

## A demanding future

The four trends that define insurance in 2020

Executive summary

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# Foreword

Our exclusive survey of the EMEA insurance market finds that there are four clear fronts on which leading insurers need to fight if they don't wish to be left behind.

The insurance industry stands on the precipice of profound change. And this disruption is not just digital. Demanding customers, new competitors and a changing set of challenges are transforming the industry. Consumer expectations are shifting as they apply their experience of other sectors – particularly online retail – to insurance. The arrival of more nimble competitors, either in the form of InsurTech platforms or technology giants, is increasing the pressure on incumbent insurers. Meanwhile, moves towards a more service-driven business model may prove challenging for traditional firms.

For those able to move quickly and smartly, change will bring significant opportunity. While it is not yet clear what form the shake-out will take, our exclusive survey of 200 executives in the EMEA region has identified four interlocking trends that could separate the winners from the losers. These are:

1

**New world, new customers, new solutions.**

Customers' needs, knowledge and expectations have expanded exponentially in the past decade. How can insurers adapt to their demands?

2

**A different roadmap for growth.**

Our survey reveals growth will come from preventative as well protective approaches, with a range of new services and products. How will service-based strategies and innovative products change the insurance industry?

3

**The negotiating table beckons.**

In a highly competitive environment, executives acknowledge that organic growth will not be enough. How will the industry use M&A, equity partnerships and alliances to advance growth?

4

**Digital disruption – practical not theoretical.**

Technological change is a given. But knowing about it and acting on it are very different propositions. How can insurers use technologies such as analytics, blockchain and cloud to their advantage?

We explore all these themes in our new campaign *A demanding future: The four trends that define insurance in 2020*. This series will investigate each of these factors across the whole industry and within the sub-sectors of Property and Casualty, Life and Re-insurance, with extensive input from executives within the industry and Deloitte partners.

We hope that *A demanding future* can become an invaluable resource for insurance professionals in a rapidly changing world.



**Jordi Montalbo**  
EMEA FSI Insurance Leader



**David Rush**  
EMEA FSI Insurance Leader

# Methodology

The report is based on a survey of 200 CEOs, CFOs, CRO and CTOs in the EMEA region. 75 respondents represent Property and Casualty (P&C) insurers, 75 represent Life Insurance and Annuity (L&A) and 50 represent Reinsurance/Global Speciality. The survey included a combination of qualitative and quantitative questions, and all interviews were conducted over the telephone by appointment. Results were analysed and collated by FT Remark and Deloitte, and all responses are anonymised and presented in aggregate.

# 1. New world, new customers, new solutions

Customers are **the** disruptive force in the insurance industry. In an age of immediacy, constant change and overwhelming choice where loyalty is no longer a given, the industry has to extend beyond its core products and services if it is to retain its customer base.

Insurers believe that

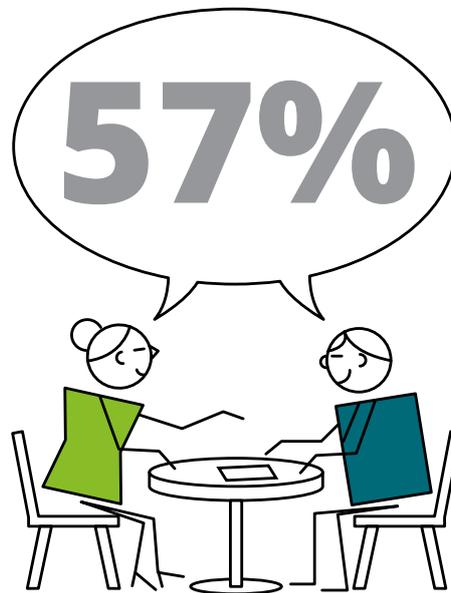
# 62%

of consumers regard the non-insurance products the most important factor when choosing an insurer.



What's the most effective way to maintain customer loyalty?

# 57%



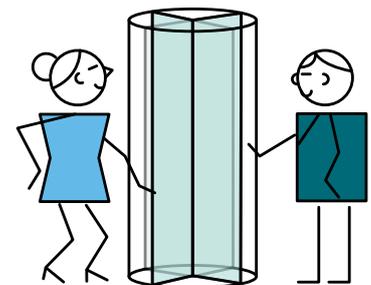
believe it's access to friendly and knowledgeable staff for assistance.



The main challenge to growth over the past three years has been regulatory/legal obstacles. However,

# 45%

now believe that rapidly evolving customer needs and expectations will be the top challenge for this period.



“Insurers have to figure out how to offer customers products and services that are relevant to them at a time when they need them. These might be unrelated to the day to day but are about creating a more desirable experience that drives up frequency and quality of interaction. The technology clearly exists to help them do this given the many non-insurance examples. Unlike new technology-based start-ups, incumbent insurers already have millions of customers to work with to build engaging propositions that create stickiness.”

**Andy Masters, Partner, Deloitte**

### The most disruptive force in the industry

Customers make a business. And insurers clearly understand that their customer proposition needs to change and adapt to new demands in a digital era. Our survey bears this out. Nearly half of all respondents feel that changing customer needs will be the top challenge for the next three years.

Consumers are increasingly searching for ways to make their lives easier through streamlined applications and claims processes. They are seeking out cover and related services that suit their lifestyles or are tailored to their businesses. The emergence of pay-per-mile car insurance models; the rise of robo-advisers that allow customers to choose the make-up of their life and pension investment portfolio; the development of blockchain-enabled smart contracts; and the provision of services around products such as cyber insurance, are just the start of wholesale changes across the value chain.

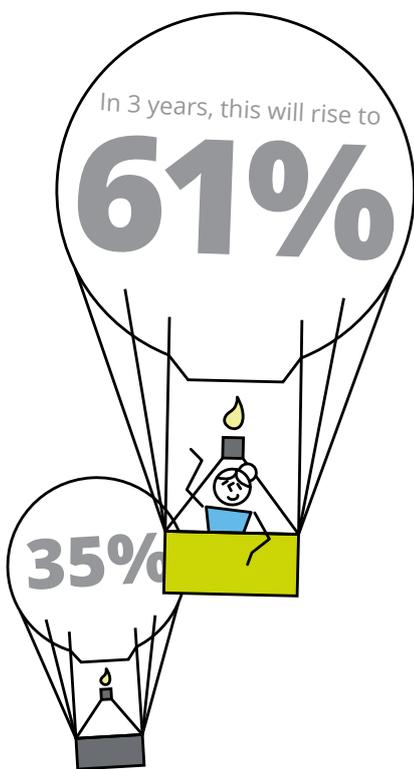
However, if they are to maintain customer loyalty (and move away from simply competing on price), insurers will need to step up their efforts around rewarding those that choose to stay. And, while there remains a need for knowledgeable staff, few customers actually interact with their insurance company and younger generations prefer to communicate online. The key to customer retention is likely to be offering non-insurance products, which add value and are an extension of core insurance products – as stated by almost two thirds of executives.

“As we’ve learned over the years, in-depth awareness of your product and of customer requirements and working on feedback enhances the relationship with customers. The additional services and even perks create the extra nudge that you need to complete the proposal.”

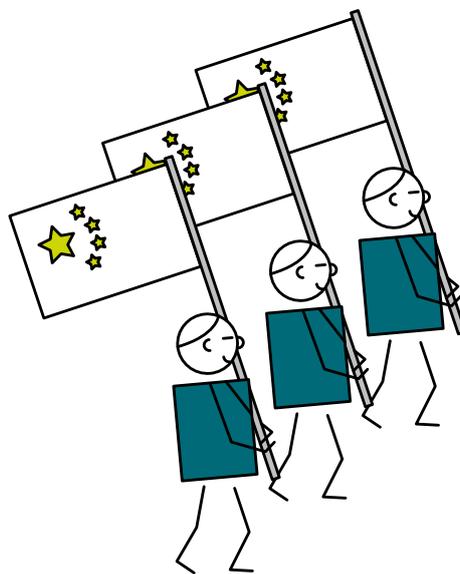
**CFO from Property & Casualty, Norway**

## 2. A different roadmap for growth

The traditional approach of selling protective products is nowhere near enough for the insurer of the future. Growth will come from new service-based models, innovative products and a greater focus on prevention.



of insurers generate over 30% of business from service-based offerings over product-based.



**61%**

of the industry feel that China will see the fastest growth over the next 3 years.

By 2024  
**33%**  
of premium volume will come from brand new propositions.



“Customers are increasingly looking for frictionless services across the board. Insurance is some way behind, but those that are investing more in technology and offering the market an easy and complete experience that offers clear solutions to customer problems are in a good position. It starts with, for example, home protection and maintenance, but there’s a whole blue ocean of opportunities for add-ons that insurers could provide themselves or through partnerships.”

**Olivier de Groot, Partner, Deloitte**

### Prevention better than cure?

Insurance is shifting from its traditional roots of providing customers with a product that protects against loss towards an increasingly proactive, preventative focus. Firms are starting to offer a range of services, from roadside assistance to cyber education, but our survey shows they have their sights set on providing far more.

Much of this will be tech-enabled, with the development of sensors to keep homes safe and well-maintained, data collection capability through the Internet of Things that will help, for example, keep pets and livestock away from the vets, through to predictive technologies that could have the power to forewarn customers about the potential for future loss.

Already, we are seeing a shift away from the traditional protection model towards technology-enabled preventative services. And our survey shows that insurers have begun to change their offerings to customers: nearly a quarter of premium volume now comes from propositions that were not offered five years ago. Further change is on the horizon – in five years' time, a third of premium volume is expected to come from propositions that are not offered today.

### Changing customers – challenge or opportunity?

But with this new growth agenda will come challenges. Following a period of significant regulatory change, insurers have clearly faced hurdles in reaching compliance with new rules and capital adequacy requirements, yet this is set to recede in the industry's view.

Instead, the rapid evolution of customer expectations and, allied to this, the industry's slow adaptation to digital disruption will come to the fore in the near future. Yet those that frame the shift in customer expectations as an opportunity as opposed to an issue, building their organisations and capabilities around what customers want, will be the success stories of tomorrow.

“We will see a significant shift towards services among insurers as they seek to engage customers with offerings that add value. Insurance will be embedded in a range of valuable services that will help customers live their lives or run their businesses – it will no longer be the grudge purchase it sometimes is.”

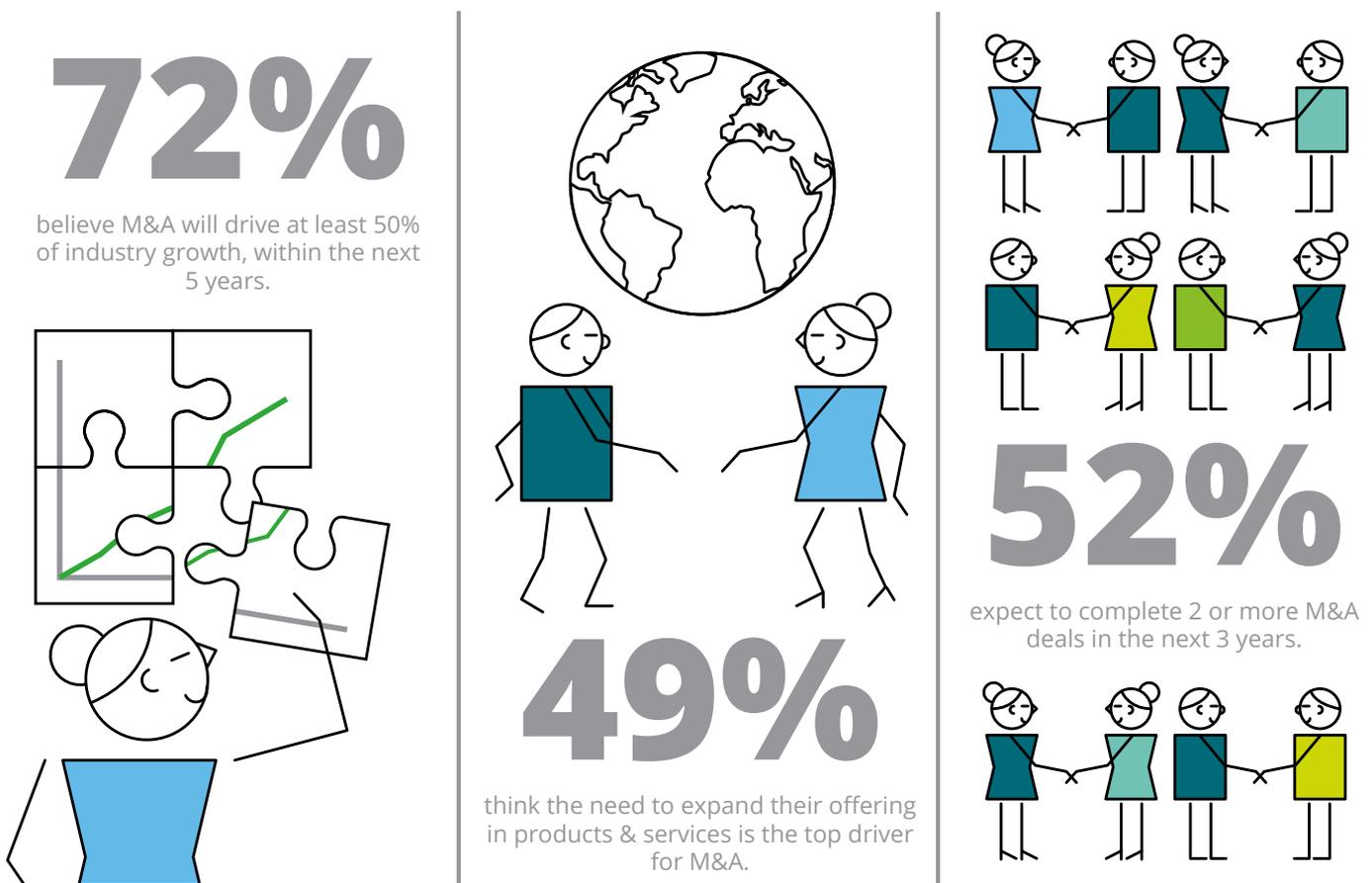
**Clive Buesnel, Vice Chairman & UK Head of Insurance at Deloitte**

“Additional services are appealing to customers. It shows you are paying attention and appreciate your customers. The policies are designed by paying close attention to details without discounting any aspects that would be important to the customer.”

**CFO from Property & Casualty, Norway**

### 3. The negotiating table beckons

Incumbent firms can no longer rely on organic growth or internal innovation. The winners will be those that can forge alliances with innovative start-ups; ally with InsurTech; and consolidate with their peers. A rapidly changing industry will require unprecedented deal-making skills.



“M&A activity will centre around core markets and products but will also be used, either via acquisition or partnership, to access technologies that enable improvements within the industry. This could include distribution, new products, underwriting capabilities or claims process improvements. However, the successful integration of newly acquired assets will be crucial in determining the success of this strategy.”

Ian Sparshott, Partner, Deloitte

### Advancing through acquisitions and alliances

M&A and alliances have been central to insurers' growth plans over recent years and this looks set to continue for the foreseeable future. This is borne out by our survey findings: 94% agree that M&A will be part of their organisation's growth strategy in both the next year and long term, while 81% have firm plans for a partnership or alliance in an existing market, and 44% for expansion in a new market.

Insurers are using M&A to expand product and service offerings, increase client bases in existing markets and to gain access to new technologies and transform business models. They are also turning to alliances to help them reach new customers and keep pace with technological change.

The scramble for innovation will see M&A, as well as looser alliances such as partnerships and joint ventures, continue to feature significantly in particular as insurers seek new capabilities around technology solutions in front, middle and back offices.

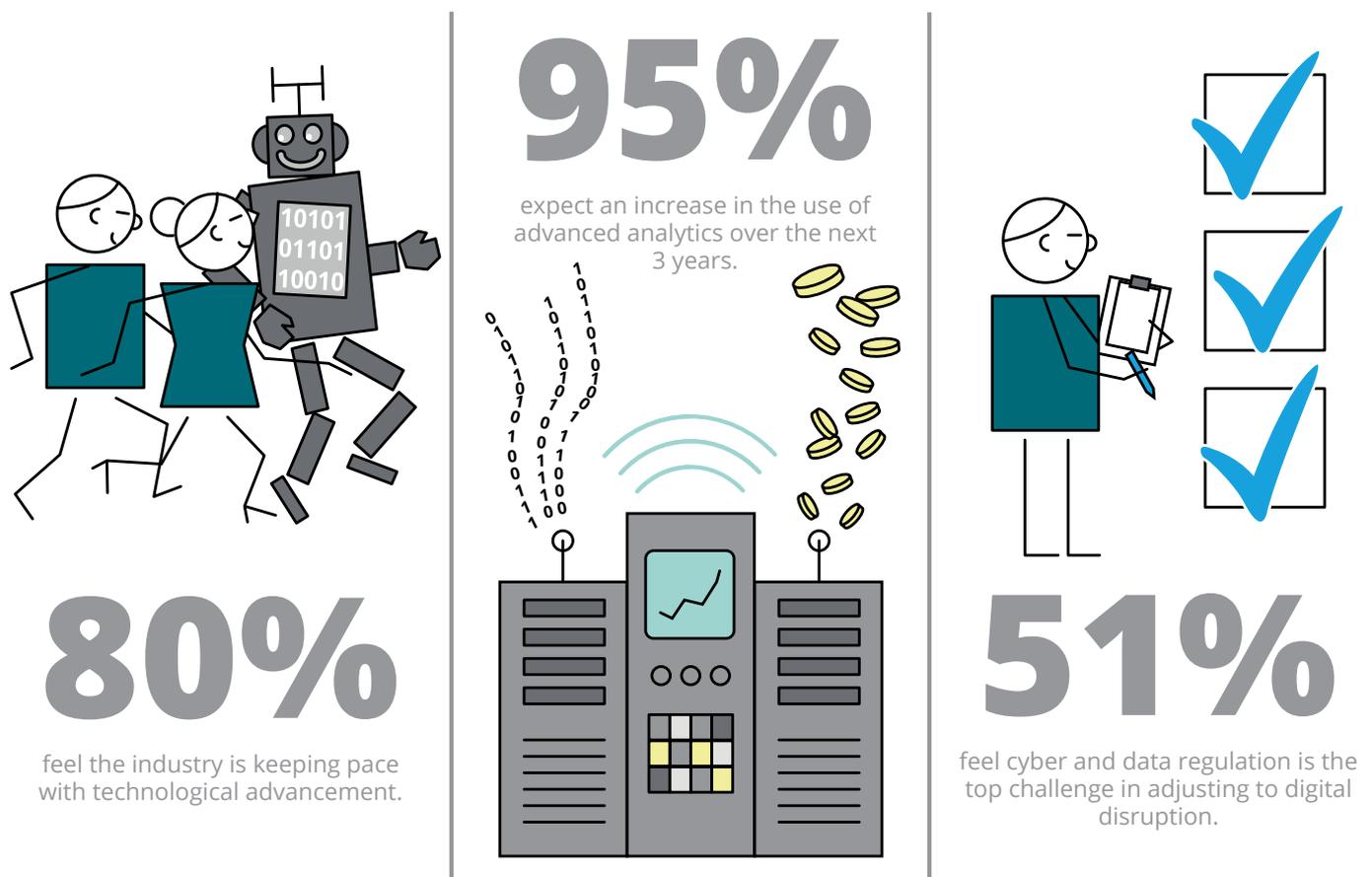
InsurTechs, many of which have been backed by insurance incumbents seeking a window on new developments in the market, are growing to become businesses of scale. These will increasingly become targets for deals or partnerships over the next few years, either for their customer-centric platforms or for the solutions they offer insurers to smooth the path to digital transformation within their organisation.

“InsurTechs have the upper hand when it comes to providing personalised policies and present more advanced aspects which are intriguing to customers, hence the challenge to our core business. Over the next three years, we need to step up and work on strategies to work with and, in some cases, combat the new players in the market, and move forward.”

**Head of Risk Management from Reinsurance, Germany**

## 4. Digital disruption – practical not theoretical

Disruption from new technologies is a given. It wends its way through all other trends. But acknowledging it and acting on it are very different propositions. Insurance companies need to know how to deploy the right technology for the right purpose or they risk being left behind.



“Insurers will need to adopt an ecosystem approach that involves partnerships and outsourcing, as well as in-house teams. It will take a lot of effort to transition from a legacy position to flexible, open architecture. Indeed, we may well see some insurers create greenfield operations from which to grow future business rather than attempt to transform what’s there.”

**Andy Lees, Partner, Deloitte**

### Taking a holistic approach to tech

Insurers may be bullish about the industry's progress on adopting and using technology, but it is clear that it is trailing behind many other sectors. Insurance has not yet seen disruption on a large scale, but this is coming and among those likely to spot opportunity to create easy-to-understand, flexible and customer-centric insurance models are the technology giants that are already entering other heavily-regulated spaces, such as banking, and have unparalleled customer analysis capability.

Insurers will need to move far more quickly to create truly digital organisations if they are to compete in a market that is set for rapid transformation. And they will need to use the right technology in the right way or risk being left in the dirt by digital natives.

Our survey reveals that, over the next three years, insurers are planning investment into a number of areas. Top of the list is cloud technology. This is to be expected, given that cloud underpins further advances towards creating more digital organisations, building an infrastructure from which organisations can move forward with data analytics and other forms of technology.

Indeed, insurers appear to have already made significant investment in advanced analytics. Indeed, 95% of respondents said that their company's use of advanced analytics had increased over the past three years.

However, these new technologies cannot work in silos and insurers need to take a holistic approach to technological transformation which includes (among other key factors) bringing the whole organisation on board; using customer preferences and needs as a starting point; and creating a platform-based model that can offer customers a range of products and services, including own label and those from other providers.

“New technologies and faster adoption of these by insurance companies is the key driving factor towards success and growth. There was doubt as to how it would merge with existing services, but the enhancements have been phenomenal. Customers are served more quickly by way of applications and multiple platforms.”

**Head of Risk Management from Property and Casualty, Netherlands**

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