Tackling the start-ups

As traditional insurers partner with start-up tech companies, the landscape of insurance is changing. Start-ups pose less as threats hellbent on disrupting the industry and more as an opportunity waiting to happen. Post, in association with Mendix, gathered a selection of industy professionals to debate the issue

By Rosie Quigley

David Bailey, sector manager, Mendix

Raphaël Caruso, head of Innovation Lab, Euler Hermes Digital Agency

Glen Clarke, head of transformational propositions, Allianz

Mike Downing, chief technology officer, WPA

Abby Ewan, IT director, BLM

Nick Ford, senior director, global product marketing, Mendix

David Lundholm, group corporate development director, BGL Group

Tim Paterson, digital and e-commerce manager, First Central

Nick Rawlings, strategy and change director, UK General

The way in which insurers go about bringing start-ups into their business varies from firm to firm, and the varying methods come with their own positives and negatives. Insurers are wary of investing money and time in start-ups that may not deliver the products or services that they promise. Likewise, start-ups are wary of joining with incumbents that may only sample their services, stamp out their innovative edge and then whack the label 'innovation' on any watered-down product that is produced.

Both parties can agree that joining forces and investing in one another, be it with time or money, is risky business. But it could be a risk worth taking and one which could revolutionise a business and, in fact, the whole insurance market. *Post*, in association with Mendix, brought together a panel of experts to find out.

While incubation enables firms to work with start-ups to develop tailored products that fit their business as well as their customers, there is a danger of stifling creativity. Getting involved in start-up bootcamps could be a better way of engaging with insurtech firms and kick-starting a conversation in the industry.

"If it is an insurance product that you're trying to develop, it's entirely the wrong thing to do, to capture somebody within the corporate environment, because you just stifle them with all of your prejudices and your older ways of thinking," said Rod Willmott, fast track (innovation) director at LV.

"The biggest danger is stifling creativity – it's got to go the other way round – so I would agree with getting involved in the start-up bootcamps of the world. Because you have less overall influence and because a multitude of insurers discussing the opportunities between them is as big an advantage for the insurer as the start-up itself. It doesn't matter so much whether you buy one of the start-ups' products, it's more that you get into that environment of thinking about innovation."

Bringing in a start-up into an already existing company, via incubation, and rolling out its services throughout its customer base can be a large risk.

It could be better to instead use a lightweight approach to integrating new services into businesses, said Willmott.

"Most start-ups are cash and time-starved, and we kill them by either doing a long-term heavyweight engagement, or even buying their service and putting it through a massive procurement process," Willmott explained.

Bringing in a start-up into an already existing company, via incubation, and rolling out its services throughout its customer base can be a large risk.

"Insurers should work with a start-up, do it in a lightweight and disposable way at first. If you take a new start-up service and make it the prime way for all of your customers for everything you sell and it doesn't work, that's a massive expense. It's a foolish thing to do.

"If you try it for a small group of customers in a new product somewhere, it's not much of a risk – if it doesn't work, turn it off. If it works brilliantly, think of rolling it out and taking a bigger involvement or buying more of it."

Start-ups often feel comforted and liberated by having the backing from corporates behind them, but it requires a harmonious relationship between both parties – one that enables the start-up to have the freedom to go through a process of trial and error. David Vanek, entrepreneur at Kamet Ventures, a start-up funded by Axa, said that start-ups should be allowed access to financial help and data but, ultimately, need freedom.

"Insurers have to trust and let entrepreneurs do their work, as you do, and to avoid getting into their way all the time and trying to impose their own processes and infrastructure on them," said Vanek.

"Start-ups that take part in corporate incubation programmes need to have a governance that is quite light. Give them access to data, to some sort of expertise and cash, but trust them."

By having this approach, Vanek said, insurers are forced to think on their feet and take risks on products, rather than plan in advance.

"Insurers that use incubation can't set a plan for 10 years or five years, it's much nearer than that so you need options, and at some point those options will at the right time become a strategic component of the business."

Mike Downing, chief technology officer at WPA Insurance, agreed that insurers need to compromise their traditions in order to have a successful incubation programme: "All of our innovation is in-house. The way we approach it is we set up a team as a start-up and it runs as a start-up within the environment.

"That's supported right up to CEO level. The start-up team is built from techies, business people, and there always needs to be an entrepreneur on that team because that's the only way to push the message across to everyone."

Another option that insurers are gunning for is partnerships. Aviva recently joined forces with Homeserve to develop Leakbot, and Neos has been offering its connected home services to insurers. Start-up bootcamps can be fundamental for companies that are developing innovative products for the insurance market but placing them in front of insurers looking to innovate. This opens up the opportunity of potential partnerships.

"The start-ups involved with Start-up bootcamp and elsewhere, they're desperate for contact, expert advice, data, data sets, the ability to be able to test and learn themselves because actually they're all perfecting their own models," said David Lundholm, group corporate development director at BGL.

"They haven't got the business model cracked and they need engagement with

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Carrie Robinson, head of innovation, Ageas

David Vanek, entrepreneur in residence, Kamet Ventures

Rod Willmott, fast track (innovation) director, LV

< 25 people that can help them, if an insurer can help them accelerate that then they're going to be far more open to the opportunity to interact on a commercial basis or partnering with you at some future stage."

With start-ups offering bespoke, tailored products, there is rife potential for insurers to nab revolutionary products. This is generating stiff competition within the industry and the message 'innovate or die' is not falling on deaf ears. Most corporates are on the hunt for start-up services and they want to get their hands on them before the competition.

"Start-up bootcamps may be how the relationship evolves because you get them on a lightweight basis to start with and actually find out that it's an amazing product and that you want that as a unique selling point," said Nick Rawlings, strategy and change director at UK General.

"Insurers don't want their competitors getting their hands on that now, that's the point where you maybe form more of a partnership. But you need to test the product first."

Despite the reputation of the insurance industry being starved of technology, there are many start-ups that are keen on transforming the functionality and reputation of insurance.

"We need to think about how we can be part of tomorrow's world, how we can shape the insurance of tomorrow and create new market in an industry which hasn't been changed for decades," said Raphaël Caruso, head of Innovation Lab UK at Euler Hermes Digital Agency.

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However, even when a product has been developed successfully and is, in theory, fit for market purposes, it may not necessarily make it that far. Speaking from experience, Nick Ford, product marketing director at Mendix, said that traditional governance gets in the way of innovative products entering the market.

"One of the challenges in the insurance companies that I've talked to in my role has been when they have set up internal incubation units to maybe attack a particular problem," said Ford.

"From an innovation perspective they can be hugely successful, but in isolation it very rarely gets out of that environment and make it into mainstream because of the governance and the procedures that bring it down.

"Incubation is a great way of testing and it's a great opportunity to try new things but I've yet to see it be successful in actually creating anything of any significant value as a mainstream product for the insurers that I've been talking to."

Different approaches

The level of governance depends on how far an insurer wants to integrate a start-up into its business; some prefer an isolation approach, whereas others opt for complete integration.

In some cases, it could be pertinent to have separate governance over the start-ups that are brought into traditional insurance companies, whether by incubation or partnership. What works to govern incumbents may not necessarily work with a new firm that relies on a totally different business model. The governance of start-ups needs to be as bespoke as the services they're offering.

"It's really important that start-ups are

handled in an entirely separate way. You can't work out how to evolve your existing governance to fit that model because it's just compromised at every situation," said Glen Clarke, head of transformational propositions at Allianz.

"Insurers have to start off with a governance model that's supporting that kind of entrepreneurial environment from the bottom up. So, it might be that you'll only have a supervisory layer at the investment level but then on the day-to-day it's very much in a completely different kind of set of governances. When you're doing it differently, it has to be a completely bespoke model."

The checkpoints put in place to measure the success of a start-up have to be different as they are unlikely to hit the ground running at the same speed, or to the same extent, as traditional companies.

Success should be measured differently, said Carrie Robinson, head of innovation at Ageas, but insurtech companies should work within roughly the same parameters of traditional companies.

"It's different before you go live with the product in the market versus when you're developing the idea and you can't have the same governance structure for both pieces of the puzzle.

"At Ageas, we still have steering groups and checkpoints and milestones and all the stuff that you'd expect in a Financial Conduct Authority-regulated company, but it's almost as much giving them time and space to signal that it's a very different steer to a normal steer that they might be going to.

"But then when you have spent the money, you need your proof point, so it's having some small checkpoints and some small things that maybe aren't a million customers. It might just be your first 100 sign-ups or your first 1000 visits to your website, whatever it is – but make them small enough that it gives you the flexibility to test and learn within that."

Insurers probably do not have to rely on start-ups, but it helps to have input from other organisations that work outside the parameters of insurance

Before insurers embark on bringing about innovation to their business, most will find it beneficial to first re-shape the culture that is present. Insurers probably do not have to rely on start-ups, but it helps to have input from other organisations that work outside the parameters of insurance.

"One of the big challenges for many organisations is actually where the ideas have come from and you don't necessarily need to go to a start-up to get some of those ideas," said Tim Paterson, digital and e-commerce manager at First Central.

"But perhaps you do have to go outside the organisation to get those ideas, and it could be consultancy, it could be collaboration talk or what have you, but it doesn't always necessarily needs to be a start-up, but sometimes a fresh pair of eyes and some ideas"

Without integrating the input and innovative edge of start-ups, those at board level could struggle to keep up in the market. With the rise of insurtech taking the industry by storm, insurers must innovate to survive – something that can be done by opening their doors to start-ups.

Abby Ewan, IT director at BLM Law, summed up: "I sat in an executive board meeting at work a couple of weeks ago looking around the table and I said: 'No offence, guys, but innovation in our business is not going to come from the people in this room'. They agreed." ■