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# ***InsurTech & the Future of Insurance***

## ***Presentation to the Federal Insurance Office***

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# Disruption: The New Normal in Insurance

## ***Insurance: the most disrupted industry.***

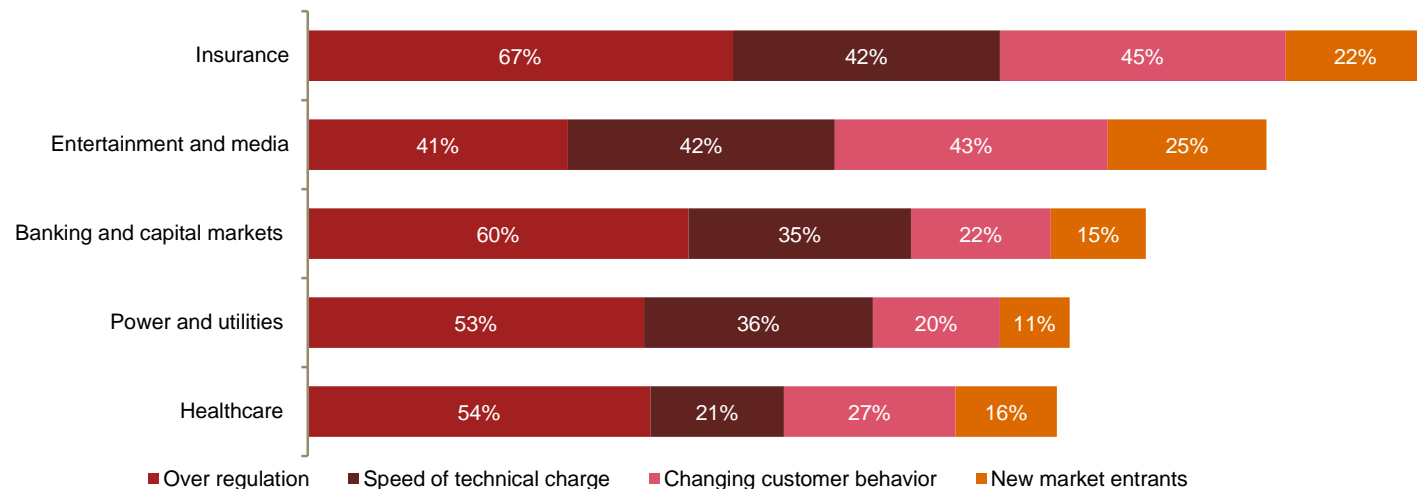
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1. Insurance has emerged as the most disrupted industry, with disruption to all lines of business – personal, commercial, life, health, group.
2. The insured, risk, insurer, and the ecosystem are all fundamentally changing, which is impacting all aspects of the value chain.

## ***According to our annual CEO survey, insurance executives see more potential threats to their growth prospects than any other sector.***

Q: How concerned are you about potential threat to your growth prospects from the following ?

**CEOs stating 'extremely concerned' (only includes commercial sectors with more than 50 respondents?)**

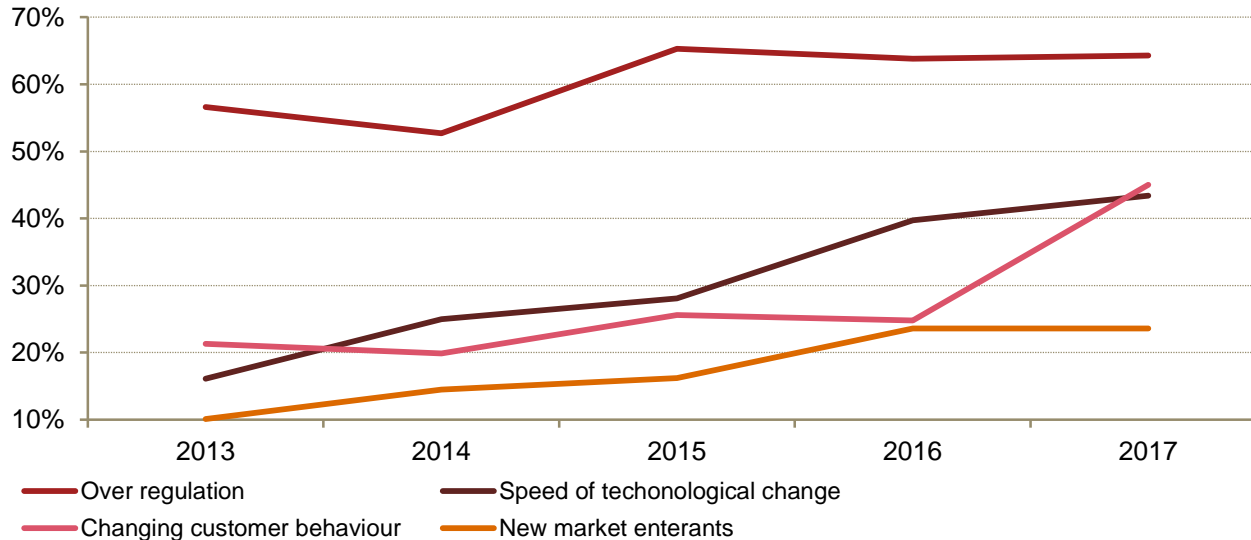


Source: PwC's 20<sup>th</sup> CEO Survey

## ***These concerns have increased in recent years.***

Q: How concerned are you about potential threat to your growth prospects from the following ?

### **Insurance CEOs stating 'extremely concerned'**



Source: Insurance CEOs participating in PwC's annual CEO Survey

***This is even more significant when including “somewhat concerned” and “extremely concerned” about threats to growth.***

**83%**

Speed of technological  
change

Changing customer  
behaviors

**78%**

**81%**

Availability of skills

**65%**

New market  
entrants

# The Rise of InsurTech



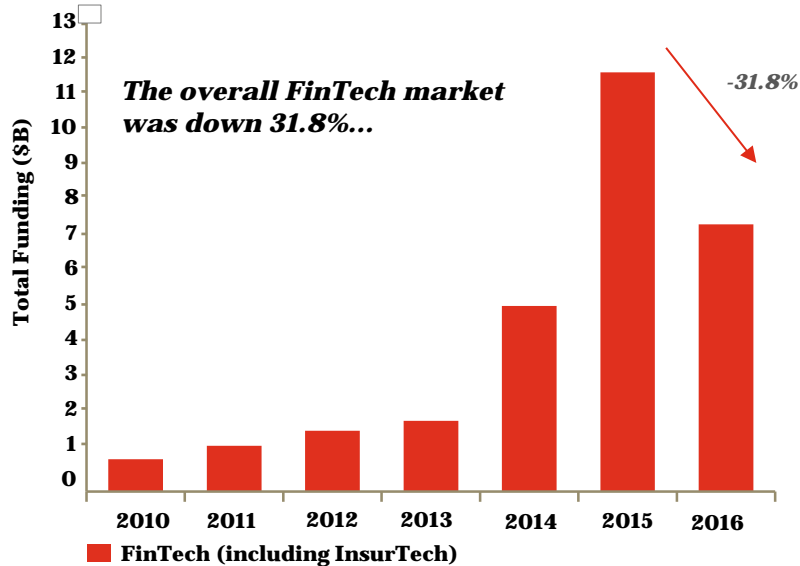
## ***What's changing?***

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- 1. Personal lines – Usage based insurance, ridesharing, peer to peer, direct-to-consumer, ADAS & autonomous cars**
- 2. Commercial lines – Direct to small business, drones, internet-of-things, autonomous vehicles, and emerging risks**
- 3. The InsurTech space, which was virtually non-existent just five years ago, now has close to 1,000 start-ups in over 14 categories.**

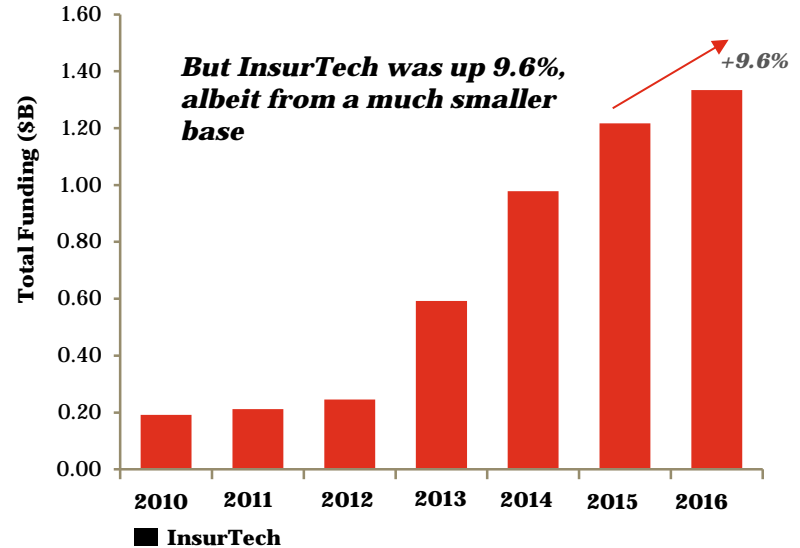
# ***InsurTech is providing new value propositions in an industry that has changed little in a century.***

## **Fintech activity overall saw a steep decline**



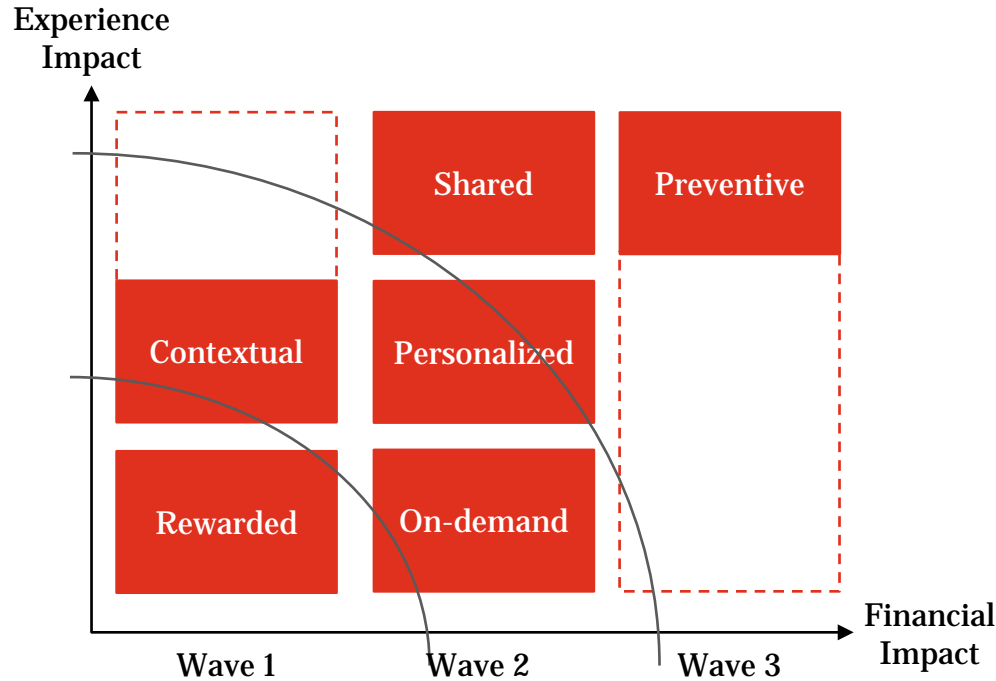
Source: DeNovo including a selection of relevant FinTech companies

## **InsurTech activity continued to grow regardless**

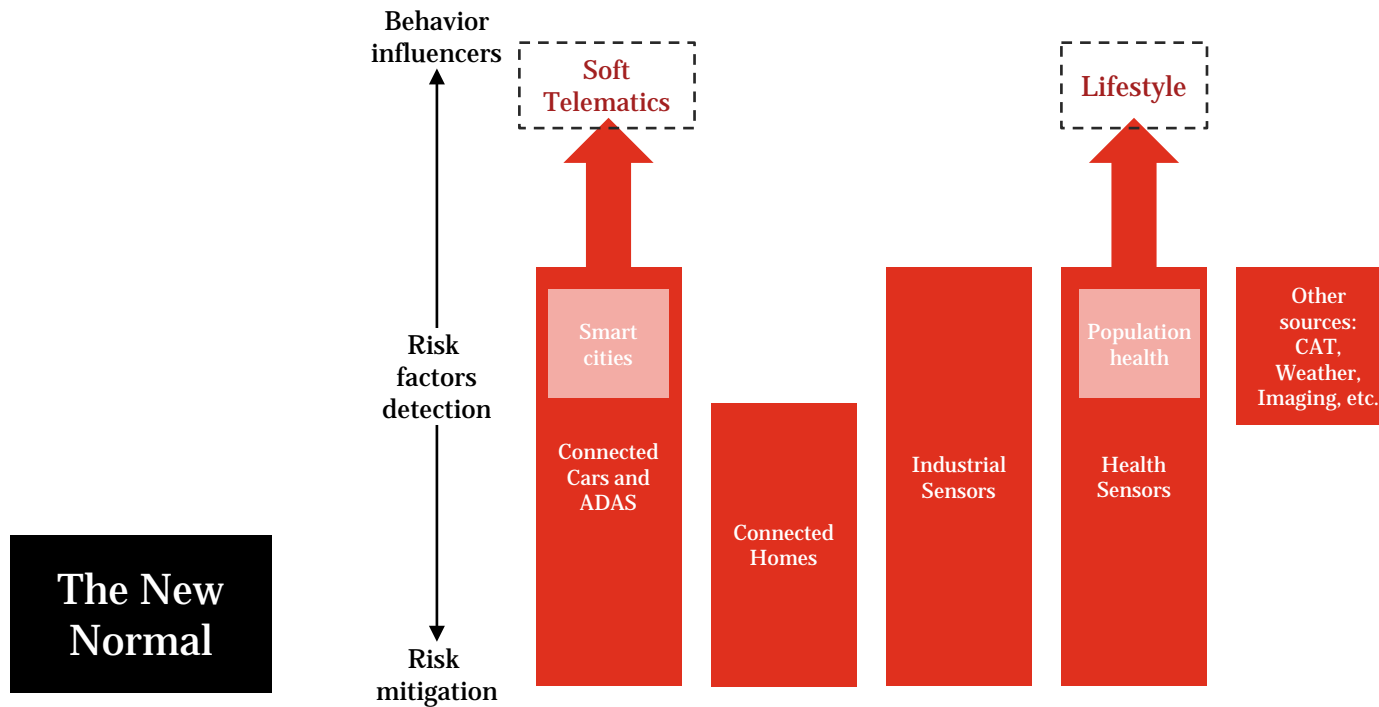


***Insured: Social and technological trends mean the next generation of insureds will demand solutions to help them and their peers manage and prevent potential personal and business disruptions.***

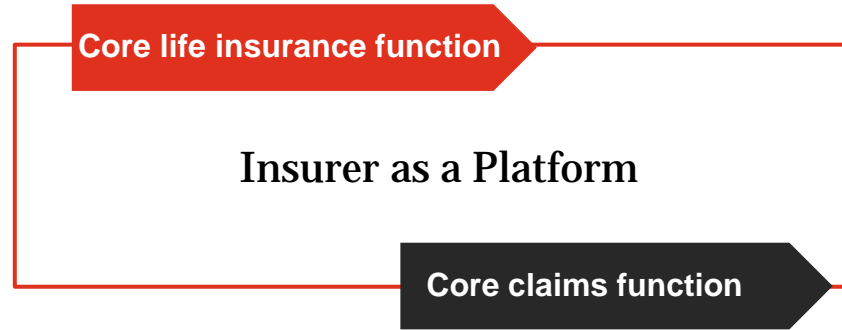
**The New Normal**



***Risk: New technologies will result in new risks; however, risks will become more predictive and manageable, thereby allowing models to shift from protection to prevention.***

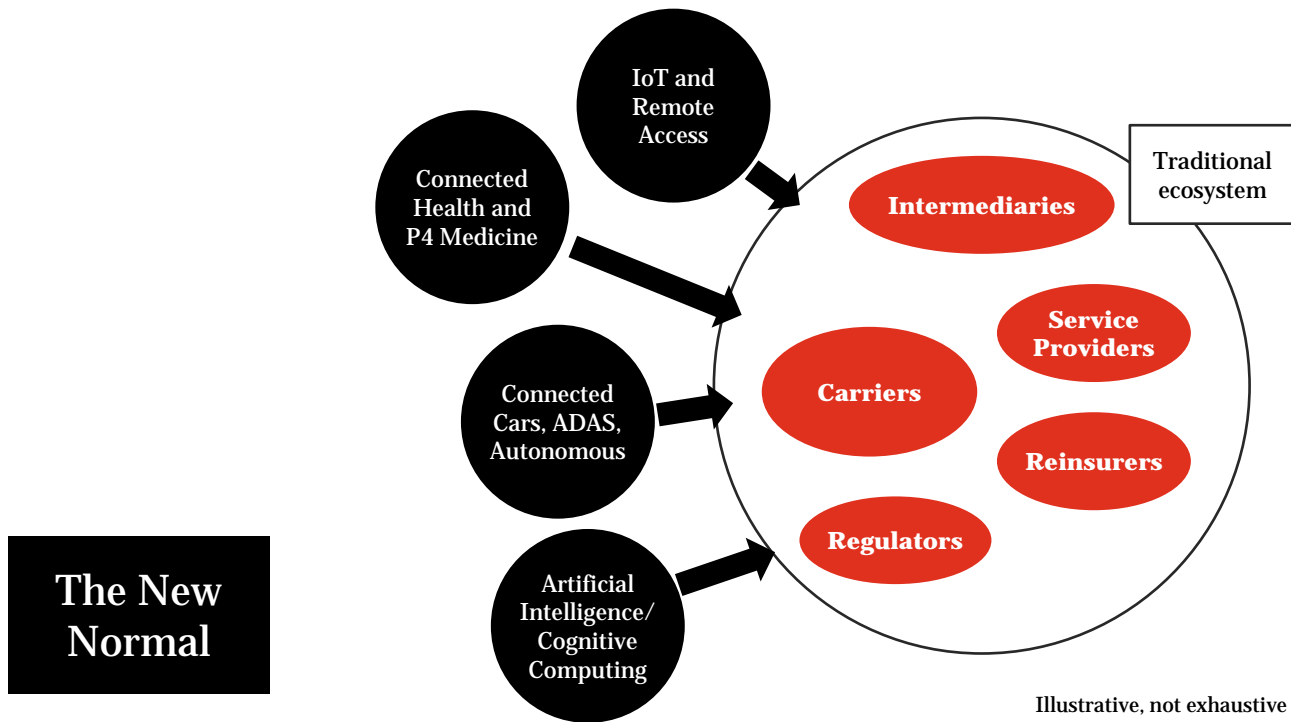


***Insurer: Carriers will position themselves as risk management platforms, interacting with new partners to bring new value propositions to the market while optimizing their operations.***



**The New  
Normal**

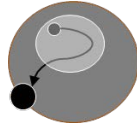
***Ecosystem: Unlike other industries, innovation opportunities in insurance are driven by advances and changes happening in other areas and industries, and this will expand the ecosystem and the opportunity space for insurers.***



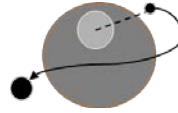
Illustrative, not exhaustive

# Incumbents are approaching InsurTech with different innovation models.

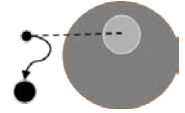
## Innovation Hub



## Internal Incubator



## Venture Capitalist



### Sourcing model

- Ideas 'in-sourced' from within company
- Dedicated internal team develops new products & services
- Potential to partner with external companies

- Ideas sourced from both inside and outside the company
- Dedicated internal team constantly monitors trends and markets
- Internal incubator identifies and supports ventures

- Ideas sourced from outside the company
- New ventures division set up to identify, iterate and bring to market new ventures

### Funding model

- Streamlined business case or stage-gating to balance procedural burden and risk
- Deploy internal SMEs to incubate and iterate ideas

- Pitch and invest model applied from within the company
- Expert panel provides high level guidance and approval at key milestones

- Pitch and invest model where Company provides cash and support for equity
- Corporate network provides guidance for incubation

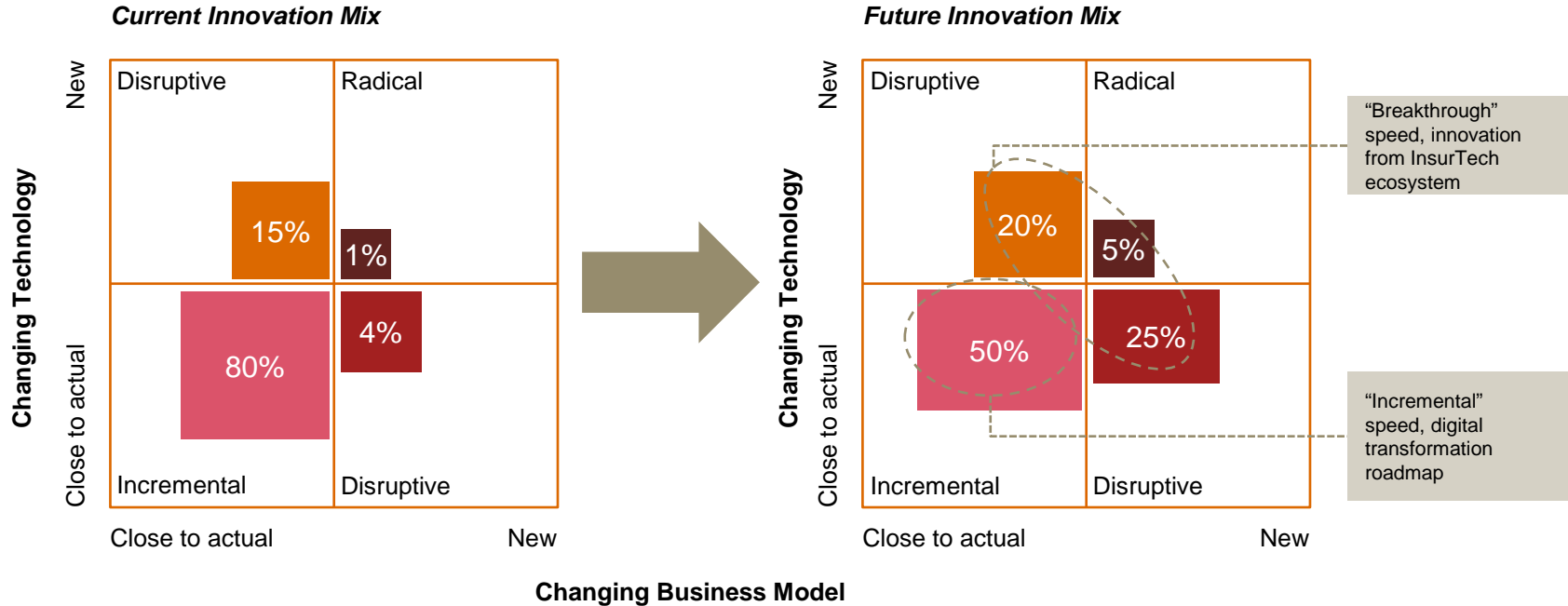
### Go-to-market model

- Idea / venture adopted under company's brand

- Venture can go to market under company's or new brand
- Venture is graduated into company's R&D funnel

- New venture goes to market under own brand, leveraging corporate channels and relationships

# *Insurers have started to innovate at two different speeds, in parallel.*





# Challenges and Opportunities

***To remain competitive, insurers see meeting changing customer needs and generating deep risk insights as main challenges/areas of opportunity.***



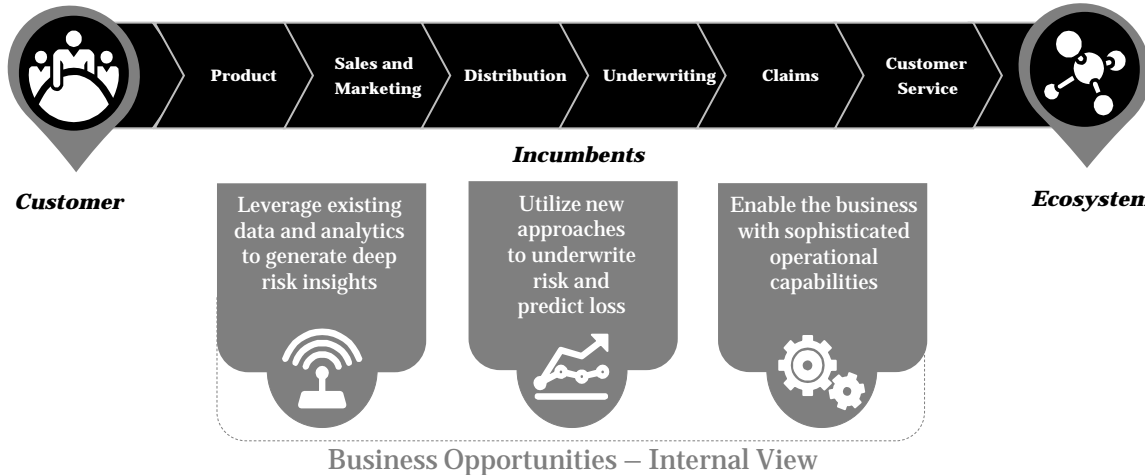
Source: 2016 Global FinTech Survey - Insurance

# ***There are 6 main areas of opportunity that can provide incumbents new solutions and/or improve core insurance functions.***

## Business Opportunities – External View



As part of **PwC's Future of Insurance initiative**, we've interviewed numerous industry executives and have identified six key business opportunities that incumbents need to take advantage of as they try to meet customer needs while improving core insurance functions.



The **external view** includes opportunities related to how new customer needs are satisfied, how compelling interactions are managed and how the ecosystem is leveraged.

The **internal view** focuses on how incumbents can use data and new capabilities to better manage risk and to increase operational excellence.

# Areas of opportunity (continued)

## Meet changing Customer needs with new offering

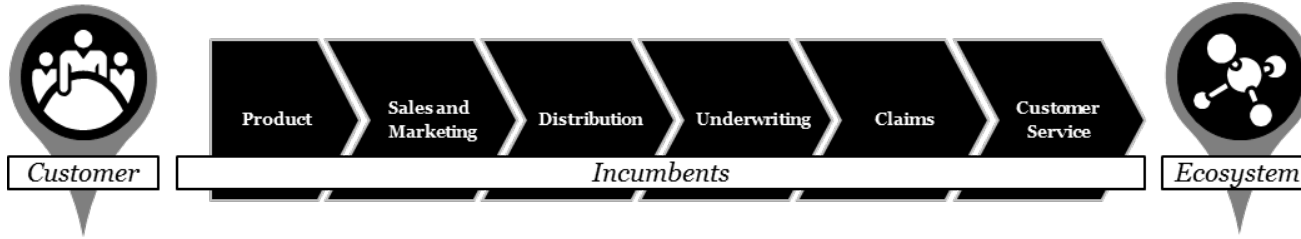
- Reaching the Un(der)insured
- Spread of value propositions for microsegments
- Leveraging peer to peer networks
- Emerging solutions for shared economies
- Usage & Behavior based personalized insurance
- New models of holistic advice (Robo-Advice)

## Enhance interactions and build trusted relationships

- SoMoLo Omni-channel experience
- Online aggregation and comparison
- Targeted engagement & Retention models
- Consolidation of Self directed services
- Education & Shared Knowledge

## Augment existing capabilities and reach with strategic relationships

- Rise of B2B2C Platforms
- Ecosystem Partnerships
- Frictionless capital flows across the value chain



## Leverage existing data and analytics to generate deep risk insights

- Connected car and automated driving systems
- Connected Health & P4 Medicine
- Remote data capture and analysis
- Quantification of emerging risks

## Utilize new approaches to underwrite risk and predict loss

- Sophistication of preventive insurance models
- Shift from probabilistic to deterministic model
- Granular Risk and/or Loss Quantification
- Pay-when-you-need service

## Enable the business with sophisticated operational capabilities

- Crowdsourcing & Democratization of information
- Robotics and Automation in core insurance
- As-a-service solutions for core insurance
- Advanced Fraud prediction

# Implications

## ***Implications for insurers***

- Successful operating models of the past relied heavily on functional specialties, but as organizations became more segmented, their ability to respond and adapt to change became more limited.
- The key to a sustainable differentiation lies in an interlocking set of capabilities that allows companies to create a superior advantage and a platform for growth.
- To succeed, established insurers should *think like a disruptor and act like a startup*.
  - They will need to try new things and not be afraid of “failure” (i.e. going in different directions than they initially expected).
  - Expect the unexpected (which is not easy for a risk averse industry).

## ***Implications for regulators***

- InsurTechs often struggle to address regulatory challenges that are part of incumbents' business as usual. Start-ups' products have to meet appropriate regulatory requirements, but these requirements may not come into existence until a new product is viable enough for regulators to assess.
- Further complicating matters is that start-ups are geared toward rapid innovation, and do not always consider that regulatory and compliance issues or violations can arise later.
- Incumbent insurers need to anticipate the potential regulatory implications of new models (e.g., peer to peer, sharing economies).

## ***Implications for regulators***

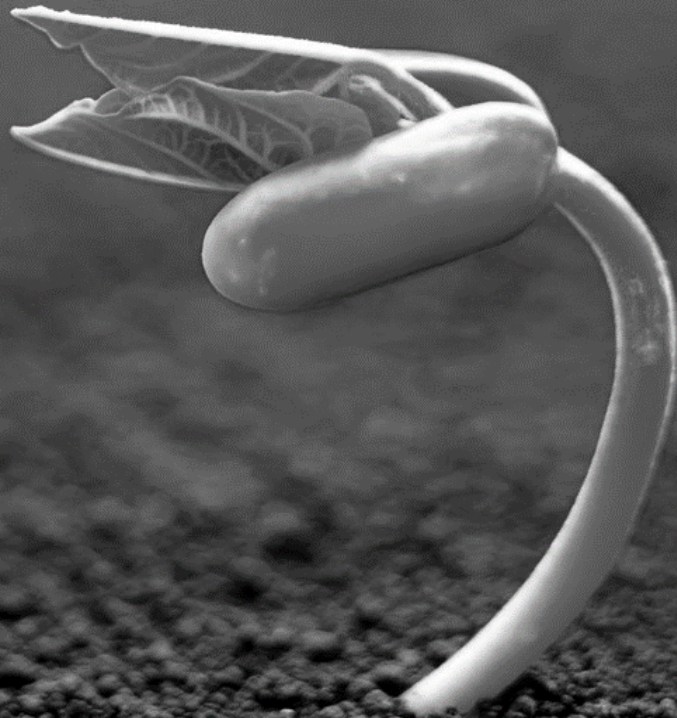
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- **Effective changes to customer protection will come from collaboration between insurers and regulators, and with open consideration of emerging players' points of view.**
- **Traditional IT boundaries stretch more and more with each new venture. Start-ups and incumbents need to identify potential cyber risks up-front and effectively manage them when scaling solutions, as well as involve regulators to identify effective cybersecurity oversight.**



# *Thank you!*

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