

Opinion by Stephen Cross, Chief Innovation Officer and Chairman of Aon Global Risk Consulting

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The short answer is the industry in general is absolutely not ready. The industry - both insurers and brokers - have had a tendency to be providers of product and not necessarily of solutions. This creates opportunities for other forces to create disruptive innovation in our own back yard. Leading from this, in terms of the insurance brokerage industry, I believe we face three key risks in the short to medium term.

Risk#1 – Disruptive innovation in distribution

We'll be facing disruptive innovation in the distribution system within the next three to five years. The reality is that there are a lot of other companies and entities out there that also have access to tremendous distribution. To put this in context, ten years ago Amazon was essentially a book seller, now they sell almost everything. They had distribution sorted for their book business, they then took the concept of distribution and moved it from its primary product of books to a whole range of diverse consumer products. Think of the impact that Amazon's innovation has had on the traditional consumer retail space, and what's still to come. This kind of disruptive innovation in distribution will be no different in the insurance space.

Risk#2 - Technology

Distribution risk will in turn be compounded by the second important risk, which I believe is technology. The brokerage industry is challenged with legacy technology which at best has been patched and bolted onto over the years, as opposed to moving to newer platforms that do not contain the redundancies inherent in outdated technology. One of the key reasons for this is that it is exceptionally difficult to buy your way out of dated technology, while new entrants into the space have the advantage of modern, better systems and platforms that avoid the risks and limitations that come with redundancies in older technology.

Risk#3 – Capital from non-traditional resources

The third risk is the traditional capital that's coming in from non-traditional sources. This additional capital can be disruptive as well as highly portable, in other words it can enter the risk business and leave it as quick as it enters. Disruptive capital is also a risk that brokers face, although it is equally an opportunity as much as it is a risk.

Innovating to embrace disruptive change

Turning from the industry in general to Aon specifically, let me comment on the actions we have taken. The biggest investment Aon made in response to planning for the above mentioned risks is in data and analytics. Today we have two innovation centres in Ireland and Singapore. We track all the limits, the retentions of our clients and have about US\$85trillion worth of limits captured in the system.

This allows us to get into the predictive technology space by using the data analytics, employing data scientists who look for colorations and opportunities that reside in the risk profiles and data in order to innovate and develop newer, robust solutions for our clients.

Essentially, this kind of data and analytical capability allows us to de-risk our business to a large extent, and keep our focus on our clients, to meet their needs and exceed expectations. Fundamentally the knowledge and opportunity that can be extracted out of big data allows you to maximise any opportunity that the above mentioned risks bring to bear. Simply put, we must remain relevant in meeting our clients changing needs.

It also means that brokerages without the capital to invest in innovation across data and technology are in a tight spot. Markets are constantly changing and clients get replaced by new buyers with different needs

and buying behaviours. Competing in such a rapidly changing environment, especially where so much of what our business does relies on ongoing investment in innovation and data analytics capability, requires lots of capital.

The bottom line is all businesses, irrespective of size, will be challenged to compete against new and disruptive players in the market place who are going to turn distribution on its head. Which is why taking steps, well in advance to innovate and reinvent your business in anticipation of disruptive change, will be the only key to survival. After all, we are in the risk business so need to manage the risks to our own income.