

Column

Innovation – Fata Morgana of the Insurance Industry

Today, there are more and more complaints about a lack of the insurers' willingness to innovate. It goes without saying that prices for new insurance products are too high and the products themselves are too late available. Concerning the call for innovation insurers appear to be helpless as they cannot refute such accusations. But also structures on the policy holders' side are an obstacle.

The policy holding industry has for many years criticized that there is no appropriate insurance coverage for many new business risks. Especially so-called emerging risks such as scarcity of energy and raw materials, climate change, political unrest and resulting individual risks would not be considered by insurers or not at an adequate pace. In turn insurers complain that new products such as the business interruption insurance without property damage or cyber risk policies are accepted only hesitantly by policy holders.

Is there really too little innovational strength in the insurance industry – and if yes: why? Is it possible that insurance as a product penalizes innovation? Or are insurers, due to lack of experiences, unable to react to customers because they give insurers no other chance?

Insurers can only offer their products if they can assess and calculate risks and premiums based on sufficient experiences. This is aggravated by the fact that only the largest insurers have own research and development departments considering the possibilities of innovations. But a supertanker is usually characterised not by its fast reaction capacity.

Simultaneously, structures on the policy holders' side do not make it easier. The policy holding industry is used to simply buy insurance through brokers or own departments. Investments in risk analyses concerning new risk variations for desired insurance products are not considered within the process of purchasing. It is inherently difficult for insurers to offer products without knowing the actual need in advance. Occasionally, policy holders express particular interests when specific industries or individual large companies are confronted with certain not expected risks.

Policy holders have to know and articulate their risks

There is no explicit exchange in detail with insurers about the development of new risks and the resulting actual need. Also associations of policy holders react merely to new products presented by insurers. They express critique and hope that something will change. It is a circular argument to call for innovation on this basis.

It is up to policy holders to identify and articulate their risks in time. If they are confronted with unexpected risks and then call for innovations and blame insurers to be unprepared it is questionable if the structures on the purchaser's side are appropriate. On the policy holders' side, it is often an unsurmountable problem for a company to connect different tasks of risk management in such a way that the demand for insurance is clear. The responsibilities for risk management within companies are allocated in different ways. In one company, insurance is subject to the financial department ("insurance just produces costs"). In another, it is the task of the controlling or compliance department and others completely outsource the insurance division.

A linkage of information from all areas of risk management is necessary in order to identify risks in time. Only then policy holders will be able to express their needs in time. Here it is incumbent upon the associations of policy holders to create a platform where it is possible to capture upcoming developments on both sides with the right contact persons and to exchange practical experiences. Abstract talking about a possible need is no help at all. Maybe an enhanced cooperation during the product development enables insurers to meet the call for innovation. Currently, lacking appropriate structures, purchasers and providers of insurance are helplessly confronted with each other.

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