

# *The digital insurer*

Five propositions for the future  
of the industry



## Introduction

The winds of digitisation and new, innovative business models are sweeping the insurance industry. Tried-and-tested solutions are coming under heavy scrutiny and may soon be obsolete. The drivers are evolving customer needs and new products, services and sales channels. The question is no longer whether the industry will change, but how long-established insurance companies should respond – and whether they will actually be able to do so.

This radical transformation is having a wide-ranging impact on insurers. Completely new products are being developed to serve the changing needs of customers. Companies themselves are evolving and need to employ new specialists. This in turn will be the catalyst for a new corporate culture, and will ultimately lead to a completely revamped business model. Insurers that want to succeed in such a climate will need a clear vision of their market positioning and a strategy to make it happen.

This paper addresses issues that will require the industry's full attention in years to come, and comes up with five propositions in response to these challenges. As strategies differ considerably from insurer to insurer, our aim is not to give instructions but to highlight future prospects for successful digital business models. By sketching out this future, we want to help the current players create their own individual visions and strategies.

# Five propositions for the digital insurer of the future

1

## *Customers take the reins*

How do digital insurers respond to the changing needs of their customers and meet the challenge of demographic change?



*Digital insurers will cultivate business models that place customers centre stage and offer them multi-channel solutions and personalised products and services.*

2

## *Insights are driven by analytics*

How do digital insurers handle the ever expanding volumes of data?



*Digital insurers will harness the potential of predictive data analytics, exploiting internal and external data to the full.*

3

## *It's all about ecosystems*

How do digital insurers cope with ongoing technological and social transformation?



*Digital insurers will radically restructure their business model, shifting perspective from introspection to an all-round view of the ecosystem.*

4

## *Coopetition is the way forward*

How are insurers reacting to the increasing number of competitors?



*Digital insurers will use see iInsurtech as an opportunity to re-invent their own processes and services.*

5

## *It's all in the cloud*

What will the IT infrastructure and applications portfolio of a digital insurer look like?



*Digital insurers will develop a flexible and agile IT infrastructure based 100% in the cloud.*

## 1

## *Customers take the reins*

Digital insurers will cultivate business models that place customers centre stage and offer them multi-channel solutions and personalised products and services.

From 2020 so-called digital natives, the generation that has grown up with digital devices, will be one of the most important customer groups for the insurance industry. These people already have many years of experience dealing digitally with other, highly customer-focused industries, for example travel providers and book retailers, where digitalisation is already well advanced. Digital natives have become accustomed to straightforward, user-friendly products, expect fast processes and a rapid response, and demand a combination of transparency and convenience – requirements they also expect insurers to meet, throughout the entire customer relationship cycle.

Added to this, customers are much better informed than they used to be. They increasingly form their own opinions about the products they intend to buy and compare what's on offer online. This means they expect providers to offer better quality and transparency. Customers' decisions are informed by swarm intelligence: according to PwC's Insurance Monitor, 71% of customers these days look into social media or online platforms for a comparison before purchasing an insurance product.

In a society where so many options are available, customer expectations are also changing when it comes to the way they communicate and interact with a company. These days they want to be able to use the entire range of channels (online, mobile and personal) anytime and anywhere. They expect multichannel solutions that enable continuous contact, without them having to explain their case from scratch every time they get in touch with their insurance company.



## WHAT DOES THIS MEAN GOING FORWARD?

Insurers will have to redesign their products and services in response to the changing expectations of customers and their growing need for simplicity and transparency. This includes offering modular solutions that allow combinations tailored to the individual needs of customers. Services have to be straightforward, easy to understand and well-structured, and they must solve a problem for the customer.

Insurance companies must be reachable quickly and around the clock via multiple channels (online, mobile and personal) depending on the customer's situation. This will mean investing in mobile and interactive technologies. The solutions offered by insurers will be increasingly technology-driven and less advisor-based. New technologies such as artificial intelligence, chatbots and voice control will enable companies to offer additional applications.

In this new environment, the role of customer advisors and insurance agents will change significantly. Customers will take the reins, buying insurance on the basis of information they have compiled themselves. Their decisions will be informed by other people's opinions and swarm intelligence; on the other hand, new technologies such as chatbots and virtual advisors with artificial intelligence will also feed into their choices. This means customer advisors and agents will have to offer service that adds value, becoming a trusted partner to their customers. Loyalty to an insurer will continue to wane, and price sensitivity will become a major factor, making it all the more crucial for insurers to build relationships of trust with their customers.

## 2

*Insights are driven by analytics*

Digital insurers will harness the potential of predictive data analytics, exploiting internal and external data to the full.

With increasing digitisation and networking, the volume of data held by companies has exploded. This big data is a precious resource that has to be exploited. It's a source of valuable insight when it comes to developing customer-specific services and solutions. In the future, the data and information available on a person will be a commercial asset that can be put to strategic use. Even today, 71% of CEOs in the insurance industry agree that big data will bring about major changes in the way insurers make decisions. A huge 93% of respondents accept that data acquisition and analytics will be hugely important to the insurance business, more than any other digital technology. This figure is higher than in any other segment of the financial services sector.

Despite this, many insurers still don't know how to analyse the data available within their organisations and how to use it to draw the right conclusions for the future. Added to this is the fact that customers are increasingly disconcerted about data protection. In the wake of hacker attacks and data losses, they're now much more cautious and reluctant to share information with just anyone. Blanket data protection guidelines are no longer sufficient to regain this lost trust.



## WHAT DOES THIS MEAN GOING FORWARD?

Big data has spawned a new era of predictive analysis. The volumes of data and intelligent analytics systems available are enabling customer needs to be predicted more accurately. This is allowing insurers to address their customers more directly and offer them the right customised products and services at the right time. They're able to use data from mobile devices to gain insight into the owner's lifestyle, monitor their activities, or even evaluate their driving behaviour. Predictive analytics is impacting the entire value chain.

With the advent of big data analytics, the traditional insurance model is giving way to an approach based on data and intelligent algorithms. Given that calculating risks and prices is still part of a tradition provider's core competencies, this goes right to the heart of the insurance industry. Insurers are increasingly drawing on external sources in addition to their own internal data. For example, they can enhance their customer profiles by buying in data from retail customer loyalty programmes or social media platforms. Insurers in the USA already make use of credit card data and information from tachograph systems. Health insurers develop personalised products for their customers.

The success of any given solution depends to a crucial extent on the quality of the data. Improving data quality means giving customers additional incentives. Around 50% of customers are already prepared to share their details with a provider in return for better service. This figure rises even further when financial incentives are on offer: for example, 67% of policyholders would agree to have a sensor built into their car or placed in their home if they were offered a better price.



### *It's all about ecosystems*

Digital insurers will radically restructure their business model, shifting perspective from introspection to an all-round view of the ecosystem.

Demand for traditional insurance models has been in decline for some time. On the other hand, an increasing number of providers from outside the industry are taking an interest in the insurance business. The onward march of digitisation is blurring the boundaries between different industries and making it easier for “outside” players to enter the market and squeeze out conventional insurers.

At the same time, the growing importance of technology, data generation and analytics means that companies have to acquire new skills and competencies. Many traditional insurers can no longer meet these requirements acting on their own.



## WHAT DOES THIS MEAN GOING FORWARD?

Digital ecosystems are networks of companies or individuals and customers that connect and work together to provide services and create value. For insurers, alliances with technology partners outside the industry are an interesting opportunity to improve their own services, develop even more closely-tailored services, open up new channels to sell and interact, or make use of digital intermediaries and smart assistants.

Successful digital insurers will position themselves at the centre of ecosystems revolving around areas such as living and the home, health and transportation. To do so they'll have to recognise the needs of their customers and understand their lifestyles. The partners with whom insurers could conceivably form ecosystems could include suppliers such as manufacturers of portable computer systems and networked cars, or telecommunications and technology companies.

As networking and alliances become more prevalent, insurers will lose their exclusive access to customers. With services provided by different partners, the former will have to be carefully coordinated. While exclusive contact will no longer be possible, partners will be able to form close relationships with customers thanks to a more intense customer experience.

## 4

*Coopetition is the way forward*

Digital insurers will see Insurtech as an opportunity to reinvent their own processes and services.

Technology companies operating within the insurance industry, known as Insurtechs, are making huge inroads into the insurance market. They bring fresh and innovative solutions by harnessing emerging technologies such as artificial intelligence, the Internet of Things, robotics and blockchain.

A global study of Insurtech companies by PwC has shown that in the past two years, more than USD 6.5 billion has been invested in start-up companies focusing on the insurance industry. These companies are putting the continued growth of traditional providers in jeopardy.

For example, 70% of insurance company CEOs now see the speed at which technology is changing the market as a threat to the future growth of their business. This figure is higher than in any other industry. Of those polled, 56%, the largest percentage within the financial services sector, view new market entrants as a threat to their own company's growth prospects.



## WHAT DOES THIS MEAN GOING FORWARD?

Instead of fighting ambitious Insurtechs, traditional insurers should look to form partnerships with them to help drive transformation and increase their own agility. The stark reality is that they scarcely have a choice. Companies that refuse to go along with technological transformation will soon find that their business model is obsolete. Staid, standard offerings are rapidly being superseded by computers, robots and other digital technologies. Disruption in the industry is gathering pace, and anyone who misses the boat will soon find themselves left behind.

This realisation seems to have filtered through to insurance executives, who are now recognising that Insurtechs can have a positive impact on the transformation of their business. Fear of new players has turned to optimism: today, many feel that cooperation with former competitors can move their own company forward. Of those polled for PwC's Global Insurtech Report, 45% said they had already entered into partnership with Insurtechs.

## 5

*It's all in the cloud*

Digital insurers will develop a flexible and agile IT infrastructure based 100% in the cloud.

Cloud computing is already a hot topic in the insurance industry, though the focus tends to be on optimising costs. Companies are trying to replace expensive IT infrastructures via the cloud. But most of them are failing to recognise the positive benefits in areas such as total cost of ownership, quicker time to market and access to information anytime, anywhere.

Many players still see the cloud as a mere collection of servers and data storage units, and fail to grasp the opportunities a cloud solution can provide.



## WHAT DOES THIS MEAN GOING FORWARD?

The cloud service business will grow exponentially in the next few years, and the technology will give rise to revolutionary new possibilities. The three basic cloud-computing service models are infrastructure as a service (IaaS), platform as a service (PaaS) and software as a service (SaaS). They will play a decisive role in an insurer's choice of provider, as the power of the cloud has a direct impact on the entire insurance industry – not just IT infrastructure. The cloud will transform the way providers develop new products, and how they work with partners and interact with policyholders. The technology will increase a company's agility across the board.

On the other hand, cloud computing has an impact on conventional risk management approaches, as it means system administration roles and responsibilities have to be redefined. Companies must decide whether to use an open cloud, accessible to anyone, offered by an external provider, set up their own cloud for employees and customers, or choose a hybrid solution. At the moment only 28% of IT infrastructure is outsourced to the cloud, but this figure will rise to around 60% in the future.

## Closing words

### *Radical, lasting transformation requires uncompromising change*

In the future insurers won't be able to survive with a traditional business model. But a targeted strategy can help them make the changes that will be needed tomorrow.

There is huge market demand for online insurance services. But according to the latest study of SME's insurance conducted by PwC, this need is still hardly being met. With 65% of respondents wanting to use the online channel, this demand looks set to rise sharply. This underscores the urgent need for insurers to invest in digitisation and adapt their business model to the new circumstances. The study also revealed that many small and medium-sized enterprises remain highly underinsured, especially in terms of new technologies.

What's needed are simple, personalised solutions for customers that want to take responsibility for their own insurance affairs. The CEOs of the future will be digital natives who are up to speed with new technologies and do most of their insurance business online – but as the latest SME study shows, they still don't want to do completely without an insurance advisor. Insurance agents will have to find ways of offering service and something extra to build relationships of trust that can't be replaced by technology solutions such as chatbots and artificial intelligence.

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