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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:

Cost Commoditization: Financial institutions will accelerate the commoditization of their cost bases, removing them as points of competition and creating new grounds for differentiation

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

Data Monetization: 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

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



Profit Redistribution: Technology and new partnerships will enable organizations to bypass traditional value chains, thereby redistributing profit pools

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

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

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

Open questions

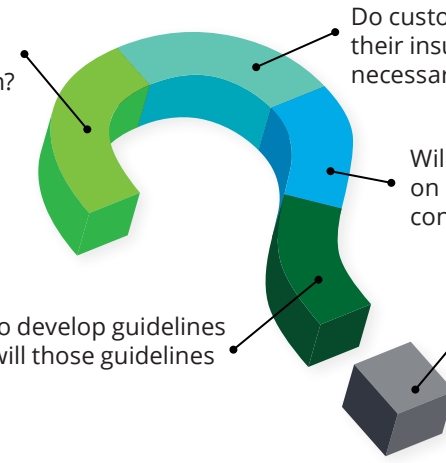
As the sources and nature of liability change, how will they affect insurance consumption?

Do customers want to interact with their insurer more often (as would be necessary for microinsurance)?

Will increasing integration, and a focus on prevention, lead to success for connected products?

Will the industry be able to develop guidelines for the use of data? How will those guidelines differ around the world?

How will insurers match their life products to fit the different conditions in emerging markets?



Possible futures

			Property and casualty	Life
Changing the channel	As customer purchasing habits evolve, insurers emphasize benefits, digital channels, and integration at point of sale.	Product design and marketing will change considerably. 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. They outsource underwriting, causing a bifurcation of the market.	Customers will benefit, but new entrants (especially affinity players) may suffer from lack of scale. Insurers also will have to find new ways to differentiate themselves.	✓	
Rise of the flexible product	The rise of insurance that covers changes in behavior, role, and risk profile over time means insurers must figure out how to monitor products.	Incumbents and insurtechs will have to invest in tracking and digital solutions to protect against customer mistakes that lead to miscoverage.	✓	✓
E-Z life insurance	Thanks to demographics and market maturity, emerging markets provide most of the growth in life insurance. Digital distribution is key.	Insurers that can offer digital distribution without compromising underwriting may capture market share, and provide customers with additional coverage.		✓

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The following outlines some of the key findings specific to the insurance segment.

Insurance trends

		Property and casualty	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 item-specific insurance products are emerging in response to changing customer lifestyles.	✓	
	Products to insure emerging risks are becoming critical to carrier profitability, particularly as margins in traditional products erode.	✓	
	Life insurers are pressed to reinvent their product strategies to meet the needs of their next generation of customers.		✓
Where it hasn't	Connected devices are proliferating, but insurers have failed to convince customers that connected insurance serves their interests.	✓	✓

Key takeaways

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

Complex products, simply distributed. To stay competitive, insurers need to do two seemingly contradictory things at once. On the one hand, they must develop complex, highly personalized products to meet customers' needs. On the other hand, they'll need to make the origination process much simpler, so that even highly complex products can be sold directly via online and mobile channels.

Connections changing the insurer. Connected insurance will cause insurers to redirect their attention from risk assessment to risk prevention. As a result, they'll need to work with original equipment manufacturers to build in connections. But first, insurers must convince customers that connected insurance products are better than traditional ones.

