

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

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## Innovation bla bla...

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- 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..”



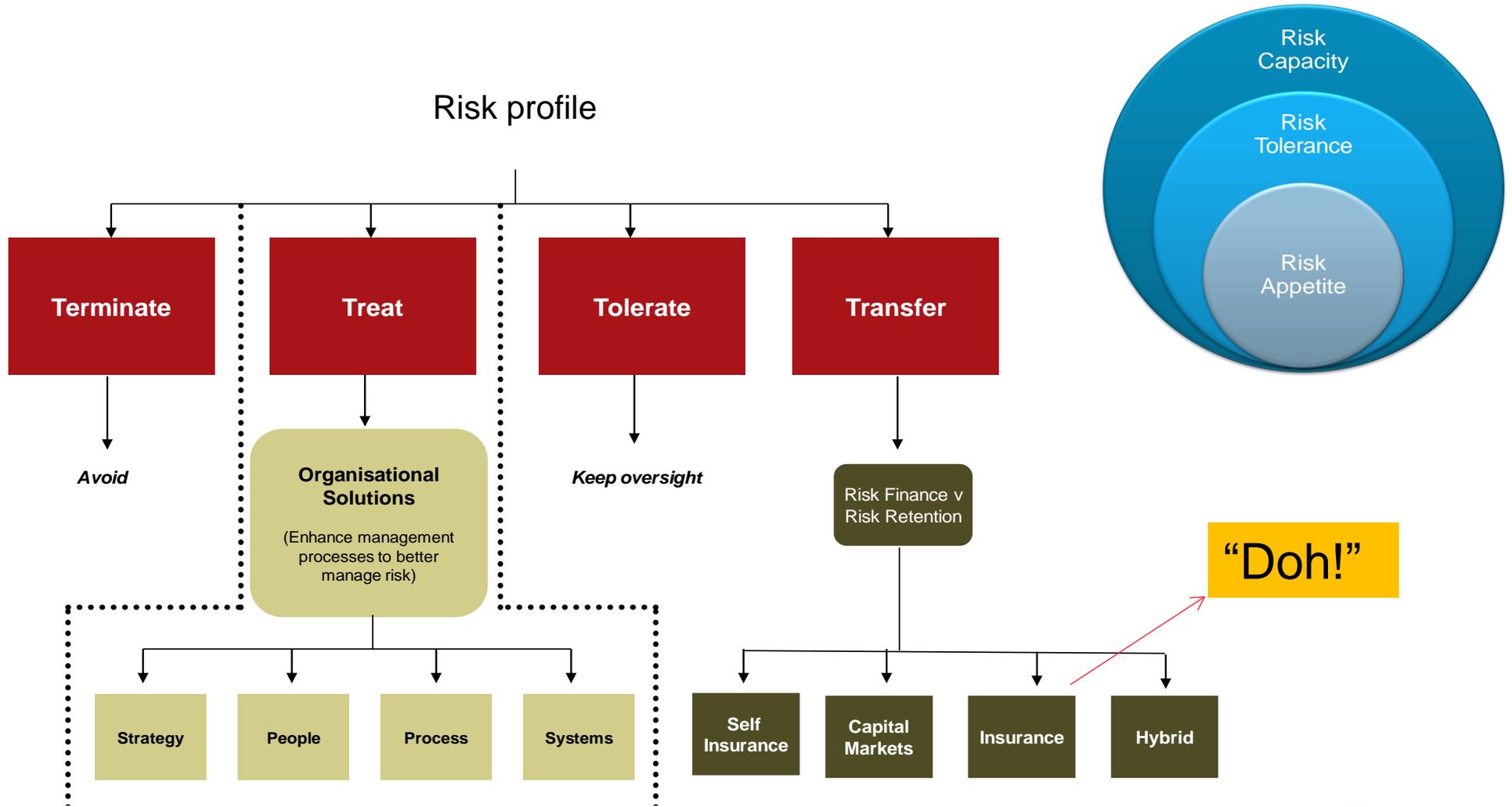
**"This really is an innovative approach, but I'm afraid we can't consider it. It's never been done before."**

# How Innovative is your company?

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- 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?

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- 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)

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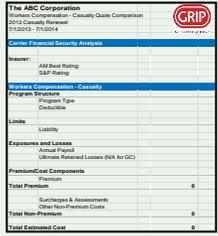
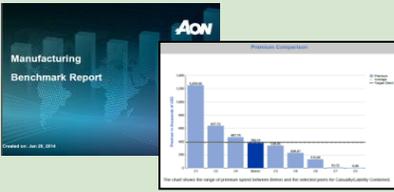
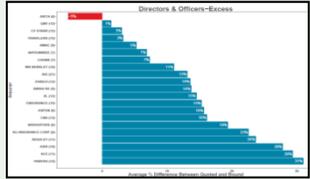
- Aon is recording data from trades valued > USD 90 billion of premiums (Global Broking Centres in Singapore, London, Bermuda.....)
  - limits, deductibles, pricing and exposure details by class and geography
  - Insurers quoting and binding performance
  - around the globe in real time and makes them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

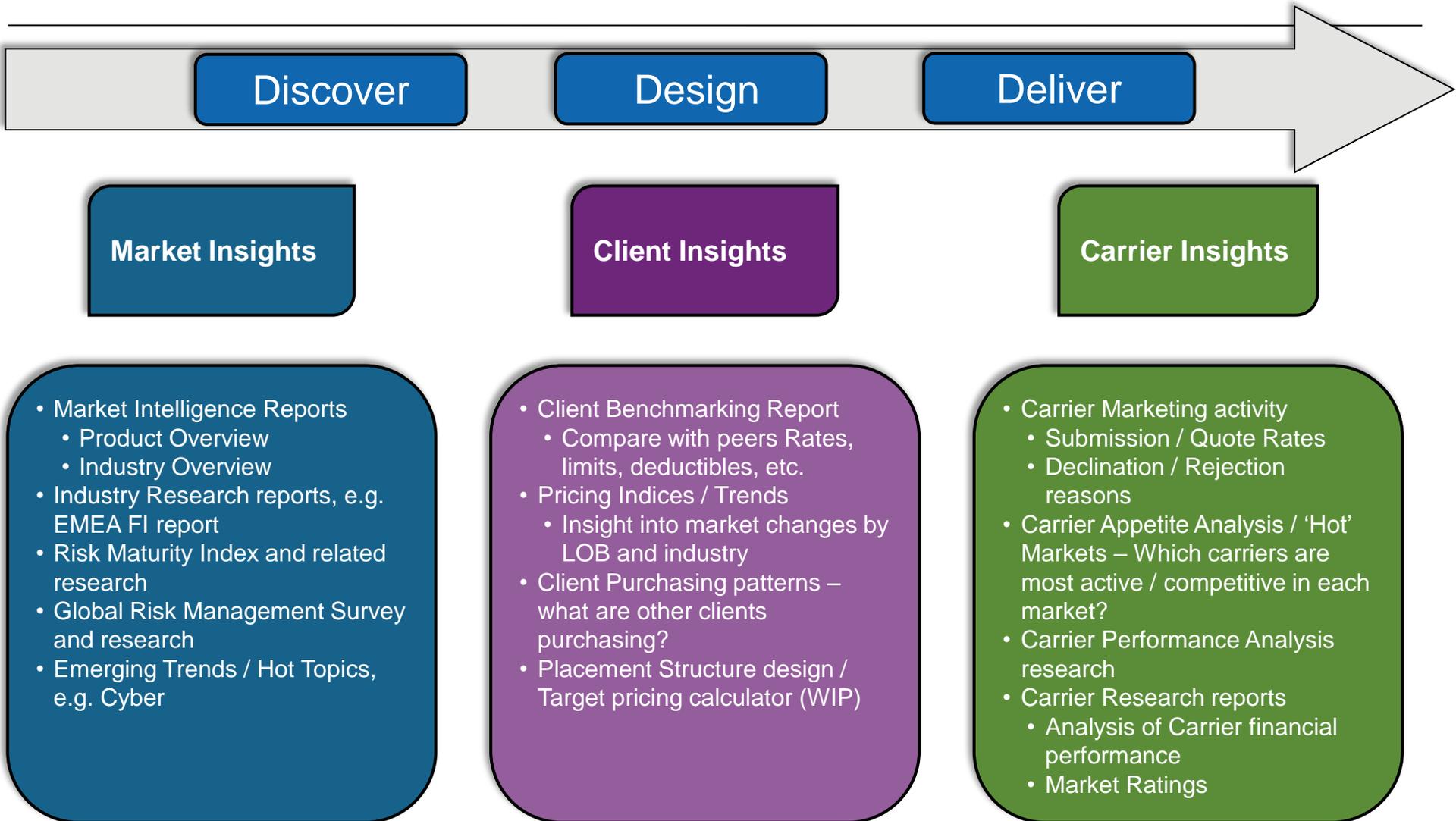
The Centres consist of >100 colleagues analysing millions of data points captured in Aon's Global Risk Insights Platform (GRIP) to provide impactful market insights and reports.

- 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><b>What are the macroeconomic and marketplace trends impacting my client (e.g., industry issues, etc.)?</b></p>	<p><b>GRIP Market Indices</b> 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><b>What were the results of the last marketing effort?</b></p>	<p><b>Download a GRIP Quote Comparison Summary for a complete record of past marketing activity</b> – including which carriers were approached and how competitive their quotes were.</p> <p><i>Available in GRIP (the input system)</i></p>	
<p><b>Is my client's program (premium, coverages, limits, retention, terms, etc.) in line with his peers?</b></p>	<p><b>GRIP Benchmarking</b> 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><b>Is my client currently with the "right" carrier(s) (e.g., are there other "hot markets" in this space?)</b></p>	<p><b>GRIP Carrier Pricing Relativity Matrix</b> (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

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- 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

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## 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

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## 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 if ....god 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 20<sup>th</sup> 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?

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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”*



# INNOVATION

They're not all good ideas