Insurtech: The New Normal for the Insurance Industry?

Patrick Mäder

Jan Ellerbrock

Juliane Welz

The disruptive forces of Insurtechs have continuously been mentioned in a multitude of publications. This journal, for instance, has published a report about this in its last edition (Braun and Schreiber, 2017). But are Insurtechs truly as disruptive as commonly claimed? Will they make incumbents obsolete? With the first wave of Insurtechs well-established and a second wave on its way, PwC concludes that CEOs have become well aware of how Insurtechs can impact their business. And we observe a change: Fear is turning into bullishness and skepticism into collaboration. The new norm is to embrace digital natives and open up for collaboration.

Are Insurtechs truly disruptive?

So, when was the last time you bought a roll of film for your camera, a music CD, or when did you write the last time a letter on a typewriter? While you might nostalgically reminisce, these examples show real disruption through innovation: entire product groups and along with them well-established firms were swept off the market. New technologies positioned new players, who often came from a different background than the incumbents. So when will insurance be truly disrupted and we will buy our last insurance policy? Well, according to a recent PwC Insurtech study, not so soon! The product in essence has not changed and the emergence of new risks in a changing world means there is more need than ever for individuals and businesses to protect themselves (PwC, 2017e).

Insurtechs bring fresh ideas and innovative solutions to the industry. More than half of all applicants for PwC's startupbootcamp (Startupbootcamp InsurTech, 2017) focus on emerging technologies such as Artificial Intelligence, Internet of Things, Robotics and Blockchain. The confidence in their business models suggests significant opportunity and a step-function impact in the future (PwC, 2016a). Data from PwC's global Insurtech study indicates that over the past two years more than USD 6.5 billion have been invested into insurance-focused startups alone (PwC, 2017e). And there is no slowdown in sight. Investments have rather spiked in 2017 and are expected to exceed all prior years (Figure 1).

We have summarised Insurtech competencies across several areas of the value chain and ranked them in importance as follows (PwC, 2017e):

- Meeting changing customer needs with new offerings
- Leveraging existing data and analytics to generate deep risk insights
- Offering new approaches to underwrite risks and predict losses
- Enhancing customer interactions to build trusted relationships
- Empowering insurers with sophisticated operational capabilities
- Leveraging broader ecosystems.

It is also noteworthy that 81 percent of Insurtech startups have one or more team members with prior insurance experience (Startupbootcamp InsurTech, 2017).

Despite all these promising indicators, Insurtechs offer basically no competition to the actual insurance cover itself. They have no insurance license – maybe with the notable exception of US-based crowdfunded insurer Lemonade – but rather address adjacent components of the value chain. We believe this is due to several practical hurdles and a complex set of entry barriers for insurance market entrants:

The authors

Patrick Mäder, EMEA Insurance Consulting Leader, PwC Switzerland.

Jan Ellerbrock, Head of Insurance Management Consulting, PwC Switzerland.

Juliane Welz, Assistant Manager, Transformation FS, PwC Switzerland.

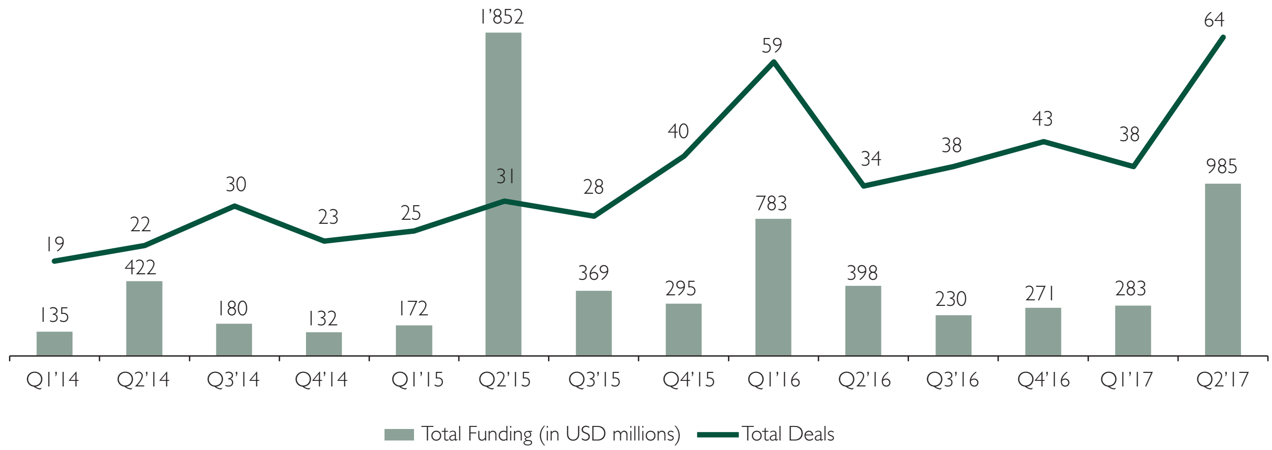

Figure 1: Global Insurtech quarterly financing (Source: PwC, 2017b)[1]

Underwriting knowledge
Startups do not have loss history and claims experience. Therefore, they lack the traditional experience required to price risks effectively.

Capital
Startups seldom have the capital strength which is needed to comply with the requirements of an insurance company. Returns on equity are not attractive for a venture capitalist and there are easier ways to invest.

Regulations
Strong and continuously stiffening regulations pose a significant hurdle for startups. They require in-depth knowledge, very robust infrastructure and high investments in compliance early on.

Customers' trust
Probably the most subtle, yet most critical aspect in the Swiss market: while consumers are open to new solutions and services, they highly appreciate the brand and recognition of established insurance players.

How insurers (should) react to market transformation

So, nothing to worry about? Well, not quite! Insurtechs are real and their value proposition replaces or enhances many business aspects insurers have historically claimed for themselves or shared with agents and brokers. Transformation has had tremendous impact on other industries and must not be underestimated. The key difference is that it unfolds in an evolutionary way. A product evolves into something adjacent. Mobile phones turned to smartphones, cars are becoming electric as well as self-driving, and in both examples existing players need to amend their established competences with new ones, but have no need to completely reinvent themselves.

The good news for insurance incumbents in Switzerland has been that so far the elasticity of the market to price and value is rather low. Customers slowly adopt newer, better or cheaper offers. This has posed a heavy constraint on new market entrants and aggressive incumbents. But will customer reactions stay that slow? A US study shows, millennials are the largest generation by now and so far the least insured (PwC, 2017b). What will happen when they close their insurance gap? Offering a new service and a better customer experience may allow some players to absorb significantly more market share than others. Trends in Switzerland are similar: A recent study about the user adoption of Chatbot technology revealed that 70 percent of participants would gladly use such technology to interact with their insurers. Only 20 percent saw a value in a personal relationship with their insurance agent (PwC et al., 2017).

So how should incumbents react? To find answers it might be helpful to look into the history of another industry. When the iPhone was first released in 2007, incumbents reacted very differently. The world market leader Nokia chose to focus on its proprietary technologies and maintain its own operating system, maps application, etc. Samsung, the third largest phone manufacturer at the time, chose to collaborate with Google and released an Android-based smartphone a few years later. Today, Samsung sells more phones than any other manufacturer in the world, while Nokia has just released a nostalgic retrofit of their year 2000 blockbuster model 3310.

Our research suggests that in insurance companies, a strong culture of self-reliance and stability is one of the biggest impediments to a closer collaboration between established players and Insurtechs (PwC, 2016b). For insurers, it will be crucial to build closer relationships bridging the contrasting cultures and to focus on joint opportunities. Being an investor in Insurtech will not be sufficient. It is important to be a true partner in an innovative, new value proposition combining the long-term ex-

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

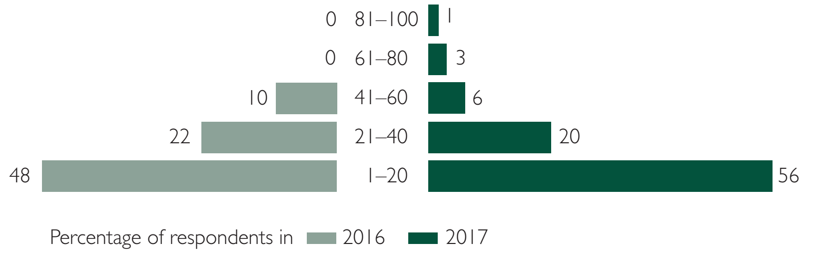

Figure 2: Percentage of revenues at risk to Insurtech companies (PwC, 2017c; insurance sector participants)

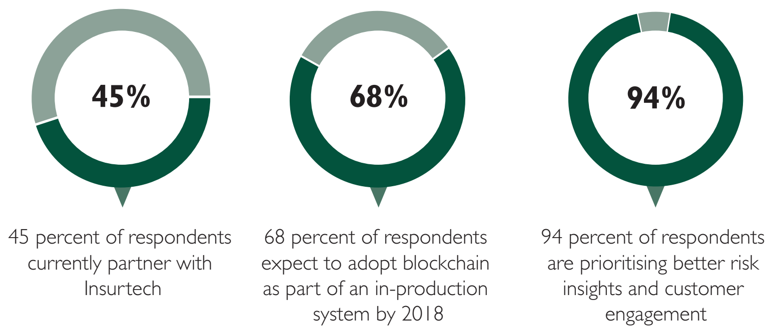

Figure 3: Insurance's new normal – driving innovation with insurtech (PwC, 2017d)

perience of incumbent players with the creativity and agility of Insurtechs.

We see this mindset establishing itself in the C-Suite of insurers worldwide: Our latest PwC CEO survey (PwC, 2017a) confirms that today the perception of Insurtechs is changing: While they are still recognised as a major market force, they are also seen as a pivotal driver of the market's transformation. Insurance CEOs see Insurtechs as both «enablers» and partners and to a lesser extent as competitors (Figure 2).

As shown by Figure 3, partnerships have also increased and are becoming the new normal.

We firmly believe that those insurers who engage in collaborations with Insurtechs and augment their value proposition will shape their own success. But choosing the right partners and tackling the right solutions is not trivial. Opportunities are ample and their acceptance by customers is seldom proven. In addition, there is no one-size-fits-all approach. New value propositions need to be designed to the specific preferences and needs of the predominant customer group(s). Translating new technologies into tangible solutions, not the technology itself, represents the big challenge.

This is why PwC Switzerland has started to actively collaborate with a multitude of Insurtechs and co-created a Fintech startup accelerator «F10» supporting Switzerland's Fintech ecosystem on a long-term basis. Frederik Gregaard, a Digital Leader, explains: «We help our insurance clients in identifying the right solutions for themselves. We provide a platform for Insurtechs and insurers to connect. We help to make collaboration work, since we believe that in order to be successful in this market, Insurtechs and insurers have to collaborate. Based on our insights, a significant part of the industry is getting up to speed and those who address the ongoing digital transformation in an agile and strategic way will gain customer's trust and have the momentum on their side.»

The accelerator already has a proven track record of innovation and product creation for financial services. A good example in this respect is Enterprise Bot, a startup company providing white label Chatbots. Pranay Jain, CEO and co-founder, explains «We are empowering insurance companies to answer their clients' questions and handle their requests in a matter of seconds – 24 hours a day, seven days a week. The vetting associated with F10 has given our small firm great access to large banks and insurance firms».

Another example of an innovative collaboration model is Anivo. Anivo runs an affinity group platform providing advisory services for and easy purchasing of insurance products. Users can very easily compare products and prices and buy their cover online. Alexander Bojer, CEO and co-founder of Anivo, points out that partnerships with incumbents have strongly increased: «Together with a large insurer, we have co-developed two entirely new insurance products which we were able to offer through the Anivo platform within a couple of weeks, including FINMA approval. Insurers appreciate that we are faster than their own IT and provide access to attractive affinity groups.»

To sum it up

Insurance companies should have little concern about the disruption of their business through Insurtechs, but rather recognize their transformational impact. Staying alert on latest developments and collaborating with Insurtechs to create a better value proposition for their clients will be the key to success. Accelerators as well as consulting and startup communities can help to identify the right opportunities for each player. And while this transformation may happen more slowly in insurance, we can only encourage all incumbents to engage actively. Other industries have shown that only those who do not try are running into the danger of being marginalised.

References

Braun, A. and Schreiber, F (2017). The Role of InsurTech Startups in the Insurance Ecosystem: Disruptive Innovators or Cooperation Partners? I·VW-HSG Trendmonitor 2·2017.
PwC (2016a). Innovating to grow: A new world of opportunity for insurers.
PwC (2016b). Opportunities await: How InsurTech is reshaping insurance, Global FinTech Survey.
PwC (2017a). PwC CEO Survey – Insurance Industry Report.
PwC (2017b). InsureTech Insights, July 2017. Published by PwC Corporate Finance LLC.
PwC (2017c). PwC Global Fintech Survey.
PwC (2017d). PwC: Insurance's new normal. Driving innovation with InsurTech. Global InsurTech Report.
PwC (2017e). Ready for take off – How InsurTechs are poised to transform insurance.
PwC, University St.Gallen and CEMS Forest (2017). Chatbot Revolution in Switzerland, A new era of Customer Engagement, June 2017.
Startupbootcamp InsurTech (2017), InsurTech Survey.

Notes

1 Funding in Q2'15 includes a USD 931 million capital raise by Zhong An Insurance, a Shanghai-based internet insurance company.