Risk Management in a Digital World WP
Daniel Bruce
Richard Purcell

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1. Introduction to the Working Party

• Background
  – Significant development and enhancement of ERM Frameworks
  – Increased focus and investment on digital opportunities
  – Not clear whether risk management capabilities are being fully deployed to facilitate digital decision making

• Working Party members
  – Daniel Bruce (Chair): Partner, Crowe Horwath
  – Carole Avis: CRO L&G Insurance & General Insurance
  – Matthew Byrne: Chief Actuary, NFU Mutual
  – Visesh Gosrani: Director of Risk & Actuarial, Cyence
  – Zhixin Lim: Senior Manager, HSBC
  – Jools Manning: Head of Strategic Risk, Just
  – Darko Popovic: Senior Manager, Crowe Horwath
  – Richard Purcell: Technical & Innovation Lead, Hymans Robertson
  – Weihe Qin: Financial Risk Manager, Lloyds Banking Group

2. Risk Management in a Digital World

• Early decision taken to initially focus on InsurTech
• A need for innovation in protection market:

  1 in 10 incomes protected
  Less than 1 in 2 mortgages protected
  £2.4trn protection gap
2. Risk Management in a Digital World

• Hypothesis:
  – Insurance companies are not fully utilising risk management capabilities to facilitate InsurTech decision making
  – There are additional benefits to be gained from doing so, at appropriate times in the investment lifecycle
  – It would be helpful for the IFoA to provide guidance

We recognise the importance of not stifling innovation

2. Risk Management in a Digital World

• Phase 1:
  – Carry out an industry survey
  – Develop an overview of a typical lifecycle of an InsurTech project
  – Create a checklist for risk management considerations in the context of InsurTech solutions
  – Conduct interviews with industry participants
  – Produce a final report

• Subsequent phases
  – Currently under discussion
  – May broaden scope to other sectors or specific types of digital investment
  – May dive deeper into some of the areas that we touch upon in Phase 1
3. Purpose of This Session

- Share some initial phase 1 outputs
  - Survey
  - Timeline
  - Checklist
- Obtain feedback and thoughts
  - Time for Q&A at the end
  - Happy to discuss / receive comments afterwards

4. Overview of Working Party Outputs

Survey Overview

- The Working Party carried out a survey from October to December 2017, to help assess:
  - The views and general understanding of InsurTech
  - The current activity of insurers in relation to InsurTech, including their capability in assessing emerging risks from new technologies
- The survey was open to all interested parties and advertised:
  - At the IFoA’s GIRO and Life Conferences
  - At the ABI’s “Data, Tech and Cyber” conference
  - Through ORIC International
- Overall we received 124 responses, with 90% being IFoA members
4. Overview of Working Party Outputs

Survey Overview

4. Overview of Working Party Outputs

Survey Outputs: Views on trends and opportunity

- InsurTech has ramifications for whole industry…

- …and can add significant value to insurers in helping deliver the business strategy

- Niche field for tech experts
- Broad area with ramifications for whole market
- Don’t know

- Could play a vital role
- A moderate role
- Limited or no role
4. Overview of Working Party Outputs
Survey Outputs: Views on trends and opportunity

- New technology and consumer expectations are the key drivers of InsurTech:
  - Development of new technology
  - Adoption of technology by other markets is forcing change in insurance
  - Changing customer needs
  - Changing customer expectations of experience
  - Reducing expenses
  - Increase in investment by incumbents
  - Increase in number of start-ups
  - Other

4. Overview of Working Party Outputs
Survey Outputs: What are insurers doing?

- Most are engaging in InsurTech in some way…
  - No activity currently
  - No activity but observing the market
  - Actively looking at opportunities
  - Fully active in developing/investing in opportunities

- …through a variety of strategies:
  - Both internal ideas and partnering/investing externally
  - Develop new ideas internally
  - Invest in and partner with start-ups
  - Neither
4. Overview of Working Party Outputs
Survey Outputs: Awareness and skills

• Respondents indicated a high level of awareness of new technologies and innovations, but showed a lack of confidence and understanding of these items:

![Survey Outputs: Awareness and skills](image)

4. Overview of Working Party Outputs
Survey Outputs: Suitability of ERM Frameworks

• Respondents believe insurers recognise the key risks…..

![Survey Outputs: Suitability of ERM Frameworks](image)
4. Overview of Working Party Outputs
Survey Outputs: Suitability of ERM Frameworks

• ...but say they have gaps in their existing risk frameworks and risk management skills:

Do you believe your company’s existing risk management framework is suitable for assessing and managing all of these risks?

Do you have the right skills to assess risks emerging from InsurTech?

- I can do this without further training
- I would benefit from some further training
- I cannot do this myself and different expertise is required

4. Overview of Working Party Outputs
Working Party view on survey outcomes

1) Varied approaches across the sector in the context of exploring InsurTech opportunities and digital transformation projects

2) Existing ERM Frameworks may need some further development:
   - Created before the widespread emergence of InsurTech
   - Perceived gaps in the understanding and processes in relation to managing the risks of InsurTech
   - Closing this gap becoming increasingly important as InsurTech becomes even more prevalent

3) Identification of a skills gap, where the relative knowledge of concepts falls short of the widespread awareness of them

Looking forward, this suggests:
   - Organisations will need to consider further developing their existing risk frameworks to more effectively cater for developments in InsurTech
   - Individuals will need to improve their understanding of and expertise in InsurTech, in order to fully articulate and effectively manage the risks associated with InsurTech opportunities and propositions
4. Overview of Working Party Outputs
A Timeline for InsurTech Solutions

- A set of standard InsurTech implementation stages used during the lifecycle of planning, implementing, embedding and reviewing delivery of an InsurTech Solution is set out below:

#### 1. Opportunity
- Considering options
- Checking alignment with business strategy

#### 2. Planning
- Creating the concept
- Identifying Solution Options
- Initial Business Case

#### 3. Pilot
- Testing the concept
- Clarifying Solution Options

#### 4. Implementation
- Mobilising the Project
- Developing the Capabilities
- Launch

#### 5. BAU Environment
- Embedding the Processes

#### 6. Review
- Closure activities
- Review Effectiveness

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4. Overview of Working Party Outputs
A Checklist for InsurTech Solutions

- The Checklist for Digital Solutions is set out below – this links an example Enterprise Risk Management Framework to the InsurTech implementation stages on the previous slide.

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4. Overview of Working Party Outputs
A Checklist for InsurTech Solutions (continued)

Considerations: Strategy & Business Planning

Business Strategy & Business Plan
1. Do you have previous experience of delivering digital solutions? What lessons have been learned?
2. What capability do you have to develop IP in house vs partner with external firms (partners can help to reduce timescales and risk)? Which approach is more aligned with strategic objectives? i.e. is owning the IP key to business?
3. Does your firm work with any accelerators or wish to start its own? An internal accelerator can help to stretch your own staff and provide them with opportunities which equally benefit the organisation.

Risk Strategy & Objectives
1. Is the digital opportunity in line with the firm’s risk strategy & objectives?
2. Has a high level assessment been undertaken to identify the key risks arising from the digital opportunity, including new risks introduced and/or changes to existing risks?
3. Does your firm have clear and rigorous decision-making processes to follow when choosing a digital opportunity?

Considerations: Risk Management Processes

Risk Management Effectiveness
1. To what extent is the firm able to evidence that risk management has been taken into consideration appropriately throughout the decision making process including challenge and review from relevant committees and stakeholders?
2. Has your firm undertaken a review of the InsurTech implementation and the extent to which risk management activities have facilitated a better outcome? These learnings can then be taken forward to subsequent opportunities.
3. The review should include:
   - Effectiveness and engagement of key stakeholders with the risk process
   - Updating of risks/issues/actions
   - Whether actions were taken to mitigate or manage risks
   - Reporting of risks to the appropriate person/committee
   - Key learnings from the project
4. This should also include consideration of whether the project has appropriately mitigated or managed risks.
5. Next Steps & Contact Details

- Receive further feedback, including further interviews
- Form conclusions and finalise report in Q2 2018
- Sessional meeting scheduled for October 2018 in Edinburgh
- Agree phase 2 activity, including working party membership

Daniel Bruce  
Partner, Crowe Horwath  
Daniel.Bruce@crowehorwathgrc.com

Richard Purcell  
Innovation Lead, Hymans Robertson  
Richard.Purcell@hymans.co.uk

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