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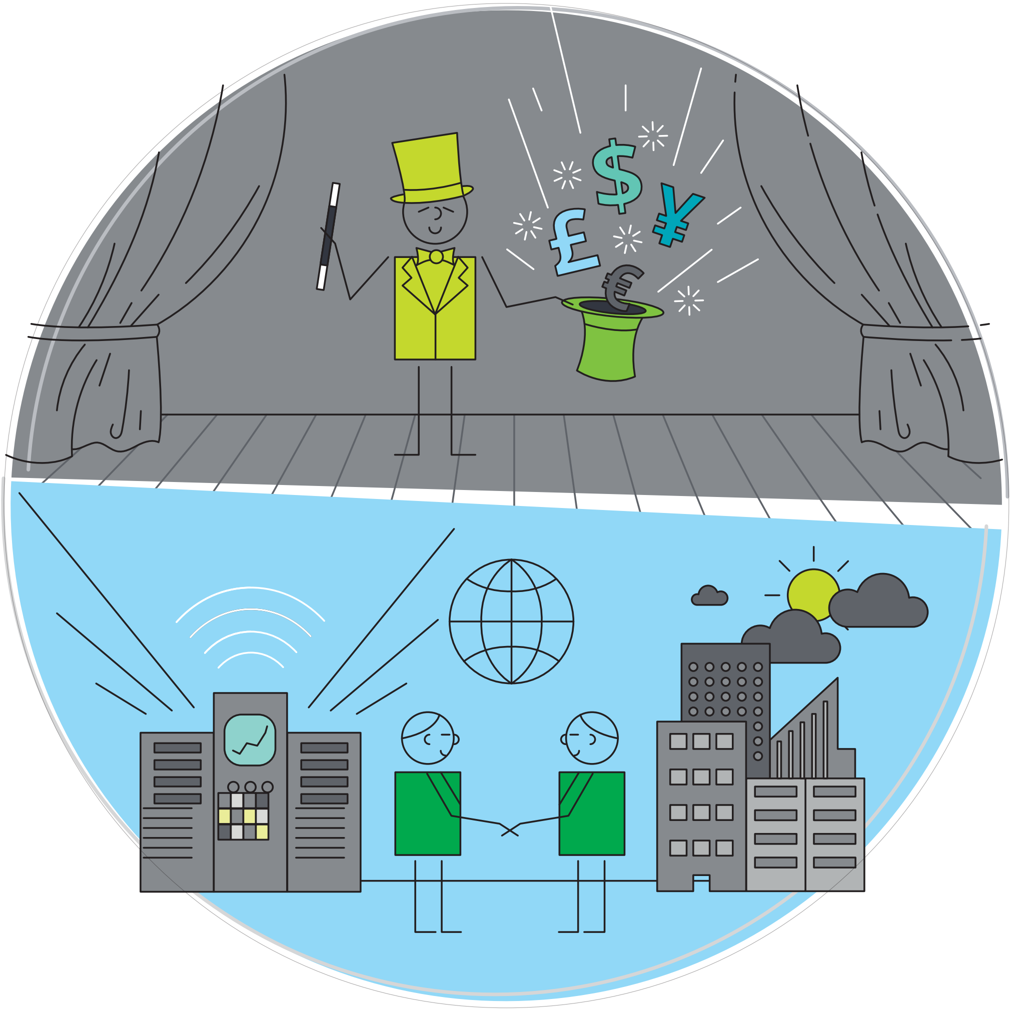


A demanding future

The four trends that define insurance in 2020

Chapter Two: A different roadmap for growth

A different roadmap for growth

The traditional approach of selling protective products is nowhere near enough for the insurer of the future. Digital disruption and demanding customers mean that insurers need to innovate to stay relevant within their own industry.
In the second chapter of *A demanding future: The four trends that define insurance in 2020*, based on an exclusive survey of 200 EMEA insurance executives, we reveal how the insurance industry is searching for growth – be that through new service-based models, innovative products or a greater focus on prevention.

Key findings

At your service

Currently **35%**

of respondents are generating 30%+ revenue from more service-based business – including breakdown assistance for cars at the more basic end of the spectrum, through to health advice at the more complex end – than product-based business.

This rises to **61%**

in three years' time.

The thrill of the new

Insurers estimate that around

23%

of their premium volume in 2018 came from propositions that were not offered five years ago.

In five years' time, they expect that number to increase to

33%

Look east

In terms of the insurance industry,

33%

feel that China will see the fastest growth over the next three years.

The three drivers to growth

The foundations of the insurance industry are based on products that help protect customers from loss as a result of unexpected events. And, while this will always remain an element of what insurers do, we are currently seeing a technology-driven shift away from this traditional, largely reactive, model. The development of data-powered technologies can not only help insurers assess risk more accurately, but also increasingly offer insights that can help prevent losses from occurring in the first place. This is allowing insurers to devise more proactive models.

Shift to services

Data driven innovations

New propositions to keep rising

Shift to services

This shift from reactive to proactive is reflected in our survey. Currently, 35% of our respondents generate 30% or more of their revenues from service-based business rather than products. This includes over half (56%) of property and casualty insurers who say they generate between 30% or more of their revenues from services. Life insurers are less likely to generate significant revenue this way – just 14% say that 30% or more of their revenues come from services. “Proactive services empower customers and build the brand,” commented a chief technology officer at a German property and casualty insurer.

Insurers will shift further towards services, our survey shows. The vast majority of property and casualty respondents (93%) say that services will account for 30% or more of their revenues over the next three years; with life insurers, this proportion was 26%.

For property and casualty insurers, the most popular route to offering these services is through partnerships with other organisations – 68% say this. The reverse is true for life insurance and annuity businesses, with the same proportion saying they were providing services in-house.

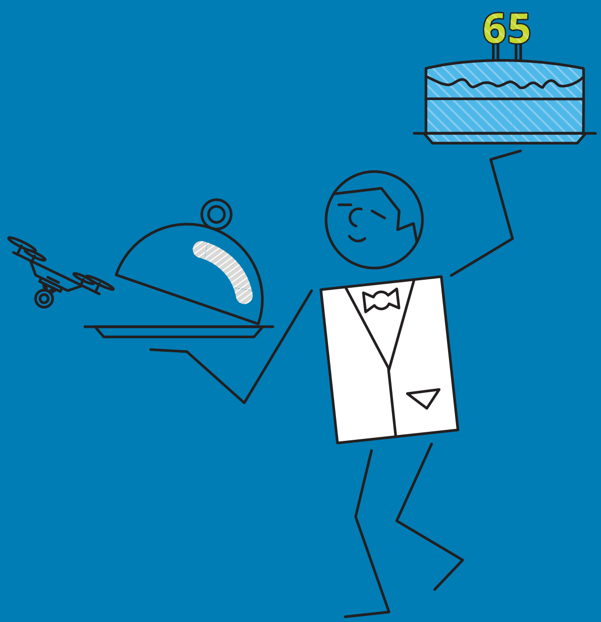
Currently, some of these services are still quite basic. A UK-based property and casualty insurance respondent, for example, mentioned "at the scene assistance in case of a breakdown". In a similar vein, a UK-based life insurance company IT group director says: "We provide investment-based services. Our clients are encouraged to use these services for maximum protection of funds and achieving their financial goals."

One area that has seen significant growth over recent years is cyber-security insurance. While this has insurance at its heart, it is often supplemented by a range of educational and information services that help businesses prevent a cyber-attack in the first place. This model of selling a suite of services bundled together with an insurance product is likely to be replicated more broadly across insurance categories.

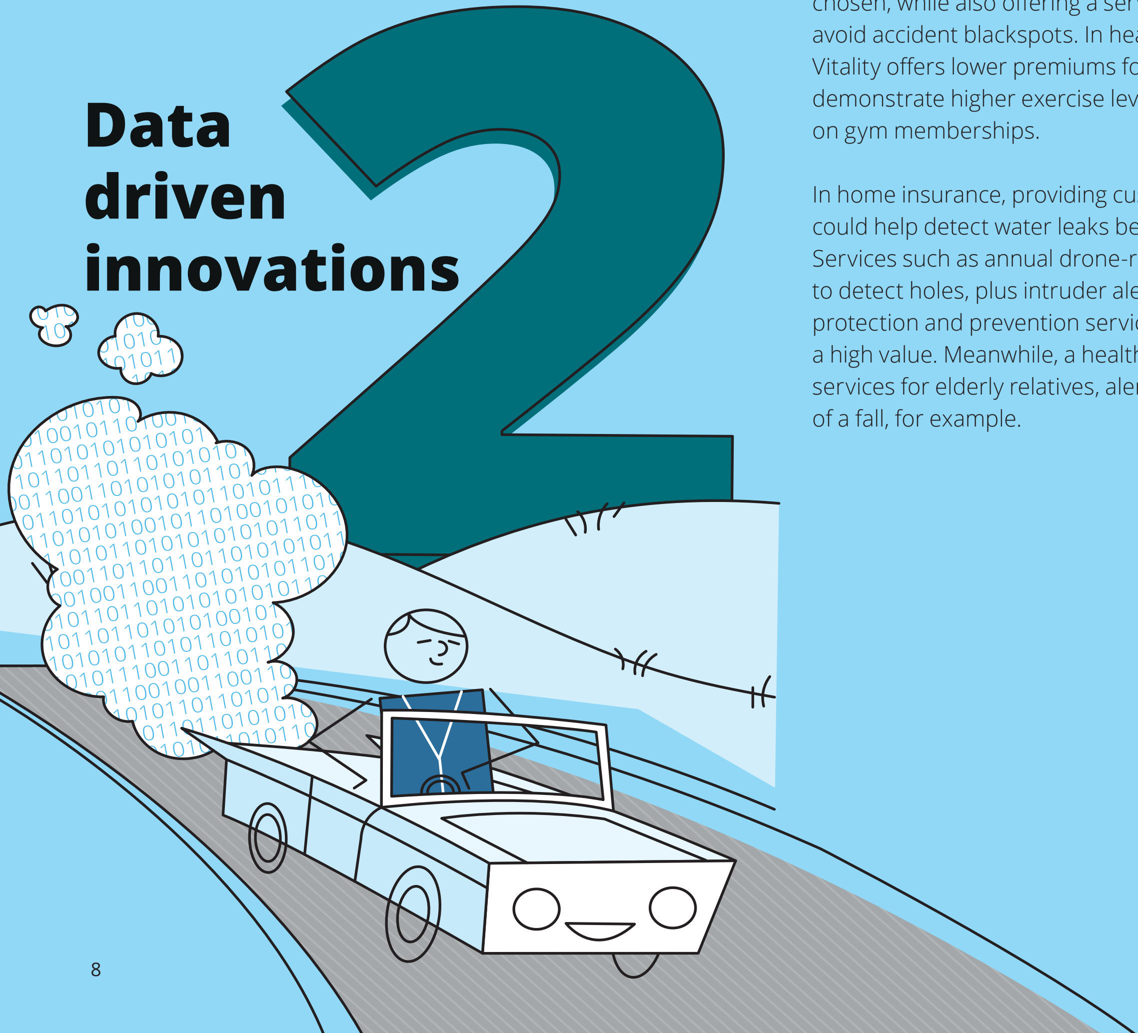
Yet future services are likely to be more far-reaching. China's Ping An Insurance offers an example of where the industry may be heading. It has expanded well beyond the traditional insurance remit through the use of technologies such as artificial intelligence (AI) and facial recognition. In 2017, it launched Good Doctor[1], a diagnosis and treatment platform that provides online health advice across around 500,000 consultations a day, the firm claims[2]. This allows patients to access healthcare quickly, but is also helping local government process medical claims and reduce state healthcare costs.

"We provide investment-based services. Our clients are encouraged to use these services for maximum protection of funds and achieving their financial goals."

UK-based Group IT Director



Data driven innovations



The development of new services will be increasingly driven by the rising availability of detailed data and a greater capacity to analyse it. With the emergence of new pay-per-mile models, for example, insurers can shift pricing according to the safety record of the route chosen, while also offering a service to recommend that drivers avoid accident blackspots. In health insurance, too, UK life insurer Vitality offers lower premiums for those whose fitness trackers demonstrate higher exercise levels, while also offering reductions on gym memberships.

In home insurance, providing customers with sensors or leak bots could help detect water leaks before they cause major damage. Services such as annual drone-recorded views of a home's roof to detect holes, plus intruder alerts, could provide a package of protection and prevention services on which customers may place a high value. Meanwhile, a health insurer could provide monitoring services for elderly relatives, alerting family or friends in the event of a fall, for example.

The Internet of Things (IoT) has the potential to take these services further still. One such service is already being provided in commercial property through Shepherd Analytics, which uses IoT data to analyse risk for insurers, manage property maintenance and detect problems at an early stage[3]. FloodFlash[4] is another example. It uses IoT sensors to provide parametric insurance that pays out automatically when the water level reaches a pre-agreed point. This removes the need for loss adjusting, making it quick, cheap and flexible. It is even possible to monitor pets, so their drinking habits or precise weight change can be reported to vets at an early stage, potentially saving in claims costs as well as reducing owner stress or heartache. The same technology is already being applied at a larger scale with, for example, connected cows. This technology can help farmers monitor individual animals' temperatures and how much they are eating, as well as other health indicators. This has the potential to stop infection spreading and could prevent a future mass culling in the event of an outbreak of a disease such as foot and mouth.

And, with increased data collection and improved analytical techniques, technology will be used more predictively. While we are some way from accurate market predictions, life insurance and annuity companies may at some point be able to help customers decide at which point they should retire to make the most of their pension savings, for example.

As one Israel-based CFO of a life insurance company commented: "The landscape of insurance services and what are perceived to be core activities will change – and it is digital technology that will drive this."

"The landscape of insurance services and what are perceived to be core activities will change – and it is digital technology that will drive this."

Israel-based Life Insurance CFO

New propositions to keep rising

The pace of change and innovation is reflected in our survey. When asked how much of their premium volume comes from propositions that were not offered five years ago, the average response from life and annuity respondents and property and casualty insurers is nearly a quarter. This suggests a reasonably significant shift already. Yet insurers are expecting still more change over the next five years, with an average of a third of premium volumes coming from new propositions that are not offered today. In addition, nearly a quarter of respondents' investment spend is allocated to new product development.

Figure 1. In terms of revenue generated, what percentage of your business is currently more service-based than product-based?

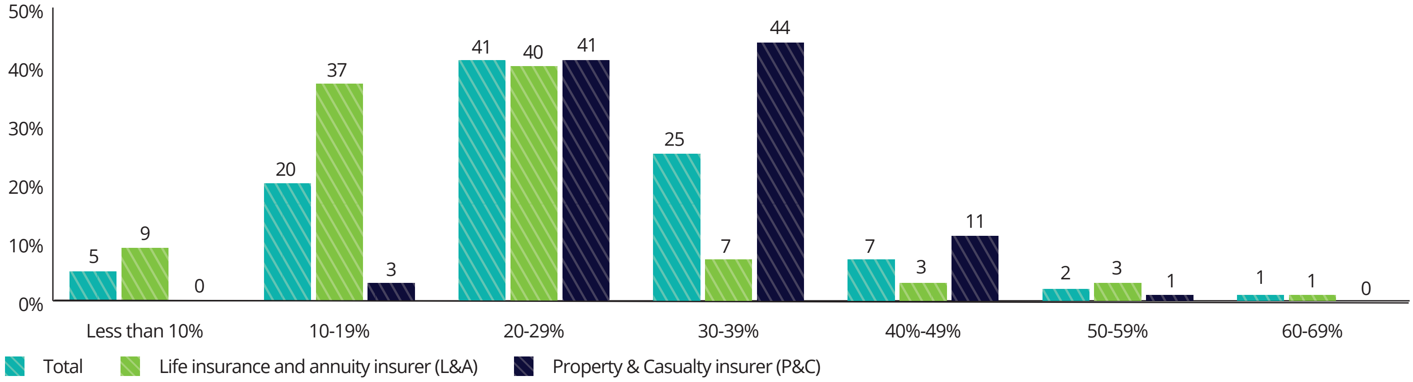


Figure 2. In terms of revenue generated, what percentage of your business do you expect will be more service-based than product-based in three years' time?

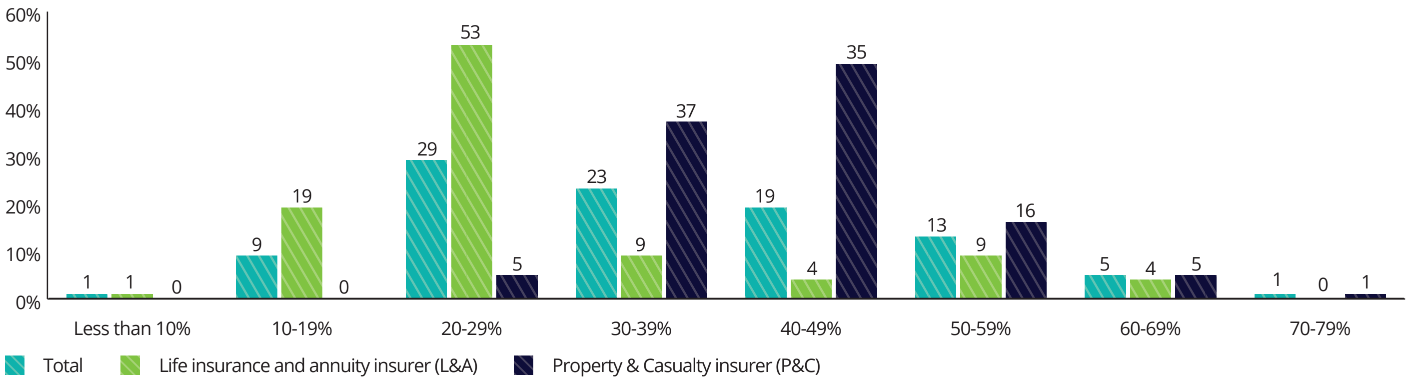


Figure 3. Have you entered into any partnerships for the purposes of enabling services-based products?

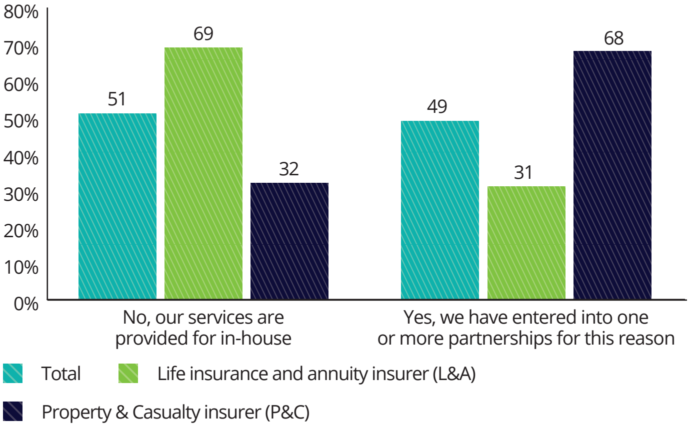


Figure 4. What percentage of your premium volume do you estimate currently comes from propositions that were not offered five years ago? (Please give any percentage from 0 to 100%)

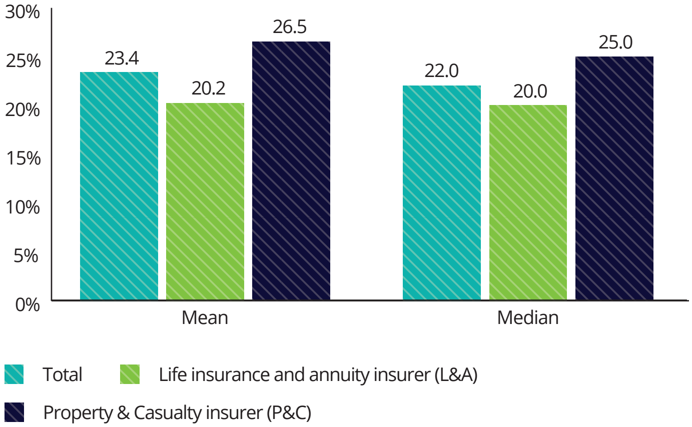


Figure 5. In 2023 (five years from now), what percentage of premium volume do you estimate will come from propositions that are not currently offered? (Please give any percentage from 0 to 100%)

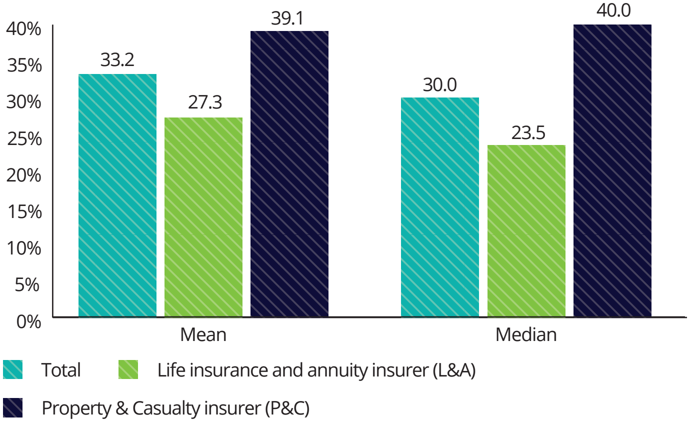
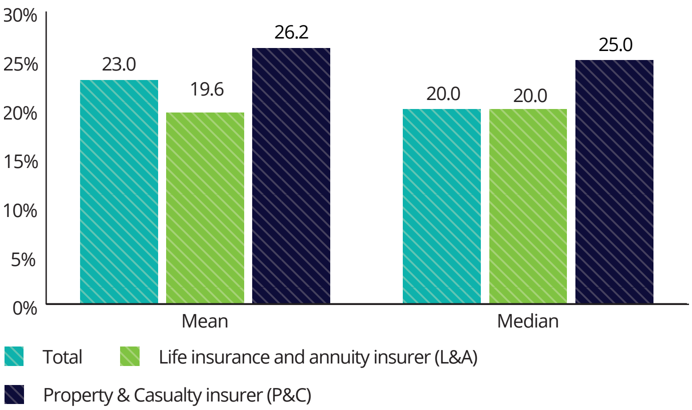
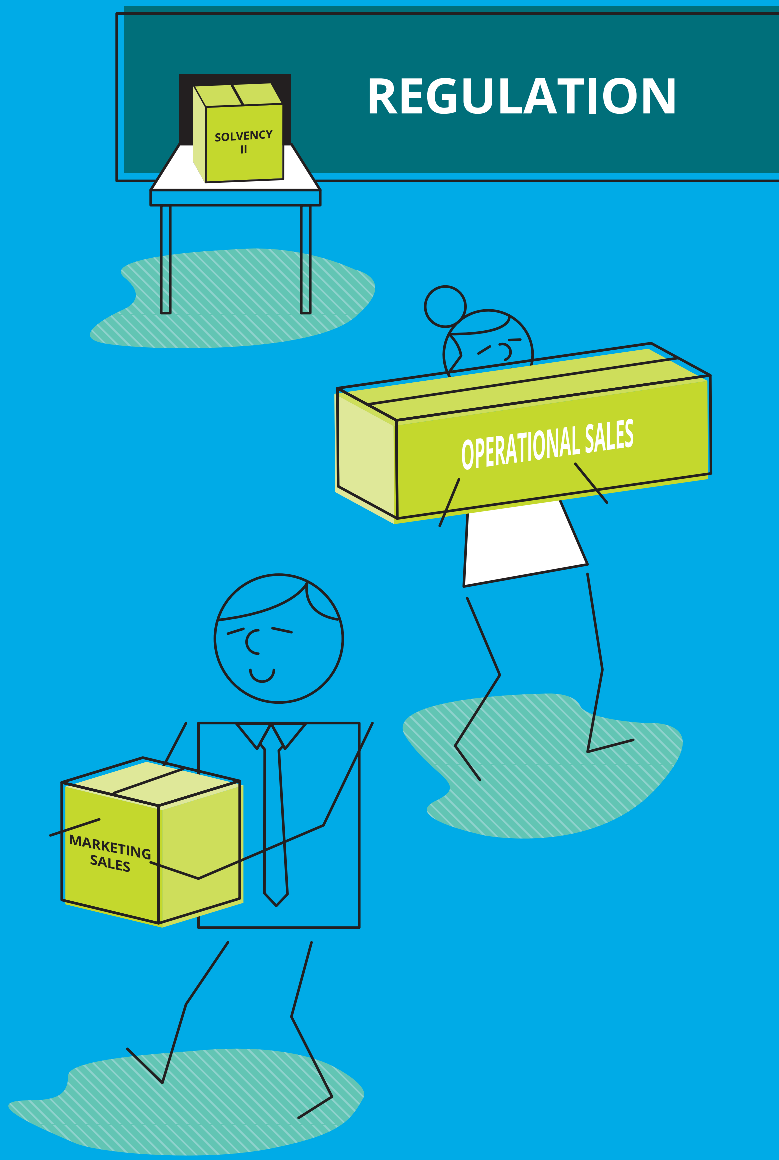


Figure 6. What percentage of your company's investment spend is allocated to new product development? (Please give any percentage from 0 to 100%)



Challenges to growth

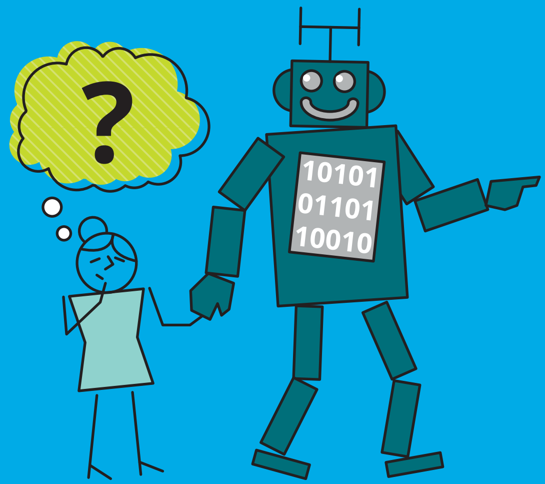


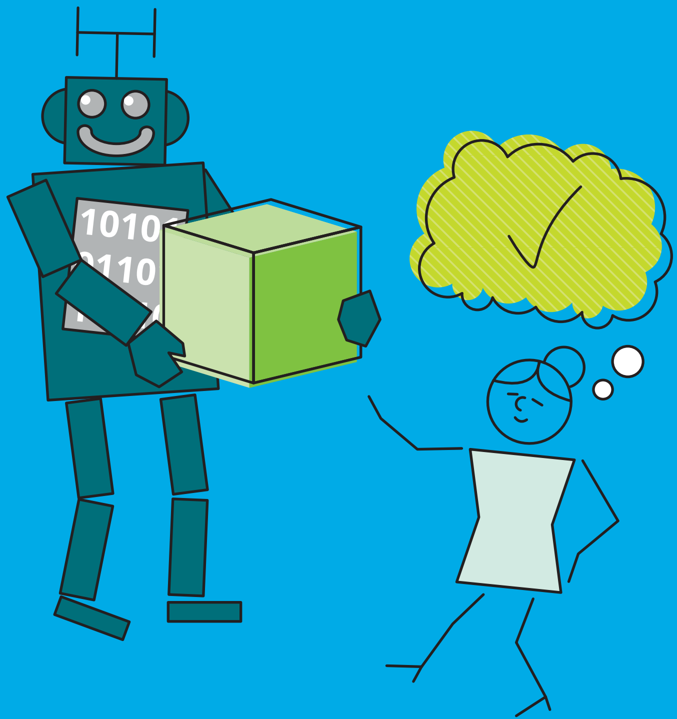
Regulation challenges recede

The post-financial crisis period has seen a significant increase in regulation for the insurance industry, as the sector has had to comply with a raft of initiatives, including Solvency II, the Insurance Distribution Directive, MiFID II and GDPR. The result, that regulatory and legal obstacles were seen as the biggest barrier to business growth over the past three years (mentioned in the top three by 40%) is therefore unsurprising. Regulations such as Solvency II have required significant effort on the part of insurers, directing attention away from growth efforts.

However, this is expected to recede as a challenge to growth over the next three years – just 22% mention this. Insurers clearly feel they have already largely completed the work necessary for compliance and have absorbed new regulations into their processes. Yet this may be an overly optimistic expectation. The introduction of IFRS 17 in 2021 will require further work on areas such as data management strategy and risk processes. And we anticipate that, over time, the migration of insurance companies to more service-based offerings (many of which are not currently regulated) will attract the attention of regulators, particularly when it comes to conduct considerations.

Nevertheless, it could be that increased regulations present a growth opportunity for some insurers. Those most adept at predicting and adapting to regulation could offer regulatory insurance services to others both within the industry and in other sectors.





Customer demands present dilemmas

The biggest challenge for the next three years is rapidly evolving customer needs and expectations, cited by 45% of respondents. Allied to this, given the shift to technological tools, the second biggest challenge is slow adaptation to digital disruption (35%), with life and annuity respondents particularly concerned about this, as mentioned by 40% of them.

As we explored in the first part, the view that changing customer habits is a challenge as opposed to an opportunity is unlikely to be shared by new entrants. These players will be deploying digital technologies to better meet the needs and requirements of customers. They will be in a position to provide tailored, flexible and more personalised products through platforms that offer a seamless and pain-free experience for customers.

Incumbent insurers clearly recognise that they are playing catch-up when it comes to digital transformation, a topic we will cover in more detail in part four, *A Digital Present*. The industry has not experienced full-scale disruption, but should that happen, the most resilient businesses will be those most willing and able to adapt quickly.

Figure 7. What do you consider to have been your main challenges to business growth over the past three years (select top three)

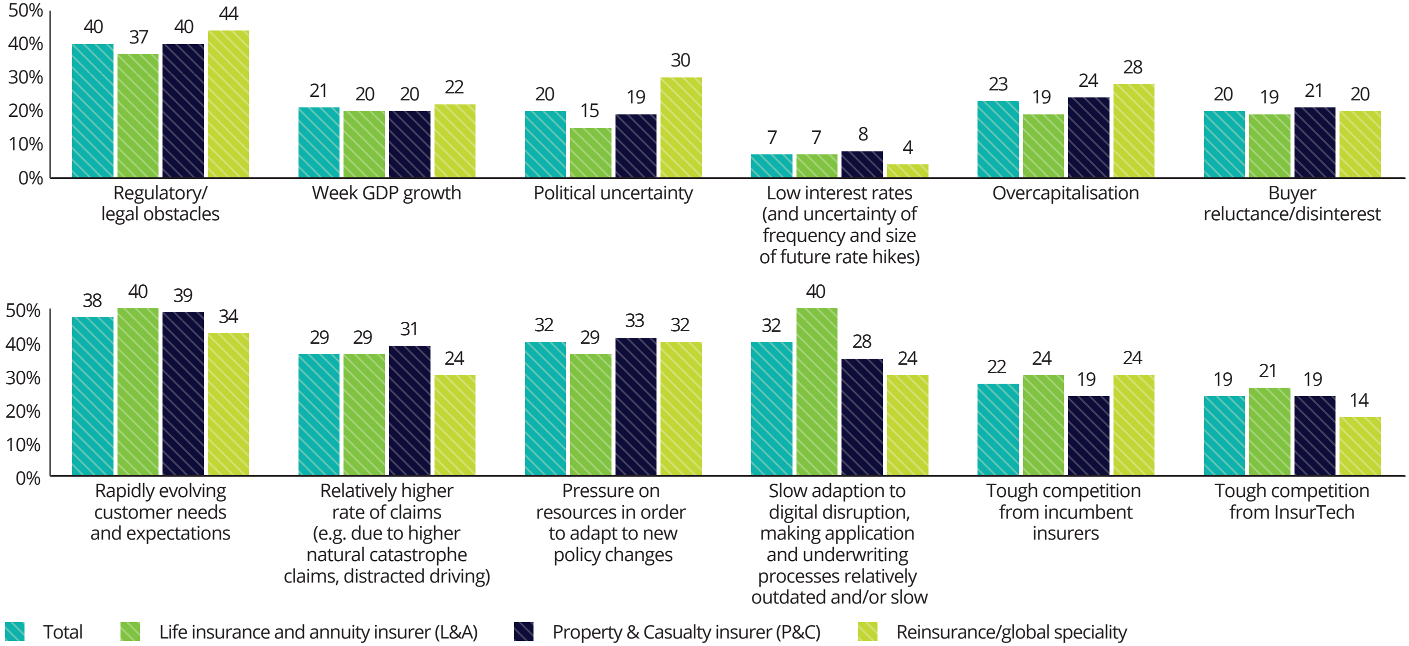
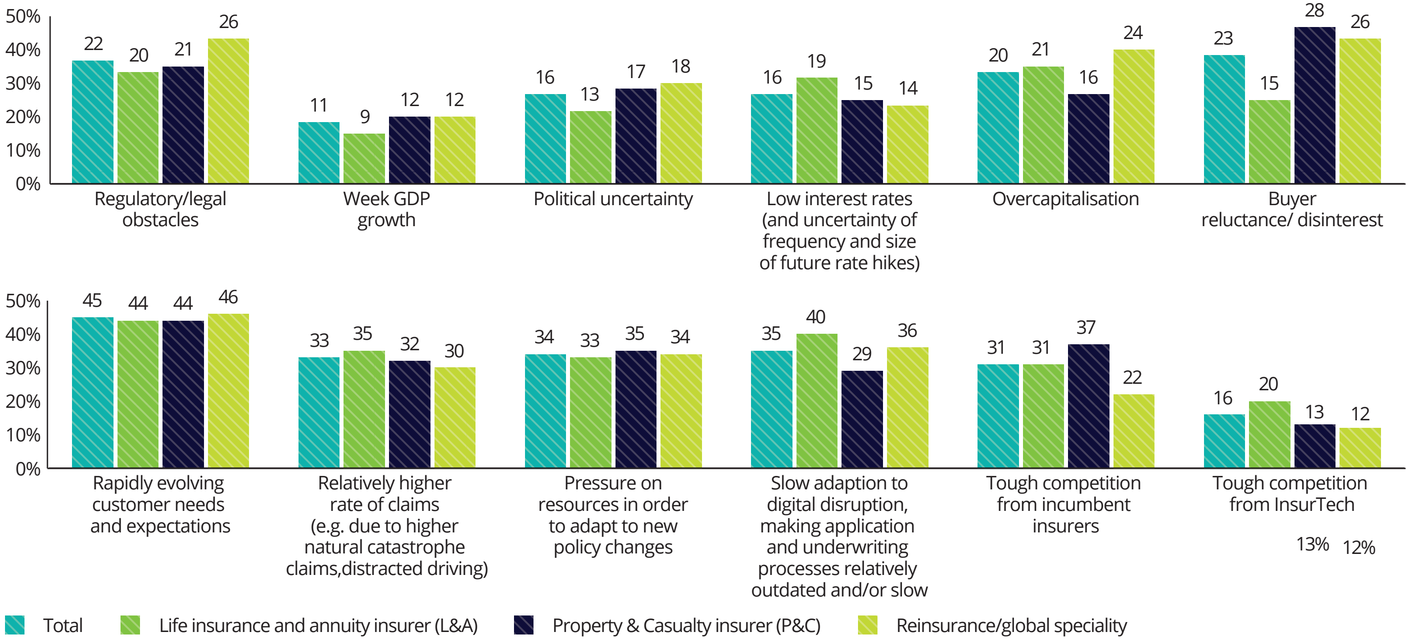


Figure 8. And what do you consider will be your main challenges to business growth over the next three years (select up top three)



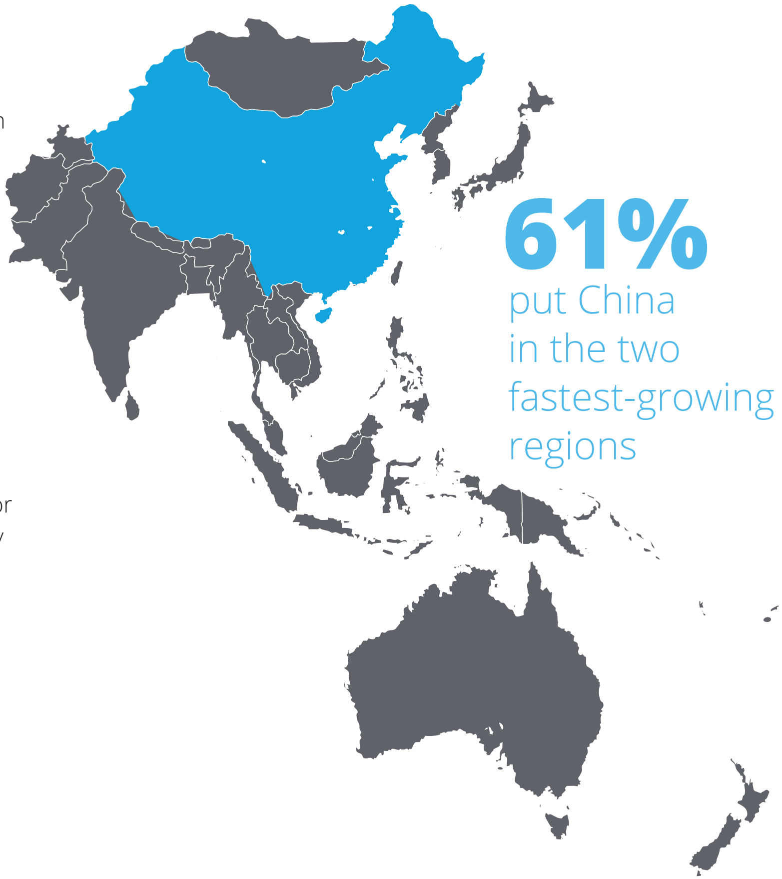
Regional growth

Asia on top

Overall, the region set for the fastest growth in the insurance industry is Asia, according to our respondents. Nearly two-thirds (61%) put China in the top two fastest-growing regions, with life and annuity respondents in particular expecting significant growth there (it is mentioned by 71% of this sub-sector). Over half of respondents (56%) included Asia (excluding Japan and China).

This reflects Asia's fast-growing middle class that will require more insurance as their assets rise in number and value. In addition, the region has adopted FinTech rapidly, a development that is increasing financial inclusion for large swathes of the population, with the result that insurance products have become easier to access.

Yet despite these predictions of fast growth in Asian markets, respondents are generally not seeking to tap into rising demand for insurance products there. Three-quarters of respondents say they have not yet entered the Chinese market and have no plans to do so and 70% say the same of Asia (excluding China and Japan). Just 17% say they already have a presence in the Chinese market and are looking to expand, while a quarter say the same of the Asian region (excluding China and Japan). A further 6% say they are not yet in these markets, but plan to enter in the next three years.



61%
put China in the two fastest-growing regions

… it is clear that breaking into these markets would be a significant challenge for many, particularly given that incumbent EMEA insurers are finding it difficult to keep up with technological change.

Why are insurers hesitating?
While it may seem counter-intuitive that the vast majority of respondents are not planning to take advantage of markets where they see significant growth, there are some sound reasons for insurers who do not have a presence yet to stand back. More obvious reasons may include difficulty gaining traction in new markets and the protectionist policies of some countries in Asia, but the biggest is likely to be the involvement of local giants such as Baidu, Alibaba and Tencent [5&6].

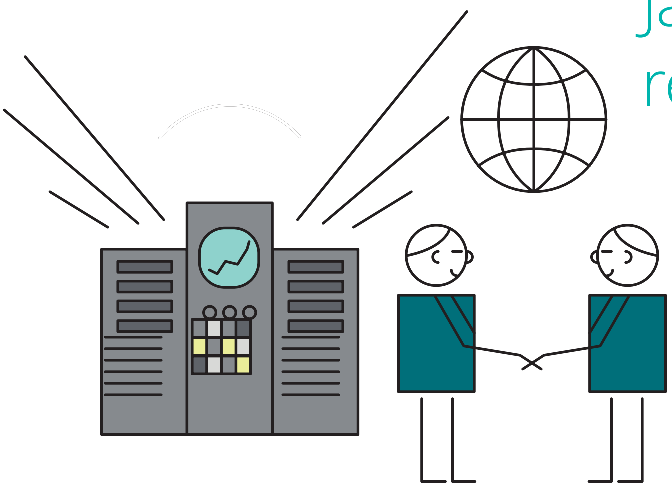
Tencent, for example, owns a majority stake in Weimin Insurance Company, while Alipay (Alibaba's payments business) holds a controlling share of Hangzhou Baojin Insurance Company. Both Ant Financial (Alibaba's financial services arm) and Tencent have other insurance investments, including in ZhongAn Online Property and Casualty Insurance. Given the reach of these businesses through apps such as WeChat, plus their ownership of customers through non-insurance offerings and their financial might, it is clear that breaking into these markets would be a significant challenge for many, particularly given that incumbent EMEA insurers are finding it difficult to keep up with technological change.

These technology businesses have already started disrupting the region's insurance markets, providing products and services that are tailored to the profile of Asia's populations. Last year, Ant Financial launched a new mutual insurer, Xianghubao, in partnership with China's Trust Mutual Life, targeted at the vast market of low to moderate income groups unable to afford traditional premiums. While previous attempts have been made at offering this type of shared insurance, Ant Financial's huge customer base and technological know-how suggests it may have more success in creating a business that attracts enough policyholders and keeps a lid on fraudulent claims[7].

Routes to growth in Asia

For EMEA insurers already present in the Chinese and Asian markets (excluding Japan), there are growth opportunities to go for. Nearly one-fifth of respondents (17%) say they are already present in China and planning to expand there, while 25% say the same for the rest of Asia (excluding China and Japan), including 34% of reinsurers.

It is likely that some of these players will opt for partnerships or joint ventures. Allianz, for example, teamed up with Baidu in 2015 to create a Chinese digital insurer[8] and its Allianz China unit received an US$85 million investment from Chinese e-commerce player JD.com[9], in a move that opens the way to further new distribution channels. However, others are opting for M&A as a route into growing insurance markets. Indonesia is forecast to have the highest premium growth rate in the world for life insurance between 2018 and 2030, with a CAGR of 9.2%, and second highest for property and casualty, with a CAGR of 7.8% over the same period, according to Munich Re[10]. Zurich Insurance Group, for example, acquired Indonesian property and casualty group Adira Insurance in 2018[11].



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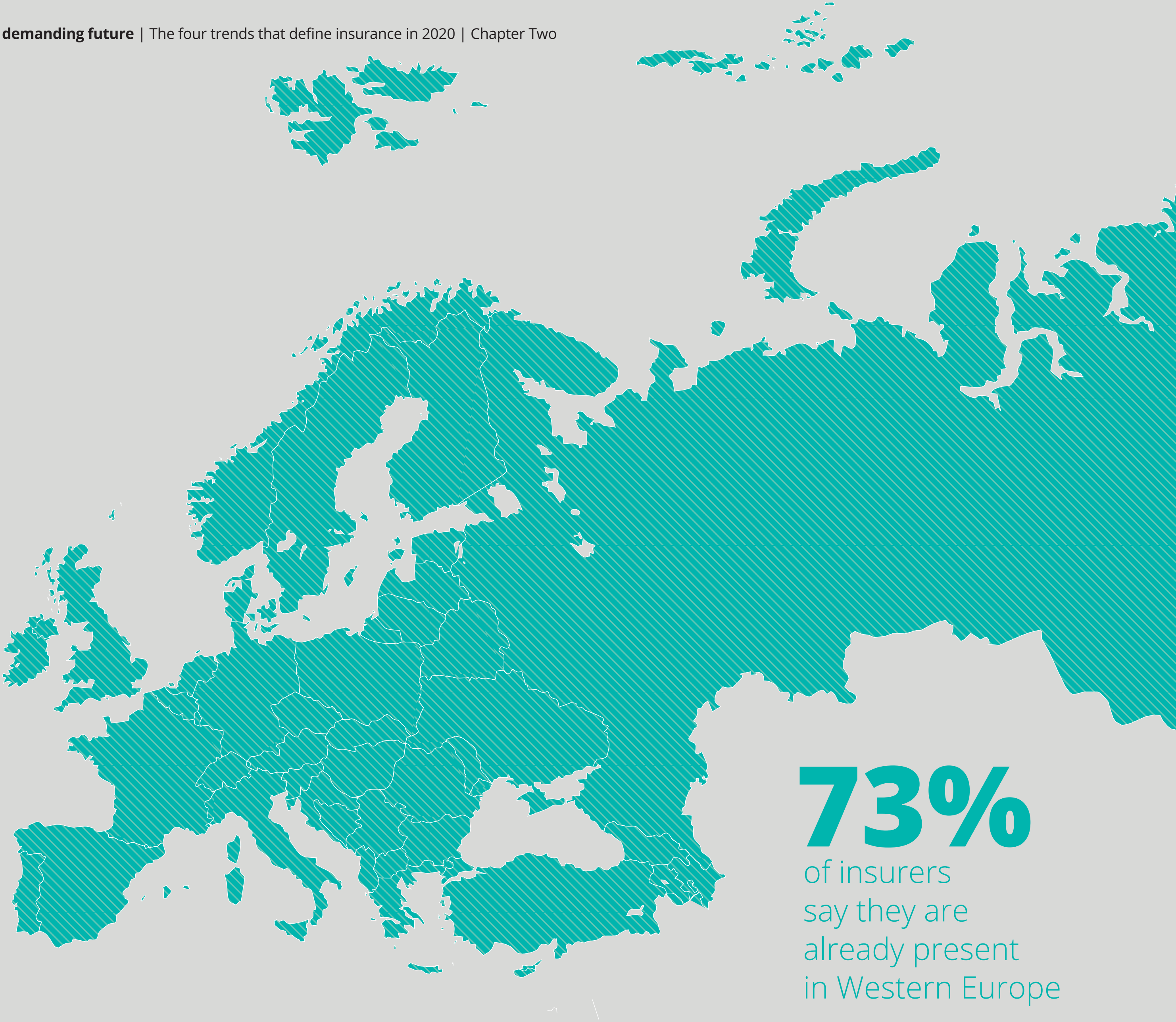

73%

of insurers
say they are
already present
in Western Europe

Looking for growth closer to home

Yet for many, existing markets closer to home present a more viable, potentially more profitable and lower risk growth opportunity. Nearly three-quarters of respondents (73%) say they are already present in Western Europe and have plans to expand services and products there. This is particularly the case for life insurance and annuity and property and casualty respondents, 76% of whom say this.

This focus on local markets is an entirely rational response at a time when there are pockets of significant growth potential across Europe in areas related to ageing populations, supply chains, cyber-security, the sharing economy and developments such as autonomous cars. There is also opportunity in de-risking pension schemes as companies move from defined benefit to defined contribution pension schemes. It's also apposite for companies to stick to markets they know well at a time of significant change for the insurance industry.

As we highlighted earlier, insurers are already offering new services and products to customers, a largely technology-driven shift that will change the market and business models as well as the way insurers operate. It seems that many insurers have therefore concluded that now is not the time for global flag-planting. It is rather a time to simplify their organisations so they are in a position to better understand and meet the needs of their customers.

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Endnotes

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