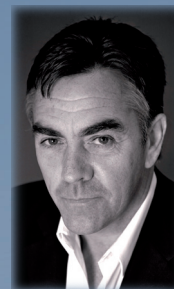


Delivering innovation through cloud computing

Mr Tony Ferguson,
Vice President Sales,
EMEA at Unirisx, explains why more Middle East insurance and takaful companies should consider investing in cloud computing, which uses the internet and central remote servers to maintain data and applications.



As the newly installed Global Strategy Director at Unirisx, I began my association with the Middle East insurance sector in November 2005 with a study tour to the UAE. Attracted by the comparative growth rates of a nascent industry, my enthusiasm was grounded by a decade's prior experience in the banking arena, which had taught me that change in the Middle East marches to a steady beat: a radical proposition (Unirisx was the first exclusively cloud-based policy administration system) would require patience...and so it has proved!

Elsewhere in the world, technology-driven transformation based on the cloud is moving into the mainstream as businesses, industries and whole economies embrace the benefits and removal of barriers which the elasticity of the cloud uniquely confers. While some progress has been made by a few insurers in the Middle East, the industry as a whole still remains a laggard in cloud adoption, as it is in insurance penetration. And therein lies the irony! Effective use of the cloud will help to address many of the growth impediments which the industry must remove if penetration and density ratios are to grow into line with Central and Eastern Europe, never mind BRIC or Western Europe.

Breaking down barriers

For those new to the subject, cloud computing includes both "Software as a Service" and "Infrastructure as a Service"*. There is no need to invest in software, hardware nor infrastructure – so a takaful provider, for example, only needs a browser to access state-of-the-art software. Thus, takaful can be distributed wherever there is an internet connection,

with the takaful operator giving free access to any combination of brokers, agents, affinity groups and indeed direct to consumers, so connecting the demand for advice and Shariah-compliant insurance with low cost supply, powered by the ubiquity of the Internet.

In this way, takaful can be distributed virally, removing all known distribution limits and administered at cost levels that have never previously been feasible. Typically, costs are determined by usage in the cloud model – which brings the benefits of predictability and also elasticity, since should business volume require more infrastructure to support it, that is the responsibility of the cloud provider. It also offers a simplified capital and expenditure model, as well as increased agility for cloud customers who can easily expand and contract their IT services as business needs change. With multi-tenancy and massive scalability, the economics of the cloud are simply compelling. In my own experience in Unirisx, we have reduced administration costs by 30%-50% typically.

Bancassurance and the difference made by cloud

The Middle East insurance industry is faced with some difficult challenges. I have already mentioned the very low penetration and density levels which are reflected in poor awareness of the benefits of insurance among consumers and small businesses. I see a direct causal link between this and the lack of product innovation where inferior products are typically offered on a "one-size-fits-all" basis. There is a general shortage of skills which are mostly expensive imports. At the macro-economic level, markets are small and

fragmented, each with its own regulation and a surplus of suppliers. I noted recently that another five takaful operators are intending to join the six already in operation in the UAE, and I wonder how on earth they expect to survive, unless they address the above impediments.

Bancassurance is a popular and proven distribution channel in the Middle East, but closer analysis reveals that the bancassurance sector is littered with failure, and there is often disappointment on both sides of the deal. The insurer's goal of persistence is simply not being realised in many cases, making it a hugely expensive exercise. The banks also are often experiencing disappointment however, even though they have rarely had a greater appetite to earn fee-based income.

While there are usually a number of factors causing such mutual disappointment and each bancassurance case needs to be evaluated on its own merits, I believe one reason is very often at the root of the problem: I call it the "Sweet Spot Syndrome". My theory goes like this: banks have large customer bases, and insurance products (designed on risk demographics) typically appeal to segments of the market – put the two together, and you have a product which might appeal to 5%-10% of the banks customers. Banks are disappointed with lead conversion ratios and the whole relationship with the insurer becomes purely tactical, culminating in higher churn rates.

The solution requires automation of underwriting rules and rating of risks, allowing an individual policy to be tailored and priced according to the specifics of the risk involved. This would enable insurers to offer the banks a range of products which extend the appeal to a greater audience within the banks customer base. A one decimal point rating tweak can make a motor product more appealing to lady drivers; another tweak, and it becomes a product for over-50s. Such capability is immediately available within the cloud, and the ability to differentiate will provide the basis for innovation which the industry is lacking. Innovation will produce more attractive products and distribute them through more appropriate channels, enabling a timely offer of insurance and so driving sales, improving penetration and density levels – a virtuous circle!

Inhibitors to cloud

Faced with all these benefits, we need to ask what is delaying the rapid adoption of enterprise cloud services in the Middle East?

From hacking to malware, the web brings with it a wide assortment of threats. Probably the biggest single factor inhibiting the mass adoption of the cloud is the concern

around data security (confidentiality, integrity, and availability). Customers must trust the security and governance of the cloud environment in order to have confidence that their data will be protected and its integrity maintained.

Many potential cloud customers are also looking for some level of assurance that appropriate security measures are indeed being properly implemented in the daily operations of the cloud infrastructure. I am currently working with a Global Top 6 insurance carrier, whose comprehensive security policy extends to well over 100 standards and best practice processes covering authentication, authorisation, encryption/ cryptography, virus protection, intrusion detection, penetration testing, availability and so on.

This engagement has made me realise that it is not so much security, rather the transparency of security which is the real issue. For the cloud to tip into mass adoption, cloud suppliers should be transparent about their security policy. Going forward, a responsible cloud supplier must provide the following as a minimum:

- A written security policy;
- A Chief Security Officer whose sole function within the company is security;
- Proof of adherence to security standards such as the Information Security Management System (ISMS), as embodied in the ISO 27001 Standard.

Unirisx, for example, has initiated a project for ISO 27001 certification. Such certification not only shows that the cloud supplier is committed to maintaining best practice in security standards, but it can be audited by independent third parties.

The innovativeness of cloud

In summary, cloud computing offers Middle Eastern insurers the opportunity to shift expenditure away from business as usual to innovation and growth, thereby adding real value to customers. Internet adoption and broadband usage are growing faster in the Middle East than anywhere else in the world – the key to future success will be the ability to offer attractive products, individually rated, at a time and in a way that suits the customer's lifestyle whether they are an individual, a group or a business. Cloud computing, with its compelling economics, can deliver innovation through the rapid launch of new rated products, delivered through a multiplicity of channels and offered at a time convenient to the customer. [M](#)

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