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Beyond Fintech
Disruptive innovation in insurance

Background

A 2017 report from Deloitte and the World Economic Forum, "Beyond Fintech: A pragmatic assessment of disruptive potential in financial services," examines disruptive innovation in financial services.

The report identifies 8 key forces impacting all aspects of financial services:

1. Cost Commoditisation
Financial institutions will accelerate the commoditisation of their cost bases, removing them as points of competition and creating new grounds for differentiation.

2. Profit Redistribution
Technology and new partnerships will enable organisations to bypass traditional value chains, thereby redistributing profit pools.

3. Experience Ownership
Power will transfer to the owner of the customer interface; pure manufacturers must therefore become hyper-scaled or hyper-focused.

4. Data Monetisation
Data will become increasingly important for differentiation, but static data sets will be enriched by flows of data from multiple sources combined and used in real time.

5. Platforms Rising
Platforms that offer the ability to engage with different financial institutions from a single channel will become the dominant model for the delivery of financial services.

6. Bionic Workforce
As the ability of machines to replicate the behaviors of humans continues to evolve, financial institutions will need to manage labor and capital as a single set of capabilities.

7. Financial Regionalisation
Diverging regulatory priorities and customer needs will lead financial services in different regions of the world down distinct paths.

8. Systemically Important Techs
Financial institutions increasingly resemble, and are dependent on, large tech firms to acquire critical infrastructure and differentiating technologies.

Trends

		P&C	Life
Where disruption has occurred?	Increased modularity in the insurance value chain is enabling new combinations of players and threatening the position of incumbents	● ●	● ●
	Usage based, on-demand and object-specific insurance products are emerging in response to shifting customer lifestyles	● ●	
	Life insurers face pressure to reinvent their product strategies to meet the needs of their next generation of customers.	● ●	
	The development of products to insure emerging risks is becoming critical to carrier profitability, particularly as margins in traditional products erode		
Where it hasn't	Connected devices are proliferating, but insurers have failed to convince customers that connected insurance serves their interests	● ●	● ●

● Australia ● Global

Usage-based, on-demand case study:

We have seen challenger brands, like Real and Budget Direct, which focus on discount insurance products, take market share from incumbents IAG and Suncorp in the Motor and Home insurance market. However, Youi, which offers usage based insurance, has been broadly flat in the market in 2017, showing how this type of insurance still struggles to get recognition and buy-in locally. This is particularly apparent when comparing with the UK market, where there has been far greater uptake of insurtech enabled products which are popular with younger generations, such as per use car insurance.

Open questions

Will insurers realise the competitive advantage of the customer data they hold before it all becomes open sourced?

How will insurers address the increasing oversight by the regulator?
- Will insurtech/regtech be what insurers turn to, to manage organisational conduct outcomes?
- How will insurers balance the need to respond with the need to remediate?
- For example, we see insurers responding to adverse findings against 'junk insurance policies in motor dealerships', whilst also trying to modernise into customer centric businesses.

Is the depth of the industry's data sources sufficient to inform sophisticated underwriting through AI?

With an effective oligopoly in general insurance, how will industry be incentivised to change if they do not have the appetite to do so? We see challenger brands like Youi struggling for recognition with an alternative product offering.

Can we incentivise healthier behaviours of health insurance customers through the data captured by wearables?

Reinvention of life insurance product strategies case study:

Connected insurance has the potential to change the way insurers operate. We have seen insurers such as AIA Vitality and MLC Life start to shift their focus from risk assessment to riskprevention, but despite the impressive uptake of wearables in Australia, the uptake of connected insurance is questionable. To achieve this, life insurers must overcome existing perceptions of connected insurance products, by convincing customers that they represent an improvement over current products

Possible futures

			P&C	Life
Changing the channel	As customer purchasing patterns start to shift,insurers emphasize benefits, digital channels and integration at point of sale (P&C)	As a result, product design and marketing will shift considerably, and customers will benefit from having products more tied to their needs	🟢	🔵
Underwriting by machine	Insurers find it hard to keep up with rapid developments in AI, and thus outsource underwriting, causing abifurcation of the market (P&C)	Customers benefit, but new entrants (especially affinity players) may suffer from lack of scale; in addition, insurers have to find new ways to differentiate themselves	🔵🟢	
Rise of the flexible product	The rise of insurance that covers changes in behaviour, role and risk profile over time means insurers must solve how to monitor products (P&C, Life)	Incumbents and insurtechs would have to invest in tracking and digital solutions to protect against customer mistakes that lead to miscoverage		
E-Z life insurance	Demographics and market maturity mean emerging markets will provide the bulk of life insurance growth, and digital distribution is key (Life)	Insurers that can offer digital distribution without compromising underwriting stand to capture market share, and provide customers with additional coverage	🔵	🟢

🔵 Australia 🟢 Global

Key takeaways

Value chain shift

Once tightly vertically integrated, the insurance value chain is rapidly being modularised by new technologies that allow for splitting activities across many different players. Leading organisations are using this modularity to their advantage, pursuing flexible partnerships that allow them to aggressively compete for adjacent profit pools.

Complex products, simply distributed

To remain competitive, insurers need to simultaneously achieve two seemingly contradictory objectives: on the one hand, they must develop complex and highly personalized products to meet customers' needs; on the other, they will need to significantly simplify the origination process, enabling even highly complex products to be sold directly through online and mobile channels

Connections changing the insurer

insurers have the data and capability to integrate connectivity into the customer experience, but have to date, lacked the ability to convince their customers that this is a worthwhile improvement to the current offering.

Significant impact of the regulatory environment

Increased oversight from the regulators has slowed product change from incumbents in the Australian market as focus has remained on remediation and response to adverse findings on junk insurance and policy concerns.

Key contacts

Peter Matruglio
National Insurance Leader
E: pmatruglio@deloitte.com.au

Alan Merten
Partner, Insurance
E: almerten@deloitte.com.au

To view the full report, visit https://www.deloitte.com/au/beyondfintech