

# INNOVATION HAS ALWAYS BEEN A DRIVING FORCE FOR INSURANCE

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*The Insurance Library*

Upon learning that A.M. Best was considering explicitly incorporating an evaluation of innovation into its insurer rating mechanism, I was inclined to offer perspective on behalf of The Insurance Library, an institution that has collected and curated information about the risk management and insurance industry for over 130 years. As is often the case, it can be useful to look at the history of insurance, and in this case the innovative nature of our industry, to better understand where we are today. This article is largely based on comments submitted to A.M. Best to offer a historical perspective to be considered for the proposed Scoring and Assessing Innovation Draft Criteria.

## **An Innovative Industry**

It would be difficult for one who has spent any appreciable amount of time accessing the library's collection to avoid being mindful of the fact that the history of risk management and insurance is a story of innovation. Organizational histories, treatises describing complex coverages, and volumes of periodicals recording contemporaneous accounts of industry developments all reflect the history of an industry that was founded in innovation and has never stopped innovating.





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# “INSURANCE IS, AT THE MOST FUNDAMENTAL LEVEL, AN INNOVATIVE CONCEPT.”

Insurance is, at the most fundamental level, an innovative concept. The ubiquity of insurance arrangements in modern society can make it hard to appreciate that the idea that the risk of loss could be managed and made tolerable by spreading risk through a financial mechanism supported by contractual obligations was at one time a novel concept.

Once initiated as a commercial enterprise, insurance has never taken a pause from innovation. The industry has constantly innovated internally, adopting and applying newer and more refined business processes and methodologies to its operations. And it has constantly, not merely, kept pace with the innovations taking place in society over a remarkable era of human ingenuity, insurance has enabled such creativity to occur by providing the security and certainty necessary to allow ventures to move from ideas to reality.

But while the collection at The Insurance Library reflects an industry in a constant state of innovation, certainly recent continuing additions to the body of information stored here demonstrates an intense focus on the concept of innovation itself. The past few years have seen the development of a new brand of activity, sometimes referred to as an “ecosystem,” including in an article that appeared in *The Standard* entitled *The Digital Advantage*. This time has been characterized

by swift exchanges of information and devotion of time and energy to questions regarding the adequacy of the insurance industry collectively, as well as individual insurance industry participants, when it comes to innovation. Is the industry behind in some way, or can it keep up or catch up with some unspecified level of innovation, are among the queries made.

We have seen such questions asked by insurance regulators, along with the associated question of whether they are able to sufficiently keep abreast of innovative developments to fulfill their mission of protecting consumers. In response, the National Association of Insurance Commissioners, the policy development and standardization organization consisting of all of the states’ insurance commissioners, established an Innovation and Technology Task Force. And there has been discussion regarding the potential need for legislation to promote a “regulatory sandbox” to promote the development of innovation.

## Explicit Proposal

In this context it is not surprising to see a proposal to create a new explicit mechanism to assess and evaluate insurers’ strengths, weaknesses, abilities and failings when it comes to innovation.





The March 14 press release seeking comment on the proposal states that “Historically, A.M. Best has captured innovation indirectly through the various building blocks of its rating process,” and acknowledge that “Innovation always has been important for the success of an insurance company,” but goes on to suggest that, “with the increased pace of change in society, climate and technology, it is becoming increasingly critical to the long-term success of all insurers.”

These statements seem to possess a degree of internal conflict that may be heightened by a broader consideration of the history of the insurance industry. It is worth noting that now is not the first time there has been a developed sense of urgency for the industry to accept and adopt change. Just in the past few decades there have been calls for insurance agents to adopt what was often referred to simply as automation, like what was outlined in *Agency Automation: A Minute Manual*, which appeared in *The Journal of Insurance*, and sometimes to become a paperless office, as was questioned in another article, *The Paperless Office: Dream or Reality* as penned by Gina Bellovich in *Supergrowth*. There was a movement that anticipated the need for insurers to go through a fairly radical procedure of “reengineering” in order to meet customer demands, which has been raised on a number of occasions, including by Ronald E. Compton in the article *Reengineering and Insurance: Solving Problems, Seizing Opportunities*. An example of reengineering would be the converging of insurance with other financial services to establish a marketplace. Pamela Yip in *The Dallas Morning News* in the article *One-Stop Shopping for Financial Services* explored the idea of “one-stop shopping” for a range of banking, credit and insurance products as the dominant form of delivery.

# QUESTIONS FOR CONSIDERATION

*Recalling these points of emphasis and prediction may reasonably prompt questions regarding the sentiments of the current moment regardless of how intensely or broadly emphasized. Among the questions that might be considered:*

- *Will the current intense focus on the value of innovation recede at some time in the not-to-distant future, and if so, will it be replaced on other institutional values?*
- *Is it possible for an excessive focus on innovation to cause an observer to miss larger, perhaps more fundamental, points about an entity's operations?*
- *Could activities and even results that appear to be innovative and beneficial in the short term turn out, when viewed from a longer time horizon, to be distractions or even impediments to success?*

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## A Thought Exercise

One of the more notable items in the library's collection, and always a highlight during tours of our premises, is a set of Sanborn Fire Insurance Maps that cover most of the New England region. Such maps, which contain address-specific information regarding the construction, occupancy, exposure and protection of buildings

including residences and businesses, would have been found in any fire insurer's offices in the early part of the last century. They are a continual reminder to library visitors not only that the industry has evolved but also that, prior to the introduction of modern computers that are ever-present in every facet of the modern business world, the industry was able to function well and in a sophisticated manner.

Consideration of the use of such tools (the "insurtech" of their day) can give rise to a thought exercise that while extreme could be enlightening. What if an insurer several decades ago made a strategic decision not to implement any technology but to stick with the processes and methodologies that had served it and its agents and customers well? Could a company that today communicated largely by mail and maintained a typing pool on the one hand but did not have an IT staff or an annual expenditure on IT infrastructure and maintenance on the other still be good at underwriting and paying claims? Perhaps not, but it is possible that foregoing some changes for others to adopt first and work out the problems at a higher cost, and possibly even avoiding cycles of adoption of short-lived technologies could result in net efficiencies that appear backward when others are advancing but prescient in hindsight.

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