
insuranceage

Brokers must transform to evade threat of AI - report



Aara Syed

[@BrokerAara](#)

19 Jul 2019

0 Comments

Publication suggests that brokers who rely on their paperwork skills or only act as a go-between the client and underwriter will be challenged by AI solutions.

The Chartered Insurance Institute (CII), in partnership with Konsileo and PKF Littlejohn Accountants & Business Advisors has created a report on the future of commercial insurance broking.

One of the key findings outlined how artificial intelligence may impact commercial brokers.

The report, *The Future of Commercial Insurance Broking*, detailed that brokers who rely on their paperwork skills or act as a go-between the client and underwriter will be challenged by AI solutions which automate these processes and instead the value-added aspects of a broker's position where they offer advice will become even more important.

"AI will demand of brokers that they become equipped with continually evolving risk management, insurance technical, and interpersonal skills, in order to provide an economically valuable service in the long-term."

In the commercial insurance broking space in general the report found that there was a renewed focus on SMEs as the trend for globalisation in business faces limitations with altered politics in the UK and US.

The document highlighted, using 2016 numbers from a joint Acturis/Axa study, that from 2011-2016 the market share of brokers with 20–50 staff grew from 14% to 20%, and firms with over 100 staff saw their market share fall from 60% to 48%. So, smaller brokers are increasing market share.

Technology

Research signified that commercial insurance is increasingly receiving interest from entrepreneurs, investment firms, accelerator programmes, and the innovation centres of the larger insurers.

The publication used Simply Business as an example of technology driving change, the firm uses online distribution to arrange insurance for sole traders and small businesses and its success was discussed.

“Revenues grew by 75% in the latest three years, with renewal rates close to 80%.”

In research by CB Insights, it was found that InsurTech firms received \$2.67bn of investment into 122 firms in 2015 and \$1.69bn into 173 firms in 2016.

Most of this funding was in the US and was concerned with personal lines and peer-to-peer insurance models, but there was some investment in commercial insurance start-ups.

And it was noted that momentum is building in the UK, with the conversation progressing past commoditisation in personal lines to focus on commercial insurance. This echoes [comments made by Guidewire's Laura Drabik earlier this year](#).

The research showed that this model did see fairly low average premiums, mirroring the experience of personal lines.

The data depicts that the average premium being traded through direct channels is around 40% lower than the average premium traded through the broker channel.

Disruption

The document indicated that change is expected by the market and found that 57% of brokers think that the insurance industry will be disrupted, with 61% of commercial insurance professionals in agreement.

The report detailed: "As data from the Internet of Things becomes more widely used in personal lines, businesses will begin testing and using this technology to help prevent risk.

"A role will emerge for insurance brokers in supporting their clients by using data for risk management."

Broker-client relationship

The research found that despite advancements in technology there are 'human nature' barriers to commoditisation, such as trust and technical understanding. Meaning that if commoditisation of insurance is not done well could lead to clients making mistakes, potentially leaving them vulnerable to being under-insured, or open to reputational risk for example.

The report stated: "It is likely that the Financial Conduct Authority (FCA) would take a keen interest if these outcomes were inherent in the commoditised model. The insurance industry has a duty to help avoid such outcomes."

It also understood that technology can enable customers to identify any additional exposures they may have and then adjust their cover if necessary.

It continued: "Big data will enable brokers to nurture those small clients that will eventually grow into key corporate clients.

"Many broking firms may therefore choose to run multi-client strategies, designed to service both."

Client wants

In a series of one-on-one interviews with SME businesses conducted by PKF Littlejohn in November 2016, it became clear that there was an impression of insurance broking as a transactional, rather than advisory, service.

The document detailed: “The SMEs we polled were satisfied with the service provided by brokers and purchased all of their insurance through them; however, they do not appreciate brokers’ potential to take a risk management role.”

Looking at lead generation the paper found that online prospecting is a big opportunity for individual brokers and broking firms, as emphasised by the rise in freely available data online.

“Individuals and firms able to adapt lead generation efforts and to maximise what the internet has to offer will reap the benefits.”

Expected trends in 2028

The publication also looked at predictions for the future, suggesting that:

- Brokers will evolve into risk advisors
- The rise of data exchange as a way to improve risk management, and to avoid rekeying
- The Industrial Internet of Things will become embedded across clients’ businesses
- The gap in efficiencies of scale between broking firms of different sizes reduces

John Moore MBE, immediate past president, CII summarised the paper: “The way forward for any individual or firm in the market is to relentlessly focus on clients and to continuously develop skills and technologies to support clients even further.

“This is the route to a successful and vibrant profession and to creating a future for the people working within broking both today and in the future.”

In April *Insurance Age*’s in-depth discussed how the insurance industry can **provide the necessary support to enable tech firms to prosper.**