

Digital technology: What risks and opportunities for insurance companies?

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Abstract:

Digital technology is disrupting the value chain in insurance. The client/insurer relationship is changing all along the line; but the moment of truth arrives whenever an accident occurs, a situation that digital technology helps us manage much better. The previous barriers to market entry have often become a competitive disadvantage, since they force insurers to devote substantial effort to data, technology, physical networks, the back office and regulatory matters. As the bounds between sectors gradually vanish, the insurance of tangible goods is, little by little, becoming an insurance at the service of people in a context of closer cooperation and competition.

Upending the insurance business and its value chain

The digital revolution exerts two interacting forces on firms. On the supply side, these forces are causing rapid change resulting from the technology now available and all the innovations thus made possible. On the demand side, they are transforming customers' expectations. These two outside forces fuel each other: customer demands are stimulated by the innovations borne by the businesses that have adopted them the fastest. In addition, customer mobility, now very high, forces firms to accelerate their own processes for making innovations.¹

This situation is, of course, not specific to the insurance industry. Similar trends crop up in, and are deeply changing, all businesses. They have already widely affected retail businesses and tourism. Their impact is less direct on insurance, but it is urgent for established firms, like Groupama, to move ahead and join the winners who surf on this wave of change. For several years now, Groupama has been engaged in a digital transformation with five major dimensions:

- anchor clients to our organization's core and build up a positive, strong relationship of confidence with them;
- make the brand Groupama the signal of this relationship;
- redesign our tools and processes in an open, electronic environment;
- anticipate new risks and develop services useful for clients in their everyday lives (in particular via a strategy of partnerships for consolidating our position in the ecosystems essential to the Group); and
- foster and attract the talents that will enable us to take up these challenges.

¹ This article has been translated from French by Noal Mellott (Omaha Beach, France).

All this must be done in line with Groupama's DNA. Proud to be active outside the big urban agglomerations, in particular in rural areas, our company stands out owing to a key value: the human ties between its employees and clients.

Groupama is a leader of the insurance industry in France: the front-ranking underwriter of farm and individual health insurance, second for insurance covering homes, personal accidental losses and legal expenses, and fourth for motor vehicles.

Present in ten countries, Groupama Group has three complementary brands: Groupama, Gan and Amaguiz. In 2017, its sales amounted to €13.8 billion from its 12.5 million customers including mutual fund members; and its financial statement totaled €99 billion. The Group has 32,000 employees, 25,000 of them in France, and has a network of 33,000 elected mutual fund representatives (in France, nearly one per commune).

The client is always right: Constantly evolving relations between insurers and clients

During recent years, the level of consumer demands has risen considerably owing to the quality and fluidity of the electronic services and products provided by high tech firms. Consumers now expect that all their interactions on line should be as fluid as they are with Uber, Airbnb and GAFAM (Google, Apple, Facebook, Amazon and Microsoft).

Meanwhile, consumers' quest to satisfy their demands has thoroughly changed. Their relations with brands now more and more often pass through digital technology. Groupama is convinced that local insurance offices and human relations are essential. Prospective clients used to come into one of our local agencies for information. They still do so but after having made a thorough comparison and made up their minds, at least in part. This alters the tasks of our sales representatives, whose attitude and speech have to reckon with this change in customer relations.

The ease of using online services raises questions about the role of insurance offices and agents. For Groupama, this is a unique opportunity for boosting its employees' skills. If you have just been in a traffic accident or have experienced water damage, you expect more from your insurer than help with filling out the forms to be filed. You expect a full followup on the case, empathy, reassurance and not just expertise. On the contrary, for many actions with a low emotional burden (obtaining a quote, a certificate, etc.), clients, current or prospective, expect immediate answers at any time of day or night, even when their insurance agency is closed.

The relation to products and services is also changing. Clients are now in the habit of modifying the options of their contracts with a mere tap of the thumb on a mobile telephone. They want an insurance adapted to their uses and circumstances.

Finally, regulatory trends are fostering client mobility. In France, the Hamon Act of 2015 makes it possible to change motor vehicle or home insurance a year after the policy has been signed. Since January 2018, the Sapin II Act has allowed for the same in the case of credit insurance. These regulatory trends mechanically entail high risks for the insurers who provide these products. And they open opportunities for their rivals.

New needs, new risks

The risks are also changing. In the case of indemnification insurance, the main user of the insured property is the owner; but consumption patterns are evolving. As they shift from ownership to use and to the consumption of services, we must overhaul the line of insurance products.

Take the example of automobiles, a huge insurable base. A revolution is on the march. Connected and soon driverless vehicles will reduce the frequency of accidents and partly shift the market for motor vehicle insurance from private persons to companies with fleets of vehicles. In this new market, the businesses that design and build driverless systems might become powerful clients who forcibly lower insurance prices and margins. Meanwhile, individual clients, increasingly oriented toward uses, will want to obtain from their insurer a single, simple coverage for all cases of “mobility”.

Moving beyond automobiles, the stupendous growth of connected devices in so many fields, artificial intelligence and the multiplication of communications and network connections that will occur thanks to 5G are going to turn the world into a vast set of interconnections partially supervised by self-learning algorithms. The deck of cards is being reshuffled, and the question of liability in case of accidents has to be reexamined. Unfortunately, all this is also conducive to the emergence of new risks, such as cybercriminality, a phenomenon that we have probably not yet fully gauged. In other words, new challenges for society, but also new circumstances to be insured.

The principle of pooling risks underlies insurance, but is now coming under question. Behavior-based insurance policies will tend to reduce pooling. On-demand insurance (*e.g.*, Trov) also reduces the pooling principle as the basis for covering the period of use. Individualized insurance policies (*e.g.*, Fluo) reduce the pooling of “active” and “dormant” protections.

This breakup of pooling — with fewer individual risks but more collective risks (partly self-insured) and, too, more intense risks — means that fee schedules must be tailored more fittingly to the client (premiums adapted to the itinerary, driving hours, etc.). Since Groupama, as a mutual insurance fund, is strongly attached to pooling for social reasons, we are trying to find the right balance between innovating and upholding the solidarity at the core of mutual insurance.

The moment of truth: When an accident happens

In insurance, filing a claim is the moment of truth. Will the insurer who received premiums from his client be able to hold his promise for a settlement and for assistance during the troubled period surrounding an accident? Till recently, the filing process has often been opaque and confusing for clients. In a customer-centered era, insurers are introducing new practices and techniques for better handling accidents.

The digital revolution has affected the whole process for handling accidents: prediction, prevention, protection, indemnification. It helps to:

- avoid accidents by making better predictions. Some farmers holding our mutual insurance policies use sensors to monitor the temperature of bales of hay in order to prevent barn fires.
- identify accidents in real time. Our connected insurance services in Italy are able to detect collisions and “proactively” manage accidents (even by informing emergency services).

- more efficiently settle claims. Groupama's "exo.expert" is the first "robot drone" available on tablets to insurance adjusters. Equipped with a camera, this user-friendly drone can show us what used to be inaccessible by, for example, taking aerial photographs of an accident. These photographs can then be used to more speedily, reliably and fairly assess damages. They can be automatically analyzed using artificial intelligence, which also opens the possibility of automating tasks such as processing invoices and claims, or identifying cases of fraud.

As we see, digital technology, data and artificial intelligence are, in all fields, offering opportunities for improving and individualizing the customer experience in a context where the balance of power has definitely shifted toward clients.

Yesterday's entry barriers become today's and tomorrow's risks

Traditional barriers to the insurance market are gradually vanishing. In some cases, they are even a source of competitive disadvantages.

Data

The job of an insurer involves, in the first place, a granular assessment of the risks and accidents that might occur. Our industry has been "data-driven" long before this phrase entered general usage. Thanks to the digital revolution, new data-driven companies are springing up everywhere. They collect masses of data that they put to use to improve their knowledge of customers' individual habits and of the related risks. GAFAM immediately comes to mind, but we might also mention the automakers that design connected vehicles, the energy companies that install smart electricity meters, and other players in information and communications technology. The potential threat represented by these businesses might lead to a clash when they create "business line insurance" or when (what is more likely) they corner part of the value chain by making money with data and playing a role of brokerage with insurance companies. The insurance industry uses masses of data to qualify risks, and our control over this mass has sharpened our competitive edge.

Since such data are now potentially much easier to access, the risk rises that the insurance industry will be caught in a vise between the parties who collect data and reinsurers. To spare ourselves this situation, Groupama is developing its own means for collecting data and designing innovations related to connected devices, as in our Romanian subsidiary which offers Acasa, a policy that, developed in a partnership with Orange, bundles home and home automation insurance. Other innovative proposals are being made to farmers in France and China. I am convinced that these customizable offers will protect our core business and enable us to tap new, more diversified streams of income.

Worldwide, Groupama insures more than 400,000 cars equipped with sensors and proposes services related to connected driving. This positions us as a key player in telematics and helps meet several of our objectives:

- acquire the "right risks" thanks to optimized fees and premiums;
- upgrade our product line and control claims;
- boost client loyalty and more frequently interact with our clients; and
- develop the volume of motor vehicle insurance.

These business models have not yet matured, and Groupama is still looking for the right balance.

Of course, data are of no interest unless they are processed and analyzed. The goal is to turn the data collected into useful services for clients. For example, we relied on Groupama Predict to handle the recent, dramatic weather incidents in Aude and nearby departments in France. Using the analyses by experts at Météo-France and the climate data collected for several years now, Groupama was able to inform policyholders as far ahead of time as possible of what to expect and about how to manage the risks of storms, flooding (coastal and inland) and heavy snowfall. In Aude, 1800 communes were warned and informed beforehand, and twenty of them were even placed on maximal alert. In all, more than 150,000 messages (e-mail and SMS) were sent to local authorities and our policyholders, thus providing in advance for the safety of a large part of the population.

Technology and information systems

The exponential growth of data is accelerating the obsolescence of our information systems. Nearly all major players in finance use back-office software that dates back to the 1970s or 1980s, when neither the Web nor big data existed. These systems are extremely complex and costly. Forms of technology based on open sources and the cloud can now be used to build a modern information system starting from zero. Modernizing an information system calls for a big effort, a great functional leap that mechanically (in order to pool investments) becomes a race to be the biggest.

Groupama is tackling this situation with pragmatism. We want to be able to seize opportunities without blindly following fads, nor plunging headlong into gigantic works on an information system with unpredictable results. For this reason, we are trying to turn the plans for modernizing our information system into an opportunity for making it more flexible, more open and more modular (by developing APIs, for example) while seeing to it that this project is at the service of clearly identified business objectives.

Physical networks

I have already mentioned the trend in customer relations and its impact on the role of insurance agents and local agencies. There used to be no questions about physical distribution networks, since it was taken for granted that local agencies were indispensable. Nowadays however, new business models have emerged without any physical network, and many of our competitors have clearly stated that they are going to shut down many of their agencies. True, a physical network of offices costs far too much when it has been designed as a mere channel of distribution.

Groupama has made a strong commitment to maintaining its territorial base and network of agencies. We are convinced that this is the cornerstone for a new relationship in which empathy and proximity will sublimate the operational excellence that clients expect of us.

Back-office functions

Although the new technology is advancing at an unprecedented pace and yielding new, as yet unexplored, uses, I am no believer in pure technology. Digital technology is going to transform nearly all business processes in the insurance industry. Increasing automation will change the contents of our processes but will not necessarily eliminate jobs. What seems in the works is a qualitative shift as a slue of repetitive tasks are eliminated in favor of tasks and work methods that are more flexible, multidisciplinary, and oriented toward innovation and emotional intelligence at the service of clients.

This changes not only the contents of jobs and employee profiles but even more our managerial discourse. We have a key role to play in following through with this transition.

Since our information system does not always facilitate “agility”, we have to rely on practices and human resource management to take the best from the plans for modernizing our information system. At the instigation of the Group’s human resource department, major employee training programs have been set up that involve new methods of collaboration, such as “agility” or “design thinking”.

Apart from questions of methodology, a concrete realization will be the creation of Campus Groupama, which already groups several thousand employees at a location in Nanterre. It is absolutely essential to bring work teams closer together from Group’s eight firms (representing more than 3300 employees) and to provide them with an environment conducive to cooperation. This will free us from the constraints of a still too “bunkerized” organization. In parallel, Groupama has promoted telework, not without raising questions for management. How to motivate the members of a team who are no longer systematically and physically present? Campus Groupama clearly evinces the spirit of collaboration; and telework signals the relation of confidence and responsibility that we want to cultivate with employees. Telework has led to setting up a genuine digital “space” of collaboration: videoconferencing, instant messaging, open and shared agendas...

Groupama is a mutual insurance firm — a company of persons. More than anything else, we feel responsible for this company and its development.

Rules and regulations

Finally, I cannot omit mentioning the regulatory tidal wave sweeping toward us. Changes in regulations are ever more complex, costly and alien to operational management, or even “commonsense”. For instance, the new bookkeeping standard on insurance contracts (IFRS 17), which will come into effect on 1 January 2022, maintains the principle of pooling risks but is of an unparalleled complexity with regard to the reserves to be set aside for pooled risks. Moreover, it comes just as we have finished with taking into account the EU’s Solvency II Directive. Other regulations are not specific to insurance, such as the withholding of income taxes, which France has just introduced. Unfortunately, regulations are now eating up a significant portion of our resources, often to the detriment of our efforts for investing in modernization. Furthermore, they tend to favor the biggest firms.

Among all these regulatory trends however, a few do present opportunities insofar as they help make clients aware of the importance of protecting their data (the EU’s General Data Protection Regulation) and interests (the EU’s Insurance Distribution Directive). They provide an unprecedented opportunity for restoring the role of trusted third party, a key concept in the nearby future of big data. Insurers will be able to play this role if they do not sell primary goods and if they share interests with the insured (namely, to protect as best possible the latter: the client’s goods, uses, person and family).

The digital revolution has assailed the historical barriers (data, technology, skills) for entering the insurance industry. In fact, these barriers have sometimes become “liabilities” that place insurance companies in jeopardy. Despite this upheaval in our core activities, the boundaries are shifting, and several opportunities have opened that are waiting to be taken.

The gradual disappearance of boundaries between sectors: From insurance toward services and partnerships

From insuring good to providing services to persons

As pointed out, we observe a clear tendency (not specific to insurance) with regard to the full product line: a focus on the user's needs to the detriment of insuring material goods. This leads to reviewing all our offers. We are, for example, designing automobile insurance policies for taking into account mobility in a broad sense. Groupama decided last year to extend the coverage of these policies to its mutualist subscribers for forms of mobility by other means of transit than the cars they normally use. As a consequence, a client is insured when renting a vehicle (whether from a car rental agency or from an online platform for rentals between private persons) or when using a vehicle in car-pooling. Thanks to this, the client benefits from his policy's deductible, which is much more advantageous than under the contract with the rental service.

The foregoing example is but the first step toward the goal we have set: to be our clients' everyday partner. Our ambition is to build this relationship around all needs in fields of insurance where we have strong legitimacy: farms, homes, health, well-being, mobility and financial planning and protection.

Forming partnerships with other industries

This paradigm shift carries major implications for Groupama. Despite our legitimacy in all the aforementioned fields, we soon realized that we are not the only players in this market. We cannot act alone. For this reason, our ambition has taken the form of an offensive strategy for forming partnerships, the best example being the one with Orange. By pooling resources and expertise, we have designed an innovative, mobile banking offer for our clients: Orange Bank. I might also mention the partnership signed with Renault that has led to the offer "Renault Assurances" based on the know-how of our subsidiary Amaline (mainly known under the brand of our online insurance, Amaguiz). Our capacity for forming solid partnerships with firms that are complementary in terms of expertise and compatible in terms of values is a key factor for realizing our ambition.

Forming partnerships is not exempt from challenges. As previously mentioned, our information system has to move toward a more open architecture that facilitates partnerships by allowing for various levels of integration as a function of the case. Beyond the questions related to the information system, we are continually adapting operations in order to successfully cooperate in working out joint offers related to the changing uses and activities of our clients and subscribing members. We are devoting enormous efforts to decompartmentalizing collaboration within the Group, efforts that should be extended to include our partners, an extension that, of course, increases complexity.

A corporate culture and rivalry for talents

To be capable of seizing these opportunities, we are building a new corporate culture. Traditionally, we are vertical organized around expertise in certain spheres of business (car, home, farm, health... insurance). Market trends are leading us to form horizontal, “across-the-board” project teams. We have already organized groups with agile project management. Although vertical expertise is still indispensable, we need employees capable of adapting themselves, leading multiskilled teams and mobilizing their teams in pursuit of a common goal that creates value for clients.

This places us in a situation of competition across all sectors of the economy for attracting talents that are naturally scarce. We used to rival our competitors when recruiting experts. Now we compete with a wide range of firms and, too, with the entrepreneurial plans that potential recruits might have of their own.

Once again, we are trying to be pragmatic. Recruiting battalions of talented young people is useless if we have nothing different to offer them. I am convinced that being a mutual insurance fund is a major advantage in a business where a social economy is emerging, a quest for meaning demanded loudly and strongly by the young generations. What we offer them is an unbelievably human work, assignments that help people build their everyday lives in a climate of trust.

Conclusion: Commonsensible enough to steer a steady course and foster cooperation and cooptition

The digitization of personal data, the ageing of the population, climate change, new forms of mobility and living arrangements, new competitors and business models... the insurance business is changing, as are relations with clients. If we remain crystallized in the past, our fate is sealed. We have to adapt to a moving, evolving world: innovation, proximity, client services.

In the past, boundaries were clearly marked. Rules for transactions were normally closed. Products and services were usually proprietary. In the future, the boundary between insurers and their environment will be blurred: APIs, data collection, partnerships... The new technology bears new opportunities for collaboration. Insurers will be able to integrate outside services in their offers; and in turn, these services will be able to offer insurance.

Let us borrow Bill Aulet’s formula, “*Innovation = Invention * Commercialization*”. Innovation generates value. It makes something faster, better and cheaper. To satisfy clients, innovation has need of a new idea and of an organization for commercializing it. Ideas come cheap. The equation is not an addition but a multiplication: without commercialization, it yields zero. The tough point is this articulation.

How to implement this new model of operations and be a 21st-century insurer? Through cooperation, or even “coopetition”, as we managed to do with bank-insurers and telecommunication firms. We managed by: innovating, testing and applying state-of-the-art technology; by proving our ethics and sense of responsibility in relations with our employees, clients and partners; and, always, by being commensensible enough to offer real, relevant, nearby services to our clients and subscribing members. What an exhilarating feat!