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Fintech and Technological Disruption and Transformation of Insurance Sector

Dr. A. Shameem[1] & Anna Job[2]

[1]Professor, AMET Business School
AMET Deemed to be University, Chennai, India
[2] MBA Student, AMET Business School
AMET Deemed to be University, Chennai, India

Abstract

FinTech has raised the vastly changed the expectation of customers and the insurance sector is no exception. Driven by the influence of FinTech and InsurTech start-ups, the insurance industry is currently in the midst of a world of change with respect to its business operations, like change in the channels deployed, provision of customer-made flexible products with different pricing points, using artificial intelligence to do the work of underwriting, etc. Of late the insurance sector like the banking sector is facing a lot of pressure in offering digitalised products very different from the traditional ones. Hence the insurance sector is being compelled to accept and operate in the InsurTech environment which provides it the opportunity in creating partnerships and build digitalised strategies which focus attention on improving customer experiences.

Keywords*:* FinTech, InsurTech start-ups, Insurance companies, new untapped markets, customer experience, etc.

Introduction

Insurance sector is witnessing a scene where advanced technology has collided with usually encountered customer related problems in order to face the many challenges faced by the sector. These trends have started playing an active role by impacting the business operations of insurance companies in particular and the sector overall. With the rise of FinTech clubbed with drastic changes over the years in consumer behaviour and introduction of innovative advanced technologies the insurance sector is being disrupted.

Apart from the above, InsurTechs and technology intensive start-ups have started and continue to play a significant role in redefining the ultimate customer experience with the help

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of innovative practices which include risk-free underwriting, on-the-spot purchase options, activation of business opportunities and instant and easy claims processing procedures.

The other forces disrupting and transforming the insurance sector include aspects such as insurance companies partnering with product makers and distributors and embedding insurance into other products and services which provide customers an opportunity to identify and choose product that are ideal for their requirement. Hence it can be seen that of late, the channels used by insurance companies to market their products have changed for mutual

Today with the use of advanced technology no long is underwriting done manually. With the help of advanced technology such as artificial intelligence, underwriting is done by machines. On account of the above, it is possible to ensure that there is individualised choosing of risk based one's risk-taking capacity and customers are given an opportunity to choose from a wide choose of price points. Apart from the above customers also enjoy the benefit of having flexible products being sold to them. The products chosen by them could be on the basis of flexibility with respect to the time frame, based on any event and could also be made adjustable such that it accommodates changes like the age of the customer, his lifestyle and health conditions.

With the drastic changes in the shopping habits and patterns of customers in many emerging markets, insurance companies would do well if they introduce flexible and term products by keeping themselves acquainted with the complexities involved in the distribution patterns however, ensuring that there is no compromise when it comes to underwriting.

FinTech and InsurTech

In today's globalised world, we find that the insurance sector like any other sector is due for disruption and transformation by the onslaught of various innovative technologies. This has led to the experts coining a new name for the disruption and transformation of the insurance sector by innovative technologies as InsurTech. Like in other sectors of the economy, InsurTechs make use of technologies such as machine learning, big data, artificial intelligence and the internet of things which ultimately results in disrupting and transforming the insurance sector in a big way.

As of today, very many start-ups have started to play a significant role in disrupting the insurance sector. With the concept of Insurtech gaining momentum, the biggest advantages of the same is seen to be the big transformation brought about with respect to both the insurance companies and their customers. On one hand it has enabled such companies in improving their business process to a very great extent. With respect to their customers, they have been able to offer efficient and cost-effective services which has resulted in elevation of customer experiences to new unimaginable heights.

With severe competition prevailing in the insurance sector companies have to stage a fierce fight against each other. Thus, to enjoy competitive advantage it cannot be denied that insurance companies would have to constantly focus attention on reviewing and adopting new business models. The use of such innovative and technologically oriented business models have by no doubt, made it possible for insurance companies to be competitive in offering innovative customer tailored products. This besides, being technologically driven, they also have the opportunity to target and attract untapped segments of the markets. Further, their work in doing the able is further made complex due to many TechFin players who would most probably bundle insurance with the products marketed and sold by them.

It is also be noted in this context that unfortunately, Insurance businesses are rather slow in responding to changes because they have failed to learn from the disruption that has transformed the banking sector. InsurTechs are poised to dominate substantial portions of the insurance sector, thanks to the seemingly limitless investment from venture capitalists and minimal monitoring regulations in place. At present InsurTechs have established themselves in order to play a vital role in the insurance sector.

Disruption of Insurance Sector by Emerging Technologies

InsurTechs start-ups that use emerging technology are disrupting the insurance industry. Big data, IoT, telematics, machine learning, and artificial intelligence, for example, are altering how businesses analyse and price risks. Also, how they deal with insurance claims and settlements. InsurTechs are poised to dominate large portions of the market, especially with the help of venture capitalists. In addition, in the life and health insurance industries, creative firms are integrating genomic testing and epigenetics to identify risks. However, unlike the banking industry, the insurance industry appears to be lagging behind.

Opportunities for InsurTechs

The opportunities available in the market as of today for new InsurTechs have increased many folds and some factors such as lack of direct relationship which they have with customer’s, huge untapped demand, adopting not a very customer friendly attitude towards customers by insurance companies, and the resistance to change have opened up new avenues for InsurTechs to take advantages of the prevailing opportunities in the every-growing insurance market in India.

Customer relationships

Insurance firms, unlike their banking rivals, have never had direct consumer ties. A team of intermediaries which include brokers and agents, have been working towards increasing demand for insurance companies since the sector started its operations. A lack of direct contact with customers puts companies at a significant disadvantage and hinders them from knowing exactly what the expectation of the customers are. In addition, the incumbents use a number of outsourced entities, including as surveyors and damage assessors, to do their business.

Unmet Demand is Enormous

Insurance firms have not made sufficient attempts to include the millions of uninsured people around the world. Furthermore, they do not cover a large share of global losses. As a result, there is a lot of potential for new players to enter the market.

Not so Customer-Friendly Approach

Even in a good year, when claims are lower than predicted, incumbents are loath to share the additional earnings with their customers. Even if the reduced number of claims is due to clients taking better care of their health or managing their assets, this is true. As a result, buyers have the right to feel duped.

Change apprehension

As you may be aware, insurance is one of the oldest financial services firms, and as such, it is naturally resistant to change. The incumbents, unlike the nimble start-ups, are hesitant and unwilling to adapt their established, bureaucratic organisational structures. They are blind to fresh chances because of an antiquated organisational atmosphere. This is exacerbated by their overall aversion to working with new tech businesses.

Reasons as to why Insurance Industry is Susceptible to Technological Disruption

There are many parallels between the insurance industry and the banking and investment industries. The insurance industry is particularly vulnerable to technology

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penetration in a way that banks and investments are not. The reasons for this are as discussed below:

For starters, insurers are in the business of foreseeing the future. Machine learning and AI technologies can accomplish this in a flash and at a low cost. And the expanding amount of data, computational skills, and the ability to perform all of this remotely via cloud infrastructure make it easier for tech-savvy entrepreneurs.

• Second, insurance is a 'phygital' company. This implies that the insurance industry has a significant real-world component. Insurers provide coverage for real-world assets, and even life and health insurance have a physical component.

As of today, a wide range of developing technologies can be used in insurance, including IoT (Internet of Things) devices such as moisture and temperature sensors, drones with cameras, and IIoT (Industrial Internet of Things) devices. For instance, one can utilize dampness and temperature detecting IoT gadgets in rural regions and pre-guaranteeing examination and misfortune evaluation with drones outfitted with cameras.

Likewise, IoT gadgets can be introduced in costly manufacturing plants to anticipate mechanical issues with a good level of exactness. Telematics gadgets in vehicles can gather information pertaining to accidents. One can use this information to incentivize safe driving.

Like health bands, rings, and watches, health bands, rings, and watches can measure biological data and aid in the prediction of health risk events. A few start-ups are experimenting with epigenetics and genomic testing in order to predict insured death rates an order of magnitude better than traditional actuarial methods.

Hence, the incumbents face the difficult challenge of being on top of a broad range of technologies to compete effectively with InsurTechs.

Types of InsurTechs

The dynamic, emerging InsurTechs approach the insurance industry from a variety of perspectives. To begin, a few technology-focused InsurTechs strive to improve incumbents' process efficiencies. Other InsurTechs make life easier for customers by providing comparison shopping and assisting them in selecting the finest policies for them. Furthermore, a few others offer new and superior products that the incumbents do not even sell.

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Then there's a new breed of InsurTechs that operate on cutting-edge business models. Others, meanwhile, take advantage of emerging new marketplaces such as the sharing economy to sell specialised items tailored to their needs. Finally, a few start-ups, like incumbents, operate as risk carriers. The different types are discussed below:

Star-tups that Improve Overall Customer Experience

Customers can use these organisations' comparison-shopping services to assist them find the best coverage. They also don't compete with insurers; rather, they serve as demand aggregators for them. Of course, they disturb the agent-based distribution network. A few examples of such start-ups which improve overall customer service include one like the Policygenius which serves as a comparison-shopping insurance marketplace established in the United States, Coverfox is an Indian InsurTechs that is registered as an insurance broker and provides you with comparison shopping for insurance plans, as well as assistance with policy management and claims and Policybazzar which is a website that provides comparable services.

Start-ups that Make Incumbents More Productive

These are non-competitive digital businesses that work with incumbents to assist them streamline their operations and increase operational efficiencies in underwriting, claims processing, and regulatory compliance, similar to the previous class of InsurTechs. They help insurance businesses provide better services which include ones like what Trove has to provide like integrated insurance solutions to companies that wish to incorporate insurance into their product offerings while also earning a cut of the insurance revenue. Slice is another start-up which provides a comparable service.

Traditional insurance firms can use Shift's AI-based automation solutions to improve client experience and protect against a variety of insurance frauds. On the other hand, Wrisk provides insurance firms with a mobile-first, strong technological platform that will improve customer experience and Quantemplate serves as data integration and machine learning tool that helps incumbents gain important insights from their data.

Start-ups with Ground-Breaking New Goods

Unlike the other categories, these firms provide novel products and services that have not before been available on the market. This is disruptive to incumbents, and these new companies may be able to steal clients from them.

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Parametric insurance, also known as index-based insurance, is a type of insurance in which the insurers pay the claim amount if a pre-determined event occurs. In agricultural insurance, for example, if the rainfall falls below a pre-determined level, the farmer gets reimbursed the claim amount. Alternatively, when the temperature rises above a certain threshold.

Climate Corporation, for example, a crop insurance disruptor, monitors weather conditions and provides farmers with timely information. This InsurTech also provides parametric insurance, in which the company covers claims based on the occurrence of a certain risk event. For example, if rainfall surpasses a certain threshold, the claim is automatically paid, eliminating the need for time-consuming risk assessment processes.

New Business Models for Start-Ups

Unlike traditional insurance firms, these InsurTechs convey the savings from fewer claims to their clients in the form of lower premiums. Laka, an InsurTech start-up, is an example of this type of company.

Start-ups Aiming for New Markets

The rise of the so-called "gig economy," in which millions of people work for themselves, has created new insurance prospects. You've undoubtedly also utilised services from the "sharing economy," such as Uber and Airbnb. In modern economy, there are various short-term insurance requirements for both owners and renters.

Many new InsurTechs, provide flexible, pay-per-use insurance coverage. For example, Dinghy is a wonderful example of an InsurTechs that is capitalising on this trend. This organisation provides freelancers and self-employed professionals with adaptable insurance plans for professional indemnity, public liability, and business equipment.

Likewise, Metromile ensures insurance premium is decided in accordance to one’s driving habits. One would pay less if one drive less. When compared to typical insurers, the company says that customers can save up to 47 percent. On the other hand, Cuvva offers cutting-edge auto insurance policies that one can get immediately from one’s phone in a matter of seconds.

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Start-ups that act as Risk Carriers

These are full-service InsurTechs that compete directly with the big players. They bear the risk of insurance on their own books. These InsurTechs are more profitable than incumbents since they have lower costs due to technology leverage and no intermediaries to compensate. Capital from venture capitalists is also a significant assistance. Unlike incumbents, these InsurTechs focus on claim avoidance by utilising technology to gather data on assets. They also educate clients and assist them in taking better care of assets and avoiding risk incidents. These efforts, obviously, result in fewer claims. Lemonade, an auto InsurTechs firm, for example, gives clients the choice to 'Giveback cause.' And from the cohort of customers for a particular cause, a significant amount of savings arising from lower claims go to the charities.

Conclusion

As indicated above, the insurance industry is particularly sensitive to technological upheaval. Furthermore, traditional insurance corporations have squandered a huge sum of money! Millions of individuals around the world do not have insurance, as you are aware. Furthermore, insurance coverage for a large share of damages is unavailable globally. And on other hand, emerging technological and societal changes are bringing up new insurable interests. All these are excellent opportunities for innovative InsurTechs, especially with unending capital availability from venture capital firms.

It is also very likely that FinTech rivals, like as e-commerce companies could bundle insurance with the items they offer, adding to the hardships of the latter. Several InsurTechs have sought to specialise in supplying these firms with embedded insurance solutions. As a result of the enlargement of the online market, FinTech applications is likely to bring about disruption which may have a huge impact on the insurance market. But, as of today, th present scenario does not offer much scope for one to evaluate and estimate the extent of such disruption which is likely to affect the insurance sector in the days to come.

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