

# *Insurance's new normal*

## Driving innovation with InsurTech

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**45%**

of respondents currently partner with InsurTech

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**68%**

of participants expect to adopt blockchain as part of an in-production system by 2018

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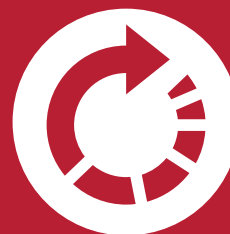
**94%**

of respondents are prioritising better risk insights and customer engagement



<b>Foreword</b>	<b>3</b>
<b>Insurers are going beyond disruption</b>	<b>4</b>
<b>Prioritising better risk insights and customer engagement</b>	<b>5</b>
<b>Analytics and mobile focused, but emerging tech on the horizon</b>	<b>6</b>
<b>Insurance is primed for blockchain adoption</b>	<b>7</b>
<b>Challenges can lead to opportunities</b>	<b>8</b>
<b>Final thoughts</b>	<b>9</b>
<b>Participant profile and DeNovo</b>	<b>10</b>
<b>Contacts</b>	<b>11</b>

## Key messages



InsurTech is no longer seen as disruption, but rather a transformative force



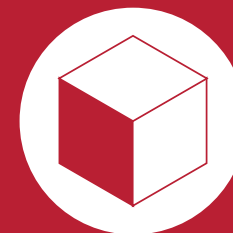
The need for better risk insights and customer engagement is driving the transformation



Insurers are investing in key technologies, such as data analytics and mobile, that will support this transformation



Emerging technologies, such as RPA, AI and IoT are coming to the fore



Blockchain is more familiar and a majority of insurers expect to have use cases in production by 2018



Insurers and InsurTech are collaborating to overcome industry challenges

## Foreword

The pace of change in the Financial Services industry is accelerating, and while the insurance world won't change overnight, many have begun to look outside their own organisations in order to respond to challenges and take opportunities. New products and services are developing which meet the needs of an expanding and changing customer base. Costs will begin to decrease as new ways of doing business evolve and emerging technologies, such as artificial intelligence (AI) and the Internet of Things (IoT), not only provide customers with a better experience, but also streamline back office operations. InsurTech is reshaping the insurance industry. Previously viewed as a disruptive force, it is now driving innovation across the sector.

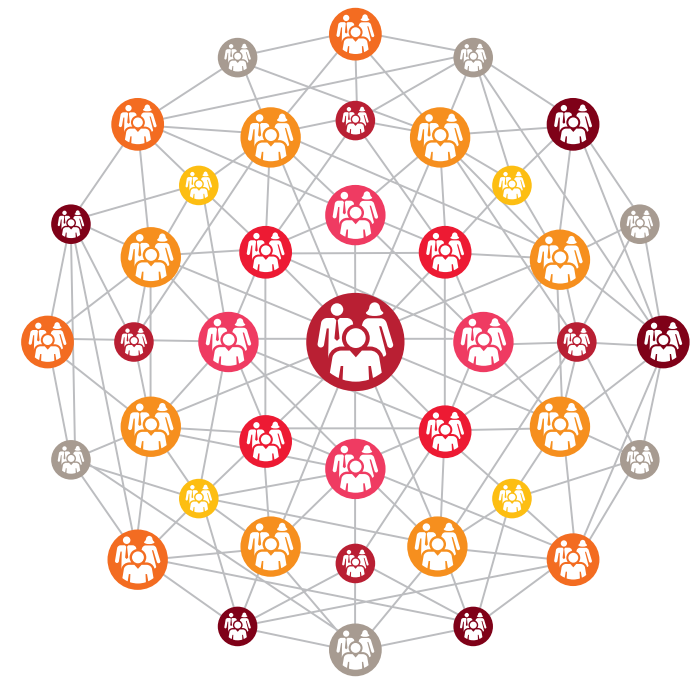
The insights in this report are based on the responses of 189 senior Insurance Sector executives from 40 countries who participated in PwC's Global FinTech Survey 2017. With an editorial board made up of specialists from around the world we complemented the report with our own insights and analysis into how InsurTech and Insurance are moving closer together and how insurance is innovating in response to InsurTech. The report is also fuelled by proprietary research from PwC's DeNovo, focused on InsurTech innovation and its impact on business.



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*New products and services are developing which meet the needs of an expanding and changing customer base.*

## Insurers are going beyond disruption

In 2016, the insurance sector was in the midst of the FinTech revolution, with InsurTech disruption on the mind of 74% of insurers. Today, while most respondents still see business as being at risk, InsurTech is becoming more widely understood and accepted. Gaining a better understanding of InsurTech has led the majority of respondents (56%) to estimate between 1% and 20% of revenues being at risk (see Figure 1).

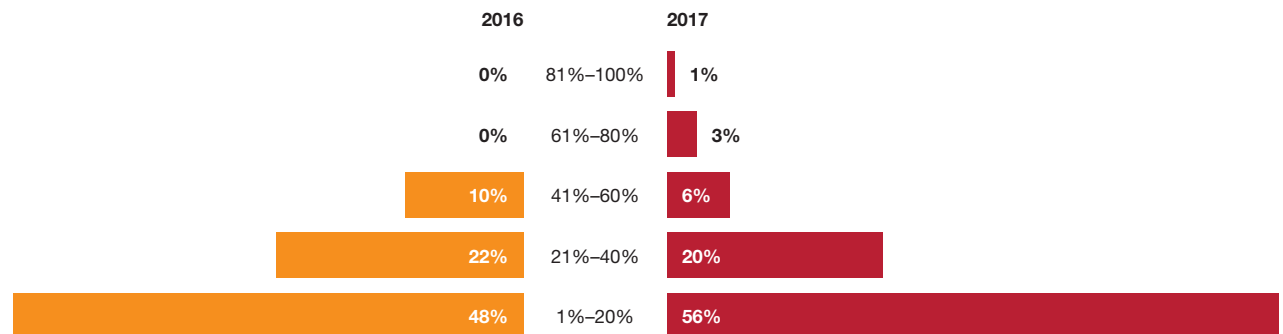
In fact, insurers are taking a more proactive approach to seize the opportunities offered by InsurTech, with 52% putting disruption at the heart of their strategy.

Additionally, insurers are the most active among Financial Institutions when monitoring FinTech in order to respond competitively and are increasingly partnering with innovators (45% in 2017, versus 28% last year). Partnering can assist incumbents to meet changing customer needs and target new segments, for example, pay as you use insurance.

New innovations will also enhance incumbents' operations, such as the use of artificial intelligence (AI) to improve efficiency by automating existing customer-facing underwriting and claim processes.

**Figure 1: Percentage of revenues at risk to InsurTech companies**

What percentage of your business (in terms of revenue) is at risk of being lost to standalone FinTech companies within the next five years?



Source: PwC Global FinTech Survey 2017, Insurance Sector Participants

*“I believe startups will drive this disruption and will be integrated into either tech companies or traditional institutions.”*

*Head of Innovation of a large Asian Insurance company*

*“I believe InsurTech will have repercussions across the entire insurance industry, both consumer and commercial aspects – startups will find ways of undertaking processes and services in a better manner than incumbents.”*

*CEO of a large Asian Insurance Company*

## Prioritising better risk insights and customer engagement

Insurers’ focus has shifted to become more customer centric. In line with last year, customer engagement and the generation of better risk insights are identified as the most important innovation trends by 94% of respondents (see Figure 2).

Current InsurTech value propositions reflect these innovation trends. With market players focusing on Internet of Things (IoT) startups and solutions that leverage data usage and monitoring, new tools are being developed that will help companies align with customers’ needs as they change from protective to preventative models. Alongside this shift, InsurTech companies are focusing on specific microsegments and developing products to reach them. The growth of specific products on demand (e.g. pay as you use) and P2P models highlight this trend.

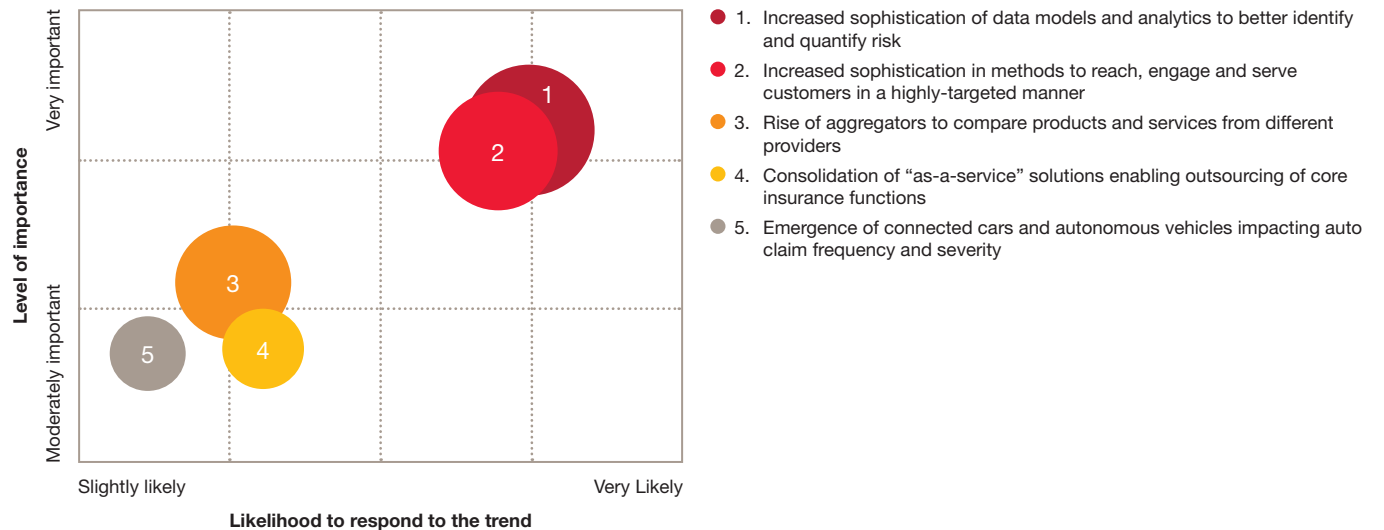
Prioritising customer engagement will ensure products are intuitive, easy to use and accessible. According to respondents, as only 16% and 25% of their customers currently engage with them through mobile and website, there is ample room to boost digital interactions. As participants expect these channels will be used by 81% and 90% of their clients in the coming years, insurers will need to focus their investments on connectivity and mobility.

InsurTech companies are in a strong position to develop new products, drive market innovation, and help incumbents remain relevant to changing customer demands.

**Figure 2: Insurance innovation trends**

Please rate the degree to which these InsurTech trends will be important for the insurance industry over the next five years

The size of the bubbles is proportional to the number of related FinTech companies as assessed by the DeNovo platform



Source: PwC Global FinTech Survey 2017, Insurance Sector Participants and DeNovo

## ***Analytics and mobile focused, but emerging tech on the horizon***

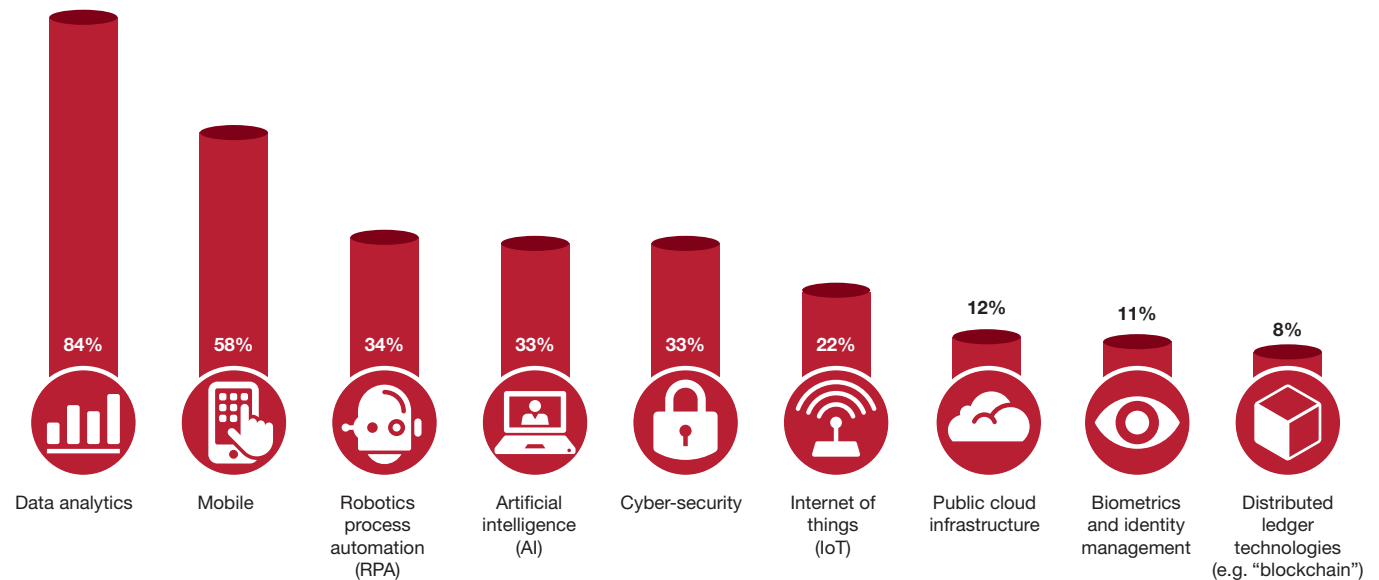
Consistent with the trends highlighted for the industry, insurers plan to heavily invest in data analytics and mobile technologies to ensure better risk insights and customer engagement models.

Alongside this they are beginning to look at emerging technologies such as AI and robotics process automation (RPA) for short term investment (see Figure 3). RPA is already being used in back office operations to connect previously disparate systems. AI is streamlining simple claims and underwriting decisions, leaving experienced professionals free to work on more judgment based decisions.

Compared to the broader Financial Services industry, insurers have chosen to prioritise IoT (22%) over blockchain (8%), whereas it is almost the inverse for the banking industry where blockchain is prioritised by 25% of respondents and IoT by 8%. Such a focus on IoT highlights the industry shift from a reactive model to a more preventative risk management model leveraging available data. IoT offers vast amounts of data in real time, changing the way insurers will interact with their customers and manage risks to limit losses.

**Figure 3: Relevant areas of technological investment over the next 12 months**

What are the most relevant technologies for your business that you plan to invest in within the next 12 months?



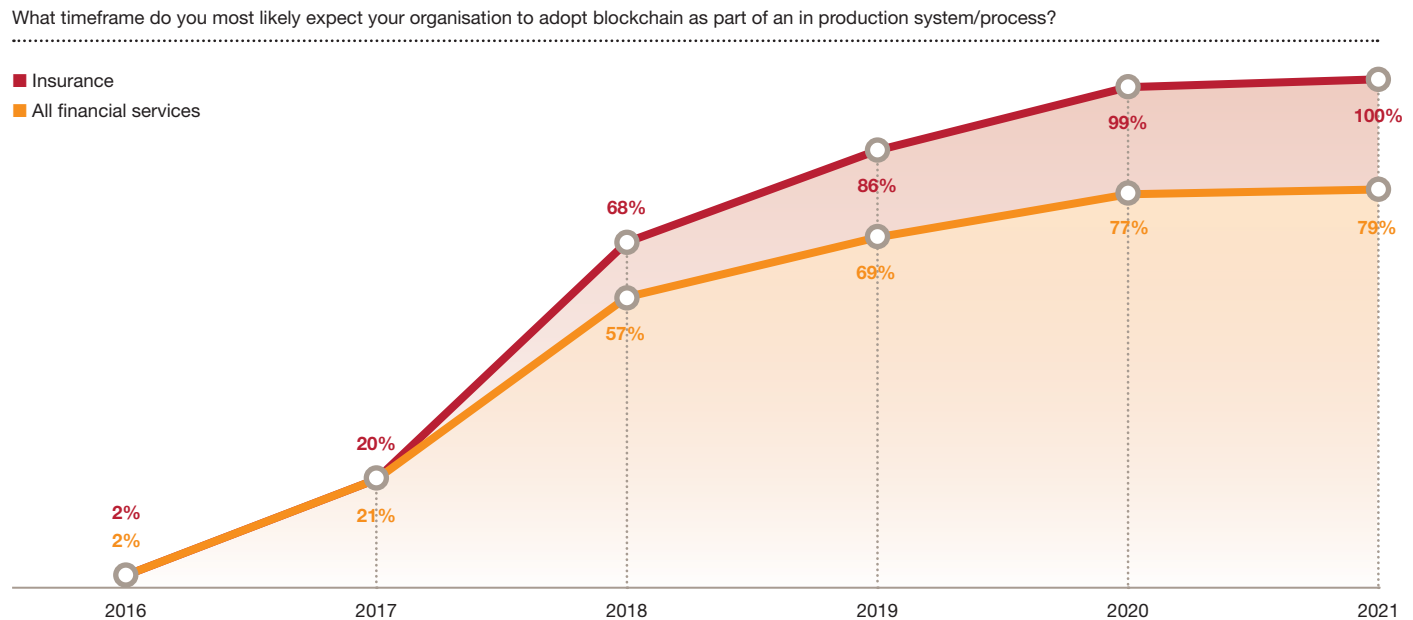
Source: PwC Global FinTech Survey 2017, Insurance Sector Participants

# Insurance is primed for blockchain adoption

Blockchain is increasingly attracting the attention of participants. They are realising the competitive advantage that this technology could bring to the design of new products and services with increased transparency, security and efficiency. While last year only 17% of insurance participants recognised blockchain as a very important innovation trend, half are now exploring the technology in-house or are in the process of participating in some blockchain initiatives.

Going forward, a widespread adoption of blockchain technology is anticipated in the insurance industry, with 68% of participants expected to adopt blockchain as part of an in-production system or process by 2018 (see Figure 4). This emphasises the importance of the technology and its many use cases, including: (1) automated claims processes, which will deliver benefits to the customer while reducing costs; (2) streamlining data collection and payments, which can provide better visibility and controls for underwriting; and (3) the aggregation and allocation of catastrophe risks or losses which would allow for better monitoring, understanding, and transparency of exposure and claims processes.

**Figure 4: Cumulative blockchain adoption in insurance**



Source: PwC Global FinTech Survey 2017, Insurance Sector Participants

## Challenges can lead to opportunities

Investing in InsurTech related projects can be an opportunity for insurers to expand their products and services, increase their customer base, and leverage their analytical capabilities. Curiously, incumbents responded that they expect to see a 13% return on investment (ROI) on these projects, substantially lower than the 20% expected by the overall Financial Services industry. We wonder if these more modest expectations, closer to product pricing expectations, reflect the mainstreaming of innovation investment throughout the insurance sector.

Talent is a key issue for insurers, with 87% having trouble in hiring and, even more so, retaining people with the right skillset to innovate (see Figure 5). In fact, 38% find it very difficult to do so, compared to 28% of respondents from the banking sector. Insurers can attract talent by acquiring from startups, partnering with innovators, and fostering internal talent. However, most companies will need an updated staffing model in order to develop their talent accordingly.

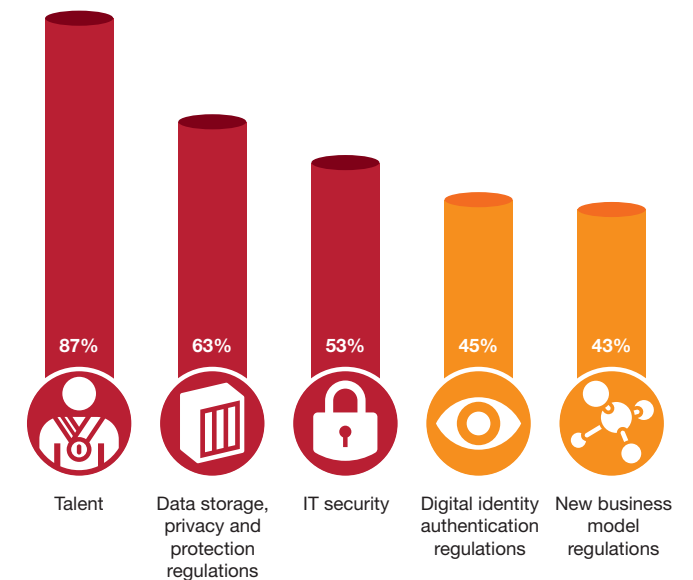
IT security is also a pressing concern when taking into consideration the increase of consumer and risk data. Acquiring or partnering with InsurTech companies can mean that traditional insurers' legacy IT systems are introduced to new exposures and risks as they are integrated with new, often cloud-based platforms.

With InsurTech's spread across the sector, regulators and policy makers have begun to focus on these developments. For example, there is growing concern in Europe surrounding the unintended consequences that come from an over-reliance on data analytics, such as higher risk policyholders being priced out due to more accurate information.

Further concern regards new data privacy rules, such as the General Data Protection Regulation (GDPR), and the possible conflict with innovative digital strategies. Much of this is yet to be tested, and while the full force of GDPR is still largely conceptual, insurers should be aware of the possible implications to their digital strategy.

As InsurTech grows, we are also seeing a rapid rise in RegTech, with organisations increasingly looking at technology that can help them address these regulatory and compliance obligations more efficiently and effectively. There are numerous existing pain points in regulatory functions where RegTech can help, from client onboarding and compliance monitoring to regulatory reporting and fraud prevention. While the banking industry is perhaps ahead when it comes to their interaction with RegTech companies, it is likely that insurers will follow due to the cost and headcount savings that RegTech can provide.

**Figure 5: Challenges the insurance industry faces in their ability to innovate**



Source: PwC Global FinTech Survey 2017, Insurance Sector Participants



*“We’ll see traditional Financial Institutions recognise they can’t move as quickly as large tech and either invest more heavily in acquiring startups or partner with them to drive change.”*

*Head of Products of a large North American Insurance Company*

## Final thoughts

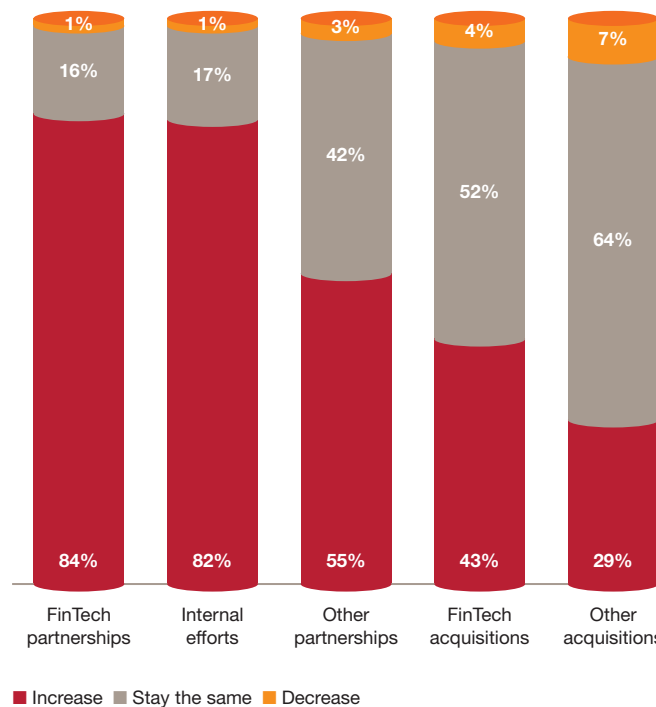
Effective innovation programs depend more on an organisations’ innovation processes, tools and culture than on how much is spent on R&D. An excessive internal focus and silo mentality, caused by minimal contact between business units, will often weaken innovation capabilities. The question is then: how to ensure innovation adds value to your company? Traditional insurers should continue monitoring the InsurTech landscape, comprehending how it affects the market and focusing on relevant innovations. Ultimately, for insurers, it’s no longer a question of whether or not they are involved with InsurTech, rather it is about how they leverage the InsurTech ecosystem.

Insurers see their potential sources of innovation coming from partnering with InsurTech companies and through internal efforts (see Figure 6). While the majority of insurers see their company as good at generating ideas, only 17% state they are confident in creating products with innovators (see Figure 7). Insurers should not fall behind other sectors such as Asset & Wealth Management and Banking & Capital Markets that are significantly more confident (30%) in this area.

Fundamentally, incumbents need to decide how to leverage their own incubators and accelerators in relation to InsurTech. Whether by acquiring or partnering with innovators or serving as a source of experimentation for innovators, capitalising on their brand and large customer base is the InsurTech opportunity. In the end, no matter the source of innovation, insurers need to ask themselves how they mainstream it into legacy cultures unaccustomed to the speed and agility of InsurTech.

**Figure 6: Changes expected in innovation sources**

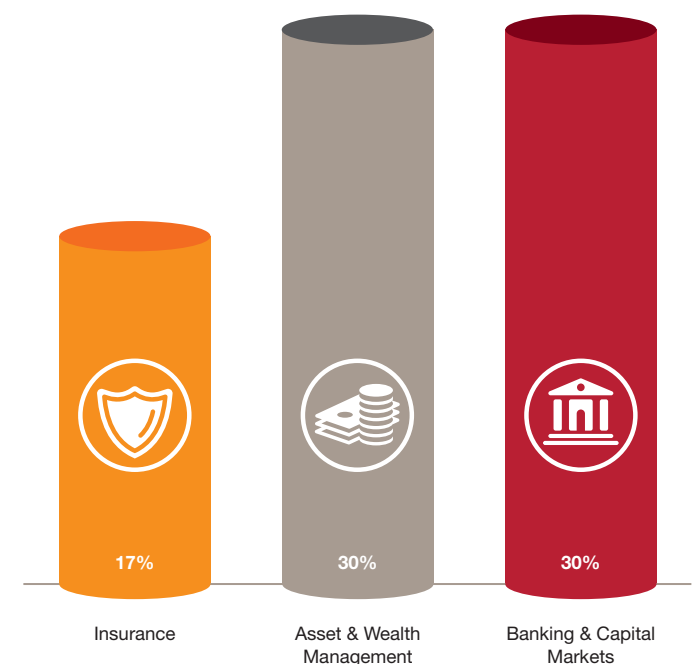
What changes do you expect to see in your sources of innovation over the next 3-5 years?



Source: PwC Global FinTech Survey 2017, Insurance Sector Participants

**Figure 7: Insurers ability to co-create with innovators**

Percentage of incumbents who rate their ability to co-create with innovators as good and very good

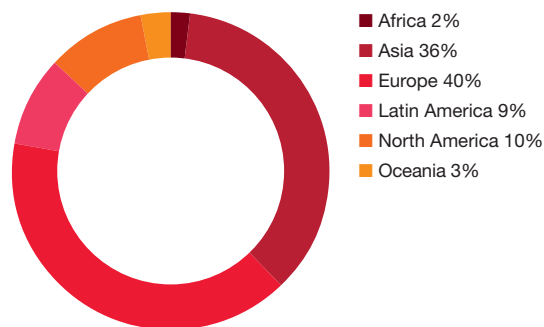


Source: PwC Global FinTech Survey 2017, Insurance, AWM and BCM Sector Participants

## Participant profile and DeNovo

The 2017 Global FinTech survey was based on the responses of 1,308 participants, principally chief executive officers (CEOs), directors /department heads, heads of IT/digital/technology, and other top management involved in strategy and innovation from 71 countries and across six regions.

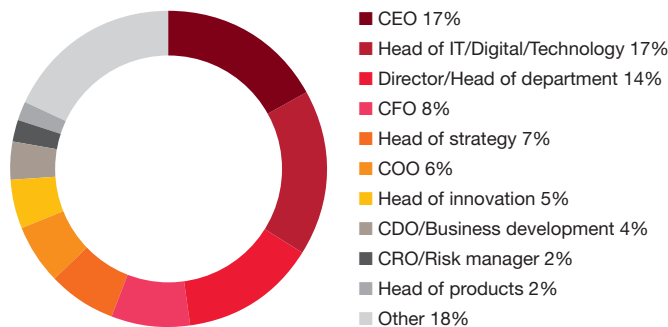
**Figure 8: Origin of participants, Insurance sector**



Source: PwC Global FinTech Survey, Insurance Sector Participants

The current report is based on the responses of 189 insurance companies from 40 countries around the globe.

**Figure 9: Type of respondents, Insurance sector**

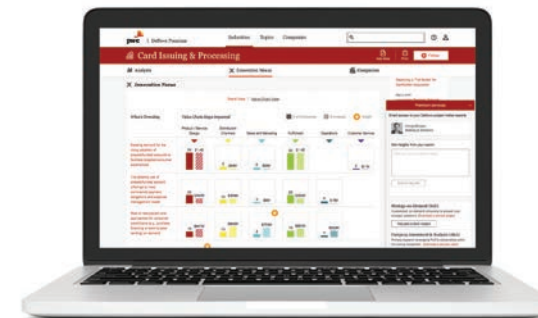


Source: PwC Global FinTech Survey, Insurance Sector Participants

### DeNovo

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