

# The second half of the chessboard: Disruptive technologies, innovation and global impacts'

**Mr Peter Hacker,** internationally recognized cyber security, and InsurTech opinion leader, author and multilingual public speaker shares his thoughts on disruptive technologies, innovation and their global impact on (re)insurance industry.



The Reinsurance Industry has been successful for many years, but might this be our biggest problem for the future? With such success, can we really imagine the words disruption and permanent change? If so, are we driving change or are we driven by change?

## Exponential growth and challenges ahead

In the next few years billions of Internet of Things ('IoT') devices will populate businesses globally. In addition to conventional P&C Risks, our Industry will all be about mobility, and intangible asset risks (IP, Reputation, Brand, Customer Data, Cyber). These are rather unprecedented, highly volatile, potentially global, and entirely man-made risk combinations and developments. Mobile devices are becoming our external brains and everything is being connected including our environment. No doubt, we are moving into an exponential growth future ('The Second Half of the Chessboard'), superb opportunities and unparalleled emerging threats.

The philosopher Marshall McLuhan once said: 'It is the framework which changes with each new technology and not just the picture within the frame.'

## Technology drives disruption and disruptive innovation

Today, experience suggests that there should still be 1 of 2 (Re)Insurance CEOs

who see the spread of technology as main threat or consider 'Cyber Risks' as IT-Security issue primarily. This is a major mistake. Technology is driving disruption, and represents both a significant opportunity for seamless, trusted customer experience and volatility. Tencent's WeChat platform demonstrates a perfect success example. WeChat is not just China's most popular chat app with in excess of 900 million users, but also known as China's 'App for everything'. It provides many functions such as messaging, ordering goods and commercial services (e.g. paying bills and transferring money).

## Innovative adaptation to disruption

In any successful business model a fundamental challenge inherent is discovering elements that allow capitalizing on principal risk and technological developments whilst gather and connect crucial information that evaluate the exposure, predict outcomes and pull out competitive intelligence for decision makers. In principle, I expect to see more volatility and but also more profitability for the Reinsurance Industry. However, we have to be on the forefront of innovation to stay ahead in managing risks and move into an exponential future. Adapting to such an environment innovatively requires specialization, profound analytics, innovation and oftentimes a shift in a rather entrenched outlook.

## Gigantic opportunities, but massive challenges ahead

A lot is going to be positive if we find a way to compose it, attract the talent from outside and offer organizational culture that accept failure and change. Within the next 5 years, we will see things that are truly space fiction today. Disruptive Technologies (Artificial Intelligence, Blockchain, Internet of Things) will have a massive impact on the business model of (Re)insurance Companies. Everything is moving to the Cloud – Blockchain, Digital Money or Bitcoin – These developments will offer gigantic opportunities for product development, process efficiencies and much lower transaction cost. It will also present massive security, regulatory, risk transfer, broad enterprise risk management challenges and a potential to diminish the business available to Reinsurers.

The Reinsurance Industry can't afford to behave like a 'conventional' incumbent. The monopolies of knowledge and distribution are rapidly disappearing, and there is excess capital and reduced demand from the primary insurance market. In Asia, the industry has a formidable opportunity to continue support and protect countries and make them more resilient.

## The Second Half of the Chessboard

Looking briefly back in history. In 1982, The Time Magazine named the Computer

the 'Person of the Year'. That was the First Half of the Chessboard. The point of the Chessboard is that we hit exponential growth at the Second Half of the Chessboard. When it comes to digital technology, we have seen an exponential growth with the arrival of tablets, smart phones and social media since 2006. If you think about that and how it relates to the (Re)Insurance Industry, Big Data, Connectivity, Platforms and Disruptive Technology come immediately to mind.

We are well under threat of being disrupted by disintermediation, digitalization, anticipation, artificial intelligence and mobilization. There are already close to 900 companies funded with a USD 1m each in the technology insurance space. Whilst disintermediation by technology is occurring across the board, it takes longer in the Reinsurance industry, but we are now entering the Second Half.

Every board member, truly every executive, and interested party in insurance should grasp the idea of disruptive technologies, digitalization and emerging intangible asset risks if their organization, enterprise or corporation is to prosper and not to bleed.

## Data mining and analyses most important

We are in an Industry where there is excess supply, stable demand in bits and pieces. The Industry has to remain calm, focused, but more proactive. There are some fundamental structural changes ahead helping better identify, quantify, select and price risks. Certainly, the conventional Insurance and Reinsurance Model is converting beyond the obvious. 90% of the Internet will become mobile within the next 5 years. It is our time to make analysis, sort our value proposition out and stay consistently ahead.

Data mining and analysis are more important than any other digital technology for the (Re)insurance Sector. There should be a strong endeavor and desire to connect the dots beyond applications, big data, customer engagement or even social medias. Needless to say, we must become truly mobile with our business model.

## 'Reinvention' of (Re)insurance

The reinvention of how (Re)insurance (including Insurtech) works will sooner happen than people think. It will first

impact the direct insurance value chain, and then with some delay the Reinsurance Market. There are many upsides – true contract and claims certainty, an enhanced customer satisfaction level and trust into our industry).

Essentially, no complex experience, processes, protection, relationships or regulation will save any industry ripe for disruption. If you are simply a commodity provider, disruptive technologies will make it feasible to go direct, get data and information, compare and understand pricing in detail and deepen customer engagement.

## Technology will aid better selection of risks

There is good news for the Reinsurance Industry. Despite digital trends, customers will always require risk transfer and new solutions. The increasing scale of emerging intangible ('cyber') exposures and the potential liabilities and loss of profit from new legislation (data directives/regulations) will open previously closed doors. It is fair to assume that Disruptive Technologies are going to change the Insurance Industry fundamentally.

## 'Cyber' – Intangible risk but real threat for Boards and beyond

Market capitalizations are heavily driven by Intangible Assets (reputation, brand, IP, data, customer and supplier relationships). Without any doubt, intangible risks (as buzzword called "cyber") developed from an abstract risk relevant for some industries to a real threat for almost every private and public sector entity – a fact that requires increased awareness, modeling, sector knowledge and non-commodity based advice – With the broader use of disruptive technologies, it is essential to recognize that the aggregation risk will further increase and there will be a significant shift from tangible exposures into intangible ones. Such developments require a new way of identifying, evaluating, reserving risk and broader diversified risk skill sets.

In the last 24 months alone, various publically prominent attacks (e.g. "WannaCry", "Non-Petya", Equifax Cyber Breach) were made against well-known, emerging brands, regionally and globally. This time not just massive reputational and financial damage occurred, but also CIOs, CSOs and even CEOs left as consequential loss of the

security breach and/or denial of services. Even more, boards of corporations were struck by massive shareholder derivative lawsuits. Intangible Risks are without any doubt a Board Topic and not just an IT-Security one.

## Collaboration and cooperation should be foremost, but analytics will be essential

The principle question is not just whether it might be disruptive technologies such as Artificial Intelligence (AI) or an alternative business model that will shake up the (Re)Insurance Industry, and eat into our cake, but also, and probably much more important, our business behavior and client attention, understanding, listening capabilities and support. Without any doubt, addressing in a sustainable way and proactively the clients emerging risks needs will make the difference between the sustained success of our industry, the loss of capital and ultimately irrelevance in the face of new and much better equipped market entrants. AI can and will support our solutions beyond the obvious.

The required pricing data will be the new Gold, the actionable threat intelligence the new Oil, and the trusted risk transfer solution the new currency. We must ensure that our Industry has the experience, technology, talent and skills to compete in this rapidly changing environment. This will require industry-wide collaboration and potentially capital market and government support.

Moreover, the services and solutions provided by (re)insurers and brokers will change and increased volatility might well foster the demand.

Notwithstanding the above, there remain at least three fundamental questions? Will clients (corporates or primary markets) be prepared to pay appropriately for the capital exposed by the Reinsurance Industry long term? Might there be more Reinsurers start directly tapping into the Primary Market or will we see the arrival of disruptors accelerating the process of market convergence. Finally, what will be the role of the intermediary?

I am strongly convinced bespoke, smart and client driven risk transfer and broking remains essential. In a world of disruptive technologies, those of us who understand this requirement, use, impact and the opportunities presented will thrive. The rest might well falter. ■