

VIEWPOINT

Covid-19 can kickstart innovation in the London market

Coronavirus could be the shock to the system that radically transforms a market whose recent history is characterised by resistance to change



Matthew Grant
InsTech London

For the past five years the strong emergence of interest in innovation in insurance, defined by the term insurtech, has had to battle with a fundamental problem: how can we change an established industry that most people do not really care too much about and is reliant on legacy systems that, most of the time, work well enough?

Insurance remains a distressed purchase. Few (if any) people will say they are keen to buy insurance; it is driven by either the fear of the consequences of loss or, quite simply, mandated by law.

Therefore, successfully driving any change without a major shift in how we see and experience the world is extremely challenging. Often, we need a dramatic shock to the system. Our view of how our lives might change – for better or worse – radically alters if we directly experience the disaster that predicated it.

The emergence of new technology can certainly drive change. Sometimes very quickly. And not just recently. For instance, the Liverpool to Manchester railway opened in 1830. Within three months, more than half of the 26 horse-drawn stagecoaches on the route had gone out of business.

Covid-19 will bring many challenges, including hitting the balance sheets of even the strongest re/insurers through investment losses, but it may prove itself to be the reset button for insurance innovation. It has happened before.

Hurricane Andrew devastated Florida in 1992 and was the most destructive hurricane ever to hit the state. The weight of claims bankrupted 12 insurance companies. Soon after, rating agency AM Best required every insurer to prove it had sufficient capital to withstand a "one-in-100-year" loss.

No actuary had enough claims data to figure that out. Andrew,

and then the Northridge earthquake in California in 1994, gave birth to the urgent requirement for the creation of specialised techniques required for catastrophe modelling and led to the founding of RMS and AIR Worldwide (now part of Verisk).

The power of first-mover advantage and the difficulty of building credible catastrophe risk models are demonstrated by the fact that almost 30 years on both companies still dominate this space, with combined revenues of around \$500m.

Fast forward almost two decades. Despite 2019 being a record year in funding for insurance technology start-ups and scale-ups, with more than \$6bn invested, it is getting hard for some of the most well-known business models and new brands to gain traction. Trov and Wrisk have announced recently they are shifting from offering insurance such as contents or device insurance as managing general agents to offering their platforms as the product.

Their clients will now be other organisations with established insurance offerings or existing distribution channels and customers. Lesser-known companies have quietly packed up or are stuck in "insurtech zombie land", never quite launching because of a lack of funding or slow decision-making by the sector.

Other well-known entrants such as Bought by Many and Lemonade appear to be doubling down on pet insurance. A perfectly acceptable strategy, but a future defined by our love of furry animals is not quite where many people expected us to be by 2020.

Innovation for all large companies is hard and, as we all know, the insurance market has its own particular challenges.

Catalyst for change

This year, however, the catalyst for change may have arrived. Most of us have heard of Sar and the Spanish flu pandemic of 1918, but until we started to experience the impact of the new coronavirus, few of us gave much thought



The coronavirus outbreak has forced the London market to think about alternative ways of operating as staff are instructed to stay at home
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to the possibility a pandemic was something that could have major impact on our business and personal lives.

I have not done a comprehensive search of Google, but I am struggling to find any company that could be described as insurtech

and which has been building solutions to model or mitigate the risk of pandemics before the start of 2020. I spent 20 years at RMS. The company started building pandemic models in 2012 to help price "excess mortality", a polite actuarial

term to describe too many people dying at once. The idea was to help insurance companies manage their capital and get access to tools to help them buy reinsurance more effectively.

The problem was the rather simplistic capital models accepted by

parametric bonds in place now, but few companies really worried enough about pandemics to justify the cost of buying protection.

Metabiota, another company based in San Francisco and founded in 2008, uses real-time data collection and analytics to model epidemics. In 2016 it announced a partnership with Munich Re to develop models and insurance solutions for property and casualty insurance designed to mitigate the economic losses such events might cause. Marsh has tapped into the Metabiota and Munich Re relationship to create PathogenRX.

According to its website, this is an index-based insurance product that offers protection to US clients against losses resulting from a pandemic or epidemic affecting international travel, study abroad and research programmes. I am not sure how successful this has been (watch this space) but anyone that has bought the cover is going to feel pretty smart just now.

TechCrunch mentions Metabiota is also working with African Risk Capacity (ARC), the agency using parametric insurance to provide cover for a number of African countries.

SparkBeyond, an artificial intelligence (AI) company formed in 2013, has been commissioned by one major country to help it understand how to use analytics to minimise the pandemic spread. The company operates across many industries, so it is not really an insurtech per se, but it does hint at what could be available to the insurance sector.

The Covid-19 pandemic has put much of the world into lockdown, including the City of London.

The possibility of Lloyd's closing for an extended period, forcing insurers and brokers to exchange risks electronically, has moved from a potential scenario to a near-certainty as workers are told to stay at home unless critically necessary.

On March 13, for the first time in more than 325 years, the Lloyd's Underwriting Room was closed for the day to test the market's resilience to a longer-term shutdown. Swiss Re, Canopus, the Lloyd's Market Association and the International Underwriting Association have also told London staff to work from home until at least the end of the month.

The London market's PPL system for placing insurance contracts may not work as smoothly as it needs to, but it is unlikely the market could ever have contemplated working remotely without it. It will probably need more than a one-day test to prove its potential or worth, but there is likely at least to be more acceptance now of the benefits it can bring, and widespread adoption seems inevitable.

Every crisis is an opportunity

And so, as we start to understand the far-reaching implications of this pandemic and adjust our lives to cope with it, it is worth remembering that with every crisis comes an opportunity.

I have been interviewing experts in modelling, medicine, insurance, supply chain and AI to help establish some context around the news and the wider implications. I am discussing what has been done around analytics and what could still be done to give the market additional clarity on the present and future threats they and their clients face.

During those discussions, I have been asking what the insurance implications could be and I have been reminded of how vulnerable global supply chains are. On a positive note, I also discovered there is a massive amount of data available related to the threat of a pandemic, much of which is open source.

Also, the clunky old ways of working that seemed acceptable – albeit inefficient – last year are no longer going to be a choice. The changes forced upon us by Covid-19 could push the insurance industry into working more closely with smart, agile companies offering new solutions and more efficient ways of working.

One thing we can be sure of, though, is however the world looks when things settle, we are going to be thinking very differently about the threat of globally connected events such as pandemics and what this means for insurance.

Unfortunately, for many people and companies insurance cover will be found to fall short of expectations in compensating losses. Might we see a fundamental rethink of what insurance is all about? ■

Matthew Grant is a partner at InsTech London

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the regulators gave a lower risk price and reduced capital requirement than the sophisticated RMS models, which ultimately would have led to more costs for the insurers. There was not much interest from the catastrophe bond market either. There are some