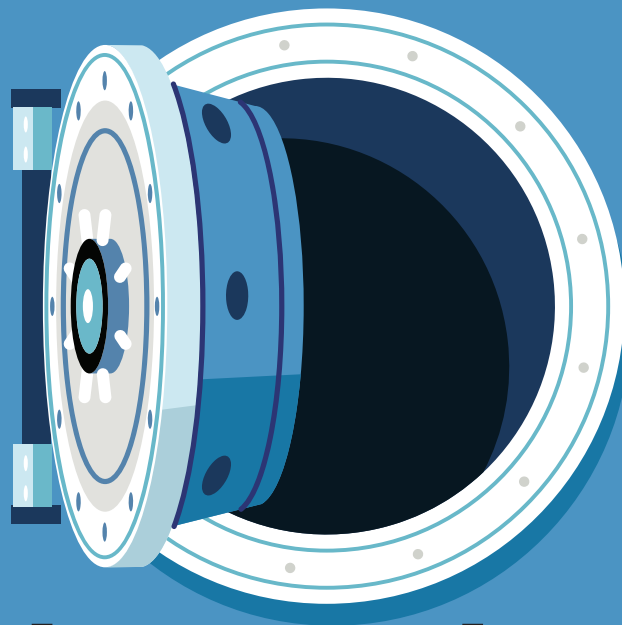


Open banking will play an important part



in meeting customers' needs

Despite slow progress to date there are signs that some in the insurance sector are starting to get a handle on the value of open banking. On the back of a survey, in conjunction with Crif Decision Solutions, Post highlights some of the benefits that could be realised by integrating this technology into systems and processes

By Sam Barrett

Open banking offers huge opportunities for the insurance sector. But while access to the data may deliver benefits such as quicker risk assessment and improved customer relationships, take-up remains low.

According to a recent survey, *Open banking and SME risk*, which was conducted by Post in association with Crif Decision Solutions, nearly three quarters (73.9%) of respondents have no plans to start using this data (see figure one).

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< 25 For those that have embraced open banking, insurers and managing general agents are slightly ahead of the curve. 10% said they'd already integrated, or were currently integrating the data, with a further 23.3% planning to do so. In the broker market, 8.6% of respondents have integrated the data, or are currently doing so, with 11.4% planning to follow their lead.

Slow start

The survey points to a variety of reasons for this slow take-up, with the main obstacles including granting consent to access client data (63.1%), lack of trust in sharing bank account data with insurance companies (52.3%), and lack of trust in sharing this data with intermediaries (50.8%) (see figure two).

There's also the simple matter that respondents aren't up to speed with this form of technology. Nearly half (48.1%) admitted they weren't familiar with open banking at all, with this rising to 57.5% among brokers (see figure three).

Simon Lancaster, CEO and founder of SJL Insurance Services, isn't surprised by this. He says that in the 25 years

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he's worked in the insurance sector, it has always been slow to embrace new technologies. "Whether it was email, the internet or electronic data interchange, the insurance industry always lags a couple of years behind. I suspect it'll be the same with open banking," he comments.

While there may be frustrations about the sector's appetite for new technology, David Vanek, CEO and co-founder of Anorak, believes it's not completely to blame for the slow adoption of open banking. "To be fair to insurers and brokers, even the tier one banks are just starting to roll-out open banking in their online banking apps and services," he explains. "For a long time, open banking has been pre-empted by fintech startups that built the infrastructure and challenger banks

like Revolut and Starling, which consume these technologies and build added value services with open banking."

World events have also got in the way as Janthana Kaenprakhamroy, CEO of Tapoly, explains. Her firm, a commercial lines MGA specialising in the SME and freelance sectors, has been working on a project with some of the challenger banks to have access to customer data. "Covid-19 and Brexit have both been major challenges for this over the last 18 months," she says. "Some have been forced to pull out of the market and plans to share data have been delayed as the banks have had focus on Covid-19 related products, such as business loans."

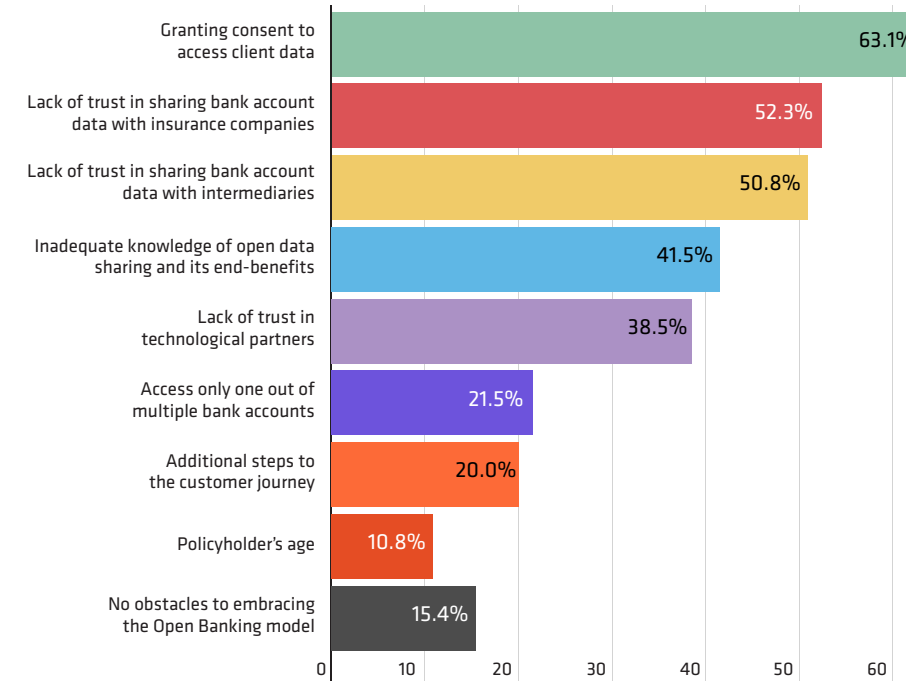
Data overload

For Kaenprakhamroy, this hiatus has also highlighted one of the other reasons take-up of open banking has been slow in the insurance sector – the wealth of data that's readily available. "There's plenty of open source data available on the SME market, including all the data being collected through social media," she says. "Data has become much more valuable for insurance purposes but it does take time to test whether it's meaningful."

Her view is echoed by Shaun Hooper, group CEO at Complete Cover Group. He recently worked with its new parent company insurtech Abacai to develop a non-standard motor product that has open banking integrations within it. "It's partly down to the lack of experience in using the data that open banking generates," he explains. "It will take time for insurers to understand the huge risk selection and technical rating potential that exists in open banking data."

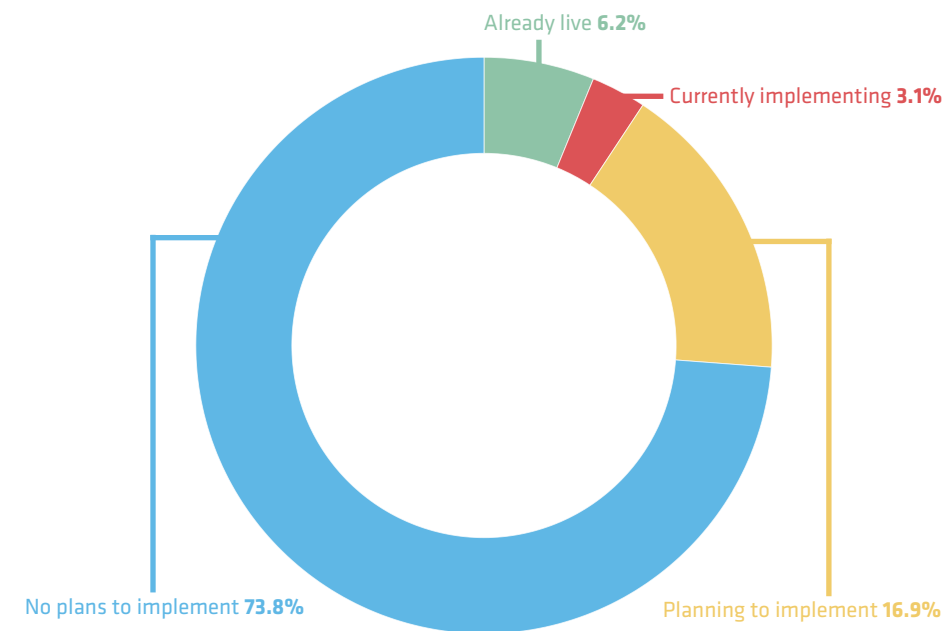
As well as determining whether or not data adds to an insurance proposition, there are also concerns around integrating the data, as David Sparkes, head of compliance and training at the British Insurance Brokers' Association, explains:

Figure two: What obstacles do you see in embracing the Open Banking model? Respondents ticked all that applied



"We understand open banking has not solved the problem of a lack of data standardisation. The insurance sector has a number of systems providers, so a need for a suitable taxonomy seems a prerequisite for a successful rollout. The terms 'policyholder' and 'insured' may mean the same thing, but IT developers know that, as data fields, they're not recognised as such." David Sparkes

Figure one: Have you already integrated or do you plan to integrate Open Banking data into your systems and processes within the next 12 months?



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Open benefits

But, whether due to the pandemic or a focus on other data streams, the insurance sector may be missing out on some of the benefits that could be realised by integrating open banking into its systems and processes.

Having insight into a customer's financial behaviours can enable brokers and insurers to target products more effectively, ensuring they have the right type and level of cover. "It's good to know as much as possible about customers," says Kaenprakhamroy. "A business's bank balance can give us insight into its revenue and the types of risks it might be facing."

Another example of this is Anorak, which is an online independent broker for life > 28

Figure three: Are you familiar with Open Banking?

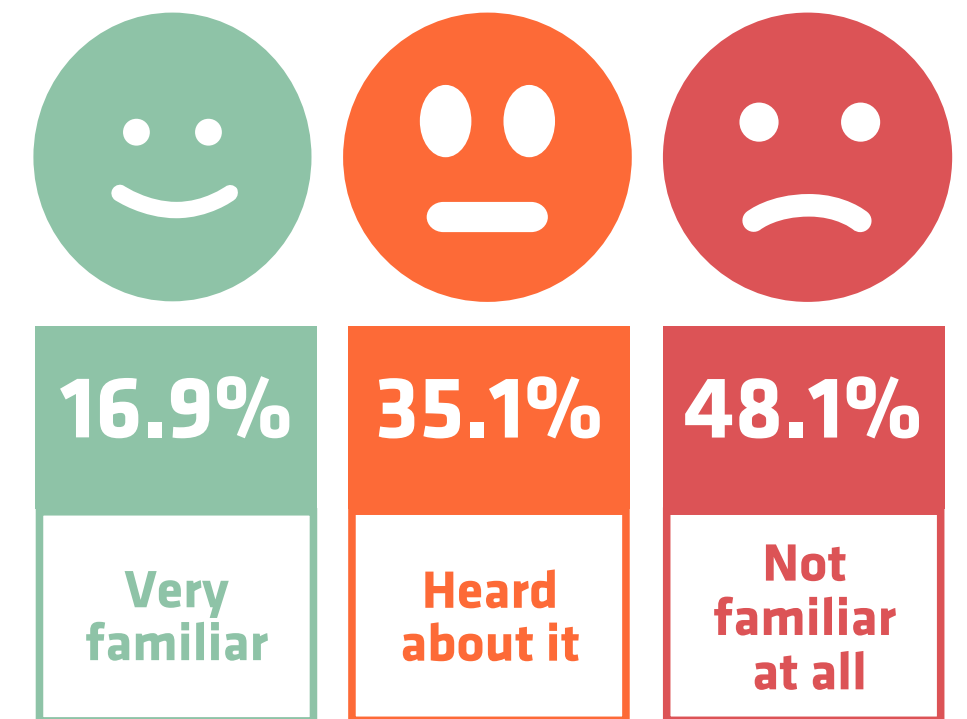
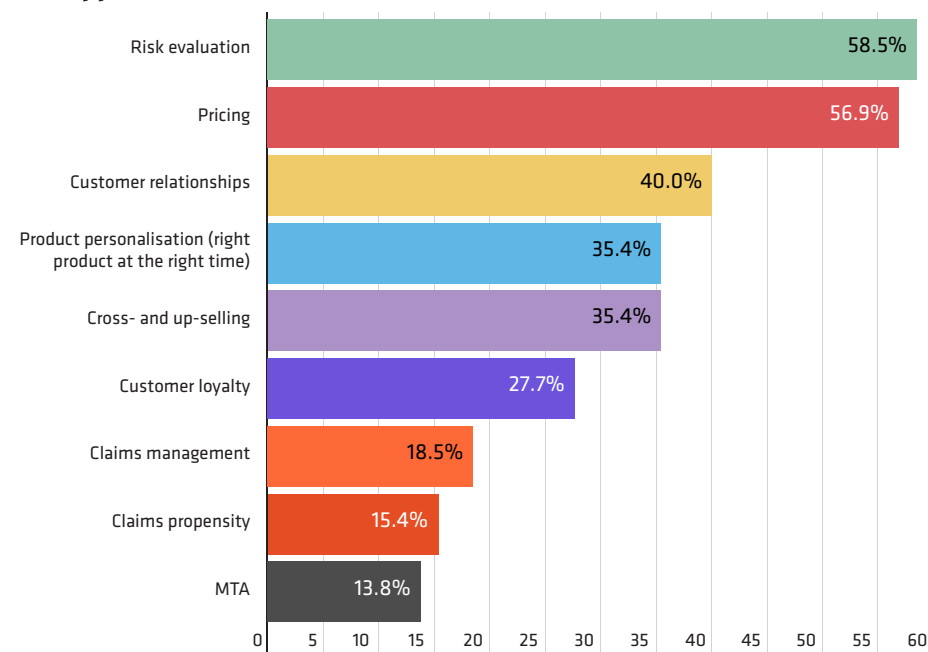


Figure four: In the future, would you consider using Open Banking and real time information to improve any of the below? Respondents ticked all that applied



“Over time, open banking should allow us to dramatically reduce the number of questions that are asked of the customer. However, at the moment there’s a trust barrier.” Shaun Hooper

< 27 insurance that uses open banking data within its consumer proposition. Vanek explains how it uses this data. “We deliver protection advice to consumers, helping them assess their financial liability and match this with the right cover. Financial planning is at the core of our automated advice platform so having access to personal finance data via open banking is highly relevant.”

Using this data can also help with risk assessment at point of quote. As an example, Hooper says it allows for much greater accuracy when it comes to assessing a customer’s credit worthiness. “Over time, open banking should allow us to dramatically reduce the number of questions that are asked of the customer,” he adds. “However, at the moment there’s a trust barrier as many people struggle with sharing

significantly personalised data like this with their insurer. There’s also a need for insurers to better structure the customer journey so that integrating open banking does not add a number of questions or time to complete the policy sale or quote request.”

Cover certainty

While there may be some potential obstacles, this customer insight is something that Jason Chambers, head of underwriting transformation at Aviva, also sees as a major benefit. His firm has been looking at open banking for a couple of years. “Data is an emerging and incredibly valuable asset, allowing for high levels of personalisation and certainty,” he says. “A broker can identify an asset or change in payroll and support the SME with the cover they need.”

The value of this real-time insight was highlighted during the pandemic, as many SMEs were forced to adapt their business models in line with lockdown and government restrictions. “Often these businesses were forced to make decisions on the fly, without necessarily letting their insurance broker know what they were doing,” Chambers adds. “If brokers had had access to this data, they could have adapted cover for their clients. This would have reduced friction and given their clients greater certainty of cover.”

Being able to adapt to an SME’s changing needs in real-time rather than at annual renewal has the potential to change client relationships permanently. Chambers says that rather than a 30-minute appointment once a year, brokers would become trusted advisers, able to deliver advice on-demand and at a time that is critical to the business. “The days of asking a customer for their sum insured at the beginning of the year are diminishing. The insurance sector can use data and technology to enable a business to deliver its ambitions without having to worry about whether it has the right cover in place,” he explains. “In addition, by supporting more automation, open banking also frees up more time to focus on vulnerable customers.”

As well as being able to provide a more personalised and responsive service, Lancaster says there is merit in simply embracing this type of technology within a broker business. “We work with SMEs from all sectors but the technology sector is growing,” he explains. “They need you to be on their level: embracing open banking will enable this and give us an advantage.”

It’s also interesting to see which key performance indicators respondents feel are important when it comes to measuring the benefits of having access to open banking data. Improved customer loyalty and retention is regarded as the most important, followed by SME data enrichment and customer satisfaction and engagement.

Priorities shifted a little when drilling down into the data. Insurers and MGAs put SME data enrichment as their key KPI with customer loyalty and retention in second place and enhanced risk assessment and higher click-to-sale ratio tied for third.

“For open banking to be embraced by the insurance industry we need to demonstrate to customers the value of sharing data. Why would anyone share intimate data if they didn’t get something in return?” Jason Chambers

For brokers, the top two spots went to customer loyalty and retention and customer satisfaction and engagement respectively, with SME data enrichment in third.

Customer buy-in

With the UK’s open banking regulations in place since January 2018, it may look like the insurance sector has very little appetite to embrace it. However, our survey found there was significant interest in some of the benefits that open banking could bring to insurance businesses. When asked whether they would consider using open banking and real time information to improve different elements of their business, the top responses were risk evaluation (58.5%), pricing (56.9%) and customer relationships (40%) (see figure four).

Among those expecting things to change is Chambers. “We see a lot of technology and opportunities in this area but we have to put the customer at the centre of our ambitions,” he says. “For open banking to be embraced by the insurance industry we need to demonstrate to customers the value of sharing data. Why would anyone share intimate data if they didn’t get something in return? Give them a clear benefit and they’ll be willing to share.”

To illustrate this, he points to the collection of one particularly personal piece of information, our DNA. By offering people information on their ethnic origins and helping them connect with genetic relatives, Ancestry DNA now has around 500,000 members and a collection of over 100,000 exclusive DNA samples, enabling it to gain much more insight into genomic science.

Potential wins for the SME market could include lower premiums, faster claims settlement or more personalised cover. The more responsive service described above would also be a game changer according to Lancaster. “Anything that improves the customer journey and experience is a major benefit,” he says. “We’ve already seen how providing them with risk management advice that’s relevant to their business can help with retention: using open banking data to extend this into a more bespoke proposition would be highly valued.”

Alongside winning customer buy-in to share data, Anorak’s Vanek says insurers also need to determine how they use the data from open banking. He warns that, if it’s used inappropriately, there’s a risk that it can seem gimmicky. “It’s not relevant for all insurance propositions and can bring very little added value,” he adds. “There’s no need to share bank data when buying travel or motor insurance: other data sets are far more relevant and allow insurtech to build usage-based or parametric products.”

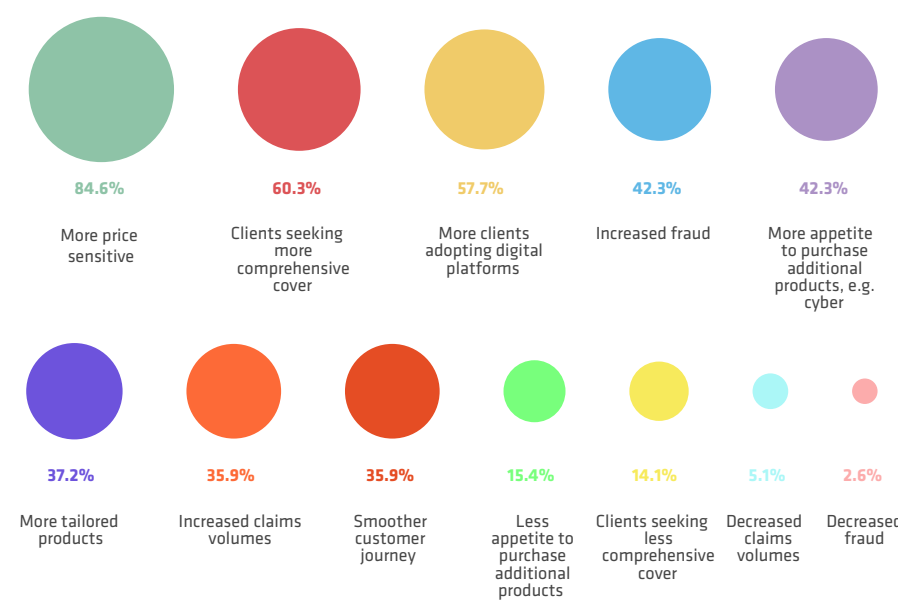
Tippling point

Three years down the line, and with Brexit and the pandemic under control, the insurance sector’s relationship with open banking could be about to change. And, just as it’s proven to be an accelerant in many other areas, the pandemic is regarded as key to this.

This can be seen in the results of our survey, with respondents believing that post-pandemic, the SME market will be shaped by a number of key trends. The top ones are greater price sensitivity (84.6%); demand for more comprehensive cover (60.3%) and more use of digital platforms (57.7%). These are all areas where open banking data could help the insurance sector support the SME market (see figure five).

Chambers says these shifts give the insurance industry a real opportunity to put open banking into practice. “A couple of years ago we would have struggled to find the so what for the customer but the pandemic has changed everything,” he says. “We need to move away from the model where we ask questions and email information once a year. Open banking and real-time information will play an important part in meeting customers’ needs and expectations.” ■

Figure five: What trends within the SME market will shape the post-pandemic landscape? Respondents ticked all that applied



Open banking has forced banks to find new ways to engage with their customers and partners. Could it also be the key to rebuilding trust between insurers, brokers and SMEs in the post-pandemic world too?



By Sara Costantini
Managing director,
Crif Decision Solutions

In October 2015, the European Parliament adopted a revised Payment Services Directive, known as PSD2, with the aims of promoting the development and use of online and mobile payments through open banking. In the UK the directive came into force on 13 January 2018 using standards and systems created by Open Banking Limited, a non-profit created especially for the task.

In essence, the directive meant that banks lost the exclusive ownership of their customers' payments data. Organisations, with regulator permission, could access the information and see the buying habits of the account holders. This insight, which is potentially available to insurers, provides them the ability to give the customer, whether they are personal or commercial, a truly individual and tailored experience to include proactively anticipating their insurance needs, accurately assessing their risk and designing cover that fits their requirements. And yet, so far, surprisingly only a small number of insurers have recognized and seized the opportunity.

This missed opportunity is demonstrated by the results of a recent survey conducted by *Post*, in association with Crif Decision Solutions, which highlights an incredible lack of knowledge about open banking data

Rebuilding trust among SMEs using open banking



The Coronavirus pandemic and disputes over business interruption claims have undermined trust between SME customers, brokers, insurers and MGAs

and the benefits it could potentially bring to insurance companies, specifically when targeting SMEs.

Implementation

Indeed, of the commercial insurance brokers, managing general agents and insurers surveyed only 16.9% were very familiar with open banking, 35.1% had simply 'heard of it' and the rest were not familiar at all. Almost

three quarters (73.8%) added they had no plans to integrate open banking data into their systems and processes within the next 12 months, with only 6.2% live and 3.1% currently implementing the change.

The Coronavirus pandemic and disputes over business interruption claims have undermined trust between SME customers, brokers, insurers and MGAs. Many SME businesses have faced financial challenges

resulting in price sensitivity and a demand to only buy specifically what is required. Insurance providers and brokers recognise the need to re-engage with SME customers, to really understand their business status, evolving insurance requirements and emerging risks and to operate dynamically and proactively in order to demonstrate value and create a sustainable, long-term relationship. Open banking data can help to rebuild trust through the use of real time data to deliver the best customer experience and a highly tailored solution.

Data has become a critical resource and insurers need to be able to capitalise on their internal data sets to realise their value.

When asked about the potential obstacles that needed to be overcome to improve awareness and implementation of open banking data, survey respondents highlighted data consent and lack of trust in insurance companies and brokers as major factors. These obstacles can be overcome when the customer understands the value exchange and benefits they gain by allowing access to their banking data. Google and Amazon are prime examples of organisations that know vast amounts about the customers that use their services, capturing data that enables them to tailor the customer's online experience. Users of their services tolerate the data capture in exchange for the perceived benefits they gain.

Rising to the challenge

Many banks have already risen to the challenge, seeing the opportunities that open banking has created via access to vast amounts of high-quality customer data. They have developed new business models that connect people and processes with platforms full of application programming interfaces, allowing them to manage user interactions inside and outside their organisation. As a result they are reaching a wider range of customers by extending their distribution channels across third party platforms and they are launching new data-driven services which go beyond their traditional offerings.

Access to open banking data can similarly deliver benefits to everyone in the SME

insurance ecosystem. SMEs are encountering powerful digital experiences that they expect their insurers to match; this requires access to rich data sources. Data has become a critical resource and insurers need to be able to capitalise on their internal data sets to realise their value.

New types of SMEs and forms of operating models are emerging as a result of the pandemic while the recovery and sustainability of some existing types of SME businesses still requires fully understanding. The ability to engage, assess, advise on risk

and price accurately is even more vital. Interestingly, when asked about perceived benefits of open banking data, survey respondents ranked faster and enhanced risk assessment, accurate pricing, SME / micro-commercial customer profiling and data enrichment, plus early identification of under insurance as the top benefits.

The solution 'fit' is undeniable and yet the opportunity remains in the main, untapped. Open banking forced banks to find new ways to engage with their customers and partners. Insurance providers and brokers have been gifted the option of a route to gain deeper understanding and design new ways to connect, add value and reignite trust.

There are new solutions, available through organisations that are AISP certified, that can leverage access to and share open banking data and SME customer profiles. The process is regulated and subject to SME consent achieved through a tangible value exchange. In providing consent an SME can unlock numerous benefits, for example, the ability to obtain, track and make their credit score publically available as required, access to insights to maintain and improve their financial stability, tools to track any potential liquidity shortfall and the option to receive notifications of lending products tailored to their credit profile. These benefits are incredibly valuable, supporting business resilience and helping SMEs to navigate the current fluid operating environment.

This PSD2 compliant, innovative approach

to SME insurance can give insurance providers and brokers augmented knowledge of their customers via dynamic, accurate and insightful current account transactional data and credit scores, supporting customer profiling. This fresh, current data provides a deeper understanding of the SME's behaviours, improves the speed and accuracy of risk assessment at point of quote, supports accurate pricing, helps to identify potential underinsurance and highlights potential fraud indicators.

Benefits of access

When asked what key performance indicators should be used to measure the benefits of access to open banking data, survey respondents saw customer loyalty, retention, satisfaction and engagement as high ranking indicators. Open banking data allows the customer experience to be prioritised, shifted to highly individual and business centric, thereby encouraging the creation of an embedded, long term relationship. Post-sale cover personalisation and tailored cross-selling becomes possible along with the ability to deliver improved claims management linked to specific customer knowledge.

Future-proofing of insurance businesses can also be supported by interrogating the collective banking data of the customers in an SME portfolio of business. Analysis of this combined data set can help to inform business thinking and strategic decisions including new product development, risk scoring and underwriting rules. The potential to create services that are more targeted to the needs of SME clients, add a new dimension of value to insurance propositions, and grow market share with profitable business is unlimited.

The business case for creating competitive advantage by using open banking data is strong. So too is the need for further market education with 41.5% of survey respondents citing inadequate knowledge of open data sharing as an obstacle to embracing the open banking model.

This underlines the potential opportunities available for those enlightened enough to begin the journey - and at least seek advice and insight about how insurance providers and brokers might take advantage. And that early movers are likely to be rewarded with the biggest rewards. ■