

Opinion paper

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*Insurer 4.0: Turning change into an
opportunity*

Five theses – summer 2016



Introduction

New technologies and competitors from other sectors are calling into question the industry's traditional business models and practices. Emerging "insurtech" companies and others serve their customers via digital channels, thereby bypassing the necessity to build up an expensive sales force. At the same time, historically low interest rates (negative in many cases) pose a problem. Not to mention today's clear regulatory agenda regarding conduct, constantly changing customer expectations and growth that is often only realistically achieved by winning a bigger slice of a static if not shrinking pie. All of these factors have and will continue to place acute pressure on insurers' financial performance. Consequently, many insurers have announced cost cutting initiatives and are investing in order to move from a "product sell" to a "customer centric and customer service" mind-set and business model.

This opinion paper provides you with insights into some of the key developments and the anticipated impact on the industry.



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Customer focus: Customers want more than just mass-produced products

Today, customers are no longer satisfied with standardised products. They have no desire to pay for coverage and services they don't actually benefit from. Consumers educate themselves and compare products. This means they expect clear, well-structured and easy to understand information on insurance products. In other words, details that enable them to compare and contrast competing offers from the market and make informed decisions – not just at the time of sale, but also over the duration of a policy in the case of long-term life insurance products. Emerging conduct regulation will enforce these disciplines. In mature markets with high levels of insurance penetration, this is likely to put pressure on both the top and bottom line as reductions in the level of overinsurance take premium out of the market and costs increase from systems and processes upgrades required to meet the necessary level of information, transparency and customer interaction.

- Customer focus is more than just customer orientation. Customers expect insurers to provide tailored products that meet their specific needs. And regulators will demand this. Insurers will need to ensure that they, or their distribution partners, work closely with each potential customer, clarify in detail the customer's circumstances and insurance needs and deliver a solution that can be demonstrated to meet those, and only those, needs.
- Today's consumers contact their service provider round the clock and via a wide variety of channels. They choose on their own whether this takes place via digital media, the telephone or in person.
- Insurers now have significantly more opportunities to stay in close contact with their customers, build a relationship and get to know them. By analysing customer data, providers obtain a wide variety of information on the behavioural patterns and concerns of their customers, thereby making it easier for them to offer tailor-made services.



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Today, businesses can no longer simply foist cookie-cutter solutions on customers. Providers will instead have to assemble the right insurance components to create a customised solution for each and every customer. Moreover, Insurers will need to improve their multichannel capabilities, e.g. by remaining constantly reachable via all channels (online, mobile, personal) and seamlessly switching between each to allow the customer to interact with their insurer in the way that best suits their personal situation and circumstances, perhaps moving from one channel to another in the space of a few hours.

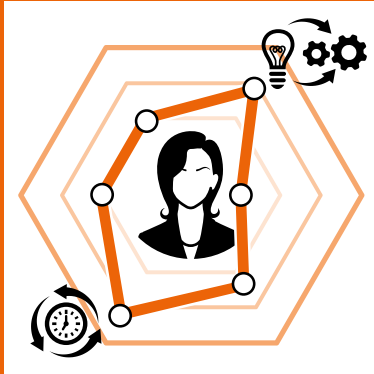
New technologies play a crucial role in this regard. Insurers will have to adapt their business models and sometimes even revamp them entirely. What's more, drastic adjustments to providers' IT systems will be necessary in order to offer tailor-made solutions to customers in a simple and cost-effective manner.

New services and solutions: As society evolves, customers' needs also change

Customers today want more from their insurers than just customised products. They also want new services and solutions. Sensors and mobile connectivity, the sharing economy, increased life expectancy and a heightened need for data security and privacy are creating significant opportunities for insurers. Providers offering solutions and services that prevent damage or loss will be able to meet the true needs of their customers (no customer would prefer to receive payment to compensate them for damage when the incident leading to the loss could have been avoided in the first place). If the incident can't be avoided, the next best action will be for insurers to at least mitigate the damage or loss and only then provide compensation as an ultimate backstop. Insurers who are able to adapt their business models to deliver these services are likely to win market share, generate growth by expanding their portfolio of services and solutions and improve their financial performance.

In certain areas, we are also likely to see the duration of insurance products shorten. Given the rapid pace of technological change, consumers want flexible solutions instead of long-term commitments. They prefer services that are simple, meet their needs for only the period of time the need exists, and can be easily combined with other products.

- This immediacy and flexibility can already be seen today. For example, in the past, travel insurance policies were concluded far in advance of the trip and remained valid for one year. Today they can be taken out directly at the airport for the duration of the holiday with coverage tailored to meet the specific risks associated with the customer's destination and/or planned activities. In the case of healthcare, patients can select the ward he or she wishes to occupy during the hospital admission process, depending on the severity of the ailment or operation.
- A similar trend can be seen in pay-as-you-drive insurance: pay-as-you-drive allows the insured person to purchase cover for the precise journey to be taken, for the car to be driven and the time that the journey is taken. The risk premium charged therefore reflects more precisely the potential for loss and places full control in the hands of the customer. The thinking being: "If I drive during daylight hours, I'll pay less for my cover". These capabilities will also facilitate car-sharing insurance solutions.
- Today, advanced driver assistance features, such as auto braking, automatic park assist, lane departure warnings and dynamic cruise (distance) control systems are already reducing loss frequency. Added to this, sensor- and telematics-based "nudge" and "gamification" services further encourage safe driving and provide incident response services. Similarly, sensor-based services are also being utilised in health and home insurance.
- Customer needs in the cyber and data security area open up significant opportunities for insurers. Compensation for loss is a minor part of the overall value that insurers can provide to customers. Specialist skills in the area of prevention, incident response, recovery and remediation are scarce and of high value. Insurers are uniquely situated to provide these services and thereby win new clients and develop additional revenue streams.
- The current low interest rate environment and demographic changes represent significant challenges for life insurance companies. New flexible solutions are needed that allow the 50-plus generation to stay in control and enable them to amend the services and coverage they benefit from as their circumstances and care needs change.



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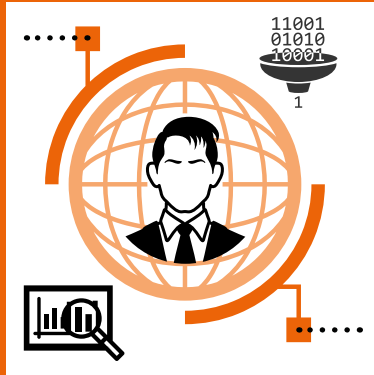
New technologies such as sensors and telemetrics provide great opportunities for innovating and engaging with customers. Being an early mover in these new business areas and offering appropriate products and services can be worthwhile for insurers. The early-mover advantage enables a provider to stand out amongst its competitors, offer unique value-added services, as well as build engagement and loyalty with customers. As a result, the provider benefits from increased retention, new revenue streams and higher ROEs, given that these services are not capital intensive.

Digitisation: New opportunities through partnerships

New technologies are blurring the distinction between business sectors. Today an insurer needs to do more than just establish itself within its traditional realm of activity; it must also keep an eye on the entire ecosystem in order to be prepared for new competitors. Technology firms focusing on the financial industry, so-called insurtech companies, are elbowing their way into the market. These firms, often young companies with completely new approaches, compel existing providers to respond with great speed and agility.

Partnerships will increasingly become a key success criteria. Developing relationships and partnering with insurtech companies, as opposed to competing with them, allows traditional insurance companies to accelerate their transformation, become agile and get to market faster.

- Integration of new technologies will become a success factor for any insurance company that aims to address the needs of its customers and offer customised solutions.
- Those who do not ride this wave of technological change are likely to see their business activities become successively obsolete. Today, processes that were previously accomplished manually are being automated at an ever-faster pace.
- Modern information systems, as well as access to and the processing of external and internal data, are the driving forces behind a further digital trend: data analytics. By analysing customer data, new business models can be developed, efficiency can be boosted and costs reduced. Data analytics likewise enable largely automated work processes within a company.



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The line of demarcation between sectors is disappearing. Clear positioning will be a decisive factor in the future success of an insurer. Broadly diversified sub-scale providers will find it increasingly difficult to keep up to date, develop winning go-to-market strategies and effectively compete against niche specialists. The latter can enter quickly into partnerships across sector boundaries, create new products and services, continually evolve to meet customers' needs and tap into new markets.

Data management represents a crucial task on this journey. Many insurers continue to use proven but antiquated information technologies. Updating these systems involves considerable time and expense, but it also offers numerous opportunities thanks to data analytics.

Talent: Technologically savvy communicators take the place of data administrators

Customers expect flexibility in the way they communicate and engage with their service providers. As their partner, the insurer needs to have talented employees who are familiar with all forms of digital media and seek to maintain close contact with its customers. To build and maintain a viable digital business model, many insurance companies need to transform their corporate culture and invest in “digital talent”. These skilled individuals have a broader mind-set and tend to think outside the box of their own department and immediate environment. All the while, the insurer must also retain its existing staff. A far-sighted human resources strategy will therefore become a central component of the overall corporate strategy. Accordingly, the insurer needs not only digital talent, but also leaders who will keep the company on its digital course.

- Along with the digitisation of the insurance business, the work methods of insurers are also undergoing fundamental change. Digital business models require a new way of thinking in the workforce, something that can pose an enormous challenge to long-standing staff members.
- Only those who understand and properly evaluate new technology will be able to develop appropriate and innovative insurance solutions. The insurer must therefore bond technologically adept individuals to the company.



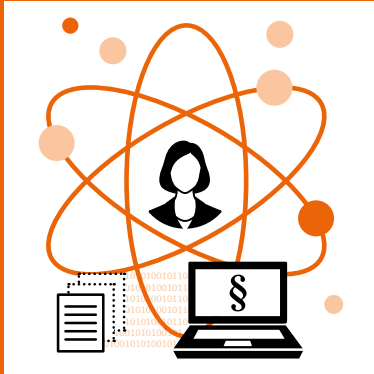
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Changing a corporate culture is a lengthy process, but it can be accelerated through investments in “digital talent”. Only when this transformation is accomplished can a traditional insurance company emerge as an “Insurer 4.0”. Going forward, insurers’ employees will spend less time handling data; their focus will be squarely on communicating with customers across all channels.

Regulation: Automation makes it easier to adapt to new regulations

Both at present and in the years to come, a multitude of changes in regulatory law (Solvency II) and accounting requirements (IFRS 4 Phase 2, IFRS 9) are on tap for the insurance industry. Numerous updates to statutory requirements are looming for the sector as well, namely the new directive on the sale of insurance products, IDD, transparency with regard to investments in (life) insurance products (Swiss Anti-Money Laundering Act and the exchange of tax-relevant data with other countries: FATCA, CRS/AEOI), and the EU's new data protection law GDPR (General Data Protection Regulation). Regulatory authorities are also likely to become more demanding in future, thereby consuming an enormous amount of time and causing added costs. To be compliant with the new requirements, insurers will need to amend their business model and product portfolio. You can only accomplish that if you establish an all-encompassing, efficient information system and embed it in an agile organisational structure.

- When designing new services and introducing new systems, insurers must take into account the relevant regulatory requirements at an early stage. This helps to avoid the possibility of projects failing due to regulatory glitches.
- An adapted culture ensures that controls are incorporated into work processes and performed reliably.
- To that end, insurers need to have effective compliance and governance processes in place as well as transparent, automated controls, all of which enable reliable oversight.

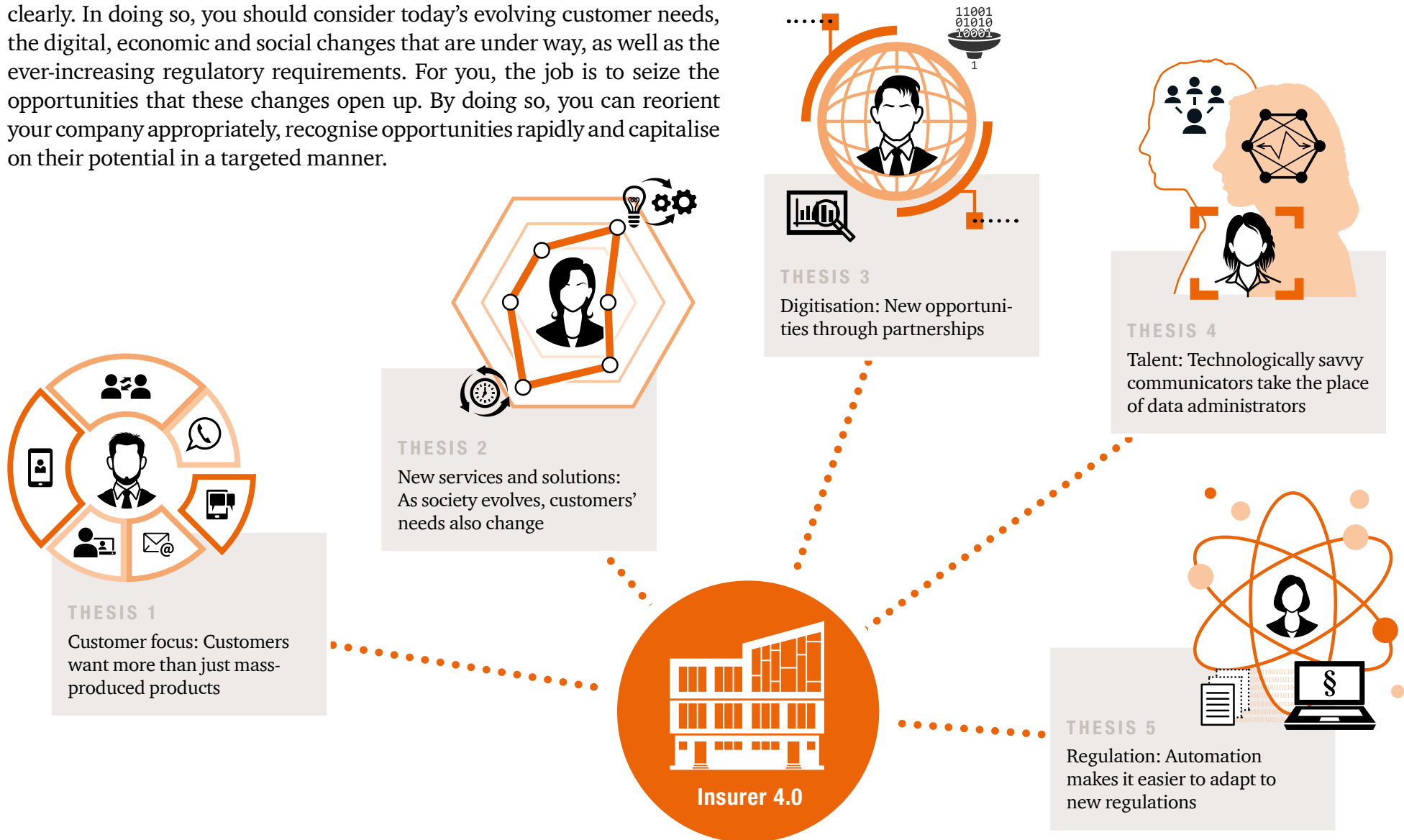


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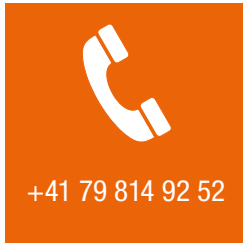
Implementing regulatory projects effectively requires more than just enacting new policies, adapting forms, conducting training sessions and establishing new control points. Insurers should also work in particular towards building a cleverly designed data architecture with structured and centralised data availability. This lays the foundation for accessing the necessary information in a simplified and multidimensional manner. Companies that achieve such a high degree of automation can generate without undue effort the requisite reports for the regulatory authorities.

Closing remarks

As a decision-maker and bearer of responsibility at an insurance company, you should critically reassess your business model and position the business clearly. In doing so, you should consider today's evolving customer needs, the digital, economic and social changes that are under way, as well as the ever-increasing regulatory requirements. For you, the job is to seize the opportunities that these changes open up. By doing so, you can reorient your company appropriately, recognise opportunities rapidly and capitalise on their potential in a targeted manner.



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