for agricultural products) appear to be the most influential drivers of innovation in Asia to date. Within these business lines, digital distribution and aggregator technology have been particularly successful in bridging the gap between supply and demand. The distinct lack of legacy incumbents in many of these markets, coupled with increasing demand for more responsive and tailored insurance products, are creating strong opportunity for new entrants.

The largest single InsurTech in the market today is digital insurer Zhong An, which was launched and financed by Ping An, Tencent and Alibaba in 2013. Zhong An was the first, and is now one of only four companies nationwide in China, to receive a license from the China Insurance Regulatory Commission to sell insurance products online. The company boasts more than 240 niche products, all of which are

We believe InsurTechs that complement incumbent legacy processes — and specifically those that are able to lower expenses through automation and better use of data — will add value.

Figure 1. **Geographic breakdown of recent InsurTech investments in the Asia Pacific region**



Source: InsurTech Asia Association, October 2017

distributed digitally, mostly through the online platforms of the company's many ecosystem partners. Zhong An has raised over US$2.4 billion of capital to date, including its US$1.5 billion initial public offering on the Hong Kong Stock Exchange (at a valuation in excess of US$10 billion) in September 2017 and its US$931 million Series A round funded by several private equity investors in 2015.

Another notable entrant is Singapore Life, a digital insurer specializing in life and health products for high net worth individuals. Singapore Life is the first Singaporean insurance company to be domestically licensed since 1970, and closed a $50 million Series A round in April 2017 with funding provided by China Credit and IPGL. The company has been particularly efficient at penetrating the local marketplace and identifying demand through the use of its state-of-the-art technology.

Despite the size of the Zhong An and Singapore Life deals, the Asian InsurTech ecosystem remains relatively small. We estimate that globally there are approximately 1,500 InsurTech start-ups. In Asia, there are just over 100 recognized InsurTech start-ups, approximately 7% of the global total. Furthermore, Asia makes up less than 15% of total global investment funding into InsurTechs, and the majority of volume to date is accounted for by the Zhong An transaction.

InsurTechs by geography

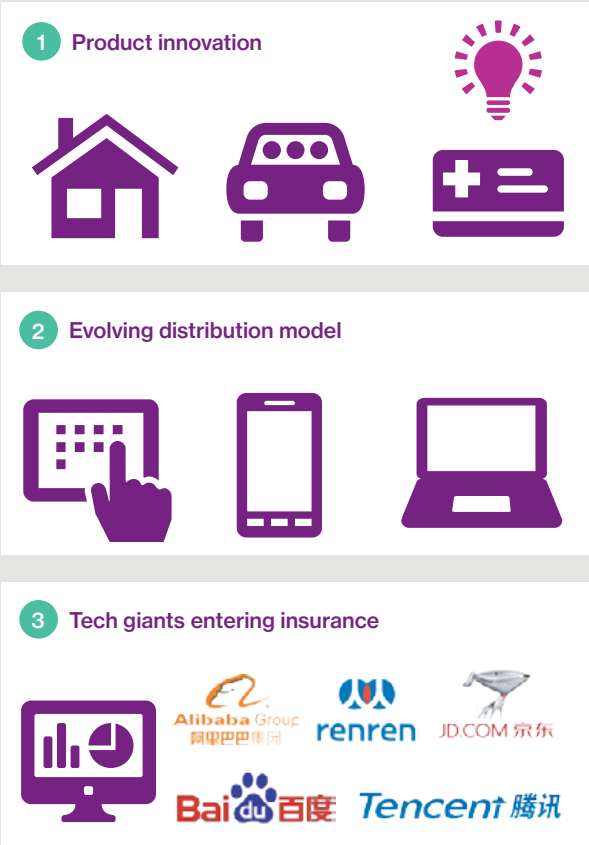
While activity in Asia is predominantly concentrated around Singapore, Hong Kong and China, other countries such as Malaysia, Indonesia, Thailand and Vietnam have also recently made regulatory provisions to allow for the development and growth of local InsurTechs.

In Singapore's case, the Monetary Authority of Singapore created a regulatory sandbox for InsurTechs (along with FinTechs), allowing new companies the opportunity to test their value propositions in the sanctuary of a low regulation environment. Following this move, Malaysia has elected to establish a similar mechanism.

These and related provisions are expected to drive a wave of change to meet the needs of the large and growing, increasingly sophisticated online consumer base in Asia. With few digitally visible incumbents to challenge this phenomenon, increased opportunity is anticipated for InsurTechs.

Figure 1 shows the Asia Pacific countries where InsurTechs have already successfully launched. The vast majority are distribution platforms and aggregators. Most offer personal lines coverage and microinsurance, with life- and health-focused (HealthTech) companies making up the largest proportion.

Figure 2. **Technology is helping to reshape the insurance market in emerging Asia**



Asia, South America and Africa are less encumbered by legacy processes, providing InsurTechs with a greater opportunity to compete with fewer barriers to entry.

Interestingly, Japan is notably absent from the list of Asian nations currently producing a steady stream of InsurTechs. This is not to suggest, however, that it is not actively investing globally in InsurTechs – quite the contrary, in fact. Japanese commerce giant Rakuten, for example, has invested in German InsurTech, Simplesurance.

Equally, Asia has provided a huge opportunity for inward investment, enabling incumbent insurers to leverage InsurTechs to distribute their products and penetrate markets that have historically been difficult to access, or have been underserved. Aviva, for example, at the beginning of this year sold approximately 60% of its Hong Kong business to Tencent and Hillhouse, with the goal of leveraging Tencent's Internet prowess to sell its life insurance and investment products via digital channels throughout Asia. Historically, life and health products have been sold primarily through agents in this region, but increasing use of digital channels is enabling Aviva to increase sales and penetrate new markets.

It's also important to note that distribution in Asian markets and a relatively low demand for cover have prevented the penetration of innovative products in many markets in the past. The proliferation of handheld smart technology and digital awareness among consumers, coupled with increased demand, however, have begun to change the landscape.

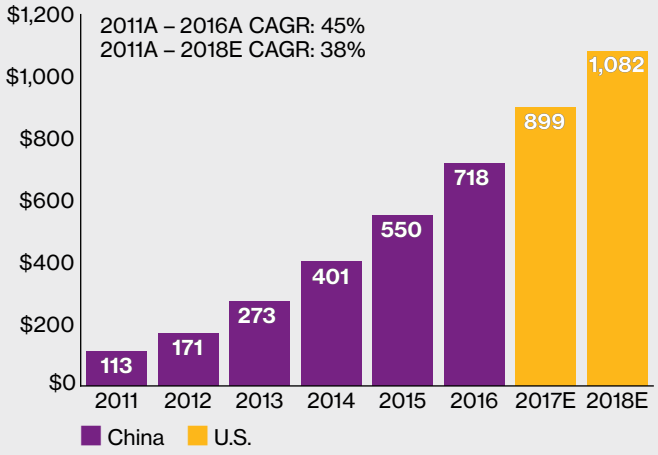
In fact, the boom in handheld technology has created new market opportunities and coverages. Companies such as BIMA and StoneStep have made insurance available where access was previously limited – products such as microinsurance, life, personal accident and hospitalization. New agricultural products have also emerged – many of which are supported by parametric technology, which determines claim eligibility based on a third-party notification of a natural disaster. Where legacy infrastructure has not existed previously, modern technology is increasingly supporting the provision and growth of these insurance products that should help facilitate economic growth and improve standards of living *(Figure 2)*.

Emerging Asia: An e-commerce hotbed

E-commerce is perhaps the best lens through which to view the potential time frame for InsurTech to narrow the gap between emerging Asia and more developed insurance markets. The charts below illustrate emerging Asia's leading position in e-commerce globally. E-commerce in China has grown at a 45% compound annual growth rate since 2011 and is projected to exceed US$1 trillion by 2018. Notably, China's 19% e-commerce penetration rate, which represents e-commerce sales as a percentage of total retail sales, significantly exceeds the U.S. rate of 8%.

Figure 3. **E-commerce sales in China**

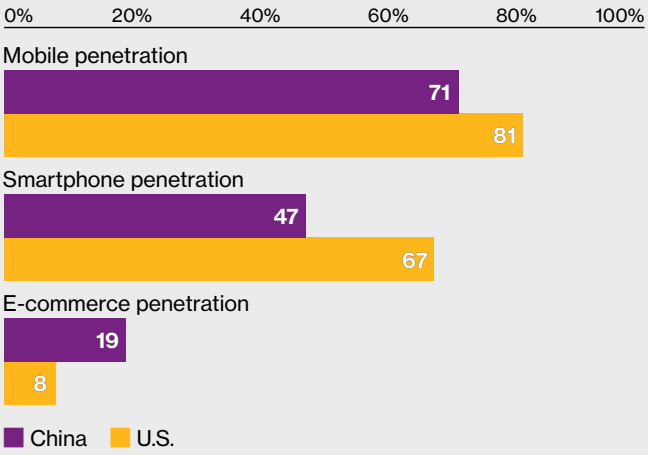
(US$ billion)



Source: China National Bureau of Statistics Euromonitor and eMarketer

Figure 4. **Mobile and e-commerce penetration**

China vs. U.S.



Source: China National Bureau of Statistics Euromonitor and eMarketer

Portability potential

Such developments are indicative of an InsurTech future where some consumers may never need an agent or to fill out a claim form. And where the legacy market infrastructure is less entrenched, it's easier for technology to disrupt. In Asia there is a real opportunity for innovative technology to shape the future of emerging insurance markets.

This coincides with individual capabilities or functions in the value chain – that are characteristic of increasingly modular global economies – becoming more portable between markets. Successful technologies and distribution methods, such as Zhong An's ecosystem, partner-integrated digital distribution model, could well be transferred to new markets after demonstrating success locally. Any InsurTech predicated upon a genuine solution-driven business model supported by product, geographic and financial agnosticism is likely to be replicable in other markets.

Emerging Asia, in the early stages of growth and development, may effectively serve as an incubator for InsurTechs that ultimately transform more developed markets currently controlled by traditional incumbents.

Digital and InsurTechs focusing on life and health, and microinsurance (specifically for agricultural products) are driving innovation in Asia.

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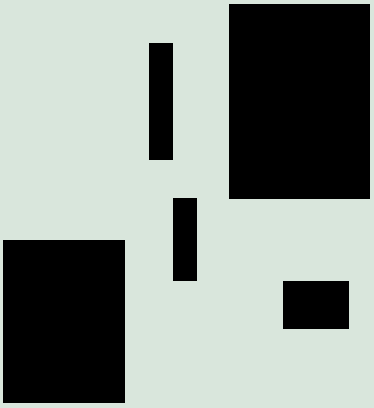
Are silent cyber and related behavioral risks in your line of sight?

Insurers need a more holistic view of cyber exposure.

By Adeola Adele, Anthony Dagostino and Mark P. Synnott



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With silent cyber exposure and related behavioral risks on the rise, how do insurers get better visibility into the full spectrum of cyber risks?

An ever-evolving cyberthreat landscape requires that insurers examine cyber exposure through a broader lens. Our research shows that two sources of cyber risk merit increased attention: silent cyber exposure and behavioral risks.

Silent exposure

Silent cyber exposure can push up loss ratios on policies not specifically designed to cover cyber risk. Examples of silent cyber exposure could include a cyberattack on an industrial plant's control system causing a boiler explosion, resulting in widespread property damage and business interruption, or malware triggering an elevator failure, leading to multiple casualties. Policy payouts will vary depending on policy wordings and the specifics of individual cases. However, these and many other examples illustrate the potential for silent cyber losses.

How significant an issue is silent cyber exposure for insurers? To find out, we conducted a survey on the likelihood and potential financial implications of cyber-related losses in cases where policies specifically neither included nor excluded cyber risk.

The survey focused on four broad insurance lines of business: first-party property, third-party auto liability, third-party other liability and workers compensation. Approximately 750 leaders and experts at more than 70 insurance companies and groups around the world as well as within Willis Towers Watson participated in the survey.

We asked respondents to gauge the extent to which cyber exposure would increase the likelihood of a covered loss over the next 12 months. Roughly half of industry practitioners see the risk of silent cyber exposure as growing over the coming year.

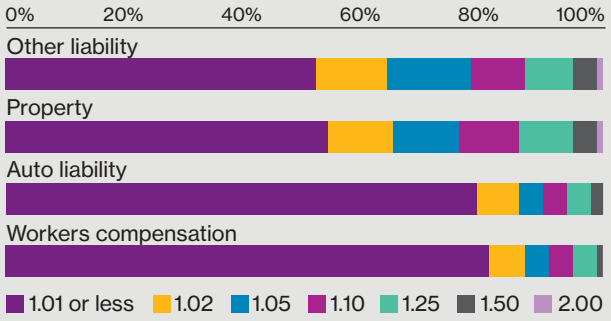
Using the range of responses — from 0% indicating no additional losses due to cyber exposure to 100% indicating as many cyber-related losses as non-cyber-related ones — we converted these into a silent cyber risk factor. For example, a risk factor of 1.01 represents one cyber-related loss for every 100 non-cyber-related losses.

Variations across business lines and industries

Our findings, detailed in the ***Silent Cyber Risk Outlook*** report, reveal considerable uncertainty over the potential degree of silent cyber exposure (*Figure 1*, next page). For instance, more than half of respondents estimated the risk factor for silent cyber losses from property or other liability policies as 1.01 or less. However, close to a quarter reported the risk to be greater than one in 10.

Figure 1. **Silent cyber risk factor by line of business**

Cumulative percentage of respondents



Source: 2017 Willis Towers Watson Silent Cyber Risk Outlook

Responses regarding anticipated silent cyber risk varied across lines of business. Respondents perceived the risk to be lower for auto liability and workers compensation policies than for property and third-party other liability. In fact, more than three-quarters of survey participants estimated the risk factor to be 1.01 or less for both auto liability and workers compensation policies. While for the auto liability line this may suggest that accidents involving technology vulnerabilities would be treated as product liability losses, it is not as clear why respondents would perceive the risk for workers compensation as low.

Roughly half of industry practitioners see the risk of silent cyber exposure as growing over the coming year.

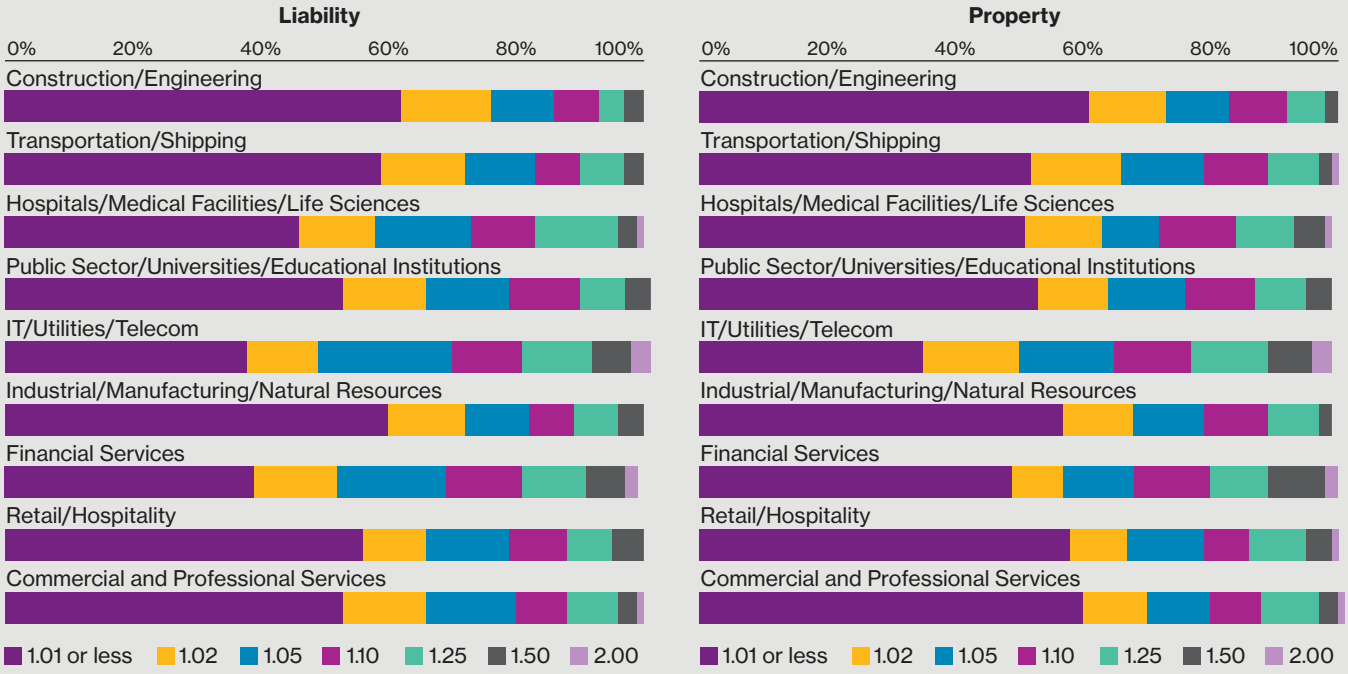
The potential impact of silent cyber exposure is more readily apparent in results for the higher risk lines of property and other liability coverages. While the median risk factor for both of these lines is 1.01, the mean risk factor is higher: 1.07 for other liability and 1.074 for property policies. Assuming a 60% loss ratio for a book of property business excluding cyber-related losses and a severity distribution for silent cyber losses that was the same as for the other losses, silent cyber exposure might cause the loss ratio to rise to 60.6% using the median view and 64.4% using the average view.

In looking at estimated silent cyber risk across industry groups, the lower risk lines – auto liability and workers compensation – showed little variation. However, our finding uncovered significant industry differences for property and other liability policies *(Figure 2)*.

The respondents viewed industry groups that regularly handle consumer information – hospitals/medical facilities/

Figure 2. **Silent cyber risk factor by industry**

Cumulative percentage of respondents



Source: 2017 Willis Towers Watson Silent Cyber Risk Outlook

life sciences, IT/utilities/telecom and financial services – as higher risk for liabilities losses. Interestingly, the retail/hospitality group was perceived as lower risk even though this group suffered several major data breaches in recent years.

As for property lines, the industrial/manufacturing/natural resources groups were not regarded as particularly high risk despite the fact that some of the most well-known examples of silent cyber property losses took place in industrial settings. But respondents did view the IT/utilities/telecom and financial services groups as higher risk, which may be an indication of perceived utility and communications infrastructure threats.

An ongoing effort

Overall, the results of the survey highlight the need for underwriters to adopt a more holistic cyber risk insurance strategy that can effectively include tailored policies to address the risk of silent cyber exposure. Our survey was conducted prior to the WannaCry and NotPetya attacks. An expanded follow-up survey, planned for early 2018, will examine how perceptions of silent cyber risk may have changed since these two major events and other cyber-related incidents.

The insider threat

Another source of cyber exposure that needs to be brought into sharper focus is the human element. Willis Towers Watson 2016 claims data revealed that two-thirds of cyber claims are caused by employee negligence or malfeasance, including the loss of laptops, the accidental disclosure of information or the actions of rogue employees. In fact, 90% of all cyber insurance claims are the result of some type of human error or behavior if one includes claims that result from talent deficits in IT departments and lack of employee engagement.

The **2017 Willis Towers Watson Cyber Risk Survey** examines the range of employee behaviors that can result in cyber breaches and reveals that many employees lack the necessary "cyber IQ" to protect company and client information even at a basic level. For instance, 45% of employees responded that it's safe to open any email on their work computer – a revealing response when compared with the growing number of employers that conduct phishing tests to limit the email scam that targets personal information.

Respondents viewed industry groups that regularly handle consumer information — hospitals/medical facilities/life sciences, IT/utilities/telecom and financial services — as higher risk for liabilities losses.

Other behaviors that can leave an organization exposed to cyberthreats include: (1) using a work computer or cellular device to access confidential company information (experienced by approximately 40% of employees), (2) logging into a work device on an unsecured public network or using a work computer in public settings (about 30%), and (3) taking confidential paper files home and using unapproved devices to do work at home (roughly 25%). In addition, roughly a third of employees share personal information (e.g., date of birth, employer name, job title) on social media sites, which can leave their organizations vulnerable to phishing and other social engineering attacks.

These findings make clear that to underwrite cyber risk in a comprehensive manner, insurers must be able to track the extent of risk inherent in employee behavior and identify measures to mitigate the insider threat.

Assessing the internal risk culture

An organization's culture drives employee behavior. Culture generally refers to the shared set of values, principles, assumptions and beliefs that influence how work gets done. Our research indicates that employers are eager to build a culture of cyber risk awareness in their organizations in order to promote cyber-savvy behaviors and lessen their exposure to cyber vulnerabilities. And their goals are ambitious. While fewer than half of employers have a formally articulated cyber strategy currently in place, over 80% want to have cyber risk management embedded in their company culture within the next three years.

To begin this journey, it's essential to understand how cultural factors can increase or decrease cyber risk arising from employee behavior. For example, organizations with a customer-centric culture encourage employees to develop strong customer relationships and anticipate customer needs. As employees adopt a customer-centric mindset, they will take the necessary actions to safeguard customer information, which, in turn, can serve as a line of defense against cyber risk.

An employee feedback tool, such as the Willis Towers Watson Cyber Risk Culture Survey, can help identify the cultural factors that influence employees' cyber risk awareness, responsibility and accountability across their organization. Such a tool can be used to monitor the different aspects of cyber risk awareness, such as the clarity of roles and responsibilities for data security, a personal sense of responsibility and the effectiveness of security awareness training. It can also track behaviors at the individual and organizational levels, including frequency of cyber-smart behaviors, the ability to locate information about data security and the speed of organizational response to data security events.

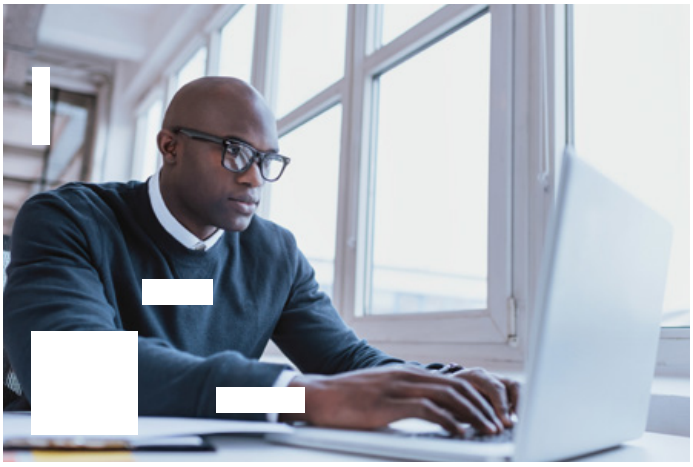
By assessing the awareness of cyberthreats as well as the effectiveness of employee and organizational behaviors, the Cyber Risk Culture Survey can help companies identify employee segments that leave the organization vulnerable to employee-driven cyber incidents.

In addition, companies can compare their survey results with those of their industry peers and organizations that have experienced major cyber breaches. These results enable organizations to develop plans to bridge gaps in their cyber risk management plans.

A new risk scorecard

Employee feedback data can help underwriters broaden their approach to cyber risk assessment and provide an invaluable insight into the cultural factors that drive or mitigate cyber risk within an organization. For example, our research reveals that employees in companies that experienced data breaches give their companies significantly lower scores in the area of training compared with the opinions from employees in high-performing companies. While employee training in cybersecurity has traditionally been part of the risk assessment process, underwriters can now begin to ask more relevant questions about a company's investment in tailored training, including how often employees participate in training and for how many hours, whether the company conducts customized phishing exercises as part of the training and more. More important, underwriters can start to gain a broader perspective into those employee behaviors that create vulnerabilities.

This approach will help underwriters develop a new risk scorecard that effectively assesses the human element in cyber risk, resulting in a more complete picture of an organization's risk profile.



The growing concern over silent cyber and internal people risks is a wake-up call for underwriters to change the way they view cyber exposure.

A holistic perspective

The growing concern over silent cyber and internal people risks is a wake-up call for underwriters to change the way they view cyber exposure. By adopting a more holistic perspective, underwriters will have a clearer line of sight to the full spectrum of cyber exposure. In turn, this approach will enable them to unlock opportunities to improve their underwriting practices and help organizations develop or improve their risk resiliency.

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No ordinary walk in the park

By Alice Underwood

Alice Underwood
Global leader of the Insurance Consulting and Technology business unit.
Willis Towers Watson, New York

A revolution or a conflagration? A lurking, silent threat or a growing and unprecedented opportunity? Our articles in this issue of *Emphasis* all deal to varying degrees with how accelerating technological change presents the insurance industry with the potential for any or all of these possibilities at both operational and strategic levels.

As the leader of the Insurance Consulting and Technology business within Willis Towers Watson, it's my goal – and that of my team members – to help insurers make their way across this changing landscape, and offer advice and tools that will support growth and success. Especially in developed markets, where insurers enjoy the benefits but also carry the burdens of legacy processes and systems, it can be a challenge to make the most of – even to notice – emerging technological opportunities.

Though I grew up in Texas, my insurance career started at the dawn of the Internet age in a city of long and distinguished financial industry heritage: Zurich, Switzerland. My daily walk home from work took me through a lakeside park on the shore of the Zurichsee – a pleasant change from typing data received by fax into a Lotus 1-2-3 spreadsheet so that I could analyze it. One afternoon I noticed a pair of swans building their nest home right next to the footpath. Watching their progress added an element of anticipation to my daily commute. Soon the birds' behavior changed: Clearly, they were nurturing unseen eggs.

Like the other pedestrians, I soon got used to the sight of the nesting pair. Sometimes, lost in thought about the curve-fitting analysis that awaited me in the office or musing on my way home about how conversion from local currencies to the euro might affect the insurance industry, I hardly gave them a second glance.

If "startling" technological innovations continue to become more commonplace, we had best keep paddling furiously under the surface.

Then one afternoon I found a crowd of onlookers gathered in a half-circle around the nest: The swans' eggs had hatched! Edging closer, I saw the proud parents guarding three alert and fuzzy hatchlings – and disregarding another that struggled feebly in the wreckage of its shell. The next morning I observed something extraordinary to my Texan eyes: a snowy swan gliding serenely across the surface of the Zurichsee with three small gray cygnets perched comfortably on its back.

Three of the four cygnets survived. The survival ratio of InsurTech start-ups isn't nearly that good. But, as with the cygnets, most of the incubation process goes unseen – and even a strong start-up can't make it without support. Especially in established markets, there's something to be said for partnerships between mature players and newer entrants. The most skillful of these may be able to make such alliances look easy – but there's still a lot of work to be done, just as the adult swan must paddle furiously below the surface to enable a graceful ride for its newborn passengers.

Mention of swans in an insurance industry context typically involves "black swan events," events that, as described by Nassim Taleb, are "outside the realm of regular expectations... nothing in the past can convincingly point to [their] possibility" – events that have an extreme impact. In Zurich, the swans one sees are white, and a black swan is indeed a rarity. But in Australia, black swans are commonplace. Lately the insurance industry has been asking itself whether loss events once considered extremely rare (100-year storms or floods, for example) are quite so rare after all. We may need to expand this question to technological events as well. If "startling" technological innovations continue to become more commonplace, we had best keep paddling furiously under the surface.

For comments or questions, email Alice Underwood at alice.underwood@willistowerswatson.com.

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