

The Future of Insurance

Stay ahead – tackle your top challenges of the next five years

What is the Future of Insurance?

The insurance industry is currently undergoing a series of radical transformations. Saturated markets, online aggregators and disruptive companies are chipping away at the shares of more established players. The rise of digital connectivity and data availability are bringing a new array of challenges and customers expect a personalised service experience, yet the online factor means that insurers are at risk of losing touch with consumers.

Artificial intelligence, meanwhile, is providing new ways to analyse data, detect patterns and assist with decision making. In the political arena, regulations are becoming ever stricter – the GDPR being a recent example – while barriers across national boundaries are raising issues of validity. It is essential for providers to respond to these developments now – by adapting existing products, creating new ones and evolving business processes as we head further into the digital age.

Political

- Increasing regulations
- Import barriers
- Cross-border restrictions

- Regulators and governments increasingly enforce existing laws and generate new and stricter regulation
- Regulators are ramping up capabilities to efficiently scan and analyze vast amounts of digital information

Economic

- Global mobility
- Disruptive digital business models
- Expertise shift
- Workplace modernization
- Low interest
- High debt
- Saturated markets

- Macroeconomic issues and low interest rates are limiting traditional insurance products and investment growth
- Pricing power erosion: Aggregators are exposing pricing

Social

- Aging society
- Individualization
- Customer centricity
- Transparency
- Urbanization
- Education & health
- Decreasing brand loyalty

- Customers rarely interact with insurers, leading to disintermediation and lack of trust
- Changing demographics of your customer base
- New generation of customer expects individualization, responsiveness and seamless experiences

Technological

- Information ubiquity
- Connectivity & platforms
- Security
- AI & Machine Learning
- Mixed Reality

- Digitization is creating new modes of interaction and unprecedented connectedness increasing unstructured data from disparate sources
- InsurTech companies are offering various digital capabilities causing an accelerated atomization of insurance

What insurers must tackle in the next five years to stay ahead

For insurers, the current situation is uncomfortable, as their revenues from core business activities are stagnating. They need to develop innovative products, modernise their processes and IT infrastructure, while at the same time not losing the close relationship to their customers.

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Currently, contact between insurers and policyholders usually has negative connotations. Clients encounter an insurer when they pay bills, submit a claim or need to deal with potential risks against which they want to insure themselves. The cost of health insurance premiums is continually rising and, when submitting claims, policyholders struggle due to a lack of goodwill – positive touchpoints are entirely lacking in many areas.

Insurers need to continually rethink their product range and innovate quickly. At the same time, they need to integrate their customers and products into an insurance ecosystem with seamless services.

It is essential that insurers focus on

- efficient and, preferably, automated processes,
- a modern and agile application landscape,
- an entrepreneurial way of thinking
- and the right skills, so that these changes can be implemented.

Digital transformation in insurance: Customers purchasing while out and about

The pressure among insurers to digitise their services is leading to changes in the industry. In addition, customers want to be able to take out insurance policies while on the move in the future – at a car dealership, when shopping online or at a ticket machine. The current problem in this regard is that insurance companies and their systems are, in many ways, not yet ready for this transformation.

«In times of decreasing brand loyalty, insurers will only be able to keep hold of their customers by providing a well-thought-out customer experience.»

Consistent customer experience as an investment

In order to survive in the long term, insurers, like every other company, require sustainable financial strength. This can be achieved by having a loyal customer base, and satisfied customers are the key in this regard. But in times of decreasing brand loyalty, insurers will only be able to keep hold of their customers by providing a well-thought-out customer experience.



A clear goal for the future

If insurers want to remain successful in the long term, they must strengthen their positioning and be able to answer the following key questions:

- 1. Who is serving our customers?**
Anticipate market segments & needs and create differentiated customer experiences & innovative products / services to (re-)connect to customers and (re-)build trust.
- 2. What is our product of tomorrow?**
Technology is a key source for disruption but it is also a key lever to stay competitive. Provide end-to-end digital experiences. Use data to lower risk and develop new pricing models.
- 3. How can we position these products in attractive ecosystems?**
Compete and gain relevance in evolving digital ecosystems by leveraging ubiquitous data sets for product, service and business model innovation.
- 4. How can we use the automation of services to speed up our market approach?**
Strive for a high level of automation to reduce financial exposure. Automate underwriting, claims and customer service.
- 5. How can we digitise our core systems quickly?**
Ensure maintenance of a balanced portfolio of tools, that support emerging standards and can react to market changes quickly.
- 6. How can we respond to changing market needs in an agile way, and thus crealong-term value?**
Increase agility combined with operational efficiency and effectiveness in order to master sustained cost pressure. Be attractive for talent with non-insurance backgrounds.

The three central needs of insurance customers

Knowing the customer needs is no longer just a central area of focus for insurers, but is crucial for their survival as a result of rapidly developing digitisation. Many insurance companies do not grant the needs of customers enough importance. Policyholders look for the following three aspects with regard to their insurance:

Simplicity wins

1.

Simplicity wins, always. Customers want easy insurance policies that can be taken out with little effort – digitally, with a few simple clicks. They don't want to have to register and enter their contact details just to wait for a call. They want to see the price and the included services immediately – and want to be able to take out the insurance policy immediately.

Customers love flexibility

2.

Policyholders want to be flexible. They don't want to have to chain themselves to an insurer for years. Similar to the emerging trend among subscribers in the telecommunications industry, insurance customers also want monthly termination options and deadlines.

Trust and guarantees as the basis for success

3.

Many of the points of contact between insurers and policyholders are by default negative, for example when the customer has to pay an invoice, handle increasing premiums (especially in the case of health insurance) or make a claim. Policies change, small print is too well hidden, vaguely defined dependencies emerge: the most damaging aspect for the customer relationship is if a claim is, contrary to customer expectations, not covered. Insurers keep customers only if there is confidence and this is boosted regularly and enduringly.

What is the significance of Ecosystems for insurers?

Customers will be taking out insurance policies somewhere else in the future – at a car dealership, when shopping online or at a ticket machine. Insurance companies will therefore only succeed if they are part of the right ecosystem and offer the right products in this context. It is high time for insurers to act.

The focus in an ecosystem is on the customers, who expect their individual needs to be fulfilled in the least complicated manner. This is the result of globalisation and digitisation. Both have increased the availability of products and services enormously.

Buying, copying or collaborating

The phenomenon of ecosystems does not exist in the insurance industry alone, but it is there that it is particularly visible at the moment. There are more and more InsurTechs, young companies that generally provide excellent solutions for specific usage situations. So far, these solutions cannot provide the universal remedy for customers, but InsurTechs are certainly shaking up the market. The situation is similar to the one of FinTechs in the banking world. Regardless of the sector, there are three prime alternatives for established companies to act: Buying, copying or collaborating.

In addition: The boundaries between industry sectors are becoming increasingly blurred, and where, today, there is considered to be a boundary between certain industries, tomorrow, we can expect to see a move in the direction of customers. The key words for the future are customer situations such as mobility, living and health, and it will be the task of companies in all sectors to integrate themselves directly into these customer situations.

New problems are appearing

Due to these changes, there are many questions insurers need to consider. Firstly, it is important to assess the significance of the ecosystem and the network complexity, and to develop a strategy: Which ecosystems are of interest and where is it worth getting involved?

Secondly, in addition to the increasing demands of customers, insurers need to be aware that business models also change when the world of value creation changes. This is something we have already seen in the world of car insurance, with policies being concluded directly when the vehicle is purchased – often integrated into a service package that includes other services as well as insurance.

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The biggest danger for insurers lies in long-term disintermediation, in other words, the possible loss of the customer relationship. Because insurance companies would then mutate into organisations whose only focus is on the operations and settlement processes. Isn't that just doom-mongering? We are well aware of this situation from the telecommunications industry. It is now possible to change mobile phone or DSL providers almost at the push of a button.

And it is worth taking a look in the direction of technology: The key technology that allows disintermediation is blockchain. So, those who have not yet found blockchain usage cases for their business will definitely find them in the area of ecosystems.

The disruption is inevitable

The potential consequences for insurers of not acting are obvious: Loss of turnover, customer relationships and market share, as well as a situation in which it is no longer possible to reach untouched customer groups and sell new products. This is without doubt quite a pessimistic view. The dangerous thing in this regard is that disruption does not come with a big

bang and never announces its arrival, but instead creeps up on you slowly. Relevant examples, such as digital photography, are well known.

What should be done?

Probably the most important thing is not to ignore the subject, but to actively address it. Key questions for insurers include:

- Which ecosystems currently exist or are appearing?
- Which ecosystems are relevant for me?
- What role shall I take?
- What does my (technical) roadmap look like, in terms of integrating myself into this ecosystem?



«Insurers must commit to a customer-first strategy»



Lukas Urech
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Brewster Barclay
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Increasingly stringent regulations, saturated markets, an aging society – insurers face numerous challenges. How can they successfully master them? Brewster Barclay, Director Business Development of Zühlke United Kingdom, and Lukas Urech, Senior Business Development Manager of Zühlke Switzerland, provide insights.

1. Do Insurers need to change the focus of their core business as the ability to share risk becomes increasingly easy?

Lukas Urech: Humans do have the need for security and safety. They are willing to spend money to protect themselves against bad events. Therefore, insurance companies do not have to change their core business. They have to focus on winning their customers' trust and never losing it.

Brewster Barclay: I agree with Lukas. They need to maintain their current core business, but we will see a change in how insurers address customers. The aging society is underinsured in terms of, for example, property insurance and life insurance, so there is massive potential to share the risk. By addressing customers digitally or through ecosystems, insurers can continue to grow. Insurance is a great thing to have and the risks have not exactly diminishing in this world.

2. How can insurers successfully master these global challenges?

Lukas Urech: The ways of taking out insurance in the future will change and with it the insurance world, driven by the capabilities of new technologies. It will be easier for clients to insure their valuables as a result of digitization. Therefore, insurers must commit to a customer-first strategy. They have to understand the customer needs.

Brewster Barclay: Customer-first is important in order to ensure that you move away from an actuarial mentality as the dominant mindset. Although insurers are slowly achieving more customer focus, it takes a long time to change to a customer-based mindset. Furthermore, insurers need to master new technologies. In reality, it is a combination of the two factors: As an insurer, you must understand the technology but ultimately create a nice product for the customer. The good news: This is not an area in which they need to be an expert. External partners bring in design skills, the technology expertise, the UX and CX know-how and support with everything from initial conception to the go-live and maintenance of the product.

3. Technological progress is rapid. How can insurers benefit from technology?

Lukas Urech: The digitalisation era that we are in now is probably similar in some ways to the 50ies, 60ies and 70ies, when we had mechanical and electronic development races. The demand on how customers want to be delivered by their insurance companies is changing quickly. Therefore, insurers need to establish a strong partnership with companies that understand both the business and the associated technology challenges. In this way, an insurer and a technology company can leverage their core strengths off each other.

Brewster Barclay: The adoption of technology is often slow, even if technological development is progressing rapidly. Insurers must experiment. The only suitable way is learning by doing, not just sitting back and waiting, not just rewriting the core systems. Insurers have to ask themselves how to invest in the technology and how best to experiment.

4. How can insurers embed their business into new digital ecosystems?

Brewster Barclay: Changes in mindset, thinking, and products are needed. It is necessary to be very open to joining an existing ecosystem or creating your own. The challenge is that you cannot be the leader in every ecosystem. So be a partner in some and a leader in others. The situation is different if you create an ecosystem, in which you establish the core value and others join you, compared to if you join an existing ecosystem.

Lukas Urech: Insurers need to talk to a range of partners and build up their ecosystem. A partner network does not have to be large, so integrate the first small supplier and then try to let it grow. It provides added value for customers. We carried out a project with an insurer that not only wanted to provide insurance to his customer but also offer all associated services. For example, if something breaks, they can provide the relevant craftsman to make a repair. The business processes of the insurance company, the customer, and the craftsman are aligned and completely automated. The added value is comprehensive and efficient.

Brewster Barclay: Creating your own ecosystems also means creating a robust and secure infrastructure. Questions about successfully sharing data and data ownership need to be addressed and this is something that we have seen as essential in a number of our projects.

Lukas Urech: New technologies make it possible to develop, expand or generate digital ecosystems. Insurance companies can benefit from this, as they can participate in ecosystems in a more integrated way. It is very important that they have ideas about what kind of and which ecosystems they want to join and what makes sense strategically.

5. What do the insurance customers of tomorrow want? What do they need?

Brewster Barclay: All insurance companies know it is important to handle claims well, so that the customer has a good experience, this will be vital to retaining customers. Customers also want insurance to be

easy and included in a combination of other services: for example, there are pet care offerings where customers barely realise that insurance is part of an overall package. Insurance is complicated enough but great packaging can make it simple. I am confident that there will always be additional things that can be insured, and risks can be spread, we are very underinsured.

Lukas Urech: Customers will be looking for the same things they look for today: To be safe when something bad happens. And they demand an easy and transparent way to interact with their insurer. This demand is changing along the rapid change of the technological possibilities. Customers want to use their mobile devices for information, purchase and claims handling. And they demand access to insurance services 24/7. Insurance companies need to be at the cutting edge in terms of usability of their services.

6. How will my insurance look in five years?

Lukas Urech: We expect that all insurance services can be handled on digital devices. We will see customer specific pricing models based on behaviour, measured by IoT sensors for example. New technologies like Blockchain will allow new business models.

Brewster Barclay: Exactly, there will be change because of the digital world. There will be more IoT, more risk mitigation, more tracking. A lot will be directly integrated into the products. Products which are tracked will have lower risk thus lowering of your insurance premium. I agree with Lukas, how insurance looks, is consumed and bought will change and Machine Learning that is already making insurance more customised will be ubiquitous. Another example is when you buy a product you perhaps don't know exactly to what extent it is insured and so technology will automatically provide a way to store warranties. At the core, there will still be risk management and mitigation, but everything around these aspects will change. Although never as quickly as we think.

Ask an expert

Our experts will be happy to answer
any questions you may have.

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