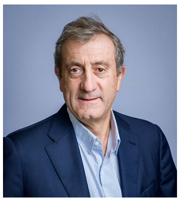
RETHINKING DIGITALIZATION

MARKET ANALYSIS THOUGHT

By **Jérôme Pezé**
Founder
Tinubu



An article in the 2019 Berne Union newsletter highlighted a crucial theme.

In this article, Shelley Schad, of AXA XL*, looks into the next ten years and predicts challenging times for the export credit insurance industry, banking, and other insurance sectors, mainly due to the evolution of IT. The author identifies new technologies such as Blockchain and Artificial Intelligence, along with the emergence of start-up companies, and a shift in policy from multilateralism to regional trade networks' as likely to impact international trade and the export credit insurance market. We at Tinubu agree with this view, and believe it should be stressed that technology offers considerable opportunities to the industry.

Technology that enhances customer satisfaction

Insurers are increasingly expected to deliver fast and seamless credit decisions adequately supported by adequate credit risk knowledge. Trade credit insurance insured, and those looking for surety products, or cover for medium term, or even for political risk, want the highest quality service based on real-time analytics and meticulous research. This requires insurers to develop a customer-first strategy to deliver customer satisfaction and build loyalty.

As the insurance industry progresses through digitalization, we are increasingly seeing the use of tools that enable a fast response to customer needs. These range from customer web portals and the support of social media interaction to chatbots driven by artificial intelligence and machine learning that automate the delivery of policies based on current and accurate risk assessments.

Interacting closely with customers makes extracting and analyzing feedback easier and working together to continually improve the services offered.

The insights gained from a customer-centric approach enrich your business intelligence and assist you in shaping best practices and providing superior governance, as well as enhancing processes. Where once customers had only ready-made and inflexible policies, insurers and ECAs are increasingly in a position to be able to tailor their products to each specific customer needs.

With these new possibilities brought about by technology, reinsurance capacity and alternative risk transfer capacity will be almost unlimited to those players who can provide governance, transparency, and reliable risk control processes. Credit insurers' future differentiation will be highly dependent on their ability to digitalize their operations to deliver excellence in customer satisfaction by providing a better service, higher value, seamless processes, transparency, cost efficiency, and integration with a larger ecosystem (e.g. banks, new trade platforms, blockchain, etc.).

> *Consider its advantages*

Therefore, insurers must be alert to the latest developments that will serve their clients. Improving customer satisfaction, with an eye on nurturing their long-term commitment and loyalty, will also provide up-sell and cross-sell opportunities across multiple lines and ultimately drive greater profitability.

Operational improvements

Technology also has a huge role to play in improving operational excellence.

Automating processes leads to cost efficiency, primarily by reducing operational outlay while simultaneously optimizing the loss ratio. Private insurers and ECAs can rely on the efficiency of automation to improve visibility and reporting capabilities, and they can utilize employees' skills more profitably to provide value-added services to customers.

This will allow them to deliver fluid, flexible, multi-niche responses to various market segments with appropriate products and solutions while reducing the administrative costs for insurers as well as for their customers. At the same time, it will provide them with immediate visibility on the status of claims, facilitate recovery activities, and improve loss mitigation. This will deliver authentic and meaningful satisfaction to the customer.

Integrated platforms designed to support the entire insurance ecosystem bring the added benefit of reducing operational complexity. They comply with security requirements and enable integrating complementary systems, such as banking, new trade platforms, and technologies, including blockchain.

For many insurers, the support of re-insurance partners is vital, and technology enhances that support by improving governance and compliance. Dedicated systems enforce disciplined underwriting systems and guidelines, provide transparency, audit trails at all levels, and ensure client data protection requirements compliance.

Real-time access to intelligence

Access to business intelligence is another crucial advantage of technology. Insurers and ECAs cannot expect to make fully informed decisions about risk if they don't have effective aggregation management systems installed that deliver a complete picture. Whether offering trade credit, medium term, surety, or political risk products, insurers who benefit from a single view across a financial and geographic market enjoy a powerful tool.

In the past years, we have witnessed several significant business closures, which help demonstrate the devastating consequences of not managing aggregate exposure through 'joined-up intelligence.' The British firm Carillion Construction is just one example.

According to reports, Carillion was liquidated with almost £7 billion in liabilities. The 27 companies that made up Carillion owed money to banks, pension funds, and tens of thousands of subcontractors, many of whom are unlikely to have survived, even if they had trade credit risk insurance. Those most likely to withstand the bad debt, or to have mitigated its impact, will have had access to in-depth intelligence which calculated risk concerning every division, company, sector, and country in which Carillion operated.

The only way to mitigate credit risk is by identifying the aggregate exposure of the organization, ideally in real-time, so that immediate decisions can be made. This is as important for export and credit agencies, trade credit insurers, risk underwriters, banks, and surety companies, as it is for commercial businesses.

Access to a single view of the landscape also reduces the risk of having different stakeholders using systems that are not integrated. Technology interoperability is essential if systems are to connect and share vital insights. However, the insurance industry is still developing digitalization processes and continues to rely, in part, on legacy systems. This means that access to a complete picture is not always available, which, in turn, increases risk.

Needs for digitalization in surety

It is widely acknowledged that surety is lagging in digitalizing all insurance products. Progress has been hampered by the three-party relationship at the heart of surety – the customer, the carrier, and the obligee. Each one expects action to be taken by the other, and therefore little happens. It is also a specific area that still requires a bespoke approach to meet the customers' needs, not all of whom welcome digital interactions. Mike Bond, head of Surety North America at Allianz Trade, said "It is hard to change an industry in which some obligees still want to see raised seals and wet signatures on bonds."

However, progress is being made in the U.S., where automation is very low compared to the market size. The project being led jointly by the Surety and Fidelity Association of America (SFAA) and the National Association of Surety Bond Producers (NASBP) to develop ACORD standards suitable to the surety industry is a good example.

Carriers and their customers could derive tremendous benefits from these standards. Research indicates that using such standards will cancel the need to go through complex internal discussions that fail to produce a better format than the industry standard. Since surety carriers are usually part of a larger insurance group, data collected by surety underwriters could be instrumental in the development of specialized business intelligence to be built on enterprise data lakes.

In this case, blockchain creates an environment that will increase efficiency and lower operating costs in securities management. Meanwhile, insurers have substantial assets to leverage the project-based surety underwriting approach and play a leading role in private distributed ledger implementations.

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The ecosystem is in place – despite some challenges to this niche area of insurance – all parties should collaborate to initiate and complete digitalization for the entire surety market. Rather than seeing only the difficulty in digitalizing the end-to-end surety process, carriers could take individual responsibility to implement digital capabilities for each part of the process they fully control. As Azman Noorani, head of surety and trade credit insurance at Swiss Re Corporate Solutions Ltd., outlined in a recent issue of the ICISA Insider "The industry is on the cusp of a transformation with developments such as blockchain, artificial intelligence, and digitalization. All companies need to define what those developments mean for them individually; however, as an industry, we should make sure to be in the pole position to take advantage of this together."

Blockchain can help reduce costs

Blockchain, once regarded with suspicion by the insurance industry, is now acknowledged as a game-changer.

A report on disruption in transactional banking from Bain & Company estimates that distributed ledger technology (DLT), if adopted in the right way by participants in the trade ecosystem, has the potential to reduce trade finance operating costs by 50% to 80% and to realize three to four-fold improvements in turnaround times, depending on the trade finance product involved.

Tinubu has established its own Innovation LAB focused on blockchain, advanced integration, and deep analytics for insurance industry applications. This allows us to develop new technology that is integral to our existing enterprise best-in-class platform and to innovate collaboratively with our customers, carriers, brokers, and agents. In doing so, we can establish a strong relationship with each of them and meet their needs. Given the difficulties that insurers and ECAs are experiencing in digitalizing their operations, distributed ledger technology innovations must be seamlessly integrated from the beginning.

Testament to the success of this approach is Tinubu's recent positioning in the 'Top 5' of the Global Corda InsurTech Challenge, which invites organizations to share their insurance CorDapps. These applications work on Corda, the open-source blockchain platform.

The app we developed through our LAB enables credit and surety insurers to guarantee a contract and process the transaction using a standard blockchain solution. This technology allows the contractor, the owner, the lead insurer, and its risk distribution partner to manage the issuance, validation, and monitoring of the guarantee lifecycle and therefore create a shared auditable distributed ledger.

Processes reshaped by technological changes

In a recent newsletter, Paul Heaney, Associate Director of Berne Union, urged the industry to remember that underneath the dramatic technological changes reshaping so many processes, the fundamental principles of our business, such as trust, reducing risk, and promoting confidence, remain unchanged. While some may only see the challenge of switching to digitalization processes, it is important for insurers to remember that this technology is able to enhance services they already offer and, in the process, improve their own business operations.

At Tinubu, our goal as a technology provider is to deliver enterprise solutions that support our customers during their digital transformation and provide them with a next-generation unified platform.

The foundations of a platform designed specifically to underpin multiple insurance lines will provide a robust structure to improve risk management, visibility, and reporting capabilities, and reduce operational complexity and costs.

About Tinubu

Tinubu is the business facilitator and exchange enabler that delivers fluidity and simplicity to the insurance industry by using the strength of collective performance.

Our company is an alliance of technology software and insurance expertise offering the best combination to its clients. It covers the entire value chain of credit insurance & surety with one end-to-end platform, connecting every part of your business with one digital highway.

Established in 2000 and headquartered in Paris, France, Tinubu is an independent software provider and employs 170 people, located in Paris, London, New York, Orlando, Singapore, and Montreal. Its clients represent 30 of the top 60 Credit & Surety underwriters worldwide.

About the Authors

Jérôme Pezé
Founder
at Tinubu

Jérôme founded Tinubu, in 2000 with Olivier Placca.

His capability to embrace new technologies and the insurance world resulted in the successful digital transformation of many credit insurance and surety bond companies, outperforming the market and taking shares from the competition.

Contact Us

contact@tinubu.com
+33 (0)1 74 31 20 70 (EMEA)
+1 (213) 290-9628 (USA)
tinubu.com

tinubu

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