

WHITE PAPER



A digital divide?

A split is appearing in commercial property insurance between providers using digitisation and data enrichment and those yet to adopt these technologies

FEBRUARY 2020



Introduction

Commercial property insurance providers find themselves operating in unpredictable conditions, with political and economic uncertainty having negative impacts on business activity in almost every industry. The retail sector is under particular pressure, but there are also significant problems in the office buildings market, as businesses postpone expansion or investment plans, and some consider relocating facilities outside the UK once (or if) the Brexit process is completed.

These conditions force insurance providers to try to draw maximum profitability out of new and existing customer relationships. They see the need to reduce their costs by maximising the efficiency and productivity of all their business processes, from application, quotation and underwriting through to claims settlement and fraud detection.

As in other parts of the insurance industry, some providers have concluded that effective use of digital technologies, including data enrichment, which enhances available information related to existing or potential customers, is now a strategic imperative. The research upon which this report is based represents an attempt to assess the extent of this appetite among commercial property insurance providers for digitisation in general and for the use of data enrichment in particular.

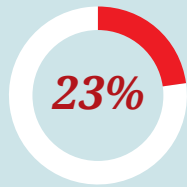
LexisNexis Risk Solutions was not identified as the sponsor of this research, which was based on a mixture of telephone and online surveys of 101 insurance professionals working in relevant lines of insurance, and was completed in 2019.



Executive summary and key findings

Our research reveals differing opinions among commercial property insurance providers about the actual and potential value that digital technology in general and data enrichment in particular could deliver to their businesses.

A majority of providers are either already using these technologies or are planning to do so, yet many providers run operations that are still largely based on manual processes.



Just under a quarter of respondents (23%) say their underwriting processes are 'all' or 'mostly' digitised, including just **6%** where these processes are 'all or nearly all' digitised.



Applications is the section of the insurance process most likely to have been digitised, while claims is the least digitised process: **six out of ten providers (62%)** say claims functions remain wholly or mostly manual.



But **six out of ten respondents (64%)** agree 'somewhat' or 'completely' that digitisation or automation will be used more widely within the insurance industry in future.

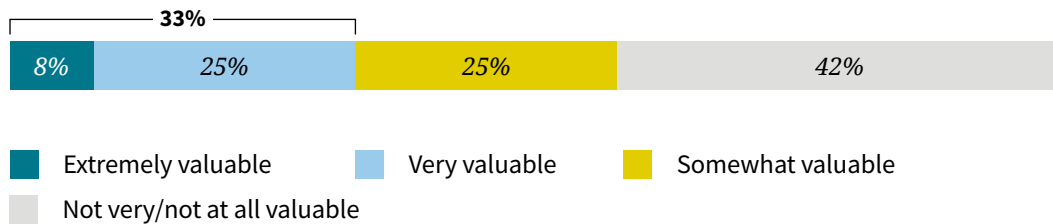


Almost half (49%) are already using data enrichment and a further **28%** plan to do so in the near future.



Almost three-quarters (74%) of the providers that are already using data enrichment say it is extremely or very valuable to their business.

Perceptions of the value that using data enrichment can bring to a business are less positive among providers that do not yet use it – but even one in three (33%) of providers not using data enrichment say they think that adopting it would be either very valuable (25%) or extremely valuable (8%) to their business. A further 25% think it could be somewhat valuable. This suggests that more commercial property insurance providers are likely to start using data enrichment in the near future.



Yet if these results highlight differences in perceptions of the value of these technologies, they also suggest that the overall direction of travel in this part of the insurance market is a move towards adoption of digitisation in general and data enrichment in particular.

While there will of course always be a need for human expertise and a human touch in delivering the best possible service, it also seems reasonable to suggest, as we enter the 21st century, the commercial property insurance providers that continue to rely on manual processes are likely to be regarded as inefficient in the eyes of a growing number of current and prospective customers. Providers operating in this part of the market without a coherent digital strategy are likely to find that this approach becomes unsustainable over the longer term.



Key findings



More than three-quarters of commercial property insurance providers currently use manual underwriting and pricing processes half or more of the time. Only 6% describe these processes as all or nearly all digitised.



The application process is most likely to be digitised; claims is least likely to be digitised.



Three-quarters of respondents (77%) either already use data enrichment (49%), or plan to do so in the near future (28%).



Property characteristics, perils and prior claims data are the data types most likely to be used for data enrichment.



More than six out of ten commercial property insurance providers agree that digitisation/automation is valuable for underwriting and pricing; and that the insurance industry will increase its use of these technologies in future.



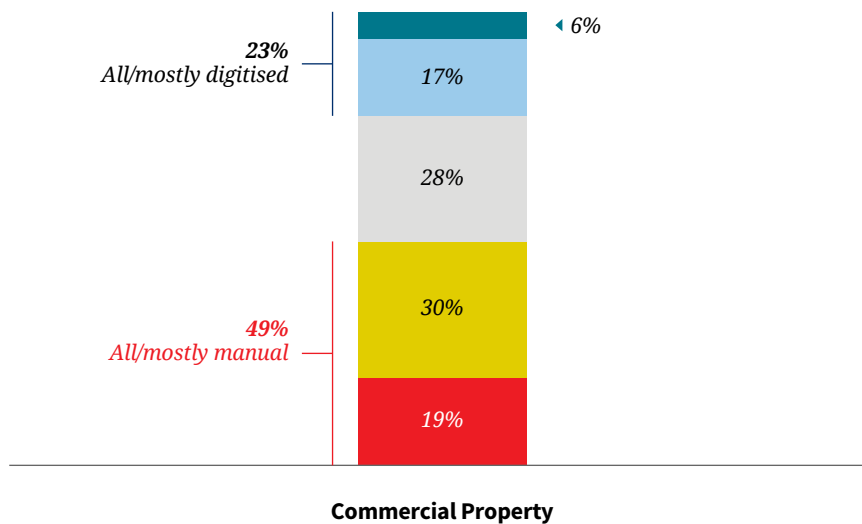
Almost three-quarters (74%) of commercial property insurance providers using data enrichment think it is extremely or very valuable to their business.

Many providers still rely on manual processes

Less than a quarter (23%) of commercial property insurance providers have underwriting processes that they can describe as either ‘all or nearly all’ digitised (6%), or ‘mostly’ digitised (17%). A further 28% say these processes are half digitised and half manual, but almost half (49%) say these processes are mostly manual (30%) or all/nearly all manual (19%). This suggests there is plenty of scope for providers to invest in technologies that could deliver efficiency improvements.

EXTENT TO WHICH UNDERWRITING & PRICING PROCESSES ARE DIGITISED VS. MANUAL

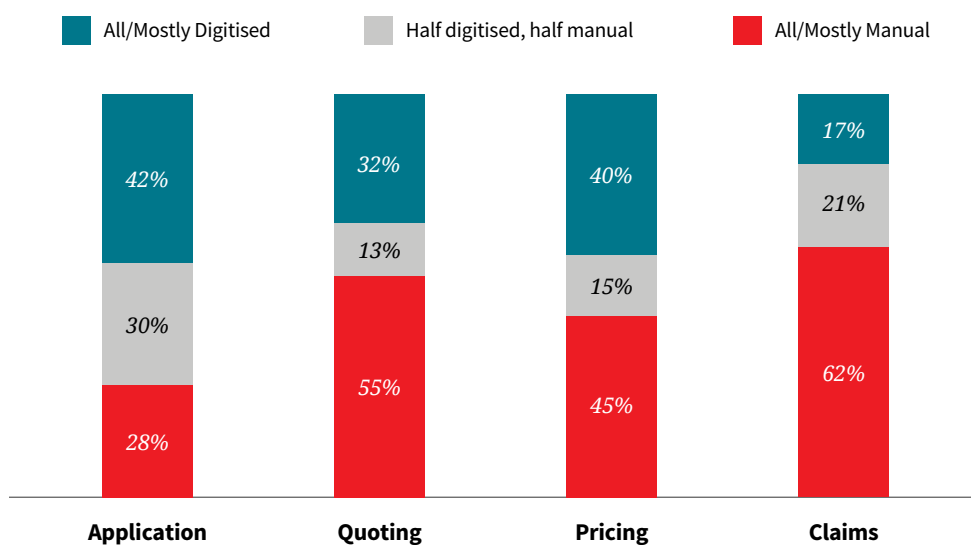
■ All/nearly all digitised ■ Mostly digitised ■ Half digitised, half manual ■ Mostly manual ■ All/nearly all manual



The application process is most likely to be digitised, with 42% of respondents saying applications are all or mostly digitised and a further 30% saying this process is semi-digitised. Claims is the least digitised process: only 17% of providers say claims processes are all or mostly digitised. More than six out of ten (62%) use claims processes that are still all or mostly manual.

EXTENT TO WHICH PROCESSES ARE DIGITISED VS. MANUAL

Commercial Property



Some insurance providers might argue that there are good reasons to continue to manage some elements of the claims process in a non-automated way, in part as a means for skilled staff to provide excellent service; and also because there is a need for human expertise to be used in the process of identifying fraudulent claims.

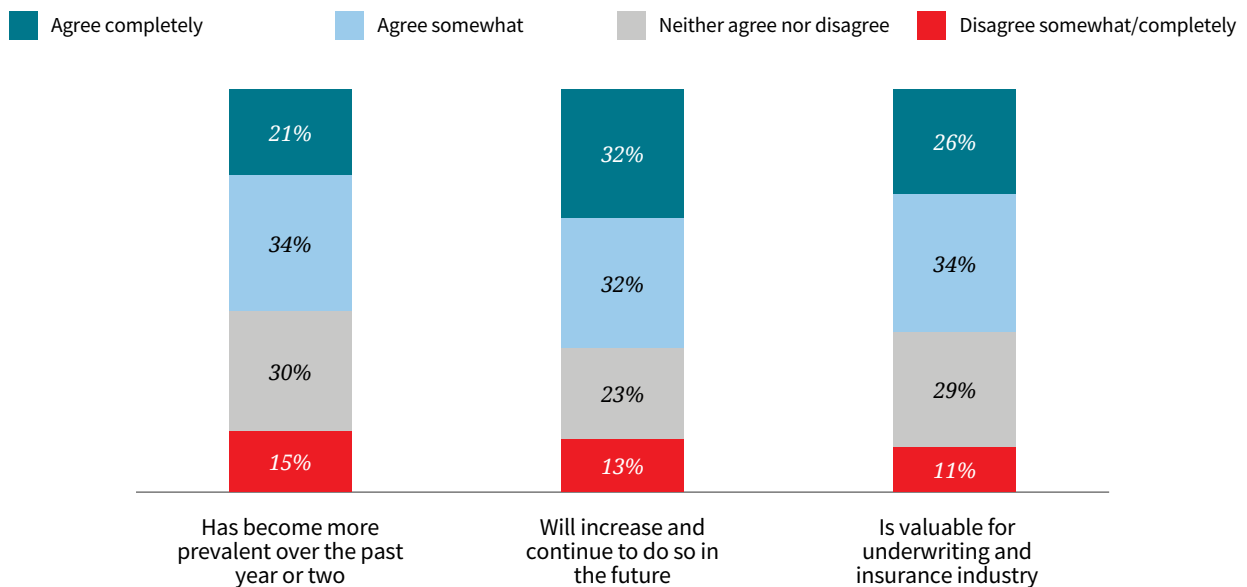
But, balanced against those laudable goals, insurance providers need to consider the requirement for claims to be settled as quickly and efficiently as possible, particularly in a situation where a major loss could threaten the viability of some policyholders' businesses. It is also the case that in an ever more connected world, a growing number of current and potential customers are likely to see a continued reliance on manual processes as an anachronism. A failure to adopt new technologies and pass resulting efficiency benefits on to customers may leave them at the mercy of competitors that do adopt and make effective use of digital solutions.

A growing digital divide?

Although adoption of new technology seems sluggish in some areas, our findings suggest that many commercial property insurance providers believe digitisation is already changing this part of the insurance sector. Six out of ten agree ‘somewhat’ or ‘completely’ that digitisation of pricing and underwriting is ‘valuable for underwriting and the insurance industry’; while 64% agree that it ‘will increase and continue to do so in the future’.

PERCEPTIONS OF DIGITISATION IN UNDERWRITING & PRICING

Commercial Property

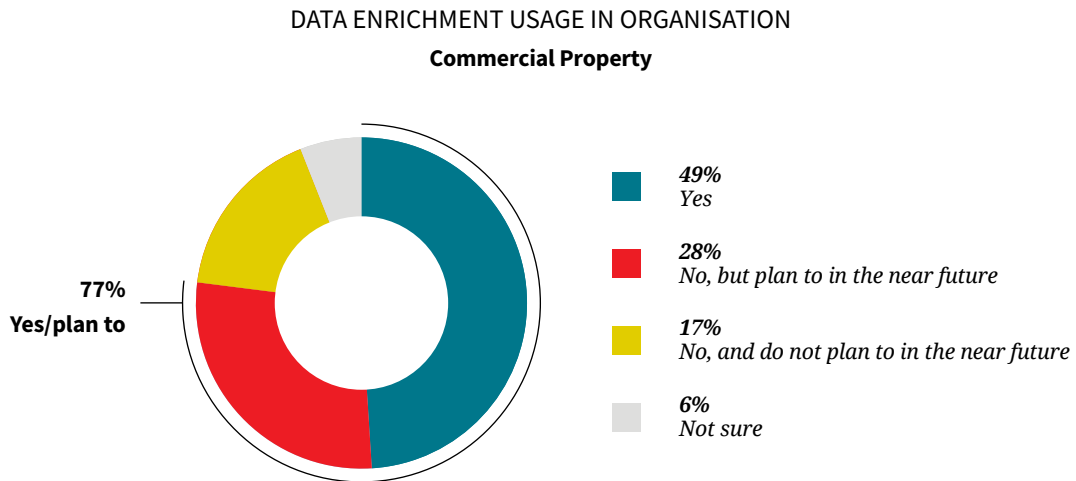


More than half the respondents (55%) agree somewhat or completely that digitisation in pricing and underwriting has become more prevalent in the past two years – but 30% neither agree nor disagree and 15% disagree somewhat or completely.

This suggests that digital processes are being adopted unevenly in this part of the sector, with some providers adopting them at a much slower rate than others. If these processes deliver significant business benefits to providers that adopt them more quickly, slower-moving providers may find their business models will start to appear outmoded and ineffective, both from the perspective of those working inside the business and from the point of view of current or prospective customers.

Data enrichment is now mainstream in this market

More than three-quarters of commercial property insurance providers (77%) either already use data enrichment (49%), or plan to do so in the near future (28%). Only 17% do not use it at present and do not plan to do so in future.



When those providers not currently using data enrichment are asked why they do not use it yet, it is because they have not found the right type of data or a data provider that will help them to do so. This suggests that, on top of the 77% of respondents already using or planning to use data enrichment, a further 8% may start doing so within the not too distant future, if they can find providers and solutions that match their requirements.

Main Reason for NOT using Data Enrichment	Percentage
Don't currently see a need	50%
Have not had access to the right type of data/data provider	50%

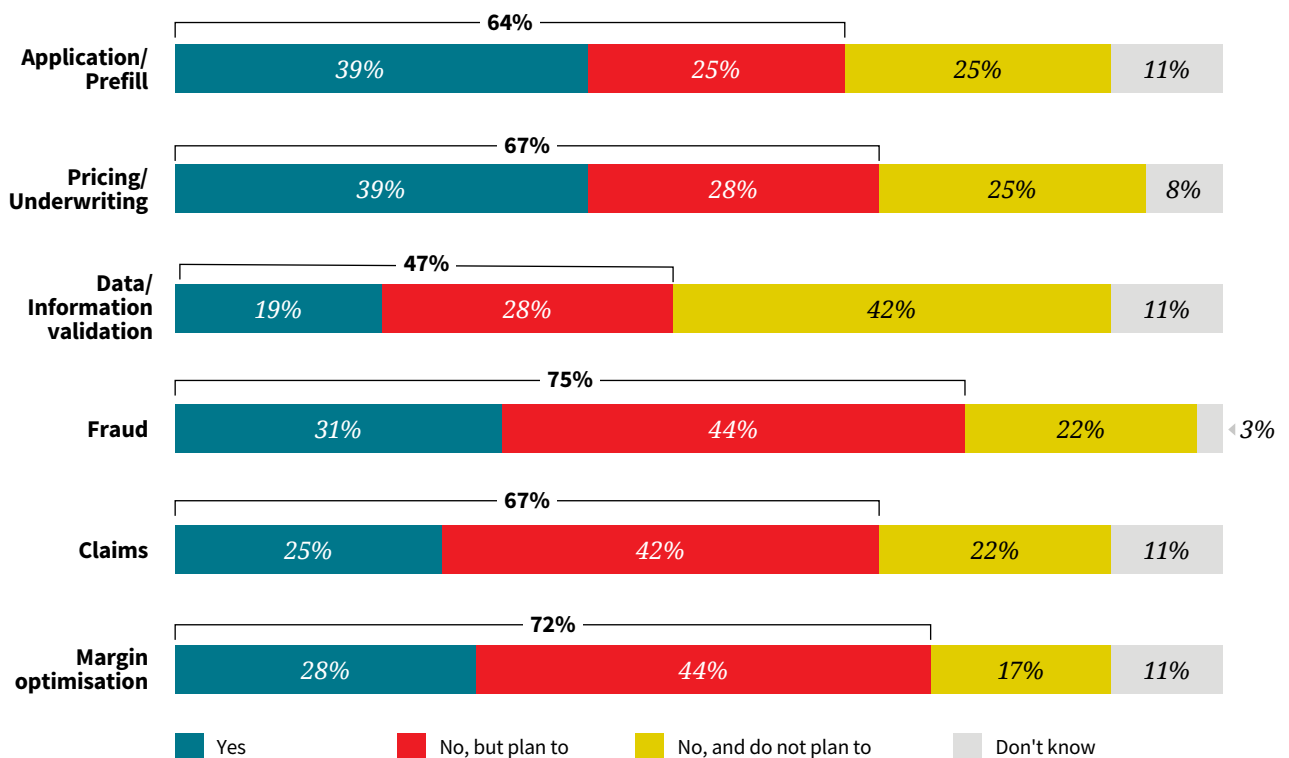
Providers adopting data enrichment will consider using it for multiple purposes

Where data enrichment is already being used to support insurance business processes, the two areas where it is most likely to be used are for application or prefill processes and in pricing and underwriting. In both cases, almost four out of ten providers are using data to support these processes.

Three quarters of respondents (75%) that are already using data enrichment somewhere in the business either already use it to boost anti-fraud measures (31%), or plan to use it for this purpose (44%). Almost as many (72%) of the respondents using data enrichment somewhere in the businesses either already use it to support margin optimisation (28%) or plan to do so (44%). More than four out of ten respondents (42%) using data enrichment in the business are planning to use it in claims processes; 25% of this group already do so.

CURRENT AND POTENTIAL USE OF DATA ENRICHMENT IN PARTS OF INSURANCE PROCESS

Commercial property insurers who use or plan to use data enrichment



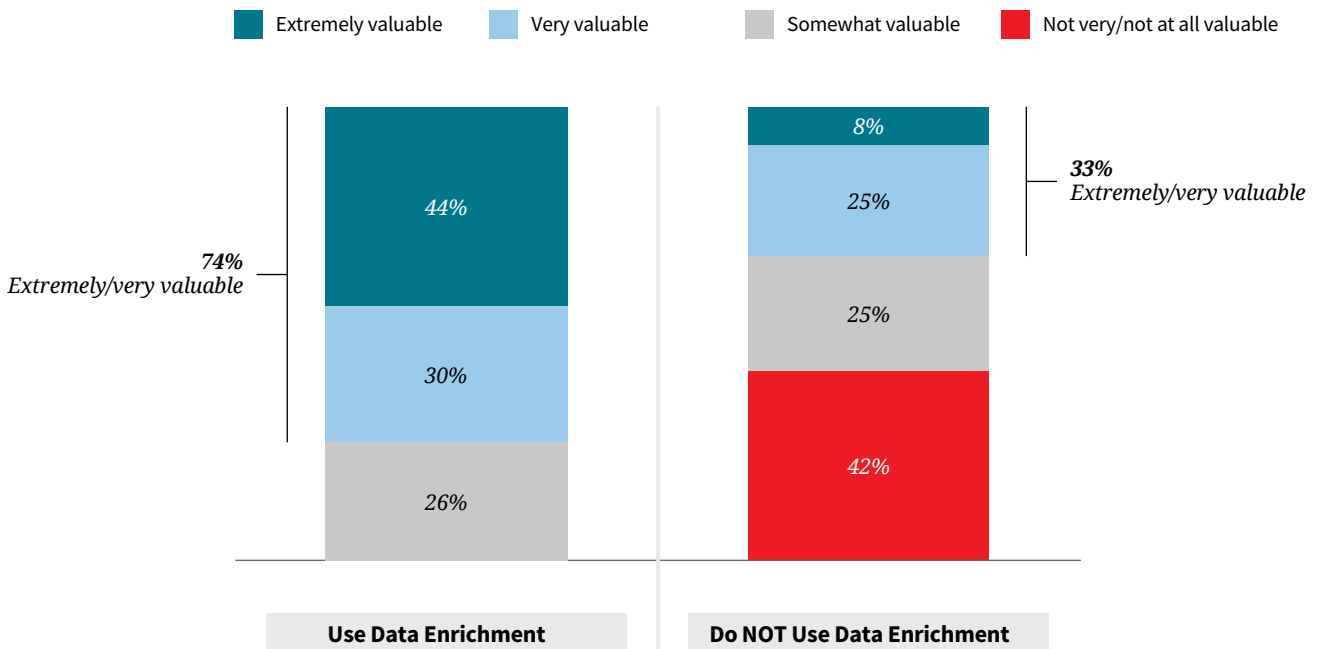
The impression created by these results is of a widespread readiness to use data enrichment to support multiple business processes, including processes that have a direct impact on customer service and on a business's bottom line.

Most providers using data enrichment see it as extremely or very valuable

Almost three-quarters of commercial property insurance providers that use data enrichment (74%) say it is ‘extremely’ or ‘very’ valuable to their organisation, including 44% who say it is extremely valuable. Respondents not yet using data enrichment are not so sure that doing so would add value; findings echoing those seen in other research LexisNexis Risk Solutions has conducted elsewhere in the insurance industry suggest that once providers inject data into their workflows, they tend to find it delivers more value than had been anticipated.

But in this case, it is striking that one in three (33%) of the providers that are not yet using data enrichment already say they think using it would be either very valuable (25%) or extremely valuable (8%) to their business. A further 25% think it could be somewhat valuable. This suggests very strongly that more commercial property insurance providers are likely to be using data enrichment in the near future.

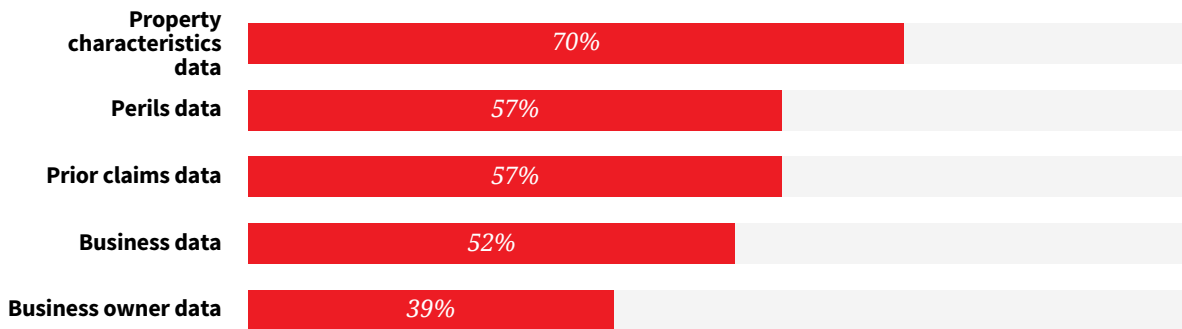
VALUE OF DATA ENRICHMENT
Commercial Property



Among respondents already using data enrichment, property characteristics data is the data type most commonly used for this purpose, ahead of perils data and prior claims data.

TYPES OF DATA ENRICHMENT CURRENTLY USED IN UNDERWRITING & PRICING

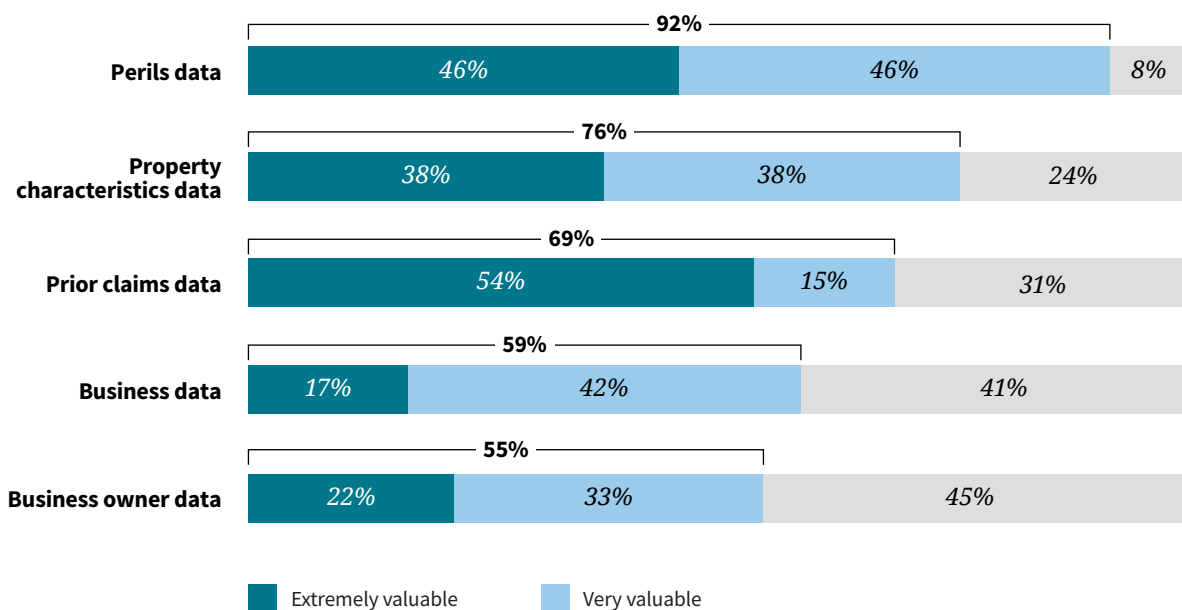
Commercial property insurers who are currently using data enrichment



Commercial property insurance providers using specific types of data tend to believe that doing so is extremely or very valuable to their business. More than nine out of ten of the providers (92%) that are using perils data for this purpose think this is the case. More than three quarters (76%) of those using property characteristics for data enrichment believe this is extremely or very valuable. Although a smaller percentage of those using prior claims data think this is extremely or very valuable – 69% – this includes 54% who think it is extremely valuable. Overall, these figures underline the faith that many providers now have in using data enrichment.

VALUE OF EACH DATA ENRICHMENT TYPE – USERS OF DATA

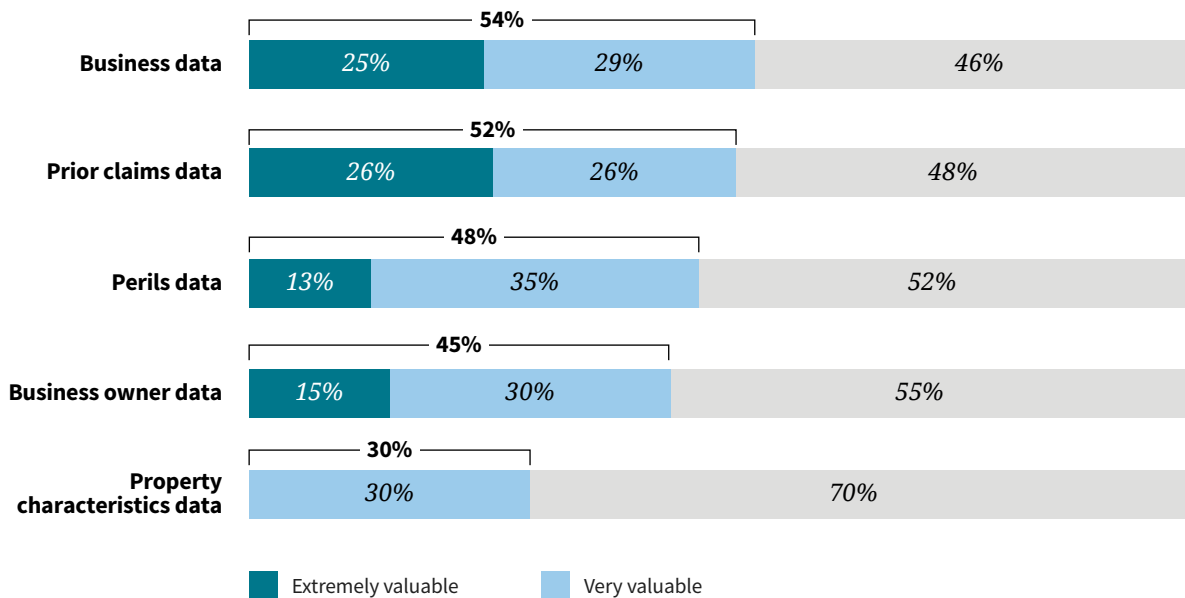
Commercial property insurers who are currently using each type of data enrichment



Sceptics in decline?

Commercial property insurance providers that are not yet using data enrichment are much less sure that using these types of data for data enrichment would deliver value. Only in the case of prior claims data and business data do a majority of these providers think using these data types in this way would be extremely or very valuable; and no more than one in four of these providers think that using any of these data types in this way would be extremely valuable.

VALUE OF EACH DATA ENRICHMENT TYPE – NON-USERS OF DATA
Commercial property insurers who are currently NOT using each type of data enrichment (base varies)



It is intriguing to note that although 30% of these respondents state that using property characteristics data would be very valuable to their business, none of these providers state it would be extremely valuable. Possible explanations for this include the fact that these providers may already use this data in other ways that align with their current business processes.

Nonetheless, it does seem odd that a provider would not see value in using the characteristics of the asset to be insured as extremely valuable. Providers taking this view may wish to consider that three-quarters of the providers that do use this type of data for this purpose see it as extremely or very valuable, including 38% who see it as extremely valuable.

Conclusion

These research results show that an understanding of the value that digitisation, and data enrichment in particular can offer is spreading within this segment of the insurance industry – but also that adoption is uneven, and some scepticism about the value of data enrichment remains among providers that do not yet use it.

As has been the case in previous research conducted among insurance providers, these results suggest that perceptions of the value that digitisation and data enrichment add to the business become more positive as providers start using these assets within their workflows. It is also clear that once providers start applying data enrichment to support one process within the business, they tend to consider how it might be used to support other processes.

Overall, our results suggest that further digitisation, automation and adoption of data enrichment will continue within this market during the next few years. In a competitive market, providers that adopt data enrichment strategies and use them to develop and deliver compelling, innovative and economically priced products and services will surely enjoy a significant commercial advantage. It seems likely that providers that move more slowly towards digitisation will become increasingly vulnerable to the loss of sales, customers and market share.





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