



"We're all doomed!". That staple phrase of disaster stories could equally well be the cry from the boardroom of an insurer faced with the digital revolution if you listen to some of our detractors. According to this well-rehearsed theory, the incumbent giants of the general insurance industry are destined to be toppled from their market dominance by the combined forces of the FinTech entrepreneurs of Hoxton and the software & tech giants of Silicon Valley. The best we can hope for is a supporting underwriting role behind the scenes while nimbler innovators than us take over the customer relationship.

I beg to differ. As an industry, we have grown to this scale and built a world-leading UK insurance market precisely because of our proven ability to innovate, adapt and develop in the face of changing risk, customer preferences and technology. Indeed, at Direct Line Group leading such change is in our DNA - we revolutionised insurance in the UK and established a new global model for direct insurance by embracing new technology and using big data to make insurance much easier and better value, back in the late 1980s and 1990s. We are determined to do it again in the late 2010s and 2020s.

To see the almost unprecedented combination of challenges as opportunities demands boldness and innovation from firms which want to prosper in the future. In this essay, I examine four 'mega trends', all underpinned by the digital revolution, which will help determine how the industry meets the challenges of the next two decades. I will also aim to challenge some of the prevailing assumptions that these trends and the digital revolution overall are necessarily bad for established insurers like Direct Line Group.

1. Big Data

The effective understanding and management of data is at the heart of any successful insurance company. And to remain competitive and retain market share, major insurers need to be restless in their quest for new ways to use data to deliver underwriting, claims handling and overall customer service in ways that keep them near the front of the pack. So what is going to change?

The availability of data is growing all the time. This means firms can become either 'data-rich' or find their underwriting models drown in it.

The granularity of data is also evolving fast. As customers become more willing to share highly specific data about themselves and their lives, we can gain insights into behaviours that helps our underwriting become more sophisticated. With this comes a responsibility that insurers will use this data ethically and in line with customer expectations.

Finally, the functionality of data is changing fast too. Processing capacity is exponentially giving us greater ability to use what we have in a range of different ways.

I think there are two main reasons why these developments are broadly positive for market incumbents prepared to innovate and invest:

The more data we have, the more expertise is needed to sift it and separate the valuable from the irrelevant. Yet it is our industry which still possesses a critical mass of actuaries and data analysts able to do this, employing technical skills and highly sophisticated programmes but also judgement, instinct and evolving tried and tested models which have survived real claims cycles. It is easy to identify new sources of data that are predictive of risk on their own, but far harder to establish whether and how they add value to all of the other data used by insurers.

Secondly, we have to remember that some of the core truths of insurance underwriting will not be changed by the greater availability of more granular data that is processed more efficiently. The billions of quotes, hundreds of millions of policy years of cover and the millions of claims we have to model can simply make our pricing more insightful and accurate.

2. Two-way engagement with customers

I believe the potential for insurers to build a stronger two-way relationship with their customers could be game-changing for both sides. As an industry we are continually trying to understand what our customers want from an insurance product and we know from customer research that stressed customers making a claim after a burglary, flood, car accident or having fallen ill while abroad often feel disempowered by the trauma that has befallen them. New models of working offer a very different relationship for both personal lines and commercial lines customers. We need to build trust with our customers and we believe that having trusted brands, as we have with Direct Line and Churchill, and being clear with customers how their data will be used and how they will be rewarded are important to get customers to enter these new relationships with insurers.

The digital revolution makes it easier for insurers to partner with customers and deliver benefits for both parties by mitigating risk and managing claims better. Through telematics we are giving young drivers feedback in real time - letting us warn the bad drivers and reward the good to actually reduce accidents. The connected home or business premises made possible by the Internet of things gives customers real opportunities to help manage their own risk. The increasing sophistication of wearable devices allows potential for a partnership with health, protection & travel insurers on lifestyle choices that benefit customer premiums. Insurer-promoted Apps that promote resilient repair after floods can help customers engage with how their homes or business are restored in a way that makes a future flood easier to cope with. World-leading wholesale general insurers have always employed experts like engineers to work with their business clients to help them manage risks and avoid claims.

We know that claims experience is the moment of truth for many customers whose interaction with us otherwise can end up as an annual renewal transaction. The digital revolution offers us fantastic opportunities to work more closely with our customers when they make a claim, using smartphones to upload photographs and videos of damage, and then letting customers use portals and apps to see the live progress of their repair. If we can optimise the feedback opportunities from social media as well, we can genuinely harness increasing digitalisation both to minimise claims and also to radically improve the claims experience.

3. Changing profile of the risks we insure

One of the most exciting aspects of the future of insurance is the changing nature of the risk we insure, most obviously in motor insurance, but in other markets too.

There is a lot of excitement about driverless cars at the moment. With good reason – this technology could be transformative for our society. But to hear some of the more excitable commentators on this subject you would think there will no motor insurance market of the future. To them, I say, Direct Line Group will still be insuring motor vehicles in 2025 just as it was in 1985 when it was founded. Of course the cars of 2025 will be different but so is the market of 2016 compared to when we started out in 1985. Change is a constant in the motor market, not something new we have discovered with autonomous technology. There will be a wide range of different types of vehicles on the roads for a very long time to come, and they will have to interact with each other as well as with pedestrians and cyclists, in busy, complex environments. This presents challenges for insurers, but ones that we are well equipped to meet.

What's more, insurers are at the heart of understanding and engaging with this new technology, both collectively as an industry (e.g. through the ABI and Thatcham) and individually (e.g. as part of consortiums running autonomous car trials, such as Move_UK and partnering with Jaguar Land Rover and Bosch). This is a prime example of how industries and institutions must collaborate in order to enable these exciting new technologies to enter the mainstream and this is one curve we are definitely not behind as an industry. Some say that as vehicles make roads safer, we will lose out. To this, I say that safer roads are the heartfelt desire of all insurers who encounter the human misery caused by traffic accidents and that road safety has been improving for some time now and we are still here.

The increase in cyber risk presents risks to insurers, as it does to all companies, but cyber risk also presents obvious opportunities for product development by insurers to ensure that customers have appropriate cover in place to mitigate this risk.

But technology will also change how we view risk too. Like many insurers, I think we will see the development of more holistic insurance options that seeks to insure the person and their family, not the individual aspects of their lives as we have at the moment. We as an industry are adapting to provide insurance products that are tailored to more specific customer needs using increasingly accurate pricing to reflect specific risks and we are combining this with making it easier for customers to take out an insurance policy.

We are also seeing some very interesting developments in the shared economy. We should not see sharing (whether of cars, homes, or anything else) as a threat. Effective insurance solutions are essential in enabling the sharing economy to grow, and we all have a part to play.

4. More diverse customer behaviours and preferences

Where I do see a growing role for both FinTech entrepreneurs and in-house innovators is in targeting customers better so we offer the products and service interaction that different customer groups want. We are moving away fast from a 'one size fits all' approach to customers by developing increasingly tailored targeting of our product and services, which is driven by the changing preferences and behaviours of the customers themselves. This clearly poses challenges for effective conduct regulation but it also demands firms become ever more proficient in understanding the ever more diverse behaviours and attitudes of different age groups and socio-economic cohorts. The market will respond to this in its own way but it is at least possible we will see firms increasingly specialise in certain age brackets or socio-economic groupings, and more specific advertising will help them to reach their target markets.

Rolling-out new propositions more quickly to customers will place new demands on how we manage risk and governance - the velocity at which we try new things with customers needs to

step-change and we won't always get it right. Here we need to learn from the FinTech innovators, and ask that the same regulatory support they are receiving is available to the existing firms as they make this transition.

However, in developing for diverse customer behaviours, we also have to stay close to the common threads too. All customer segments want greater automation if it helps them avoid repetitive inputting of data and more responsive handling of their claims or queries. Most customers, whatever their channel preference, want to feel they are a valued customer, not a number even if for older customers this translates into personal contact and for millennials it means processes that can sidestep human interaction in a speedy and intuitive way.

Conclusion

It won't surprise you that I will conclude saying I don't think we are doomed. I think we live in exciting times, where the speed of change offers far more opportunities than risks. Insurance has always adapted to technological and societal change to remain relevant to our customers and the changing risks they face.

We have access to ever increasing amounts of data and we employ the expertise needed to separate the important from the irrelevant and the greater availability of more granular data if processed properly can only serve to improve the accuracy of our pricing. We understand what customers want and we are focussed on developing propositions that work for them, which includes helping customers mitigate risk and using new technology to deliver a more efficient and interactive claims experience. Digital technology is enabling us to engage with customers in a more effective way and as we become better at understanding what different customer groups want, this is allowing us to deliver an increasingly targeted service. The changing nature of the risks we insure provides exciting opportunities and today's insurers recognise the scale of the challenge, but we want to get ahead of the curve by building relationships, such as with motor manufacturers, that will be critical in the future.

As a firm, we're excited about the opportunity that new technology gives us to accelerate our ambition to make insurance much easier and better value for our customers. We welcome the impact of new entrants to the market. However, as I have explained, today's insurers have many assets that mean they can flourish in tomorrow's world, but we are not complacent and it will be their attitude and ability to make sufficient changes at sufficient pace that will determine whether they make it. Not every company will make the transition, but there will be some familiar insurance brands flourishing in 2030 and I'm determined that ours will be amongst them.