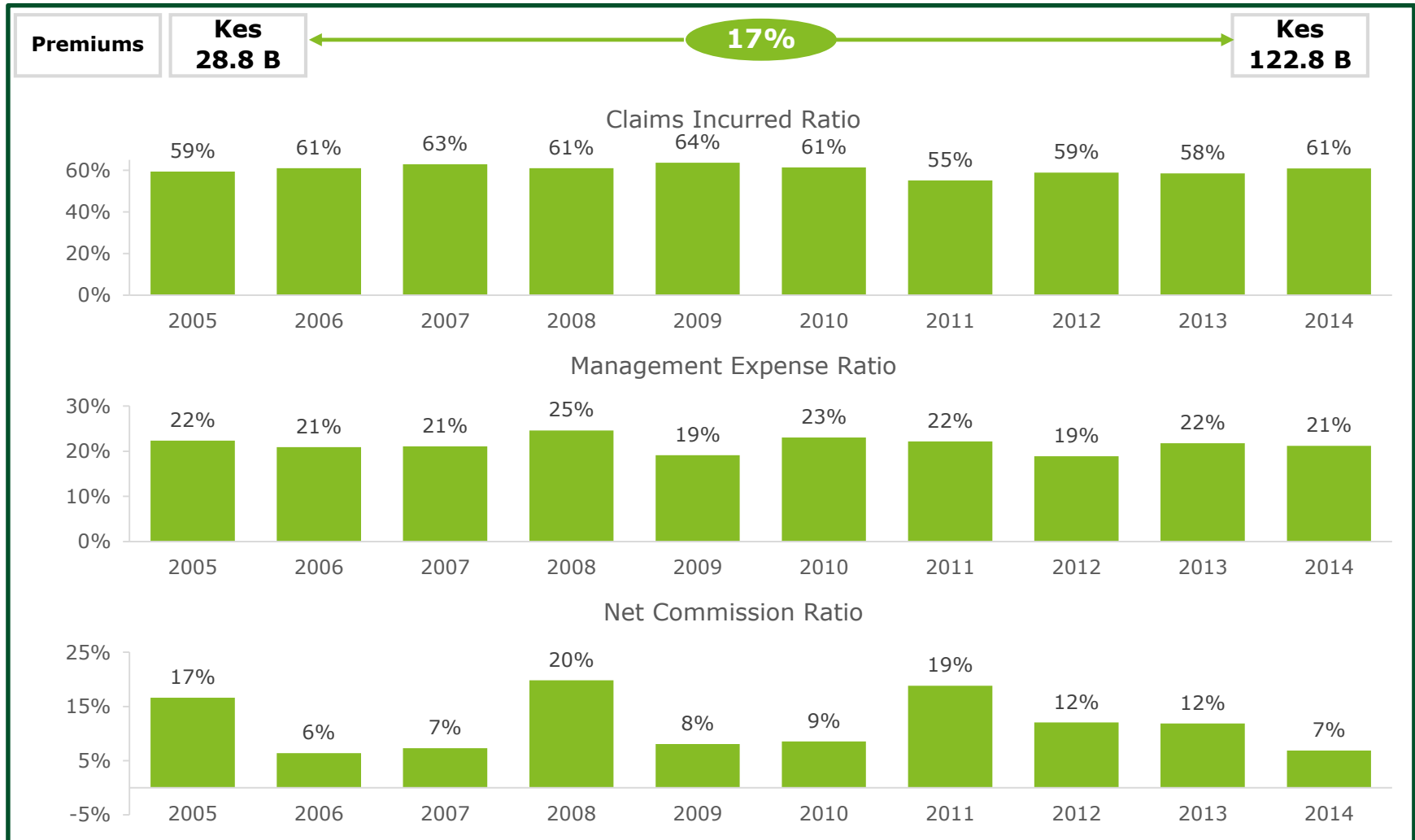


Insurers on
the brink....
Disrupt or
be
Disrupted

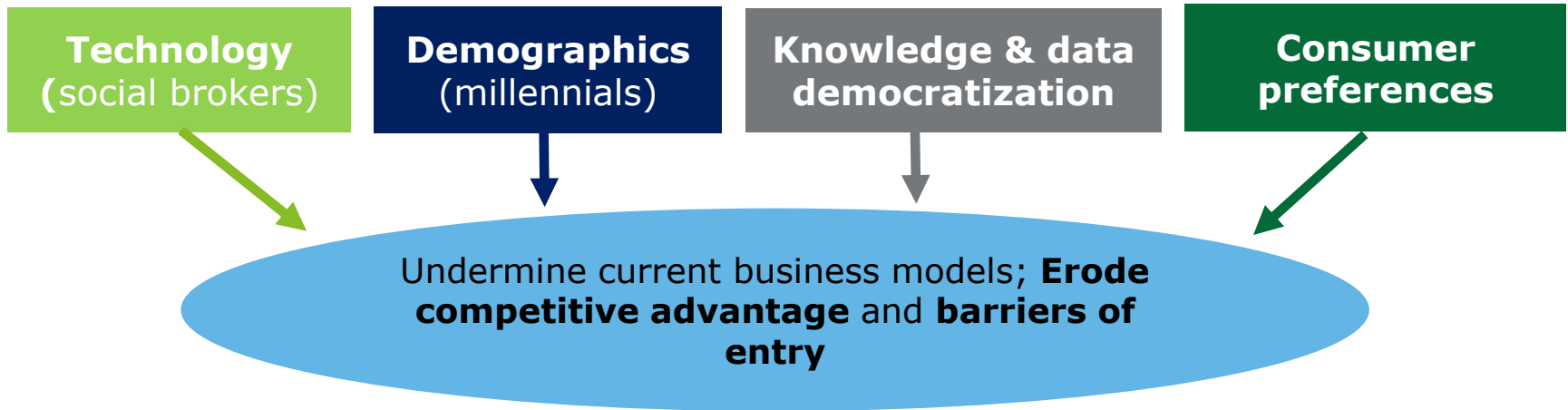
Thomas Njeru FIA,
Insurance Leader, Deloitte Consulting

Kenyan Insurance Industry – the journey in numbers

Impact of technology adoption, scale efficiencies not very evident



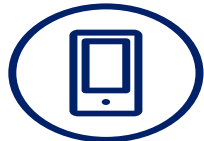
Forces of change driving new economic realities



Future drivers of change



Internet of things



Mobility applications



Regulation and globalization



Block chain based infrastructure

Innovation at a glance.

Cost advantage: claims processing, fraud, differentiation, cheaper distribution, data in risk pricing

Value Uplift: customer experience, risk solutions, making clients healthier and safer, transparency in pricing

Via

Product innovation
P2P, Cat bonds

Process innovation
Claims, underwriting

Enabled by Technology

~~Ring fence
for profit
capture~~

**Increased
Price
performance
ratio**

The “Orthodoxies”

-**Core presumptions** about **strength/uniqueness of our business model** that act as a barrier to entry; barriers of innovation

The Orthodoxies



1. They know us.
“Too big to be disrupted”



2. Insurance is Complex– **“It is sold not bought”**



3. We have **data, models, experience & actuaries**



4. **We have capital** for effective risk pooling

The Forces of change are challenging these orthodoxies

Orthodox 1 – “the customer orthodox”

The consumer knows & trusts us.....

**Brand
recognition
=
customer
loyalty**

Poor reputation/weak connections with millennials

= Vulnerability to new players

2016: 25%-35% of commercial insurance in U.S. had moved to ART's e.g. captive & Risk Retention Groups (RRGs)

**What risk
does the
orthodox
pose?**

Opportunities for **customer driven** providers e.g. Facebook.

- **US poll:** Insurers have a +ve rating of 36% compared to 79% for user friendly technologies

- **2014 Gallup poll:** millennials “actively disengaged” from insurers

How to close the trust gap?

- **Real-time interactions** -
From "claims" & "renewal" to holistic risk advice

- **Personal Risk managers.....**
healthier safer lives.

-Advise on black spots or risk of heart attack.

- **Redesign Value chain**

-Lemonade Insurance

-Insurance system brings out the worst in people

- **"Neutral" advisory models**

Orthodox 1 - "the customer orthodox": closing the "trust gap"

Winning the customer's trust

```
graph TD; A[Winning the customer's trust] --- B[Real life/narrative based marketing]; A --- C[Intuitive, simple & transparent products]; A --- D[Real time Customer feedback];
```

Real life/narrative based marketing
- link product to everyday events

Intuitive, simple & transparent products
e.g. touch screen, Uber

Real time Customer feedback: all points of interaction

Orthodox 2 - "the selling orthodox"

Insurance complex & misunderstood – "it is sold not bought"

New platforms will shake distribution system

Insurance becoming a commodity

- Automation of underwriting & pricing systems
- Consumer can structure products in their own terms

Driven by knowledge democratization

- Web access to information (especially via mobile devices)
- Sophisticated distribution platforms
 - Aggregators – Airlines/hotels have suffered in the hands of [booking.com](http://www.booking.com)

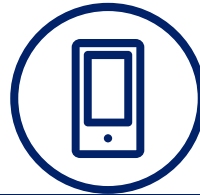
Orthodox 2 - "the selling orthodox"

Insurance complex & misunderstood – need an agent based distribution

Risk of disruption



Customer loyalty – client ownership non-existent



Cost/profit model

- Direct Channels could save 8% of revenue
- Aggregator websites – insweb; autoinsurance.com.
- could drive down margins.
- Robo-advisers could be transferred to insurance.



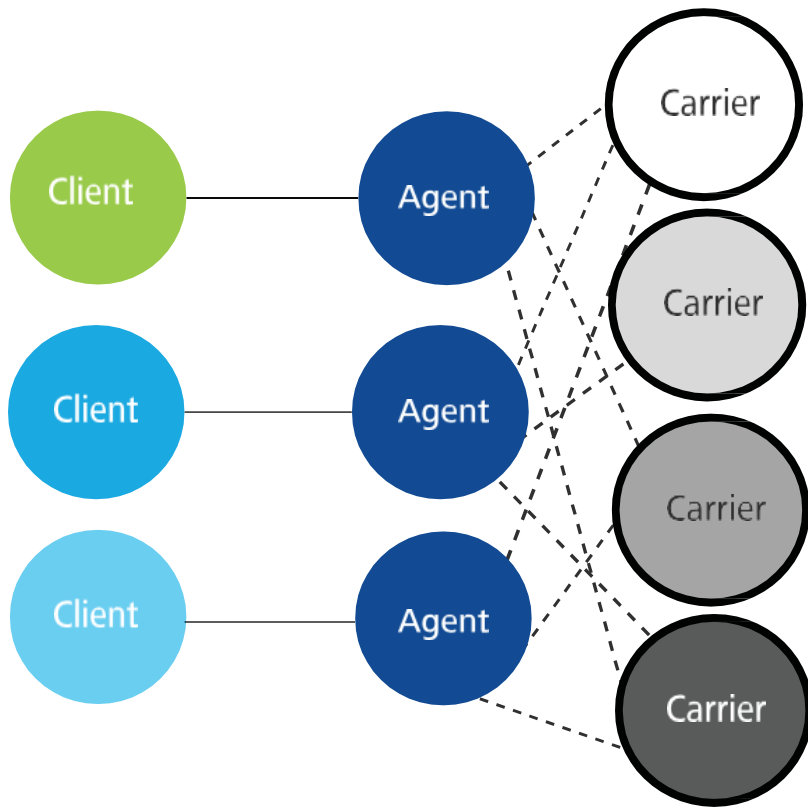
Social Brokers

- affinity groups - negotiates discounts e.g. UK "Bought By Many"
- saves members 18%.

Orthodox 2 - "the selling orthodox"

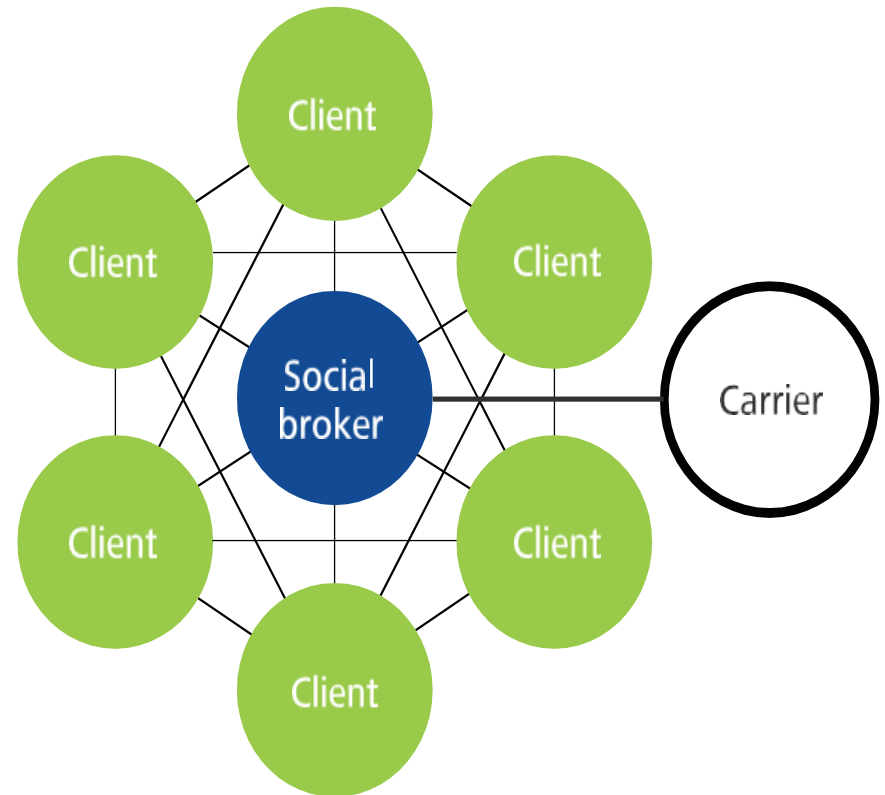
Social brokers will disrupt the current distribution model

Current Model



Vs

Future Model



Orthodox 2 - "the selling orthodox"

Insurance complex & misunderstood – "it is sold not bought"

What to do?

Simplify product & processes

- too many bells and whistles
- Some processes unnecessary in digital age.

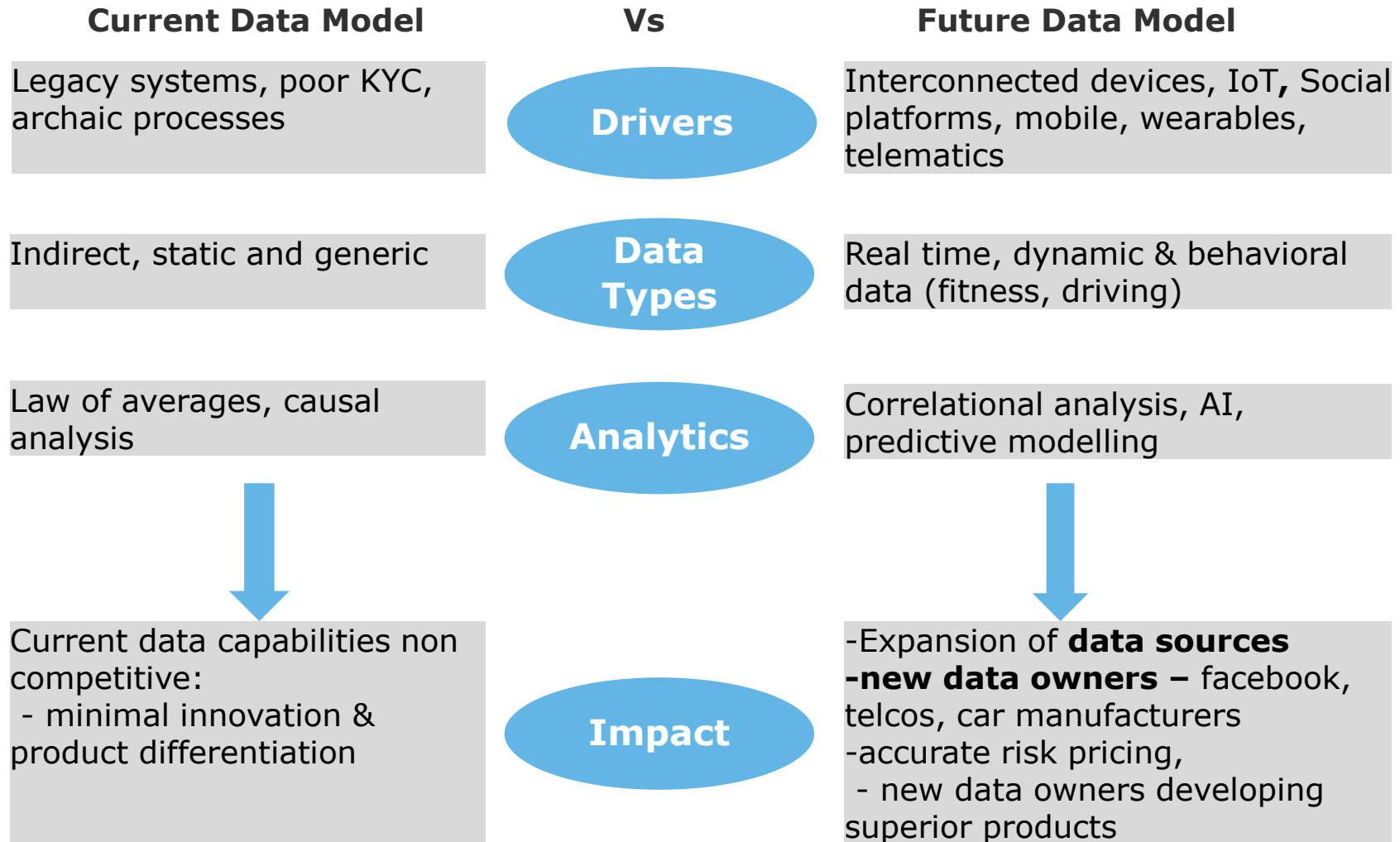
- **New distribution** to reach new customers e.g.
 - Mutual life** in USA – 20 mins for a term product
 - Hiscox** – professional liability for SME's,
 - Berkshire Hathaway** – online liability covers
 - **Incident app**: Santam S.A – report, document, submit a claim, locate assessors/garages

• Strategic fintech investment

- E.g. ACE group stake in cover hound, a fintech aggregator

Orthodox 3 - "the data orthodox"

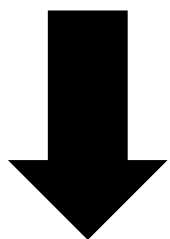
Data transformation



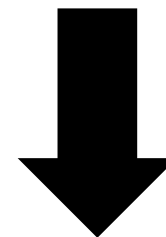
Orthodox 3 – “the data orthodox”

How can insurers disrupt themselves?

- **Operationalize** new sources of **real-time data** for:
 - operational efficiency
 - customer experience/ feedback
 - risk-management capabilities



- **Develop analytical capabilities**–
risk/pricing & customer analytics

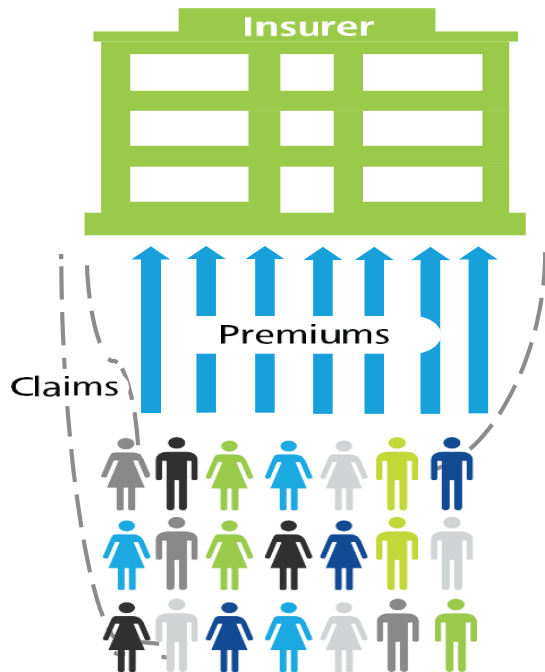


- **Product & Process Innovation:**
 - Product liability – autonomous cars?
 - Cyber liability insurance
 - Multi-line policy,
 - P2P Insurance – for affinity groups

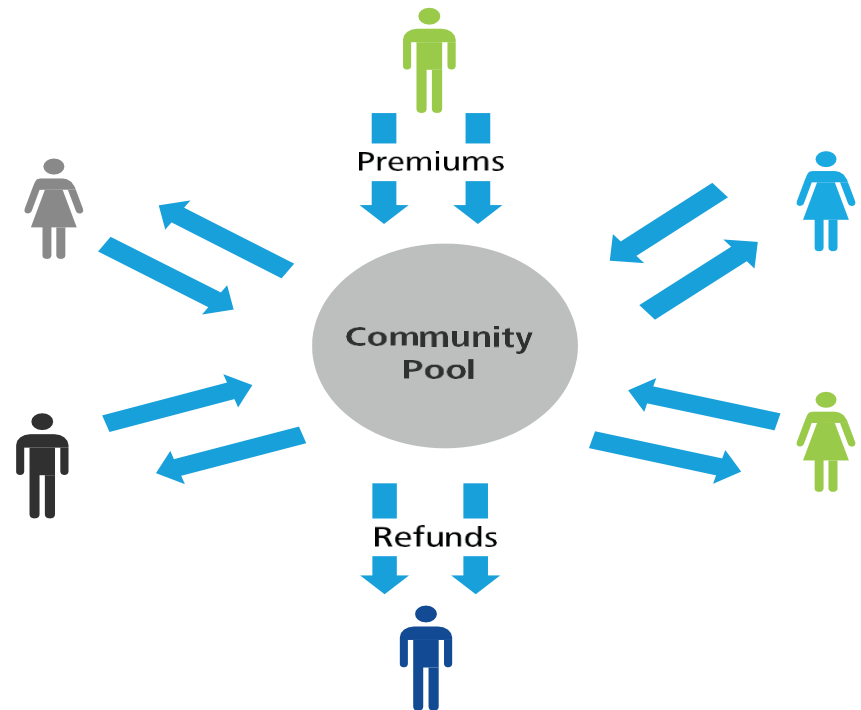
Orthodox 4 – “the capital orthodox”

We have capital & pooled risks – which is hard to replicate.

Traditional insurer



Peer-to-peer



-\$26.25 billion in **catastrophe bonds** in the US property-catastrophe market as of March 2016

Aon Benfield: ART's \$68B approx. 12% of global reinsurance funds

Orthodox 4 - "The capital orthodox"

P2P Insurance – Back to Basics

Examples

- **German Friendsurance** allows people to insure one another - cash-back bonus of up to 40%
- **UK Guevara** – organizes like-minded auto-insureds into P2P groups: home, liability, car.
- **Kenyan Tala**: a mobile based P2P credit platform

Rationale

- **Affinity group**, eligible for **premium refunds** based on loss history less likely to file fraudulent claims

Reduces the cost of:

- ✓ fraud
- ✓ reducing/monitoring fraud

What will facilitate further development of P2P

Fewer P2P platforms in Africa, but this will potentially pick up driven by:

- **Increasing internet** penetration
- **Mobile** revolution
- **Social media explosion**

Orthodox 4 – “the capital orthodox”

What to do

- Facilitate capital market risk transfer initiatives
- Issue own longevity/Cat bonds
 - lower cost of capital lower
- Participate in P2P by issuing coverages above a loss benchmark
- Providing fee producing administrative services



- Initiate own P2P groups – provide admin services

Embrace change

Partner/lock in potential disruptors.....

CBA bank?

Conclusion

Don't get caught out

Disruption an ongoing challenge

Efforts to mitigate disruptive trends & capitalization on growth opportunities will be part of a continuous journey rather than a final destination.

Constantly innovate & experiment

Reinvent product, processes and business model

Put together a long-term strategic plan to stay ahead of the emerging trends

Don't be a victim, be proactive & turn these into opportunities

Work with complementary providers outside the industry

Speed is of essence

In Summary

Avoid marginal thinking – approach disruptive issues like a start up.....

How might they attack the friction-adding, unproductive and costly business models?



How would they go about capturing a greater volume and higher quality of data than they do now and how to leverage new sources of information?



How might they reinvent their business model and processes to improve customer experience in order to generate growth?



How might they attract new capital into the business, and what efficiencies could they achieve to improve the industry's comparatively low return on equity?



Questions?





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