Will Insurance Change?

Jiří Fialka, Deloitte Czech Republic
Traditional Insurance is Dying. DON'T BECOME A CASUALTY.
Insurance 2016 in CEE
Life

- Long duration contracts with acquisition expenses up to 200% of annual premium
- High cancellation rates, average real duration 4-7 years
- Clients locked in the policy, with changes possible within limits defined by insurer

- Move from saving to protection
- Surrender fees litigations
- Very poor penetration of young segment (-35)
Insurance 2016 in CEE
Non Life

Commoditisation of motor: competition in segmentation

Small property: high profitability, small average premium, limited service to customers

Commercial: tough competition, limited margins

Front ends, service to agents

Clever pricing

Slowly moving online
Will Insurance Be Disrupted?
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**Business Model v2010**

No disrupting business model is winning. Products are evolving slowly, distribution mix is changing minimally.

Insurance does not buy, Insurance sells

It all depends on intermediaries and they are strong.

**Disruption**

- Young generation completely disinterested
- Regulatory changes
- Consumer protection interventions
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**Digitalisation of the daily life**
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Regulatory changes.

Consumer protection interventions.

Digitalisation of the daily life.

Customers are changing: sharing information, demanding.
Will Insurance be Disrupted?

**Evolution of Business Model**

- Insurance does not buy, Insurance sells
- Intermediaries will remain strong and close to your customers, work with intermediaries, not against them
- Understand your customer

**Disruption**

- Young generation completely disinterested
- Regulatory changes
- Consumer protection interventions
- Digitalisation of the daily life
- Customers are changing: sharing information, demanding
Disruptive Models Globally
Bizinsure: automation the sales and service process for small commercial insurance

- Being able to quote online, buy in seconds and have a declarations page in inbox in minutes
- Retaining the ability to chat with a licensed agent by phone at any time for either sales or service
- Broker working with major insurers
MetroMile: free monitoring of driving behavior

- The free service gives you a free Bluetooth device to install in your car and an app that gives you diagnostics of your vehicle’s performance.
- Allow you to stay informed about your driving behavior, can track mileage for expenses and driving trends and provide parking location and commute optimization.
Social Inteligence: New Underwriting Paragigm

• Getting credit history, driving history and other background information to underwrite personal lines accounts is expensive. What if we could underwrite equally effectively by analyzing a person’s social media posts?

• Continually re-evaluates the risk, not just at underwriting, claim and renewal time
Friendsurance: peer to peer pool

- Combining social networking with personal lines insurance in a very interesting way creating a peer-to-peer (P2P) insurance solution.

- You create a group of friends needing the same type of insurance and pool your money and insure the pool’s risks with a carrier. If money is left over at the end of the policy period because of good claims experience, you get a refund, or your next term’s premium is cheaper. You never have to pay more than your premium, even if losses are bad because of a stop-loss.
Evosure: platform for brokers

- Web platform allows brokers to describe the type of risk they have and finds a matching underwriter
Policy Genius: trying to disprove the idea that life and disability insurance is “sold and not bought”

• Educating consumers with the right system, they will buy the right product without a hard sell
• The checkup takes five minutes. It walks you through the different risks in your life
• Then it shows you what “People Like You” usually need coverage for and explains why
• The company also tell you what kinds of insurance you don’t need, which builds trust
Discovery Vitality: Making People Healthier

- Discovery is a shared value insurance company whose purpose and ambition are achieved through a pioneering business model that incentivises people to be healthier, and enhances and protects their lives.
- To deliver better health and value for clients, superior actuarial dynamics for the insurer, and a healthier society.
Patterns of insurance disruption
Patterns of Successful Disruptive Models

- Individual risk management
- Data: Individual understanding of the client
Data – individual understanding of the client
Individual risk management

Assistance: solving the problem, not just compensation

Ecosystem of risk management services

Advising clients how to REDUCE and transfer risk

Change of mindset: Advising, what the client needs and DOESN’T NEED
Culture Eats Strategy for Lunch

- Quick decision making
- Technology as Enabler
- Innovation Culture
- Short Planning Cycle
Where Is The Society Going?
## Looking Around: People Trends

<table>
<thead>
<tr>
<th>Generational</th>
<th>Industrial Age 1920-1960</th>
<th>Information Age 1961-2008</th>
<th>Digital Age 2009 -</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Silent Generation</strong></td>
<td>Baby Boomers</td>
<td>Gen X</td>
<td>Millennials</td>
</tr>
<tr>
<td>Population</td>
<td>Silent Gen are half size of Gen X Baby Boomers peaked at 78M in 1999</td>
<td>Gen X at 65.8 in 2014 and surpass Boomers in 2028 Millennials surpassed Baby Boomers in 2015</td>
<td>Gen Z born in 1996 or later with 23M and growing</td>
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<tr>
<td>Economic</td>
<td>Significant wealth Largest Wealth transfer underway</td>
<td>Gen X peaking earning Millennials slowed due to Great Recession; Large college debt impacts lifestyle</td>
<td>Millennials, Gen Z seeking alternatives to traditional markers of adulthood; large college debt impacts lifestyle</td>
</tr>
<tr>
<td>Home</td>
<td>Own</td>
<td>Own and Rent</td>
<td>Rent, borrow, monetize</td>
</tr>
<tr>
<td>Vehilces</td>
<td>Own, Rite of passage</td>
<td>Own, Rite of passage Average 2+per household</td>
<td>Public and shared transportation, rent on demand, monetize fewer getting licenses</td>
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<tr>
<td>Social &amp; Mobile</td>
<td>Baby boomers socially active with family and friends and use basic mobile</td>
<td>Millennials at forefront of mobile and social-grew into digital; 67% find YouTube to learn how to do something</td>
<td>Gen Z - Digitally - native with anywhere, anytime via mobile; socially connected and influenced; multichannel expectations</td>
</tr>
<tr>
<td>Needs &amp; Risks</td>
<td>Traditional path for adulthood (independene, marriage, home, children, retire)</td>
<td>Millennials delay traditional path to adulthood; increased rental, co-habitation&amp; single-person HHS; Delayed retirement of Boomers, More multigenerational households.</td>
<td>Millennials, Gen Z delay or avoid traditional path to adulthood; seeking life experiences rather than accumulating things.</td>
</tr>
<tr>
<td>Customer Experience</td>
<td>Insurance products for protection; Agent channel driven; Transaction / product oriented</td>
<td>Replicate parents view for the most part; But Millennials begin to use direct/ online and mobile and agents - start of multi - channel</td>
<td>Millennials, Gen Z seek simplicity, omni-channel experience and a broader set of solutions beyond insurance product protection to enhance life;</td>
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<tr>
<td><strong>Industry Boundaries</strong></td>
<td>Vertical oriented; Little to overlap / mix</td>
<td>Vertical dominant with start of extending boundaries (i.e. banks, financial firms)</td>
<td>Fading industry boundaries on providing risk products and new services tied to risk</td>
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<td><strong>Distribution Channels</strong></td>
<td>Primarily agent (captive and / or independent agent) focused</td>
<td>Expansion to direct, aggregators, comparison sites, alternative channels (retail, car dealerships, etc.)</td>
<td>Multi-channel, digital channels backed/ supported by agents when needed</td>
</tr>
<tr>
<td><strong>Economy</strong></td>
<td>Mass production of products, purchased in person at retail outlets</td>
<td>Consumer driven, moving toward online purchases</td>
<td>Emergence of Sharing Economy and the sharing /reuse of assets rather than purchase, all done via online / digital</td>
</tr>
<tr>
<td><strong>Business Models</strong></td>
<td>Product and Distribution driven traditional models; Companies do everything internally</td>
<td>Product and Distribution driven traditional model with start of consumer driven; Emergence of ITO /BPO; Entrance of some new startups / greenfields (i.e. Esurance, Progressive, Homesite)</td>
<td>Emergence of consumer driven business models; New models emerging rapidly (i.e. Lemonade, Assurestart, etc.); Active use of greenfields, startups by existing and VC backed companies</td>
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<td><strong>Competitors</strong></td>
<td>Within the vertical; Regional focused</td>
<td>Emergence of new consumer-driven sstartups focused on PL; Aggregators and Compare sites increase competition for PL</td>
<td>Within and across verticals; VC backed startups</td>
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<td><strong>Business Model</strong></td>
<td>Risk products based on personal data provided with aggregate parameters/underwriting using historical data; Product and Distribution centric; Limited Transaction oriented</td>
<td>Risk products using 3rd party data with personalized parameters/underwriting using historical and predictive data; Product and distribution centric; transaction based, multidistribution, risk pricing</td>
<td>Value added services and risk products, Customer centric, event based, omni-channel distribution, risk prevention,</td>
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<td><strong>Distribution Channel</strong></td>
<td>Agent (primarily captive)</td>
<td>Emergence of independent agents/brokers, financial advisors, banks, worksite, direct mail, telemarketing, online D2C, affinity partnership</td>
<td>Comparison sites, aggregators, blurring industry borders; insurance integrated with other products</td>
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<tr>
<td><strong>Customer Interaction</strong></td>
<td>In-person, mail, phone with Agent as primary</td>
<td>Multi-channel with Agent as primary</td>
<td>Digital/ mobile, omni-channel</td>
</tr>
<tr>
<td><strong>Product</strong></td>
<td>Basic (vehicle, property, life); Emergence of business products</td>
<td>Increasingly complex, broad coverage</td>
<td>Simple, niche/micro-coverage, mileage based on-demand, short duration, risk prevention</td>
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<td><strong>Risk Management Focus</strong></td>
<td>Recovery, indemnification, focus on claims pay out</td>
<td>Recovery, indemnification, focus on claims pay out and service for retention</td>
<td>Prevention and elimination focus with claims payout becoming secondary; New services (for revenue gen) that drive prevention and elimination of risk</td>
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<td><strong>Partnership</strong></td>
<td>Few if any</td>
<td>Growing partners for data, add-on capabilities, repair networks, BPO/ITO</td>
<td>Robust partner ecosystem for traditional insurance and expanded to new services and value add for customer centric models.</td>
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Our Takeaway
What Are Numbers Telling Us?

Business Model v2010
82% of companies say that underwriters and actuaries are resisting data analytics. 30% worry about a loss of job, 30% don’t trust the data. 77% of underwriters and actuaries argue about pricing. Why? They dismiss data in favor of own judgement.

Disruption
In 2015, VCs invested $2.65bn start-up insurance companies like Oscar, Gusto, PolicyGenius. Ten years ago, that figure was $85m.

E15: PKP: „Projekt za 160 milionů korun … V případě potřeby je RSJ připravena nalit do pojišťovny další peníze, a to až sto milionů korun.“
If you know that you are vulnerable to prediction errors, and [...] accept that most “risk measures” are flawed, then your strategy is to be as hyperconservative and hyperaggressive as you can be instead of being mildly aggressive or conservative.
Evolution

Intermediaries will remain strong and close to your customers, work with intermediaries, not against them

Understand your customer: smart pricing, predictive retention, event based sales, …

Coalitions for distribution, assistance, …

Disruption

Create an environment, in which innovation will be possible

Give wide and strong mandate: create strong vision, but no detailed plan

Count with the marginal losses

Millennials understand millennials
Where Do You See Your Company in 5 Years?
Sources

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