Harnessing the power of disruption:

Insurance

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This report was prepared using the capability of Strategy&, PwC's global strategy house, alongside the input of PwC's disruption and financial services experts. We transform businesses by developing actionable strategies that deliver results. We call this: Strategy, made real.

Introduction

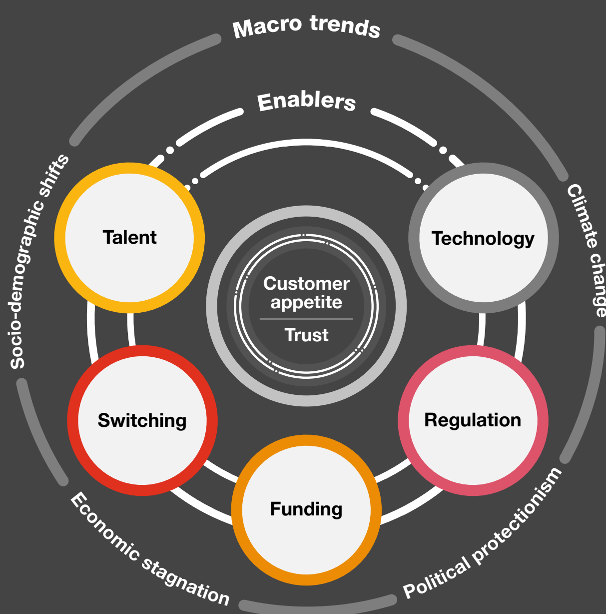
Our previous report, 'Harnessing the power of disruption', identified the conditions required for disruption to occur in financial services (FS) and estimated the amount of revenue at stake. In this follow-up report, we take a more detailed look at the nature of disruption in each insurance sub-sector and suggest potential ways to play for each market participant.[1]

As outlined in the summary report, 'How to harness disruption', we believe incumbents are most likely to reap the benefits of disruption due to three key challenges for new entrants: 1) importance of a trusted brand, 2) high levels of customer inertia, 3) high acquisition costs. However, incumbents are unlikely to be successful if they do not work with other players. Indeed, there are roles for all industry player types in a disrupted market, which we have outlined at the end of each sub-sector report. This often involves collaborating in 'ecosystems' which leverage the best of participants' capabilities.

Insurance sub-sectors appear to be among the most likely to experience disruption across financial services This is largely due to increased customer appetite for more transparent, digitally enabled propositions. Market participants will also need to react to a set of maturing enablers such as emerging technology and regulatory intervention.

These disruptive forces, and what they mean for the strategies of the various market participants, are explored below.

Conditions for disruption



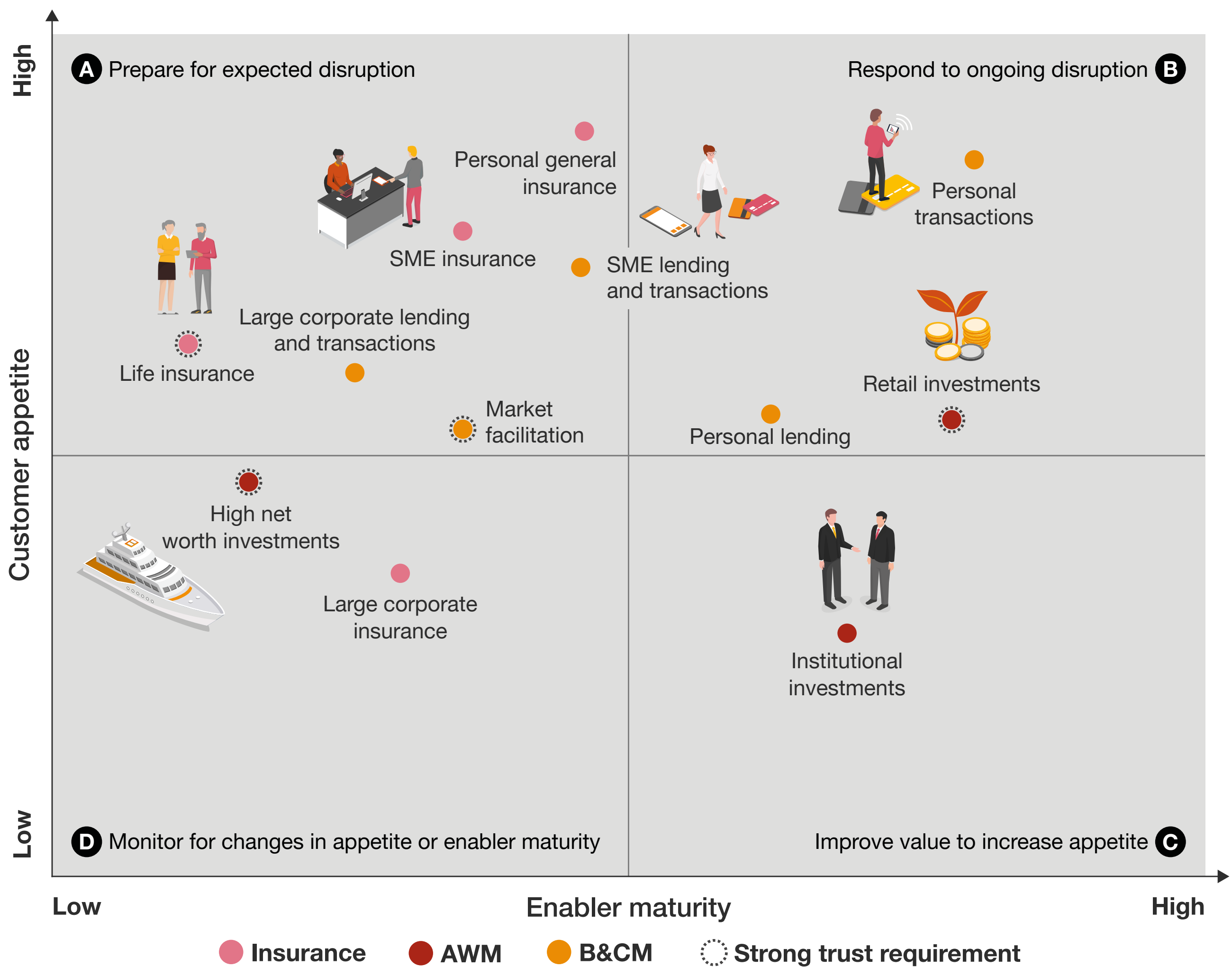
We define disruption as 'a fundamental change to the prevailing business model or value chain in a market.' For disruption to occur in financial services, a number of conditions are required. Most importantly, there must be an unmet customer appetite for an improved product or service. Underpinning this is trust, which plays a pivotal role in the purchasing criteria of FS products. There are also a number of enablers which must be present in a sector for disruptive forces to thrive. These extend beyond technological innovation, to include regulatory intervention, access to funding, ease of switching, and talent availability.

Finally, macro trends can impact both customer preferences and the focus of enablers, such as macroeconomic changes driving regulatory intervention. It is the interaction of these different factors that can create the conditions for disruption to occur.

1 Market participants include: Incumbents – established financial services players, Adjacent players – established businesses whose primary focus is a non-financial service sector (often technology), New entrants – start-ups focused on financial services

Degree of disruption maturity by financial services sub-sector

The disruption framework can be applied to each sub-sector to develop a view of 'disruption maturity' across the financial services landscape. By assessing the relative customer appetite for new products and services against the relative maturity of the enablers in that sub-sector, a picture emerges highlighting which sub-sectors are most likely to be disrupted.



Personal general insurance

Consumer appetite for fairer pricing and transparent products is set to disrupt personal general insurance.

Why could this sub-sector be disrupted?

Compared to other financial service sub-sectors, personal general insurance exhibits a strong consumer appetite for new, improved propositions. This is largely driven by the perceived lower levels of customer experience in comparison to other sub-sectors. A confluence of forces, including macro trends such as the sharing economy, and maturing enablers, suggest that personal insurance is ripe for disruption. This enablers include emerging technology, ease of switching, greater funding for InsurTechs (investment in the global InsurTech market grew by 84% in 2018)[2] and regulatory pressure on pricing and products.

Personal general insurance has seen an interesting shift in customer appetite. The rise of price comparison websites over the last 15 years has helped push the sub-sector towards commoditisation, as brand became less important and customers focused on price. This has continued in certain areas, such as car insurance, where platforms such as Compare the Market's 'Auto-Sergei' automatically check for cheaper deals before customers need to renew.

However, as some insurers proved unreliable, particularly some international entrants, meeting customers' initial demands for low prices was no longer enough. As a result, reputation for reliability and paying claims is playing an increasingly important role in consumers' decision-making.

Pricing and product regulation released by the Financial Conduct Authority (FCA) is also contributing to a re-emphasis on quality insurance. The FCA's recent review of home and motor insurance found that pricing techniques are complex and opaque. They discovered that loyal customers can pay far more for the same risk than newer customers; 6mn customers could save £1.2bn if they paid average premiums instead.[3] Some insurers have already started responding by creating fixed-price promise products (such as Saga's 3-year fixed price car insurance).

In addition, there is increasing regulatory emphasis on providing customers with **simple, transparent value propositions** that meet their needs such as policy offers with clear, easily comparable tiered offerings. Within health insurance, the demand for these types of propositions may significantly increase due to pressure on the NHS from the ageing population. This push for transparency was initiated by the Insurance Distribution Directive (IDD) in 2018 and is likely to continue to be a key issue for regulators. As a result, firms will have to change their product, pricing and disclosure practices, potentially in fundamental ways. As part of this, insurers are looking to provide more flexible, transparent products, which are priced based on richer data.

£1.2bn

6mn customers could save £1.2bn if they paid average premiums instead

2 Finextra (GlobalData)
3 FCA signals changes ahead for GI pricing, PwC

What are the key disruptors for this sub-sector?

Insurers have begun to meet customer demand for more flexible and user-friendly products. **Innovative new propositions** are being developed which, if adopted at scale, could drive significant disruption in the industry. For example:

- **Products for the sharing economy:** The rise of the sharing economy has generated an increase in dual-use assets (such as Uber cars) and blurs the lines between personal and commercial lines insurance. This sharing model creates new complex risks involving multi-party relationships between consumers, providers and shared platforms. Some insurance providers (such as Zego and Pikl) have partnered with sharing platforms (like Uber and Airbnb) to create new innovative products, which provide seamless personal and private hire cover. However, there is still significant debate around who should bear the risk; the majority of consumers (53%) expect sharing economy platforms to provide protection, while most platforms indicate that the consumer (53%) or provider (27%) should bear responsibility.[4]

- **Fractionalised insurance:** Insurers have been innovating to create more flexible propositions for customers who only want to insure some of their possessions (such as a laptop). Trov's flexible home insurance proposition enables customers to insure specific home products for a certain period of time. These new entrants have not yet had a significant impact on the market, but partnerships with incumbents or adjacent players may accelerate adoption.

In addition, **increased access to personal data**, especially from Internet of Things (IoT) devices, is allowing insurers to further customise underwriting to individuals.

- The growth of smart devices and sophisticated predictive analytics is enabling usage-based pricing. For instance, ByMiles, a UK-based start up, has used tracker devices to support 'pay by the mile' motor insurance, targeted at low mileage drivers.

- IoT data has also been used to inform pricing models by integrating the risk profiles of specific customers. For example, insurers are using telematics to collect data on vehicle speed and driver behaviour. Outside of this, IoT is still nascent in other areas of insurance. However, there are some smaller scale examples such as home insurers using LeakBots, which detect the early signs of a leak, and health insurers offering discounts for consumers who share fitness information via tech wearables.

- As consumers become increasingly aware of the value of their data, there is likely to be an increased reluctance to share data or potentially an increase in those asking for it to be deleted, which is a consumer right under GDPR. If this were to happen on a large scale, it could limit insurers' pricing capabilities. Gaining the trust of consumers, while providing clear incentives for them, will be essential to successful data sharing.

53%

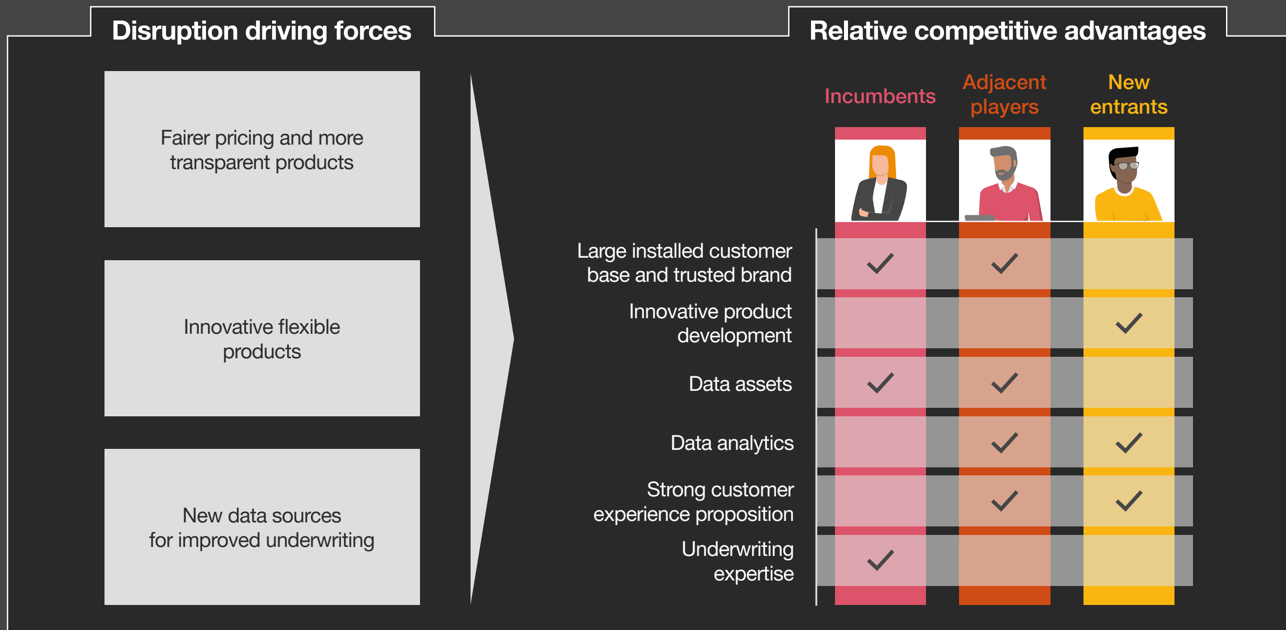
of consumers expect sharing economy platforms to provide insurance

80%

of sharing economy platforms indicate that the consumer (53%) or provider (27%) should provide insurance

Personal general insurance – How should industry players respond?

To develop a successful strategy in response to disruption driving forces, players first need to identify their relative competitive advantages. Market participants can then develop ways to play which both utilise their strengths and address gaps. We have outlined the relative competitive advantages and potential strategies for each player type.



	Incumbents	Adjacent players	New entrants
Large installed customer base and trusted brand	✓	✓	
Innovative product development			✓
Data assets	✓	✓	
Data analytics		✓	✓
Strong customer experience proposition		✓	✓
Underwriting expertise	✓		

Potential strategies by player type

Utilise and enhance competitive advantages

Incumbents

- Defend market position and **prepare for regulatory intervention** by:
  - Developing fairer pricing models, leveraging rich data assets from existing customer base
  - Simplifying products to improve transparency
  - Leveraging brand to attract customers seeking a trustworthy, reliable service provider

Adjacent players

- Big Tech and large retailers could:
  - Offer relevant insurance products at the **point of sale** (e.g. Tesla)
  - Utilise **extensive data assets** and analytics expertise to inform underwriting process
  - **Cross-sell** insurance propositions to installed customer base, leveraging brand

New entrants

- Continue to drive innovation through **utilising new data sources** (e.g. smart devices) to:
  - Create new products which are tailored to customers' needs (e.g. usage-based)
  - Develop new pricing models which individualise risk assessment in order to price more accurately
- Concentrate innovation efforts on a **particular product or section of the value chain**

Address competitive advantage gaps

Incumbents

- Partner with or acquire new entrants with **product or pricing innovations**
- Partner with adjacents to **access distribution channels** and customer experience capabilities

Adjacent players

- Partner with incumbents / new entrants to rapidly **obtain pricing and underwriting** expertise while leveraging their own strengths in customer service

New entrants

- Partner with / license technology to incumbents / adjacents to **grow scale and access customer data**

SME insurance

Emerging technology provides the opportunity to address rising demand for online, tailored propositions.

Why could this sub-sector be disrupted?

Similar to personal lines general insurance, SME insurance has mature enablers including emerging technology, increased access to funding and relatively easy switching. There is also a significant unmet customer need for both **digital propositions** and **tailored coverage**.

Currently around 43% of UK SMEs use online channels to purchase insurance. However, of small businesses expected to switch providers over the next five years, 58% are likely to buy online.[5]

Additionally, as more businesses use cloud technology to store data, there is an emerging **cyber insurance** protection gap. UK firms are particularly exposed as they have lower cybersecurity budgets (average $900k) than other European and US markets (average $1.46mn). SMEs are also increasingly at risk of cyber security attacks, as the proportion of firms reporting an attack grew by 59% from 2018 to 2019.[6]

Direct Line Group

Case Study – How PwC helped a potential disruptor

- Direct Line for Business were looking to be the first-choice direct insurer for SMEs but faced challenges: SME products are often complex and many business owners buy insurance through brokers.
- We worked together to build an innovative, customer focused, online sales platform for business insurance, which allowed owners to pick and choose the right product for their business, quickly and efficiently. The solution is now live and transforming the way SMEs buy insurance, helping Direct Line to win in the market.

What are the key disruptors for this sub-sector?

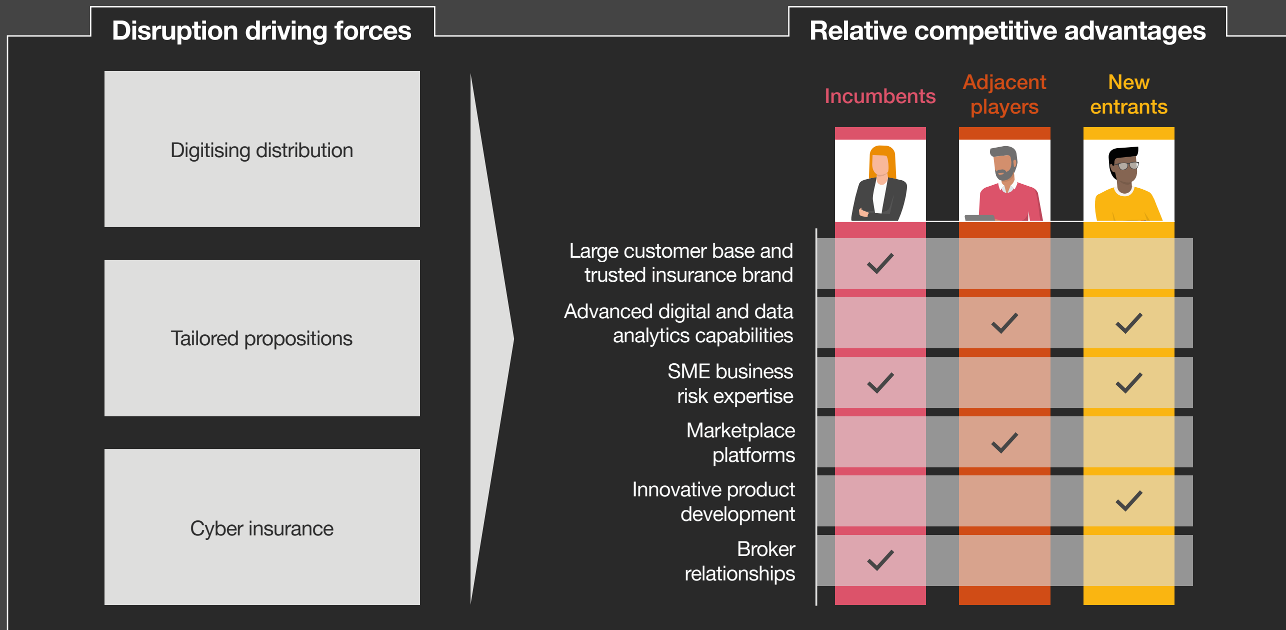
The SME market is large and hugely diverse, which makes the tailoring of products to suit the needs of every business uneconomical. However, **digital capabilities** and artificial intelligence are enabling insurers to provide **tailored industry-specific propositions** much more efficiently, especially for small enterprises with more simple needs. There are already developments in this space, such as Direct Line Insurance Group launching an online SME insurance proposition for businesses as diverse as caterers and dog walkers. They have focused on serving a large number of small enterprises using highly automated processes.

However, medium sized enterprises are still likely to require human-led processes to deal with their more complex insurance needs. Given this, legacy commercial lines insurers are leveraging their broker relationship management and underwriting capabilities to meet these customer needs and build market share.

Market players are also beginning to respond to the emerging **cyber insurance** protection gap. For example, Bewica, a start-up, provides cyber insurance for SMEs as well as AI-based cyber risk assessments and advice. Larger players such as Hiscox and Munich Re have also expanded in this space. Hiscox has launched a cyber exposure calculator, designed to help businesses estimate the potential financial impact if they were to be the victim of a cyber-attack.

5 Global Digital Small Business Insurance Survey, PwC
6 Hiscox

SME insurance – How should industry players respond?



Potential strategies by player type

Utilise and enhance competitive advantages

Incumbents

- Leverage relationships with brokers to **maintain share of medium size business segments**
- Use understanding of SME business risks to **tailor propositions**
- **Take on advisory relationship** with SMEs and support them in understanding exposure to risk

Adjacent players

- Big Tech companies could:
  - **Integrate SME insurance** into their platforms
  - **Cross-discount** their core product to drive uptake
- **Package and sell large proprietary data sets** and insights to feed into incumbents' risk modelling calculations (e.g. flood risk)

New entrants

- Specialise in a **particular product** (e.g. cyber) or **part of the value chain** (e.g. digital front end) and focus innovation in this area
- Compete as a **B2B service provider** by selling rich data assets and insights (e.g. aggregated SME risk profile monitoring) to market participants

Address competitive advantage gaps

Incumbents

- Build / buy **digital interfaces** to enable tailored, automated propositions
- Provide **white label insurance** to adjacent players with marketplaces
- Partner with new entrants to **access innovative new products**

Adjacent players

- Partner with incumbents to **access underwriting capabilities and trusted brand**

New entrants

- Partner with / license technology to incumbents / adjacent players to access marketplace **customer base, underwriting expertise and trusted brand**

Large corporate insurance

Embracing emerging technology will enable market participants to support the response to global macro trends such as climate change.

Why has disruption not happened yet?

Relative to sub-sectors such as personal general and SME insurance, the customer appetite for new products and services in large corporate insurance is not as strong. Legacy processes and operations, particularly in the London Market, also serve as a barrier to **disruptive technology plays**. Furthermore, other enablers such as talent and regulatory change are less mature in comparison to other sub-sectors.

However, macro trends, notably **climate change**, are driving changes in customers' risk exposure and creating opportunities for market participants.

What are the key disruptors for this sub-sector?

Climate change and the **increased likelihood of climate catastrophes** create both a risk and an opportunity for commercial insurers. Overexposure to catastrophes, especially for reinsurers, poses significant risk of increased claims loss. Total economic losses from catastrophes in 2018 was $165bn and insurance covered $85bn, the fourth highest payout for a single year ever.[7] Indeed, the nine highest payout years for catastrophe losses have all occurred since 2004.

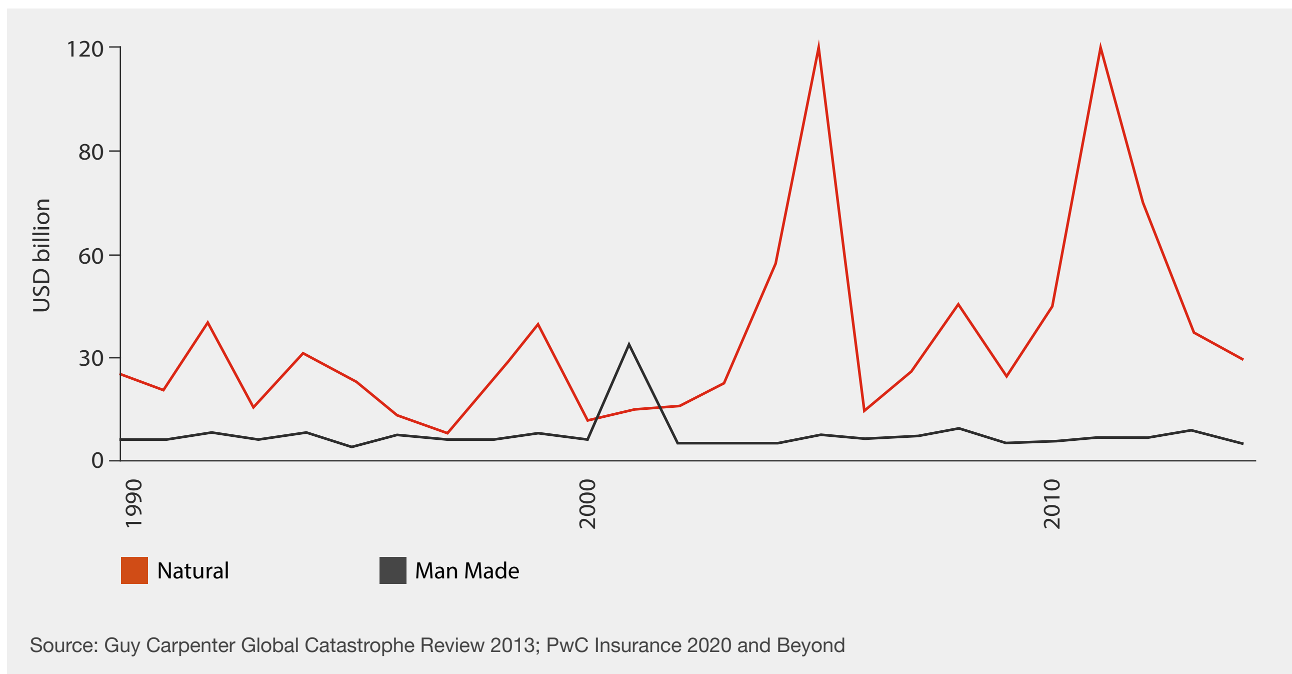
On the other hand, the increased risk of climate events increases the demand for protection. To gain from this disruption, firms will need to make optimal use of AI and advanced analytics in order to accurately model climate events. Market players are beginning to do this, for example XL Catlin recently partnered with Windward, a maritime risk analytics start-up that uses proprietary technology to analyse the relative ability of ships to withstand poor weather conditions.

total economic losses from catastrophes in 2018

total economic losses from catastrophes in 2018, covered by insurance

7 Swiss Re

Global catastrophe losses ($bn)



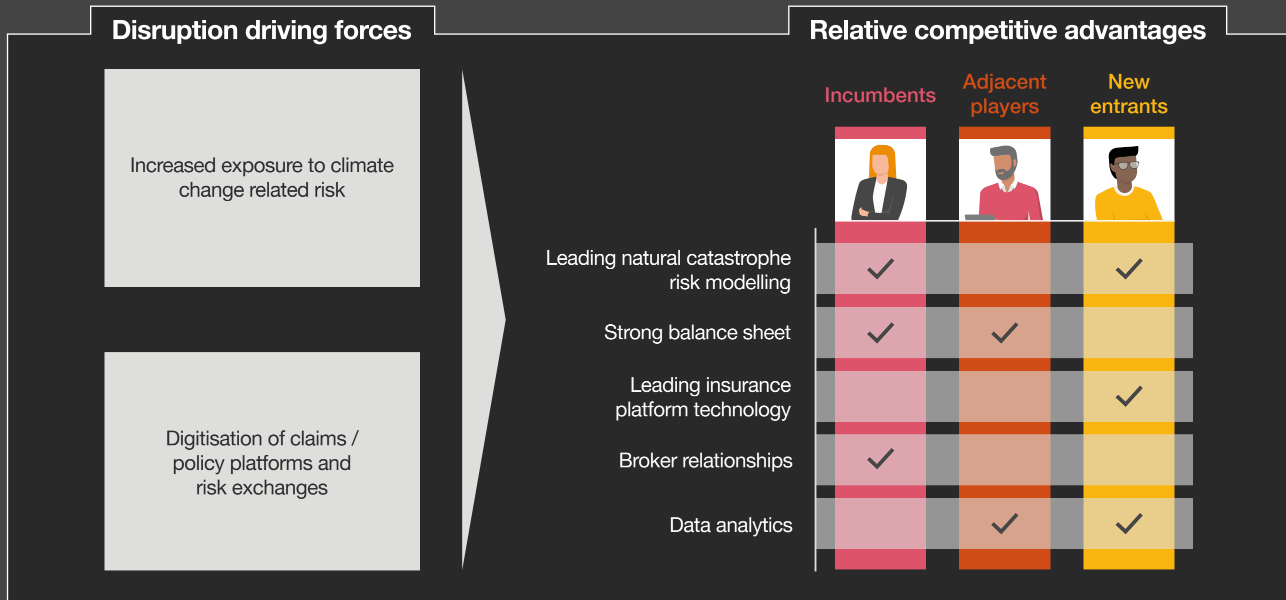
Source: Guy Carpenter Global Catastrophe Review 2013; PwC Insurance 2020 and Beyond

The large corporate insurance industry is also beginning to look at opportunities to make use of emerging technologies to move towards **digital marketplaces**.

Partly in response to greater competition from international markets, Lloyd’s of London is looking to create a global ‘digital eco-system’ including a complex risk platform and exchange. This will support sourcing and placing of complex risks as well as the underwriting of high volume, low value risks. This risk platform is a significant step in Lloyd’s moving away from being a physical marketplace although this still remains many years away from becoming reality.

Some large corporate insurers are also leveraging new technology to improve efficiency and meet demands in emerging markets. Emerging market insurance premiums are forecast to more than double over the next 10 years, growing four times faster than in advanced markets.[8] A consortium of 15 industry leaders have developed distributed ledger technology through the B3i initiative. This initiative will not only cut costs through automation but also enable more complex products to be sold in developing countries.

Large corporate insurance – How should industry players respond?



Potential strategies by player type

Utilise and enhance competitive advantages

Incumbents

- Enhance **natural catastrophe modelling capabilities**, making use of new data sources
- Defend strong market position by leveraging **deep broker relationships** and strong balance sheet

Adjacent players

It is unlikely that adjacent players will enter this space as a D2C provider, however they could:

- **Package and sell large proprietary data sets** (e.g. global satellite imagery) to feed into incumbents' risk modelling calculations

New entrants

- Specialise in a **part of the value chain** and **focus innovation** in this area (e.g. new claims platforms)
- Compete as a B2B service provider by **selling rich data-driven insights** (e.g. maritime risk analytics) to market participants

Address competitive advantage gaps

Incumbents

- Support **market-wide initiatives to modernise**, e.g.:
  - Development of risk platforms and exchanges, leveraging new entrant technology
  - Integration of distributed ledger technology to deliver efficiency gains to facilitate growth (e.g. in micro-insurance)

Adjacent players

N/A – it is unlikely that adjacent players will invest to address their competitive advantage gaps in this space

New entrants

- Partner with / license **digital platforms to incumbents** to grow customer base and access large balance sheet

Life insurance

There is a significant unmet demand for simple, transparent and user-friendly life insurance.

Why has disruption not happened yet?

Life insurance products are traditionally very complex and difficult for customers to understand. These barriers to customer purchases are compounded by demographic changes which are affecting overall demand. For example, key triggers for buying life insurance, such as buying a house and having children, are happening later in life when customers are more financially secure. Twenty years ago, 64% of 25 to 34 year-olds owned their own home, today only 32% do.[9] In line with this, the average age of having children has increased by three years since 1990.

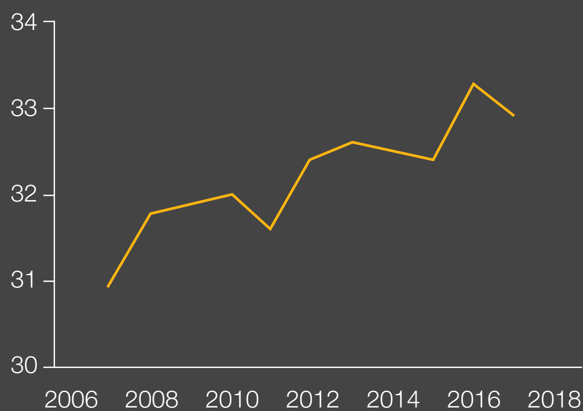
Despite these macro trends, there is still a significant protection gap in the UK. Less than 30% of people (8.1mn households) have life insurance, which is significantly less than the 11.1mn mortgaged properties in the UK.[10] Insurers could help address this gap by providing simpler, **digitally-enabled products.**

There is also evidence of a maturing set of enablers in this sub-sector. For example, **emerging IoT technology**, linked with the development of smart devices, could enable innovation for new products in the long term. However, the future application of this technology may be impacted by regulatory intervention.

Average age of reaching major milestones

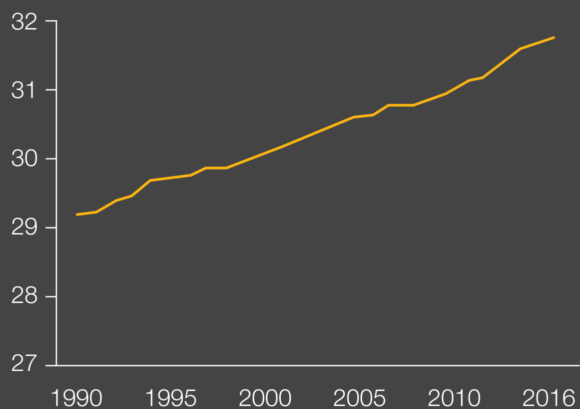
Average age of first-time buyers has increased by ~2 years over a decade

Average age of first time-buyers (UK, 2007-2017)



Average age of having children has increased by ~3 years over the last 25 years

Average age of parents at the birth of their child (England and Wales, 1990-2016)



Source: Ministry of Housing; Office for National Statistics

9 Institute of Fiscal Studies
10 Moneywise

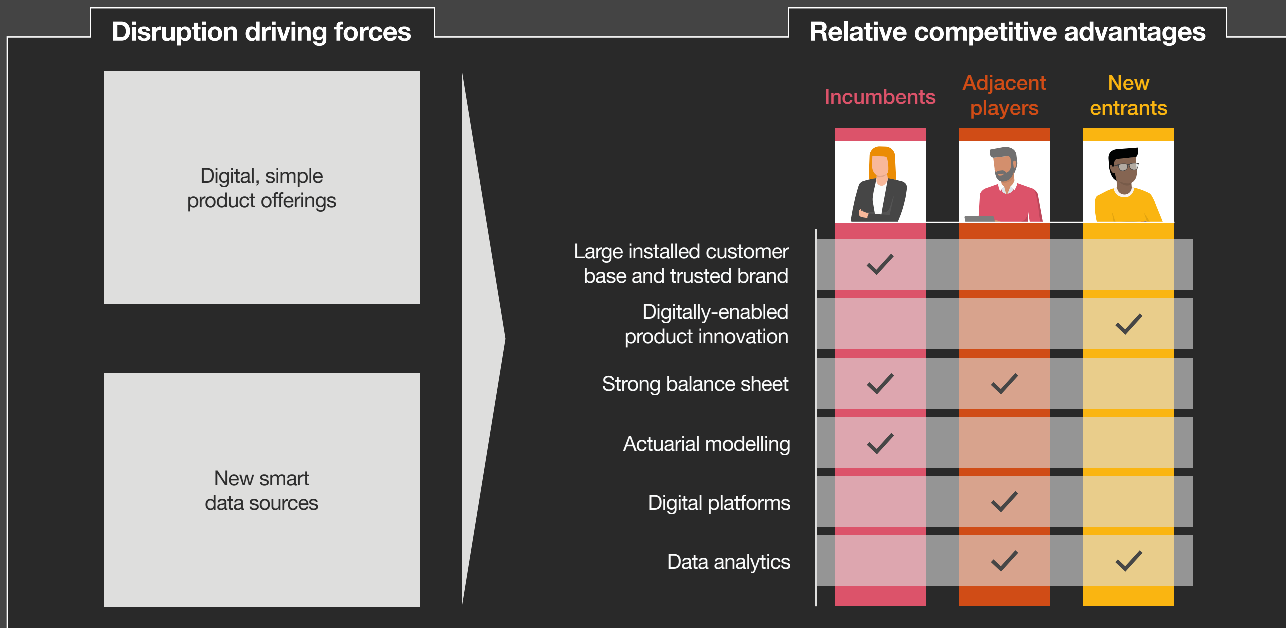
What are the key disruptors for this sub-sector?

Some insurers have sought to fill the protection gap by developing **digitally-enabled, simple life insurance propositions.** For example, Anorak has built a smart life insurance advice platform to offer personalised, regulated life insurance advice. They use **open banking data** to match customers with the best policy from major insurers, according to the individual's unique circumstances. Insurers are also starting to work with providers who serve customers during relevant life events. For example, AIG has partnered with the online mortgage broker, Habito, to provide life insurance on their platform. The service offers life insurance in as few as nine questions and uses data already provided in the mortgage application.

As more consumers wear **smart devices**, such as Fitbits and smart watches, insurers may seek to give customers discounts for hitting exercise targets, thereby incentivising them to adopt healthy habits. Insurance companies could generate more revenue and pay less in claims if customers live longer.

However, regulations currently restrict the use and disclosure of genetic information in underwriting; hence, the application of smart data in personalised pricing and underwriting models is still uncertain.

Life insurance – How should industry players respond?



	Incumbents	Adjacent players	New entrants
Large installed customer base and trusted brand	✓		
Digitally-enabled product innovation			✓
Strong balance sheet	✓	✓	
Actuarial modelling	✓		
Digital platforms		✓	
Data analytics		✓	✓

Potential strategies by player type

Utilise and enhance competitive advantages

Incumbents

- Defend market position by:
  - **Simplifying existing products** and maintaining reputation for reliability
  - Leveraging **strong balance sheet and actuarial modelling** to price competitively

Adjacent players

- Players involved in life insurance trigger events (e.g. mortgage brokers) could:
  - **Integrate life insurance offerings** into platforms
  - **Use customer data** to display personalised offerings
- Develop advanced **digital life insurance platforms**

New entrants

- Develop **simplified** product offerings and easy-to-use digital platforms
- Drive innovation through utilising **new data sources** (e.g. smart devices)

Address competitive advantage gaps

Incumbents

- Partner with new entrants to access **digitally-enabled, simplified** product offerings
- Be a proactive fast-follower of utilising **new risk data sources** (e.g. health data from tech wearables)
- Provide **white labelled insurance** to adjacent players and new entrants to facilitate growth (e.g. in micro-insurance)

Adjacent players

- Partner with incumbents to rapidly **obtain pricing and underwriting expertise** and access trusted brand
- Partner with new entrants to access **digitally enabled** propositions

New entrants

- Partner with / license **digital platforms and simplified products** to incumbents / adjacent players to grow customer base and access large balance sheet

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