

Product Innovation: Innovating and Creating Solutions Tailored to Specific Market Needs in the Middle East

Prepared by Tony Meakin, Aon Bahrain

Innovation bla bla...

- Innovation is people creating value by implementing new ideas
- “innovation distinguishes between a leader and a follower..” Steve Jobs, Apple Inc.
- “When someone uses your brand name as a verb that’s remarkable...” CEO ebay
- “Innovation is the specific instrument of entrepreneurship – the act that endows resources with a new capacity to create wealth” Peter Drucker 1905
- “Implementing **best practice** is copying today, innovating is inventing tomorrow”
- “Deja Poo” ...the feeling you have heard this ... before..”

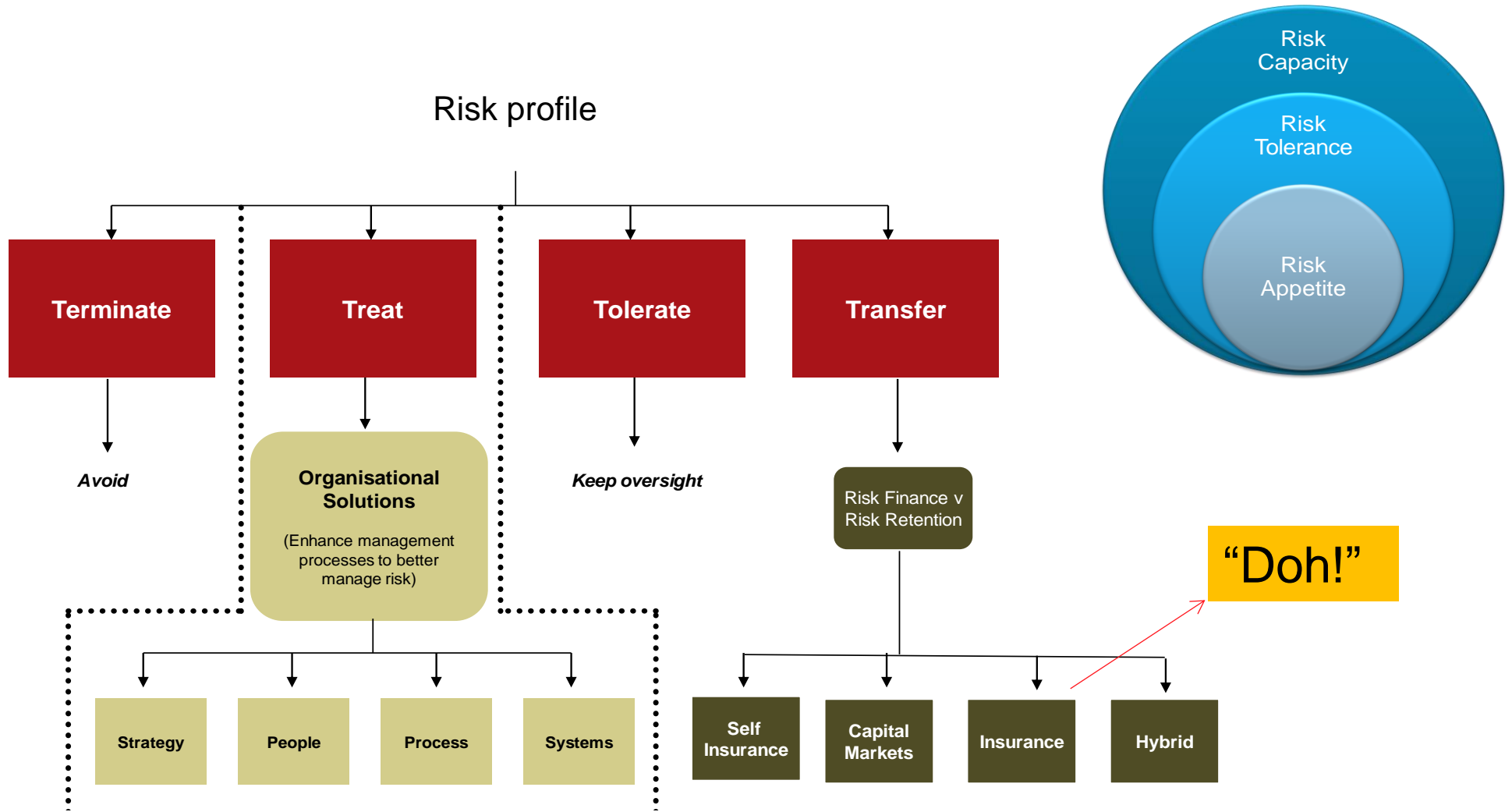


"This really is an innovative approach, but I'm afraid we can't consider it. It's never been done before."

How Innovative is your company?

- Who is asking the insurance buyers what they think?
- Have the (ME) insurers forgotten how to differentiate...?
 - is it the in-house risk engineering capability?
 - is it the “quality” of the paper?
 - is it claims service – but how do you sell the unexpected and unwanted?
 - reduced premiums year on year...?
- Doesn't insurer 1, 2 and 3 (and 4, 5 and 6..) all have that..?
- If **you** can't differentiate how can buyers...?
- Everyone reverts to cost – insurance is a commodity? Can robots and computers do the underwriting/broking – policies delivered by drones..?
- Recognize that disruptive influences are coming fast....
 - Demographics are changing – kids of today will be looking for touch screen solutions tomorrow
 - Affinity deals; SME automation and Personal Insurance space has changed – where will it be in 20 years
 - How far away are e-trade platforms – insurers bidding for lines – pure supply/demand pricing
 - Insurance is ripe for radical changes - likely to come from leftfield – who saw Uber coming?
- If you don't innovate...you die....ask the Black Taxi's in London; Ask Nokia; Ask Blackberry....whatever you think is the norm and forever - you are wrong!
- So....what are the innovation drivers for the insurance industry..?

So...what is innovation in the insurance industry....first let us remember the insurance role in the risk management framework



What concerns buyers?

- The **cost** of insurance does not hit a top 10 concern of a CFO; if its not already efficient he has failed
- The magnitude, complexity and speed of risk is increasing
- Their challenges are bigger than ever and their need for risk advice is greater than ever before
- As businesses evolve, expand, deal with changes (regulatory, economical, political, environmental etc.) so too does a risk profile – it NEVER stands still
- Many types of risks are evolving far faster than the industry can react, for example:
 - cybercrime,
 - global warming and
 - supply chain risks are three areas that are top of the agenda for many of Aon's clients

What do we need to do?

- To maintain relevance, can the insurance industry evolve faster than our clients around the topic of risk?
- Potential solutions will often need to look beyond traditional insurance

The problem for the industry?

- We all face the same challenge: we are data rich, information poor and insight starved.

The challenge is understanding how to measure and mitigate risk using all of the information, technology and expertise at one's disposal.

What is Aon doing? – The Aon Global Risk Insight Platform (Aon GRIP)

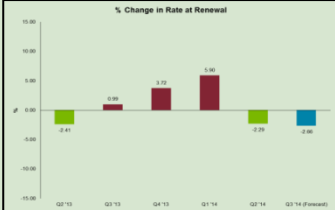
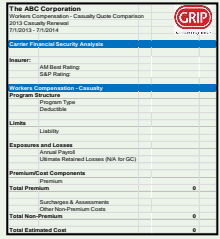

- Aon is recording data from trades valued > USD 90 billion of premiums (Global Broking Centres in Singapore, London, Bermuda.....)
 - limits, deductibles, pricing and exposure details by class and geography
 - Insurers quoting and binding performance
 - around the globe in real time and makes them available to Aon brokers and their clients & insurance carriers.

Aon spends more than \$500 million a year on analytical expertise - Centres for Innovation and Analytics (Dublin and Singapore)

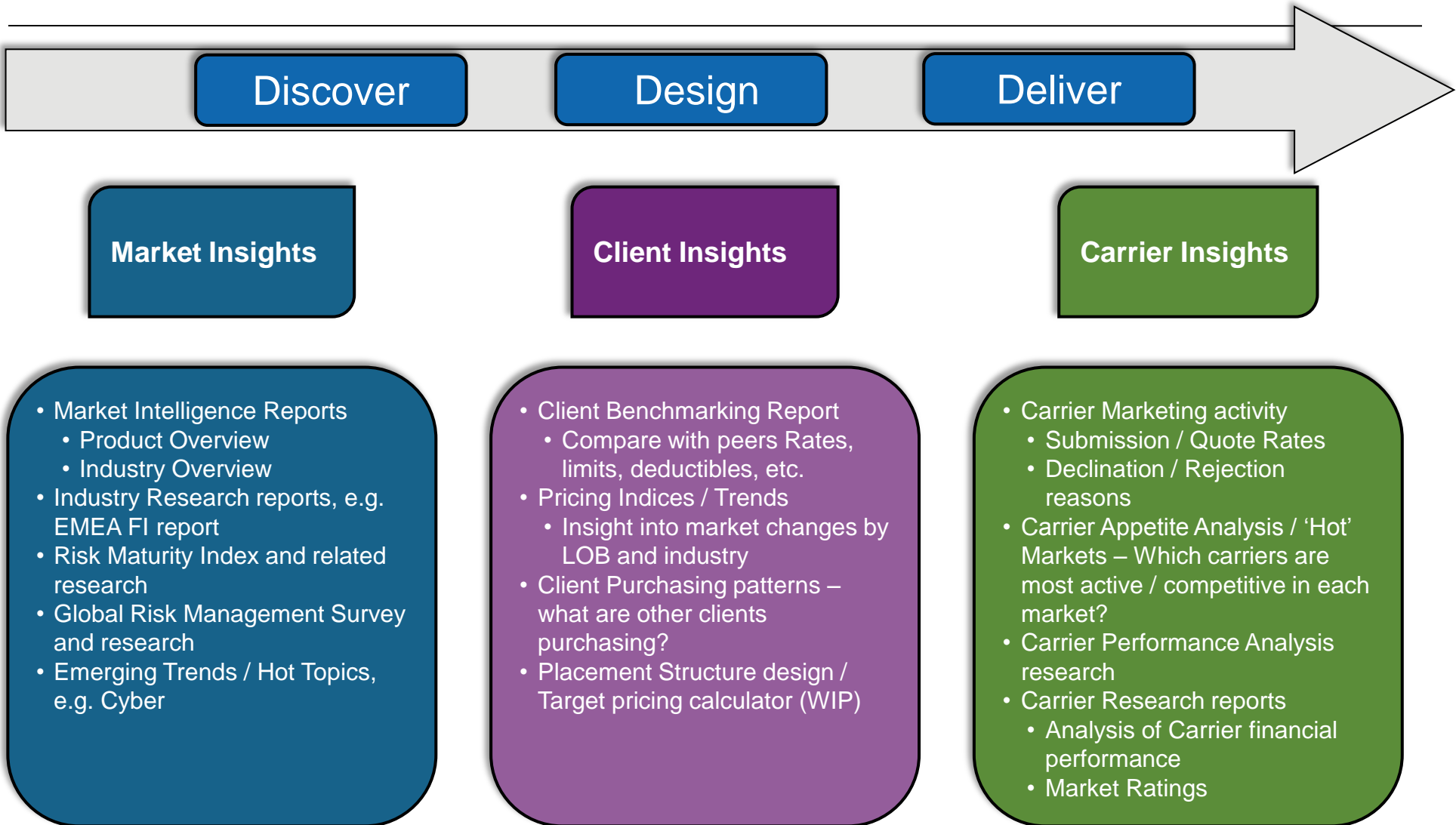
The Centres consist of >100 colleagues analysing millions of data points captured in Aon's Global Risk Insights Platform (GRIP) to provide impactful market insights and reports.

- The platform is a global repository of risk and insurance *placement* information. By pooling this vast quantity of information in one place, the accessible data can help identify the best placement option regardless of size, industry, coverage line or geography;
- Add in Aon Global Risk Consulting practice (including its global Risk Management bi-annual survey) – Aon is sitting on a vast array of data

How GRIP data delivers insights to our clients

Renewal Strategy Broker / AE Questions	How GRIP Can Help	Example
<p>What are the macroeconomic and marketplace trends impacting my client (e.g., industry issues, etc.)?</p>	<p>GRIP Market Indices shows trends in rates, exposures and limits; indicates whether pricing is trending up, down, or is stable.</p> <p><i>Available in the GRIP Broker Dashboard</i></p>	
<p>What were the results of the last marketing effort?</p>	<p>Download a GRIP Quote Comparison Summary for a complete record of past marketing activity – including which carriers were approached and how competitive their quotes were.</p> <p><i>Available in GRIP (the input system)</i></p>	
<p>Is my client's program (premium, coverages, limits, retention, terms, etc.) in line with his peers?</p>	<p>GRIP Benchmarking allows you to select your client and peer comparables to compare limits, premium, rate, etc.</p> <p><i>Available in the GRIP Benchmark Tool on the Broker Dashboard</i></p>	
<p>Is my client currently with the "right" carrier(s) (e.g., are there other "hot markets" in this space?)</p>	<p>GRIP Carrier Pricing Relativity Matrix (coming soon) shows which markets have been quoting most aggressively</p> <p><i>To be available in the Aon Analytics Library on the Broker Dashboard</i></p>	

The Breadth of Data and Analytics available



There is some serious innovation going on in the Industry

- Parametric products
- Swiss Re is recognised as a product innovator – it has driven the concept of Parametric products
- The objective:
 - expedited settlement and extension of insurability through the use of third-party data.
 - If certain pre-agreed metrics are hit, then compensation is triggered
- How do these products work?
 - Payouts (claims) for these products are based on data tracking of third party data including:
 - ◆ Intensity of natural catastrophes,
 - ◆ Seasonal weather developments,
 - ◆ System load on power grids
 - ◆ power production of a specific generator

Pure parametric cover :

- Provides a payout of a specified amount upon the occurrence of a certain event, regardless of the financial losses sustained by the client.

Swiss Re Parametric cover

Parametric tropical cyclone cover in Australia

- **Client need**
- A corporation that owns, develops, operates and maintains a high-voltage electricity transmission network. Its network is exposed to tropical cyclones along the Australian coast.
- In the traditional insurance market it is not possible to find multiyear coverage for transmission lines only, since most treaties exclude this exposure.
- **Swiss Re solution**
- Multi-year parametric contract with two triggers
 - Cover triggered by either (a) wind speed of a pre-defined intensity category passing a pre-defined geographical area during a defined time, or
 - (b) direct physical loss to insured property

Payout amount: property loss sustained, maximum pre-defined sum per event and aggregate maximum limit for the insurance period

- Initial payout within one month following loss based on analysis of tropical cyclone reports provided by the Australian Bureau of Meteorology

Examples of industry risk that are now being transferred

Power/Energy

- Mild winters/cool summers diminish consumer demand for heating/cooling and erode the profit margins for utility companies.

Agricultural

- A Florida citrus farmer worries about freeze risk in January; an unexpected hard freeze could wipe out the farmer's entire crop and livelihood.

Tourism (hotel, ski resorts, beach)

- Ski resorts depend on adequate snowfall during the winter. Warm, dry winters result in lower attendance and increased costs from snow-making.

Construction

- Periods of abnormally hot, cold, or rainy weather inhibit progress on a construction project, resulting in missed deadlines, increased costs, lower labor efficiency and work stoppage.

Food & Beverage

- A brewer has lower-than-expected earnings as a cool, wet, summer triggers lackluster demand during the most lucrative sales period of the year.

Aviation

- Flight delays are costly for airlines, airports and passengers. Delays lead to increased fuel consumption, crew time and the need for additional ground personnel

How Innovative is your company?

The client needs to know why they are buying insurance

- The question for buyers are?
 - Why are you buying insurance – its an overhead...an expense....an imposition..?
 - Oh....you are buying it to transfer risk you can't retain....really?
 - Do you have a good idea of the shortcoming of the insurance you have bought..? Is it fit for your purpose?
 - You have clearly done a great job reducing your overhead expense – but what happens ifgod forbid...it doesn't work? Any expense will be too much then because it will be pointless...no?
 - Why are you buying insurance again..?
- The ME insurance market has a great opportunity – establish an innovation forum?;
 - How can I really differentiate myself?
 - Should I engage my client – really understand their worries and requirements?
 - If I can be a risk partner for my client...can I give him special treatment? (Factory Mutual model?)
 - Can I offer incentives to be a risk partner..? Sponsor risk management costs..? Offer risk management discounts..? Offer claims promises..?
 - How should I start innovative thinking – move beyond best practice
- Can the ME insurance industry remain relevant to buyers....the buyers are becoming more risk aware...
 - If the products and services remain 20th century... its losing relevance
 - Service Platforms – best practice or innovative?
 - Business processes – best practice or innovative?...think Gen Y is coming!
 - Collaboration for ideas – suppliers, peers, competitors...buyers?

Can the ME insurers start thinking “upstream” – support Risk Management

The Information Generation - What's fuelling innovation?

Data today is being captured on a scale which is unprecedented and has the potential to change our industry and fuel innovation in a manner never seen before.

- From the beginning of time to 2003 humankind had created in aggregate 5 exabytes of data. An Exabyte is a trillion terabytes
- In 2011, this same amount of data was created every two days
- By the end of 2014 the same amount of data was being created every 10 minutes.

Making sense of that amount of data is going to be a challenge, but it's one we need to master if we want to remain relevant to our clients.

- *There will always be those that resist change in the insurance industry but that should not be an excuse for shunning innovation,*
 - *Greg Case, Chief Executive of Aon. Intelligent Insurer Summer 2014*
- *“The idea is not to always be the first to use new technology, or to invest a new product, or event to establish a new collaboration; the idea is to encourage thinking and actions that allow innovation to take place intentionally” – IBM Institute of Business Value, “Insurance 2020”*



Power + Water =
Innovation?

INNOVATION

They're not all good ideas