Executive Summary

There is a game-changing transformation underway in commercial property insurance. Leading insurers are innovating with Internet of Things (IoT) solutions to add new value for business tenants and building landlords. Insurers able to harness this innovative technology could dramatically reduce the risk of business interruption from property damage, enable lower premiums, and share new insights to operate more efficiently. In addition, they will open the door to highly collaborative partnerships with the companies they insure.

Commercial property insurers are facing an unprecedented opportunity to redraw relationships with their clients. Technology advances such as IoT and cloud are creating an explosion of data which can be used to deliver more value to the tenants and landlords they serve, enabling closer partnerships and fresh sources of revenue. Those insurers that fail to act will increasingly be left behind, as their client interactions remain infrequent and cyclical, and the value their products provide to clients is diminished versus the new wave of smart insurance.

Transforming Commercial Property Insurance

How leading commercial building insurers are using innovative IoT solutions to reduce risk, lower premiums and develop collaborative partnerships with their clients.
AN UNMET DEMAND

Leading institutions across the insurance industry are recognising the disruptive power of IoT. For example, the British Insurance Brokers' Association (BIBA) found that telematics-based motor insurance policies were up 40% during 2015, to 455,000.1 Forward-thinking insurers understand the competitive imperative to use real-time data to generate fresh value for customers: by tailoring prices, helping them to mitigate the risk of loss, and even adding new commercial insights.

The majority of commercial property insurers are yet to embrace IoT to revamp their value proposition, however, creating a significant opportunity for first-movers in the sector. Some leading commercial insurers, such as Munich Re and Hartford Steam Boiler (HSB), are stealing a march by investing in incubators such as Plug n Play's IoT accelerator.2 The approach will help to accelerate the understanding needed to open new opportunities in commercial lines using real-time analytics from sensor data.

For commercial tenants, the business consequences of interruption from property damage can be far-reaching. For instance, if a warehouse is closed due to water damage, it may be impossible for the occupying business to meet customer orders from an alternative property. Such events can disrupt an entire supply chain, and the firm may suffer untold reputational harm.

A study of Allianz’s proprietary claims data for 2010 to 2014 found that 87% of business interruption claims resulted from non-natural hazards - with technical or human factors the key cause. It also showed that fire and explosion, machinery breakdown, storms, and water damage were the top causes of property claims.3

As IoT technologies become more sophisticated, and “smart” buildings become more prevalent, insurers can help clients to predict and avoid these risks, delivering huge potential savings. Meanwhile, risk engineering consultants can elevate the service they deliver to landlords and tenants; the increased volume and granularity of data available will enable them to identify target areas of building performance far more quickly, and implement the optimum mitigation strategies.
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COMMUNICATION

- Building connectivity
- Telephone systems

POWER / ELECTRICAL

- Cable protection
- Electric motors
- MV/LV Switch gear circuit breakers
- UPS back-up power
- Solar PV inverters
**THE POWER OF IOT**

The increasing cost effectiveness of smart sensor technology opens the opportunity to transform commercial buildings into sentient systems. (see Figure 1)

Data can be captured from multiple building networks, such as lighting systems, water, gas, air conditioning and alarm systems and be used to “listen in” to how these systems are performing.

Amsterdam’s The Edge building – one of the world’s most advanced office buildings – uses an Ethernet-powered LED lighting system that is integrated with 30,000 sensors to continuously measure occupancy, movement, lighting levels, humidity and temperature. But even in older, less sophisticated buildings, new technology solutions are now opening up the possibility to access and consolidate data from thousands of different types of devices, from various manufacturers, that have been fitted as standard over the past 20 years.

Captured data can be analysed and used for a wide range of purposes and to the benefit all parties, including building owners, individual occupiers and insurers, among others.

Sensors can detect faults in real time, enabling businesses to mitigate risk before it becomes serious. For example, by linking a weather station on the roof to the temperature systems within the building, it is possible to recognise in real time when the air conditioning or frost protection equipment are working effectively, or if there is a problem. Continuous monitoring of the building’s inner workings make it far easier to see how well the systems are maintained, which allows repairs to be carried out before problems arise.

**A VIRTUOUS CIRCLE**

As the use of IoT in commercial property insurance becomes more commonplace, the relationships between insurers and their clients will evolve to become more collaborative, with frequent, high value interactions between the two parties.

These partnerships can create a virtuous circle producing a number of benefits.

Claims, which cost insurers close to £5bn a year should reduce either in frequency, size of payouts, or both, as insurers are able to help tenants and landlords take pre-emptive action against potential property damage. Underwriting accuracy should also improve since risk calculations will have access to holistic real-time data about the operating performance of the building.

For the insured, health and safety regulations and best practice, too, will be easier to enforce with the likelihood of risk to personal property, injury or death diminishing.

At the same time, insurers will be able to deliver insights that help tenants and landlords to better influence the costs and quality of the building’s services and systems with other providers. For example, dashboards that show use patterns and occupancy to building managers will enable more effective deployment of ancillary services such as cleaning. It creates the opportunity for energy savings too, as lighting and heating can be switched off in areas that are regularly unoccupied. Indeed, research from Gartner found IoT solutions can reduce energy costs by as much as 30%, particularly for large sites, such as industrial zones, office parks, shopping malls, airports or seaports.
The IoT Virtuous Circle

**KEY BENEFITS OF IOT FOR INSURERS**

**Claims:**
Improvements in claims performance across lines.

**Risk Reserves:**
Risk reserves can be released as the associated risks become more visible.

**Underwriting:**
Pricing will be more accurate as data quality will be improved, thus reducing underwriting costs.

**Partnerships:**
Improves relations with other stakeholders.

**KEY BENEFITS OF IOT FOR THE INSURED**

**Risk Engineering:**
Significantly enhances risk engineering services with detailed building operation data.

**Health and Safety:**
Improvements to health and safety and reduced risk of personal claims.

**Property Management:**
The insured will be able to influence the costs and quality associated with running the building.

**Deductibles:**
Organisations that self-insure to a high level, such as the NHS, can reduce the likelihood of payouts through harnessing better risk insights.

Figure 2
NEXT-LEVEL VALUE

For the most forward-thinking insurers, even greater commercial opportunities may arise over a longer time horizon. Using their analytical expertise and experience in translating vast volumes of data into actionable insights, insurers could become key partners to industries such as retail in their quest to profit from big data.

Retail estate businesses such as Westfield are already investigating how the technology infrastructure in their shopping centres can help them to interact with customers in more meaningful ways, such as by installing connected beacons that could help shoppers navigate the estate and receive real-time offers via their smartphones.7

Using a similar principle, by tracking customers’ movements and activities within their centres, retailers can glean valuable insights about footfall and effective placements of advertising, among other things. It may be possible for insurers to play a role in helping retail estate landlords to deliver new analytics services to their retail tenants.

As artificial intelligence (AI) and machine learning solutions enable more advanced analysis of building data, it could take the efficiency with which building performance is managed to new heights. Applying these solutions may enable fully automated identification of building risks, and for corrective action to be at least initiated without the need for human intervention. For instance, in a retail context, an AI system could link particular patterns or spikes in power consumption to the impending failure of an escalator. In response, it could autonomously signal for an engineer to fix the issue at an appropriate time of day to minimise any disruption to sales.
UNLOCKING FRESH ROUTES TO GROWTH

IDC, a leading market research firm, forecasts that worldwide spending on the Internet of Things will grow at a 17% compound annual growth rate (CAGR) – from $698.6 billion in 2015 to nearly $1.3 trillion in 2019. Maximum growth will be seen in industries that are dominated by physical products or assets that must be IoT-enabled.8

This is an opportunity that commercial insurers cannot afford to miss: it will be the industry’s first-movers that are best-positioned to capture the new revenue on offer.

Insurers need to move fast, but they cannot capture these opportunities by themselves. They will need to forge partnerships with entities right across the data value chain, from IoT manufacturers, to cloud platforms, to third-party data providers. By developing these relationships, insurers will become an integral part of IoT ecosystems that will transform the value they create for their clients, and unlock fresh routes to growth.

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FOOTNOTES

1 “40% Increase in telematics motor policies in a year”, British Insurance Brokers’ Association (BIBA), March 14 2016.


3 “Global Claims Review 2015: Business Interruption In Focus”, Allianz Global Corporate & Specialty, December 2015.


5 “UK Insurance and Long-Term Savings: Key Facts 2016”, Association of British Insurers (AIB), November 2016.


ABOUT THE AUTHORS

David Sexton
Vice President
Leader of Cognizant's Insurance Practice for UK & Ireland

David Sexton is Vice President and Leader of Cognizant's Insurance Practice for UK & Ireland, covering all industry subsectors - life and pensions, general insurance and the London market. He is responsible for Cognizant's response to the UK insurance industry challenges, delivering to our existing client engagements and bringing Cognizant's IT modernization and industry innovation to our clients and the UK&I insurance arena. Based in London, David brings 20 years of experience in insurance and technology. David can be reached at: David.Sexton@cognizant.com | LinkedIn: https://in.linkedin.com/in/david-sexton-3407b911/.

Jonathan Giles
Principal Architect
Cognizant Consultancy's Insurance Practice for UK & Ireland

Jonathan Giles is a Principal Architect at Cognizant Consulting's Insurance Practice, which provides enterprise and solution architecture consulting services to insurers, Reinsurers and Brokers. He has more than 25 years in enterprise and solutions architecture experience. Over the past 14 years he's been focused on providing high end consulting to insurance firms, and for the past five years he's been supporting start-ups and have lead architecture design on a number of insurance telematics solutions. Jonathan can be reached at: Jonathan.Giles@cognizant.com | LinkedIn: https://in.linkedin.com/in/jongiles/.
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