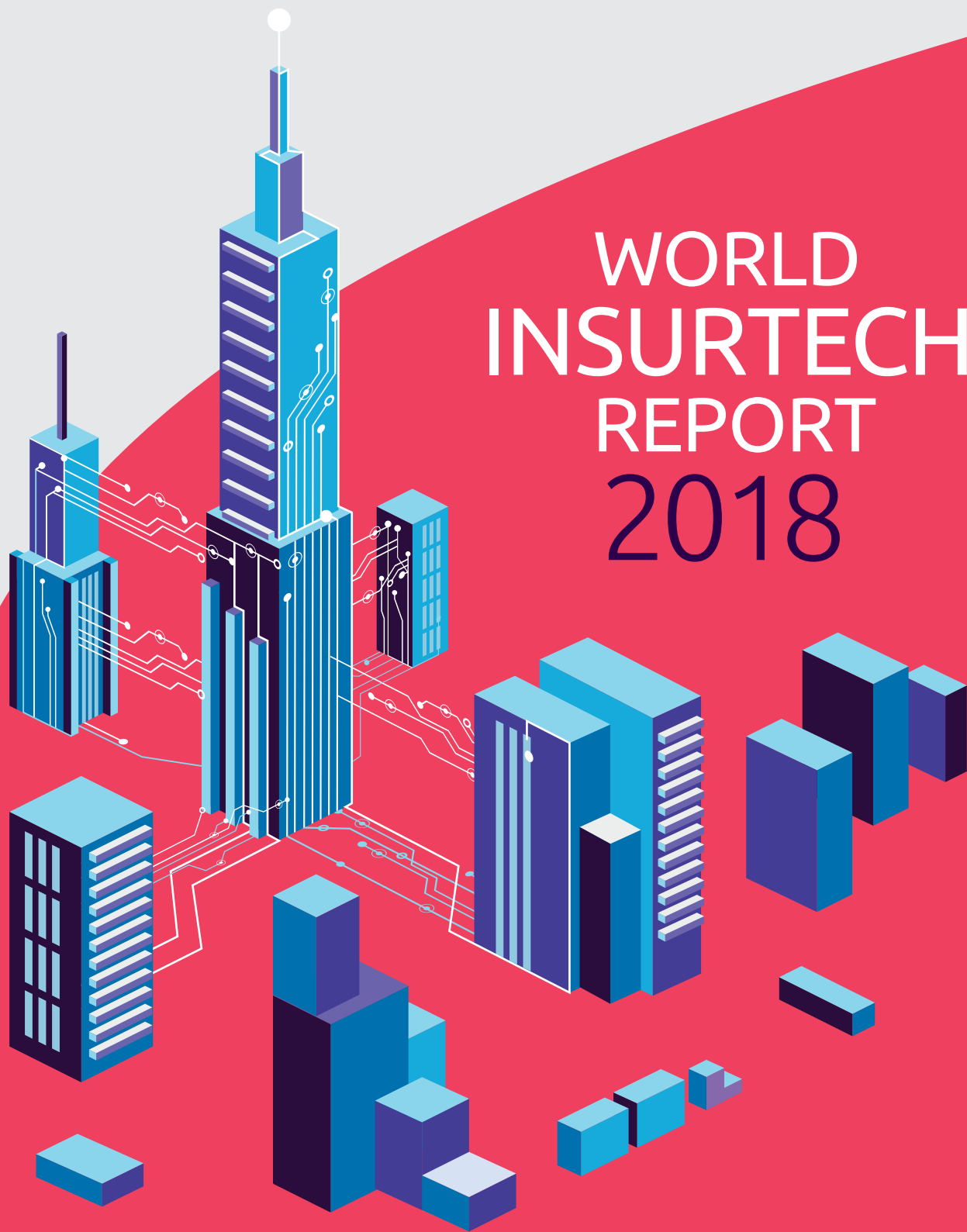




# WORLD INSURTECH REPORT 2018



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# Preface

## InsurTech Innovation Is a Key to the Future

The debate is over. No longer is the impact of InsurTech disruption in question.<sup>1</sup> The industry appears to have collectively agreed that InsurTech firms and innovation are here to stay. What's more, the steady growth in funding indicates a hearty investor appetite for InsurTech and underscores the sector's proliferation.

With an eye on the future, the focus has shifted from How to manage the InsurTech movement to How to maximize opportunity by collaborating with InsurTech firms.

There's no doubt that tech-savvy newcomers are making a positive impact in the industry in multiple ways. Both established insurers and InsurTech firm executives surveyed as part of the inaugural *World InsurTech Report (WITR 2018)* agreed that new age players have influenced the industry the most by redefining the customer experience, followed by the introducing new business models, and contributing to enhanced capabilities for insurers.

While the InsurTech landscape is vast, we created a categorization methodology that covers most of the InsurTech firms in today's market. A mapping based on vertical integration with the insurance value chain revealed three overarching InsurTech categories: Enablers, Distributors, and Full Carriers.

According to the traditional insurers and InsurTech firm executives we surveyed, agility and the ability to address key market and customer needs were key strengths of these InsurTechs. However, their inherent challenges regarding brand recognition, customer trust, and regulatory know-how make collaboration with incumbents beneficial, particularly during attempts to scale.

Conversely, established insurers can benefit significantly from InsurTech firms' agility, innovation, and low-risk knack to explore new technologies. However, understanding which InsurTech models are most apt to be frontrunners in the future can help all players to plan more strategically.

*WITR 2018* is the result of extensive analysis of the various InsurTech types based on our current-state benefits' assessment and future-potential sustainability assessment frameworks that aim to identify InsurTech candidates most suitable for collaboration in the short-to-medium and long terms.

Based on our findings, the InsurTech landscape is expected to evolve notably over time, with some InsurTech firms moving up in rank. Digital distributors and value-chain solution providers with a sustainable proposition, strong customer impact, and a hard-to-replicate model appear on track for frontrunner positioning.

Strategic collaboration among rightly paired partners takes on renewed importance now as insurance industry dynamics change and new ecosystem models come into play. BigTech firms, manufacturers and retail giants are making inroads into insurance and may potentially disrupt future ecosystems.

In such a changing environment where players and the rules of the game are in flux, both established insurers and InsurTech firms will need specific attributes to help them sustain and succeed. Building digital agility, developing a powerful ecosystem position, and designing sustainable models will be critical.



**Anirban Bose**

FS SBU CEO & Group Executive Board Member  
Capgemini



**Vincent Bastid**

Secretary General  
Efma

<sup>1</sup> In the context of this report, "InsurTech" refers to technology-based capabilities that have specific application in insurance, whereas "InsurTech firms" or "InsurTechs" refer to firms with offerings based on InsurTech capabilities, that are generally less than five years old and have a relatively small but growing customer base.

# World InsurTech Report 2018

## Executive Steering Committee (ESC)



**Antonio Fragero**  
Director of Strategy and Corporate  
Development, SegurCaixa Adeslas



**Christopher Smith**  
EVP and Head of Global Operations,  
MetLife



**Donna Peeples**  
President & Global Head of Insurance,  
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**Ingo Weber**  
Group CEO & Co-Founder,  
Digital Insurance Group



**Jas Maggu**  
CEO,  
Galaxy.AI



**Jay Weintraub**  
Co-Founder & CEO,  
InsureTech Connect



**Jonathan Kalman**  
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**Michael Kalen**  
CEO,  
Covr Financial Technologies



**Peter Gunder**  
Chief Business Development Officer,  
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**Robert Pick**  
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**Patricia Torpedo Moreno**  
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**Sabine VanderLinden**  
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**Seth Hall**  
SVP Customer Service,  
Philadelphia Insurance Cos



**Stacey Brown**  
InsurTech Hartford Founder



**Stephen Barnham**  
Head of APAC and Japan and CIO,  
MetLife Asia



# Executive Summary

## InsurTech Firms are Redefining the Insurance Industry

InsurTech activity is on the rise as InsurTech firms leverage digital savvy, innovation and entrepreneurial agility to address industry gaps with right-time, right-place products and services, founded on enriched customer experience.

- Investment in the InsurTech space grew 36.5% annually from 2014-2017, and during that time the number of deals rose 29.0%.
  - We classified InsurTech firms as Enablers, Distributors, and Full Carriers based on their level of vertical integration with the insurance business.
  - Nimbleness and ability to quickly address customers' evolving needs are the key strengths of InsurTech firms. However, collaboration with established insurers will be necessary to address challenges that hamper their ability to scale up.
- 

## Identifying the Frontrunners of the Future

To maximize opportunities and minimize collaboration-related risks, identification of suitable partners and partnership models is critical.

- More and more established insurers and InsurTech firms are collaborating as they increasingly acknowledge each other as valuable partners.
  - A current-state assessment to evaluate the impact of collaboration on an established insurer's business in the present industry scenario can help to identify the most likely InsurTech partners in for short-to-medium term engagements.
  - Similarly, a future-potential assessment to evaluate the sustained value of an InsurTech firm's offerings, can help to identify the best-qualified partners over the long term.
  - For insurers to build strong competitive positioning and early-mover advantage in a dynamic market, it will be important to identify strategic partnerships at different stages and to prepare for a future of collaboration.
- 

## The Way Forward


Collaborative engagements that strategically pair the most appropriate partners are increasingly important for insurers as industry dynamics change and new ecosystem models come into play.

- For both insurers and InsurTech firms, collaboration will be vital to develop the necessary capabilities and traits critical for long-term business sustainability.
- Going forward, InsurTech firms acting as industry innovators and R&D hubs will be catalysts for a growing market and ecosystem.





# InsurTechs are Redefining the Insurance Industry

- **InsurTech Firms Garner Investor Interest**
  - **InsurTech Value Propositions Meet New Market Demands**
  - **We Identify InsurTech Firm Types through Their Alignment with Business Categories**
  - **InsurTech Firms Offer Advantages, but Face Challenges**
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## InsurTech Firms Garner Investor Interest

Driven by technology and socioeconomic trends, the insurance industry is in flux. Consumer expectations, preferences, and habits are changing – and insurers are dedicated to staying ahead of the curve.

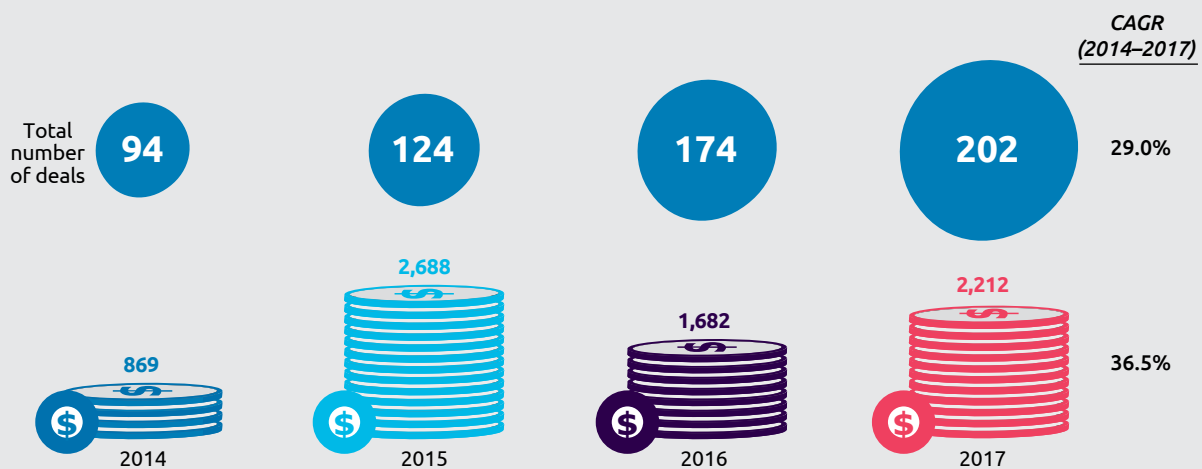
Enter *InsurTech*, the innovative use of technology in insurance. Unlike *FinTech*, or financial technology, which has been transforming banking for nearly a decade, InsurTech is beginning to influence insurance industry business models and the competitive terrain. While changing social and consumer trends created opportunities for technologically agile entrepreneurs, InsurTech firms emerged to address existing insurance challenges and gaps.

The steady growth in InsurTech investment underscores the sector’s sudden proliferation (Figure 1.1). From 2014 to 2017, InsurTech investments

grew at a compound annual growth rate (CAGR) of 36.5%. Concurrently, deals activity rose 29.0%. The rise in the total value and number of InsurTech deals points to investor confidence. The burgeoning InsurTech sector is hitting its stride.

Many InsurTech firms are gaining traction by improving existing insurance processes, enriching customer experience, and introducing disruptive yet opportunity-rich business models. Ongoing success will be the result of productive collaboration with established insurers – a win-win symbiosis of shared knowledge, industry insights, and future-proofing strategies.

**Figure 1.1 InsurTech annual funding (US\$ million) and total number of deals, global, 2014–17**



Source: Capgemini Financial Services Analysis, 2018; CB Insights Quarterly InsurTech Briefing, Q1 2018

# InsurTech Value Propositions Meet New Market Demands

Insurers, globally, are working to improve their digital capabilities to be future ready when it comes to meeting evolving customer demands and adapting to shifting market scenarios.<sup>2</sup> The first step is to isolate and address current capability gaps, from product design to claims management (Figure 1.2).

InsurTech firms are seizing opportunities to fill both gaps in capabilities and offerings and are enhancing processes across the insurance value chain. For example:

**Product design:** Launched in 2015, Mumbai-based Pentation Analytics offers predictive analytics applications for customer acquisition, risk assessment, and policy development.<sup>3</sup> Heidelberg-based startup Getsafe allows customers to customize their insurance policy on demand, by selecting the products they need when they need them.<sup>4</sup>

**Front office:** In 2015, German InsurTech massUp launched its web-based, white-label platform to allow brokers to sell short-term insurance products via any distribution channel.<sup>5</sup> Founded in 2012, The Zebra is a Texas-based insurance search engine and online auto insurance marketplace that displays an estimated quote with as few as two pieces of information and offers updates as users provide additional information.<sup>6</sup>

**Underwriting:** San Francisco-based Cape Analytics meshes computer vision with geospatial imagery to offer US property and casualty insurers intelligence information to improve underwriting quality and efficiency.<sup>7</sup> Startup brokerage Health IQ provides

low-rate coverage for health-conscious individuals based on an underwriting platform that assesses the insureds' dietary and lifestyle choices.<sup>8</sup>

**Policy acquisition and servicing:** US-based Proformex is a cloud-based, software platform designed to help agents, advisors, trustees, and fiduciaries manage life insurance policies and monitor and track policy status and performance.<sup>9</sup> Founded in 2015, Frankfurt and Berlin-based Clark describes itself as an insurance robo-advisor. Its algorithms analyze a consumer's current insurance situation and propose ways to improve coverage or get a better deal. Customers purchase and manage insurance products via its app-based platform.<sup>10</sup>

**Claims servicing and payout:** Paris-based Shift Technology offers a platform that uses AI and data science for insurance fraud detection. It recently expanded operations to the United States.<sup>11</sup> Digital insurer, ONE, a part of the German insurance platform Wefox Group, allows instant claims handling and status updates.<sup>12</sup>

*"InsurTech firms are creating an impact mainly in areas where a classical insurer has difficulty in gaining speed and agility: such as IoT and data-linked propositions, process efficiency such as new claims processes, robotization, or use of blockchain."*

—Jan Strauven, Director ICT – Digital Transformation, and Frank Peeters, Director – Strategic Office, Baloise Belgium

2 Capgemini, "World Insurance Report 2018," May 22, 2018, <https://www.worldinsurancereport.com/>

3 Pentation Analytics website, <http://www.pentationanalytics.com/about/overview>, accessed August 2018.

4 Digital Insurance Agenda, "Getsafe: Europe's first digital multi-line insurance (health, p&c, life) for the mobile generation," Roger Peverelli and Reggy de Feniks, November 22, 2017, <http://www.digitalinsuranceagenda.com/188/getsafe-europes-first-digital-multi-line-insurance-health-pc-life-for-the-mobile-generation>, accessed August 2018

5 massUp website, <https://massup.de/about?lang=en>, accessed August 2018.

6 The Zebra website, <https://www.thezebra.com/auto-insurance/>, accessed August 2018.

7 Business Wire, "Cape Analytics Launches AI-Driven, Property Intelligence Solution for Insurers Nationwide," April 3, 2018, <https://www.businesswire.com/news/home/20180403005142/en/Cape-Analytics-Launches-AI-Driven-Property-Intelligence-Solution>, accessed August 2018.

8 Forbes, "This Life Insurance Start-Up Has Quietly Raised \$81 Million To Give Cheaper Rates To Vegans, Runners And Yogis," Lauren Gensler, November 15, 2017, <https://www.forbes.com/sites/laurengensler/2017/11/15/life-insurance-start-up-health-iq-raises-34-million-andressen-horowitz>, accessed August 2018.

9 Proformex website, <https://www.proformex.com/>, accessed August 2018.

10 TechCrunch, "German insurance 'robo-advisor' Clark scores \$29 million Series B," Steve O'Hear, April 25, 2018, <https://techcrunch.com/2018/04/24/clark-robo-advisor>, accessed August 2018.

11 Digital Insurance Agenda, "Shift Technology: AI that understands insurance claims," Roger Peverelli and Reggy de Feniks, November 9, 2017, <http://www.digitalinsuranceagenda.com/180/shift-technology-ai-that-understands-insurance-claims>, accessed August 2018.

12 PR Newswire, "wefox Announces Milestone in the Digital Insurance Marketplace With Integration of ONE Into wefox Platform," June 26, 2017, <https://www.prnewswire.com/news-releases/wefox-announces-milestone-in-the-digital-insurance-marketplace-with-integration-of-one-into-wefox-platform-630861453.html>, accessed August 2018.

Figure 1.2 Select capability gap across the insurance value chain

Product Design	Front Office	Underwriting	Policy Administration	Claims Management
Actuarial Models and Product Design	Marketing, Distribution, and Channel Management	Underwriting New Policies	Policy Acquisition and Servicing	Claims Servicing and Payout
<ul style="list-style-type: none"> <li>360° view of customers' needs</li> <li>More personalized product designs leveraging insights from real-time data and analytics</li> <li>Seamlessly connected systems that support smooth flow of data across stakeholders</li> <li>Faster development cycles and improved speed to market</li> <li>Adapting products to account for new and emerging risks</li> </ul>	<ul style="list-style-type: none"> <li>Extended multi-device and mobility offering</li> <li>Integrated omnichannel offerings Real-time updates on policy application status</li> <li>Quick identification of cross-selling and up-selling opportunities</li> <li>Self-service capabilities</li> <li>Simplified purchase experience</li> <li>Information availability and price transparency</li> </ul>	<ul style="list-style-type: none"> <li>Real-time information capturing</li> <li>Advanced risk analytics enabling risk-based pricing</li> <li>Automated workflow management and rules engines</li> <li>Customer value-led promotions and discounts</li> <li>Digitized systems with less reliance on data that a customer needs to provide</li> </ul>	<ul style="list-style-type: none"> <li>Integration with analytics and data management system</li> <li>Automated systems with Straight Through Processing (STP) capabilities</li> <li>Self-service capability and ability to update policy coverages with varying life goals and events</li> <li>Automated renewal notice, premium reminders</li> <li>Anytime access to policy details/ view</li> </ul>	<ul style="list-style-type: none"> <li>Streamlined claims process with low waiting time</li> <li>Digitally-enabled claims document submission</li> <li>Instant notification of the claim and proactive status updates</li> <li>Real-time claims status monitoring</li> <li>Advanced analytics – based fraud detection</li> </ul>

Source: Capgemini Financial Services Analysis, 2018

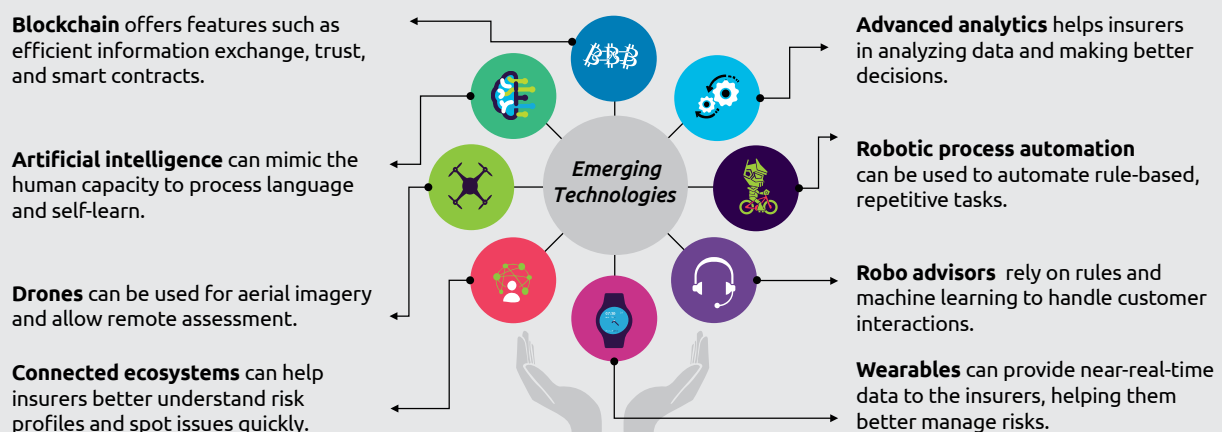
With such innovative offerings, InsurTech firms are redefining customer engagement through an experience-based approach and value-added services. InsurTech products increase the frequency and quality of customer interactions by engaging consumers throughout their daily activities. For instance, US-based InsurTech Sureify uses wearable devices for customer engagement. Insureds can set their own fitness goals, and upon sharing their wearable data with the Sureify Life App, track their savings.<sup>13</sup>

*“The biggest impact that InsurTech firms may bring, would be related to expanding the access of insurers to the potential clients, by serving as a new channel (Apps, web, integrating value-added healthcare service providers) and as intermediaries in the relationship between the final clients (Prospects to be insured) and the traditional insurance companies (Holders).”*

—Juan Cumbrado, CIO & CPO Regional LATAM Norte de MAPFRE

InsurTech firms are leveraging multiple emerging technologies to develop and deploy innovative offerings quickly (Figure 1.3).

Figure 1.3 Key emerging technologies leveraged by InsurTech firms



Source: Capgemini Financial Services Analysis, 2018

13 The Digital Insurer, “Sureify – Personalised Premium Life Insurance,” Hugh Terry, <https://www.the-digital-insurer.com/dia/sureify-personalised-premium-life-insurance>, accessed August 2018.

# We Identify InsurTech Firm Types through Their Alignment with Business Categories

Types of InsurTech firms vary based on their relevance to specific insurance businesses, their value offered, and their business and operating models.

To approach the InsurTech space systematically and to analyze the current and future potential of InsurTech firms, a clear classification system is critical. Based on vertical integration by the insurance business, InsurTech firms can be defined broadly as Enablers, Distributors, or Full Carriers. These three categories can be further classified based on their business and operating models (Figures 1.4 and 1.5).

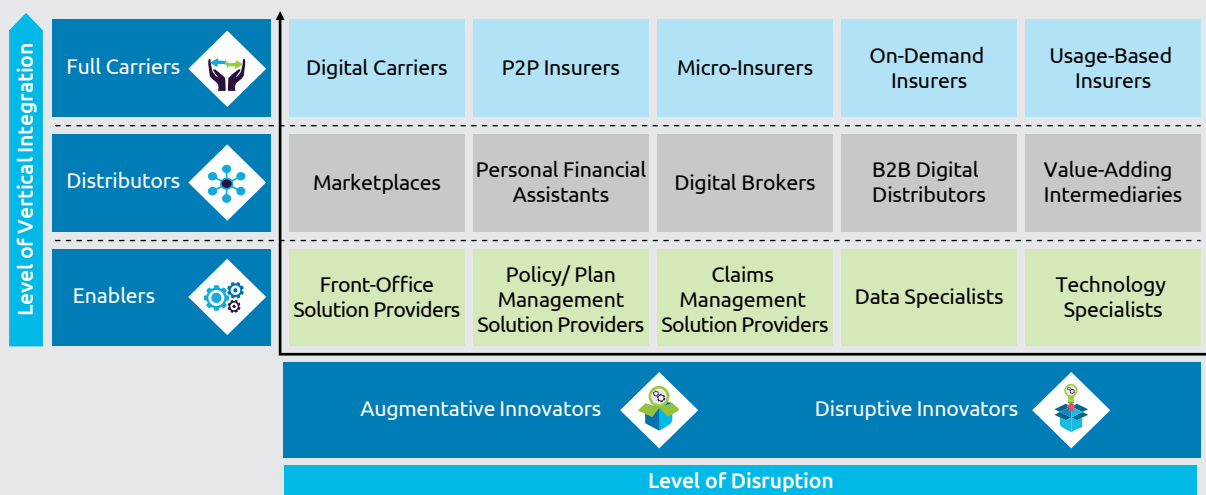
Within these identified InsurTech types, firms can be further identified as *augmentative* or *disruptive* innovators based on the level of innovation in their offerings.

**Augmentative innovators** are InsurTech firms that enhance customer experience within existing business processes and improve operational efficiency. For example, aggregate website Policygenius acts as a

one-stop shop for life insurance, disability insurance, health insurance, and even pet insurance. It is a tool that participating insurers can use to promote their products more broadly and it is a marketplace where consumers can shop quotes from Policygenius-vetted insurers – all in one place.<sup>14</sup>

**Disruptive innovators** are InsurTech firms that are gradually revamping insurance business models by introducing innovative offerings to the market. For example, the insurance platform of Malta-based Sherpa provides comprehensive services for personal risk management. Through the use of advanced AI mathematical models and actuarial data, Sherpa assesses the probability of a customer’s high frequency/low impact events, and vice versa. The platform finds an apt personalized insurance policy by building an individualized risk profile that continually updates and informs users about changes in risks and costs, which saves them money. Insureds pay a coverage-based annual membership fee.<sup>15</sup>

Figure 1.4 InsurTech categories and classifications



Source: Capgemini Financial Services Analysis, 2018

14 Dough Roller, "PolicyGenius Review – One Stop Shop for Insurance," Abby Hayes, June 18, 2018, <https://www.doughroller.net/insurance/life-insurance/shopping-life-insurance-policygenius/>

15 The Digital Insurer, "INSURANCE DISTRIBUTION IS ABOUT TO GET PERSONAL!" Rick Huckstep, November 9, 2017, <https://www.the-digital-insurer.com/blog/insurtech-insurance-distribution>

**Figure 1.5: InsurTech Categories and Classifications – Examples**

	InsurTech Firm Type	Products/ Services Offered	Example <sup>a</sup>
Full Carriers	Digital Carrier	Traditional insurance model conducted online or on mobile	ZhongAn is a Chinese property insurer that uses the online channel to sell its products and handle claims.
	P2P Insurer	A risk-sharing network where a group of associated individuals pools their premiums to insure against risk and generally stands to benefit regarding premium returns	insPeer, a France-based community insurance platform, allows members to pool in money within a group for covering a group member's deductible.
	Micro Insurer	Smaller insurance packages with lower premiums and typically lower coverage	Leveraging mobile technology, BIMA offers affordable insurance products to low-income populations in emerging markets.
	On-Demand Insurer	On-demand insurance coverage that can be purchased online as well as via mobile apps	New York-based Sure offers on-demand personal or episodic policies that a user can buy either via website or an app.
	Usage-Based Insurer	Premiums priced per usage or risky behavior displayed by the customer	US-based Metromile offers auto insurance with fees based on the number of miles the insured's car logs.
Distributors	Marketplace	Online site enables individuals to compare plans from different insurers	PolicyBazaar specializes in comparative analysis of products from various insurers based on price, quality, and key benefits.
	Personal Financial Assistant	One-stop app(s) allows customers to manage all their policies, obtain coverage recommendations, and compare and purchase plans	Artificially intelligent insurance advisory application Brolly delivers contextually relevant insights through web and mobile applications, so customers can manage policies in one place and know where coverage may be duplicated or missing.
	Digital Broker	Online platform allows customers to compare and purchase policies	Licensed broker Coverfox offers insurance products for vehicles, home, health, services, and travel.
	B2B Digital Distributor	Online site enables commercial customers to compare plans from different insurers	CoverHound, a US-based InsurTech firm that offers a comparison platform for personal and small commercial insurance products.
	Value-Adding Intermediary	Customized or flexible front-office solutions via partnership with an insurer/reinsurer for risk management	London-based Bought By Many uses social media data to connect people with similar insurance needs and then uses the group's collective buying power to negotiate with insurers for deals that aren't available for individuals.
Enablers	Front-Office Solution Provider	Process-improvement solutions for the front office	PremFina's white label solution for brokers allows them to extend premium financing options to their customers and manage insurance policies.
	Policy/Plan Management Solution Provider	Process-improvement solutions for underwriting and policy/plan administration	RiskGenius applies artificial intelligence to streamline the work of insurance professionals by retrieving details on a specific coverage or exclusion, analyzing policies, and extracting relevant information such as a premium limit or deductible.
	Claims Management Solution Provider	Process-improvement solutions specifically for claims management	RightIndem has a white-label self-service insurance claims platform for insurers that allows customers to interact with their claim in their own time.
	Data Specialist	Data capture or analytics solutions for use cases or across the value chain	Carpe Data leverages data from various channels such as online content, social media, connected devices, and offers predictive scoring and data products for the insurers, enabling them to predict risks better.
	Technology Specialist	Solutions based on a specific technology such as blockchain or drones	Betterview, a drone-technology specialist, allows drone-based inspection or property assessment.

a: Refer to Appendix 1 for references

Source: Capgemini Financial Services Analysis, 2018

# InsurTech Firms Offer Advantages, but Face Challenges

InsurTech firms' strengths vary by specialty. While the ability to cater to new market demands emerged as one of the key strengths of Distributors and Full Carriers, both traditional insurance firms and InsurTech firm leaders consider agility and the ability to integrate into ecosystems to be the top strengths of Enablers (Figure 1.6).

InsurTech firm leaders believe their top competitive advantages include:

**Ability to address a critical market need:** Across all segments, more than 55% of InsurTech executives interviewed as part of the World InsurTech Report (WITR) 2018 said their firm's greatest strength was the ability to address an essential market/customer need. More than 70% of traditional insurance firms also noted that Enablers are addressing a critical market/customer need.

**Agility:** Agility is one of the top three attributes for InsurTech firms according to InsurTech executives. More than 80% of traditional insurance firms feel agility is one of the biggest strengths of Enablers.

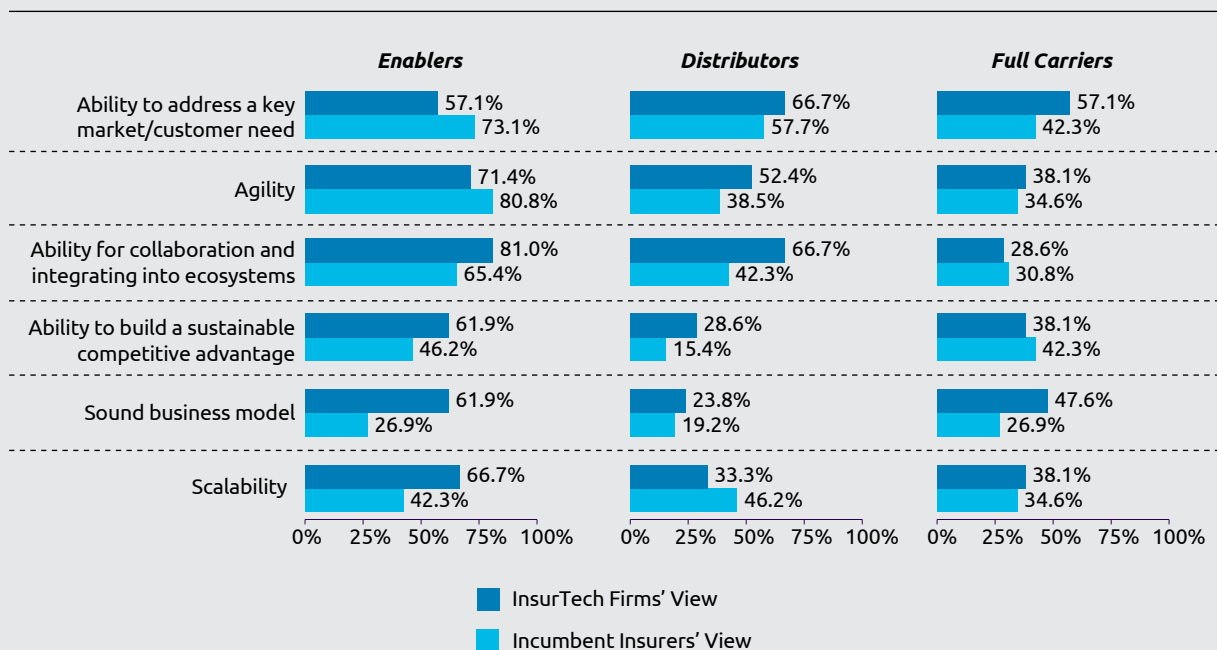
**Collaboration and ecosystem integration:** As per WITR 2018 InsurTech respondents, the ability to collaborate and integrate into an ecosystem was the most important attribute of Enablers and Distributors, but less than a third of traditional insurance firms and InsurTech firms cited it as critical for Full Carriers. Their rationale was that for Enablers and Distributors to successfully operate their systems, they must integrate seamlessly with the insurance ecosystem.

*"Distributors can significantly increase customer engagement by providing personalized services, leveraging internal and external data, and by offering E2E solutions, integrating white label API services from partners in the eco-system."*

—Pieter Oversteijns, Co-founder, UnderCover

**Building a sustainable competitive advantage:** Over 60% of InsurTech firms said the ability to develop a sustainable competitive advantage was a key strength of Enablers, while less than 30% made the same claim about Distributors. Why? Generally speaking, Distributors are limited when it comes to differentiating their offerings.

Figure 1.6 Strengths of InsurTech firms – by InsurTech type (%), 2018



Question: From your perspective, what are the strong points of each of these InsurTech firm types: Enabler, Distributor, and Full Carrier?

Source: Capgemini Financial Services Analysis, 2018; WITR 2018 Executive Interviews, 2018

*“Enablers assist insurers to optimize the foundation of the company and have a sound business model. Decisions to grow the business, be more agile or create competitive advantage need to come from this solid basis. When it comes to full carriers, on-demand or usage-based models developed by them will be useful as insurance is becoming more a service than a product.”*

—Jonathan Goderis, Co-founder & Sales, Keypoint BVBA

Traditional insurers also said that providing enhanced customer experience is an area where InsurTech firms have been able to generate high impact (Figure 1.7).

More than 65% of the respondents from traditional insurance firms and over 90% of InsurTech firms said they firmly believe that InsurTech firms are redefining the experience of insurance customer. Moreover, more than a third of traditional insurers and InsurTech firms agree that InsurTechs can enhance incumbent insurers’ capabilities.

*“InsurTechs provide insurers access to additional data sources, reduce the technology execution risk for early-stage technologies, and enable faster time to start up new product lines or segmental offerings.”*

—Derek Wilcocks, Group Chief Information Officer, Discovery

Both respondents’ groups also share similar views when it comes to the impact of InsurTech firms on disrupting the existing insurance models, with only around a quarter of traditional insurers and InsurTech firms considering this a key impact.

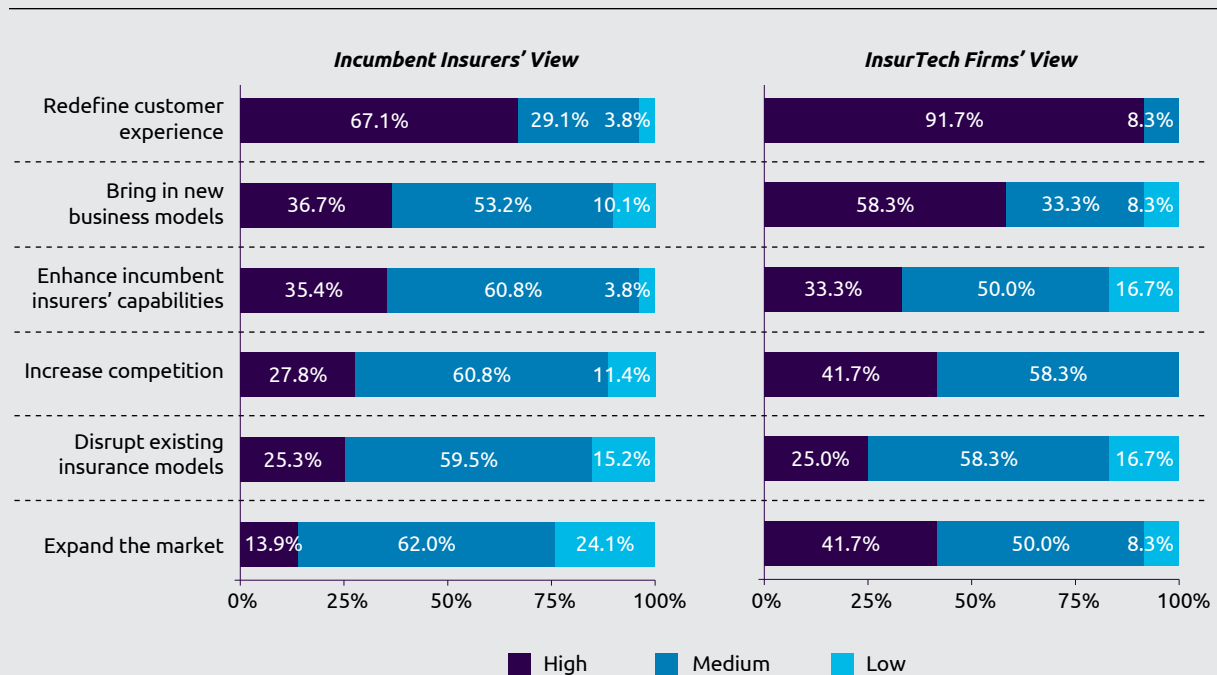
Notably, however, fewer established insurers (as compared with their InsurTech counterparts) said they believed InsurTech firms were bringing new business models, expanding the market, or increasing competition.

Though InsurTech firms have successfully introduced innovative products, they face significant challenges when it comes to production capacity or scaling up.

**Customer trust:** Incumbent insurance firms are in business for the long haul, and most have established a solid track record. Many customers have interacted with traditional firms and have benefited. The combination of these factors has earned customer trust. InsurTech firms have a way to go to establish the same good faith with customers.

**Brand recognition:** Building a brand in the financial services sector requires a sustained effort over a considerable period. By delivering consistent performance and providing better customer experience, firms can build customer trust and loyalty, which in turn, generates brand recognition. Since most InsurTech firms are relatively new and have a small customer base, they don’t have a well-recognized brand name compared with incumbent insurers.

Figure 1.7 InsurTech firms’ impact on industry (%), 2018



Question: In your view, how are InsurTech firms impacting or can potentially impact the insurance industry?

Source: Capgemini Financial Services Analysis, 2018; WITR 2018 Executive Interviews, 2018



**Regulations:** The insurance industry has a complex regulatory landscape, varying across geographies. InsurTech firms, in general, lack the expertise to navigate through legislative mandates that can stall quick scale-up. Regulatory compliance also adds a significant capital burden.

**Capital:** As with all startups, InsurTech firms rely heavily on funding. A firm that fails to generate investor interest will have a tough time sustaining and scaling operations.

InsurTech firm challenges are often competitive strengths for established insurance firms. Therefore, collaboration offers a route to a sustainable and profitable business for newcomers.

Equally important are the challenges faced by traditional insurance firms in meeting evolving customer expectations, bringing in new business

models, and incorporating emerging technologies for process improvement, which are the core strengths of InsurTech firms. Traditional insurance firms are cognizant of the advantages of InsurTech firms and realize that collaboration offers access to their complementary strengths.

With complementary strengths and opposing challenges, collaboration can offer win-win benefits for both InsurTech firms and incumbents.<sup>16</sup>

Critical assessment of the current and future capabilities of potential InsurTech collaborative partners will help established firms to maximize opportunities and minimize risks in the short-to-medium term as well as in the years ahead.

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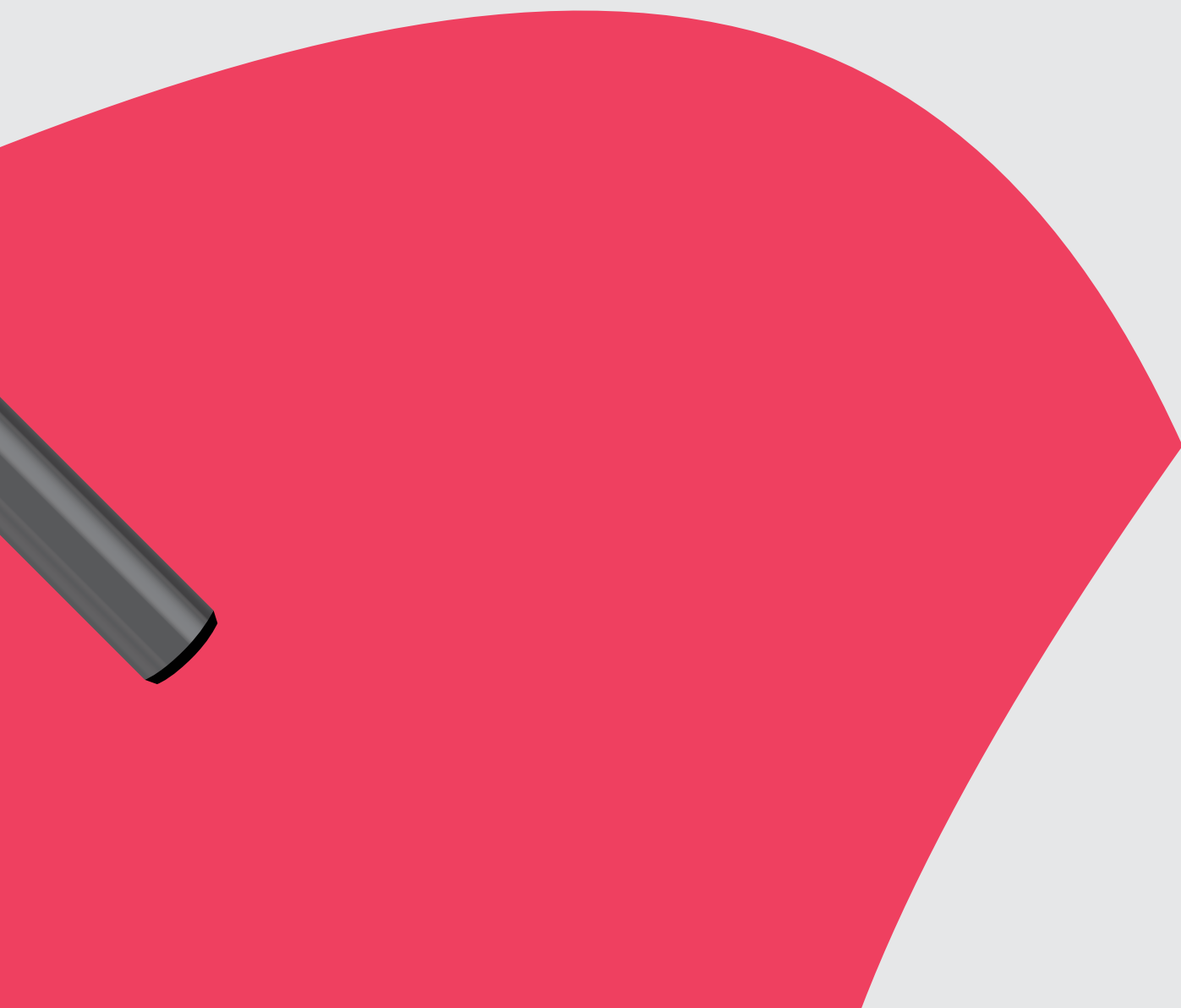
<sup>16</sup> Capgemini, "World Insurance Report 2017," September 2017, <https://www.capgemini.com/service/world-insurance-report-2017/>





# Identifying the Frontrunners of the Future

- **Collaboration-Driven Innovation and Revenue Growth Create Industry Buzz**
- **InsurTech Firms' Partnership-Potential Expected to Evolve**
- **A Structured Approach Will Bolster Collaboration Initiatives and Mitigates Challenges**



# Collaboration-Driven Innovation and Revenue Growth Create Industry Buzz

Increasingly, established insurers and InsurTech firms are acknowledging each other as valuable potential partners – and collaboration is becoming an industry buzzword.

Through collaboration, incumbents can adopt innovative technology solutions that redefine how insurance is delivered, improve customer experience, underwrite risk, and expand revenue streams through products for new and underserved markets. InsurTech firms can be a useful avenue to new digital capabilities that enable fast-to-market innovation. InsurTech solutions targeted to specific parts of the value chain can help traditional insurers streamline operations and improve cost efficiencies.

*“InsurTech firms are helping to expand the market and competition, which results in new models and innovation. The potential to easily scale digital services based on data, such as those that draw on official health data, is vast and can be exploited for the benefit of all stakeholders.”*

—Francesco Marcellino, CEO, Datawizard

*“Becoming technologically fast and building new technical capabilities are some of the benefits of InsurTech collaboration.”*

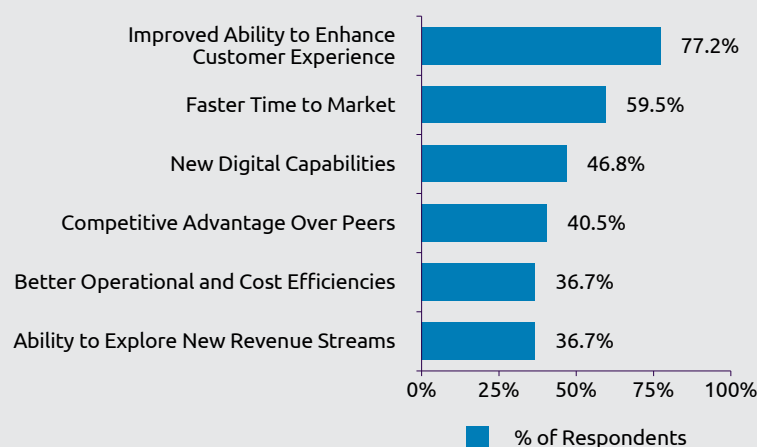
—Muge Irfanoglu, Health Strategy & Business Development Group Manager, Allianz Turkey

Over 75% of insurers surveyed for the *WITR 2018* consider “improved ability to enhance customer experience” to be a key benefit of InsurTech collaboration, followed by “faster time to market” (59.5%), and “building new digital capabilities” (46.8%) (Figure 2.1). Established insurers are considering partnerships, acquisitions, incubators/ accelerators, financial investments, etc., based on whether they want to explore new InsurTech innovations or delve more deeply into specific solutions.

Continuing a *World Insurance Report 2017* trend, “InsurTech partnership to develop solutions” remained one of insurers’ preferred collaboration approaches, with over 75% of insurers who responded (across sub-sectors) to the *WITR 2018* survey exploring this approach (Figure 2.2). However, P&C insurers preferred “purchasing InsurTech solutions as a service,” with 80.2% of P&C insurers adopting this approach. More than 60% of insurers surveyed across sub-sectors are also using white-labeled solutions provided by InsurTech firms.

For insurers to maximize opportunities and minimize collaboration-related risks, it is critical to identify an apt partner and partnership model in the short-to-medium term as well as the long term.

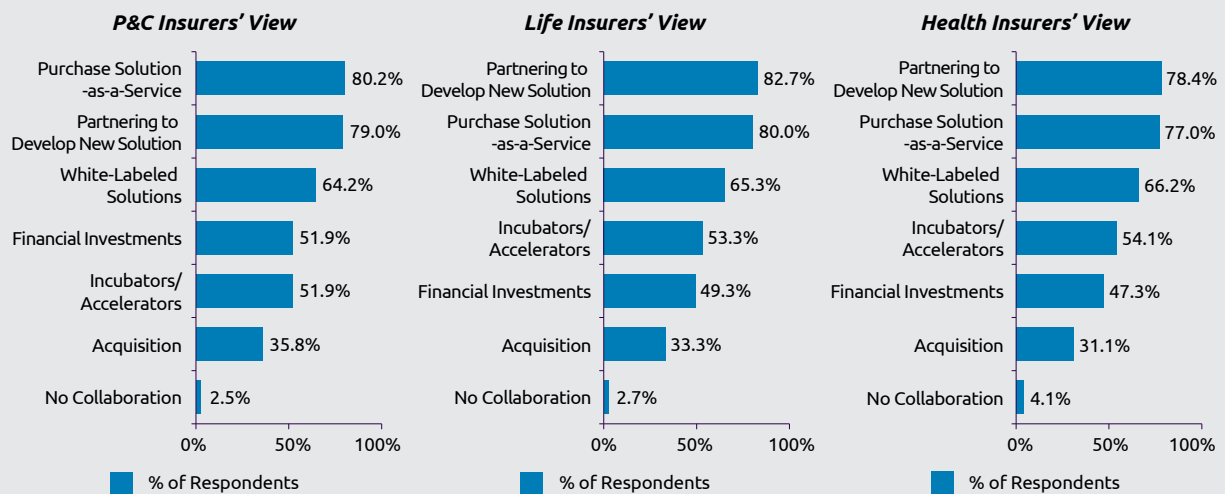
**Figure 2.1 Benefits of collaboration – insurers’ view (%), 2018**



Question: Please rate each of the following benefits of InsurTech collaboration on a scale of 1–7 in terms of its importance for the insurer’s business (where 1=Not at all Important and 7=Very Important).

Source: Capgemini Financial Services Analysis, 2018; *WITR 2018* Executive Interviews, 2018

Figure 2.2 Collaboration between insurers and InsurTechs – preferred approaches by insurers (%), 2018



Question: Which of the following approach(es) applies to your InsurTech engagement strategy? Please check all applicable options.  
 Source: Capgemini Financial Services Analysis, 2018; WITR 2018 Executive Interviews, 2018

*“With a multiplicity of opportunities, evaluating InsurTechs for partnership is a complex area and ‘backing the right horse’ is the most important question right here right now.”*

— Graham Gibson, Chief Claims Officer, Allianz PLC

## Identifying InsurTechs for High-Potential, Short-to-Medium-Term Partnership

A current-state assessment that evaluates the impact of collaboration on an insurer’s business within the present industry scenario can help to identify the most suitable partners for the short to medium term.

InsurTech firms can be assessed based on the strength of their value proposition, impact on customers, effect on insurers’ top and bottom lines, ease of integration, scalability of their offering, and on the opportunity costs of not partnering with them (Figure 2.3).

*“For an incumbent insurer, well-structured PoCs focused on the proposition, customer, and scalability are a must. If these three factors are in the right place, the rest will follow.”*

—Graham Gibson, Chief Claims Officer, Allianz PLC

*“The most important things for an InsurTech innovator to demonstrate to an insurance carrier are meaningful change in the insurers’ value proposition and ease of integration with existing systems and processes.”*

—Michael Kalen, CEO, Covr Financial Technologies

In this report, the partnership potential of individual InsurTech types was measured based on a weighted average of ratings along defined factors derived from established insurer and InsurTech input, as well as extensive secondary research.

## Current-state assessment of Enablers

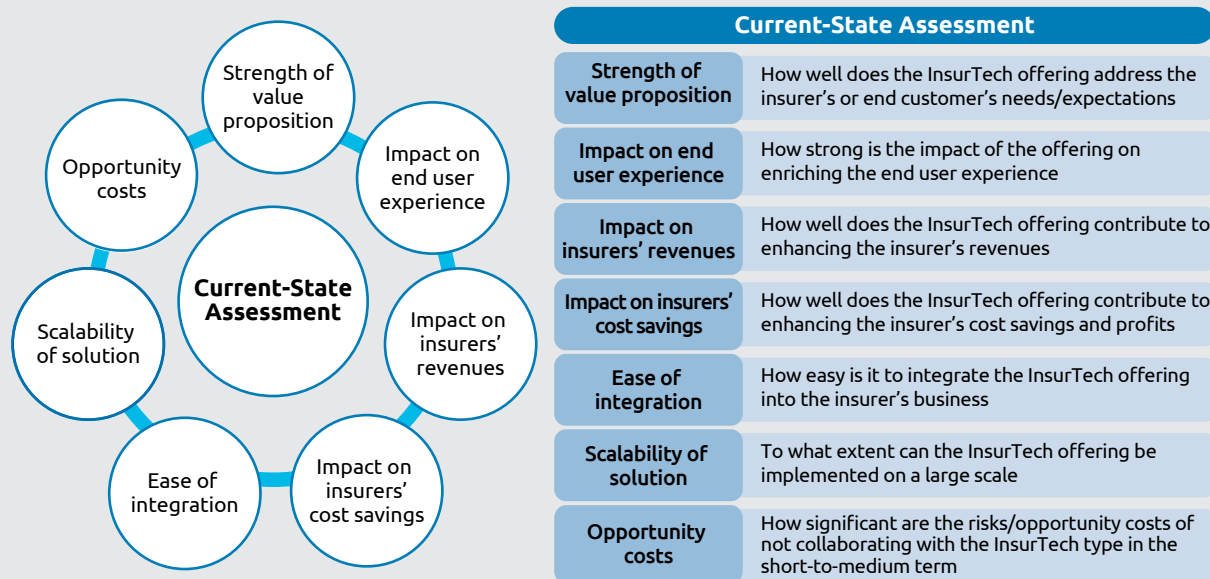
Among enablers, front office and claims solution providers have a high direct impact on customer experience at the critical stages of customer interactions, such as policy purchase and claims settlement.

**Front-office solution providers** can also help boost insurers’ revenue by reaching customers more effectively and improving new customer acquisition.

Similarly, **claims solution providers** can help insurers streamline claims processing by automating functions and reducing unnecessary handoffs, which ultimately reduces the claims’ settlement time and improves customer satisfaction. Claims solution providers can also significantly impact cost savings as solutions related to fraud detection or loss reduction analytics can have a high positive impact on insurers’ loss ratio.

While large technology vendors can provide digital front-office solutions, claims-management InsurTech firms often deliver difficult-to-replicate data/network aggregation benefits. Therefore, the opportunity costs of not partnering with them are higher.

Figure 2.3 Current-state/benefits assessment: assessment framework



Source: Capgemini Financial Services Analysis, 2018

**Policy/plan management solution providers** have a moderate impact regarding their benefits because they do not exert a direct, significant effect on revenue or cost, and large technology vendors can replicate their solutions unless the offering is unique.

**Data specialists** have a strong proposition, and the opportunity costs of not partnering with them are high. However, there may be initial integration challenges. The strengths of **technology specialists** rely upon the specific technology employed.

*“Enablers are attractive InsurTech partners in the short-to-medium term for prioritizing the improvement and optimization of the current business model.”*

—Patricia Torpedo Moreno, Strategy and Innovation Director, Reale Seguros

Enabler Assessment Factors	Front-Office Solution Providers	Policy/Plan Management Solution Providers	Claims Management Solution Providers	Data Specialists	Technology Specialists
Value proposition strength	Strong proposition, as insurers look for innovative ways to reach users and customers demand personalization and convenience.	Both customers and insurers can benefit from more streamlined, digitized policy management solutions though this isn't a significant needs gap.	Strong proposition, because better customer experience is enabled at a key Moment of Truth in the insurance lifecycle.	Can provide unique insights based on data aggregation or advanced tools.	Technology will be used to redefine insurance transactions, and new models may become popular.
Impact on end-user experience	Customers can access offerings through their preferred channels in real time.	Customers can benefit from more convenient and streamlined policy management.	High impact on customer experience by enabling easier claims processing and faster payouts.	Users benefit from personalized services as insurers gain deeper customer insights.	While some new models such as IoT-based risk mitigation have high benefits, customer adoption may take time.
Impact on insurer's revenues	A strong front office can boost conversion ratios and thus, revenues.	No significant direct impact on revenues.	A better claims experience can bolster customer satisfaction and retention.	Revenues boosted through more insights into customer needs and risks.	No significant impact on revenues but some new models may add to revenues.
Impact on insurer's cost savings	Digitized solutions enable better front-office operational efficiency.	Streamlined processes can save costs.	Solutions related to fraud detection or loss-reduction analytics can significantly improve cost savings.	Data solutions that enable risk mitigation or prevention can have a long-term impact on insurers' costs.	Solutions based on drones or IoT may have long-term cost benefits but require upfront technology investments.
Ease of integration	Designed as insurer solutions to accommodate easy integration.	Designed as insurer solutions to accommodate easy integration.	Designed as insurer solutions to accommodate easy integration.	Changes required to incorporate insights from these solutions into insurer processes.	Integration ease depends on the specific technology; some process changes may be required.
Solution scalability	Designed as insurer solutions and can accommodate larger scale.	Designed as insurer solutions and can accommodate larger scale.	Designed as insurer solutions and can accommodate larger scale.	No significant constraints to scaling solutions.	Scalability depends on the technology as there is ambiguity about the impact of broader blockchain adoption.
Opportunity costs	Unless the solution is unique, fewer opportunity costs of not partnering as large tech firms also provide front-office solutions.	Unless the solution is unique, fewer opportunity costs of not partnering as large tech firms also provide policy-management solutions.	Large tech firms can also provide digital claims solutions but may not have data/network aggregation benefits.	Insurers may lose a competitive edge if they don't implement data-driven processes through data specialist partnership.	Insurers may lose early mover advantage on new technology-based disruptive models.

## Current-state assessment of Distributors

Digital distributors generally have a strong value proposition as customers increasingly adopt digital channels and platform models are becoming popular across industries.

Digital distributors enhance customer experience by empowering users with more information and choices as well as potential price savings.

For insurers, digital distributors can enhance market reach and act as a cost-efficient distribution channel though they can lead to price competition among insurers. Digital distributors can be integrated with insurers' systems easily through APIs, and there are no significant constraints to scaling operations.

However, among distributors, **personal financial assistants**, and **value-adding intermediaries** score medium overall due to slower initial uptake and greater complexity of the models.

Distributor Assessment Factors	Marketplaces	Personal Financial Assistants	Digital Brokers	B2B Digital Distributors	Value-Adding Intermediaries
Value proposition strength	As marketplace models rise across industries, customers are seeking insurance marketplace options, too.	While useful, personal financial assistants do not address a glaring market gap and are yet to generate robust interest.	Meet customer convenience requirements. Offer insurers a cost-effective channel.	Strong proposition as more businesses are headed by millennials, and all customers seek more information.	Strong proposition as they make customer-centric value additions in the purchase stage.
Impact on end-user experience	Customers are empowered with more information and choices as well as can avail of price savings.	As customers can manage and buy all their policies in one place, these solutions will be highly convenient.	Customers are empowered with more information and choices and can obtain anytime, anywhere service.	Customers are empowered with more information and choices as well as can avail of price savings.	Customers can avail of more affordable and personalized offerings that are highly customer-centric by design.
Impact on insurer's revenues	Provide insurers greater customer reach and an additional channel.	Can act as an additional channel for insurers, but currently cover a smaller market.	Provide insurers greater customer reach and an additional channel.	Provide insurers greater customer reach and an additional channel.	Can help boost insurers' top line by providing access to previously unserved segments.
Impact on insurer's cost savings	A cost-effective channel but could lead to price competition among insurers.	They are a cost-effective channel but could lead to price competition among insurers.	A cost-effective channel but could lead to price competition among insurers.	They are a cost-effective channel.	They do not have any direct impact on insurers' costs unless they include risk mitigation services.
Ease of integration	Platforms can be easily integrated with insurers' systems through APIs.	Platforms can be easily integrated with insurers' systems through APIs.	Platforms can be easily integrated with insurers' systems through APIs.	These platforms can be easily integrated with insurers' systems through APIs.	As they employ different models – such as P2P – integration will need realignment.
Scalability of solution	No scaling constraints because platforms scale in accordance with their network of suppliers and customers.	No scaling constraints because platforms scale in accordance with their network of suppliers and customers.	No scaling constraints because platforms scale in accordance with their network of suppliers and customers.	No scaling constraints because platforms scale in accordance with their network of suppliers and customers.	Because they involve different models – such as P2P – there may be complexities when scaling customer base.
Opportunity costs	Opportunity costs of not partnering include reduced customer reach.	Opportunity costs of not partnering include reduced customer reach.	Opportunity costs of not partnering include reduced customer reach.	As they become popular, opportunity costs would include reduced customer reach due to lack of presence in a key channel.	As they represent a smaller portion of the market currently, there is no significant opportunity cost of not partnering.



## Current-state assessment of Full Carriers

Full Carrier InsurTechs generally have a strong value proposition and end-user impact as they have highly customer-centric models by design and are geared to bridge existing market gaps. However, their influence on insurers' revenues may be less in the near term because they generally serve a smaller, niche market. Full Carriers represent a significant departure from

traditional insurer models and may generate upfront costs and challenges when it comes to integration into legacy businesses.

**Digital carriers and usage-based insurers** offer substantial benefits in terms of customer experience and impact on insurers' finances. However, as insurers can easily build these models in-house – and may prefer to do so for better access to customer data – there are fewer opportunity costs of not partnering with them.

Full Carrier Assessment Factor	Digital Carriers	P2P Insurers	Micro Insurers	On-Demand Insurers	Usage-Based Insurers
Value proposition strength	As more customers expect digital channels, these carriers offer compelling value in their models.	Offer significant cost savings and access to more customers.	Fill the glaring under-insurance gap by making coverage more affordable for low-income populations.	Compelling value proposition because a key customer need gap for flexible and personalized coverage is met.	Address key needs gaps. For customers: More personalized offerings. For insurers: Better pricing and lower claims costs.
Impact on end-user experience	Customers transact digitally, making the process fast and convenient.	Customers benefit from premium returns, but often more effort or involvement is required from them.	Customers conveniently access affordable policies through digital transactions.	Positive customer experience based on customer-centric design and convenient, digital transactions.	Customers access pricing discounts and benefit from value-added services such as driver feedback.
Impact on insurer's revenues	While insurers can gain access to more customers, it may be more as a one-time benefit.	While P2P insurers can give access to more customers, this is currently a smaller market.	They can provide insurers access to new market segments.	Boosts insurers' topline by enabling access to new customers and new scenarios to cover.	Insurers benefit from more accurate pricing; and for early movers, favorable self-selection.
Impact on insurer's cost savings	Insurers can adopt the Carrier's digital processes for better operational efficiency.	P2P firms can help reduce acquisition costs but otherwise do not have a significant impact on insurers' costs.	Implementing microinsurance may involve more administrative overhead costs.	Required upfront investments in real-time technologies and anti-selection risks may affect insurers' costs.	In the long-term, insurers can benefit from lower claims costs as customers are incentivized to commit less risky behavior.
Ease of integration	Differences in processes, systems, and culture could pose integration challenges.	As this is very different from traditional insurance models, integration may pose challenges.	As this is different from traditional insurance models, integration may pose challenges.	As this is very different from traditional insurance models, integration may pose challenges.	There will be some realignment required to track customer data and introduce usage-based pricing.
Solution Scalability	Digital operations are easier to scale than traditional operations.	May be difficult to manage multiple small groups at scale, notably when composition of groups differs over time.	There are no significant constraints to scaling these models and scale is vital for profitability.	On-demand models can be scaled up quickly due to automation, AI, and advanced analytics.	No significant constraints to scaling UBI models; insurers are implementing them at scale today.
Opportunity costs	The downside risks of not partnering are low as insurers can easily digitize operations in-house.	No significant opportunity costs of not partnering as P2P represents a smaller portion of the market.	Opportunity cost could be a sizeable uninsured customer base and a stronger presence in emerging markets.	Opportunity cost could be the loss of potential revenues from new insurance opportunities.	Lower opportunity costs as insurers can implement UBI programs internally.

### Overall assessment of short-to-medium-term potential for InsurTech partnership

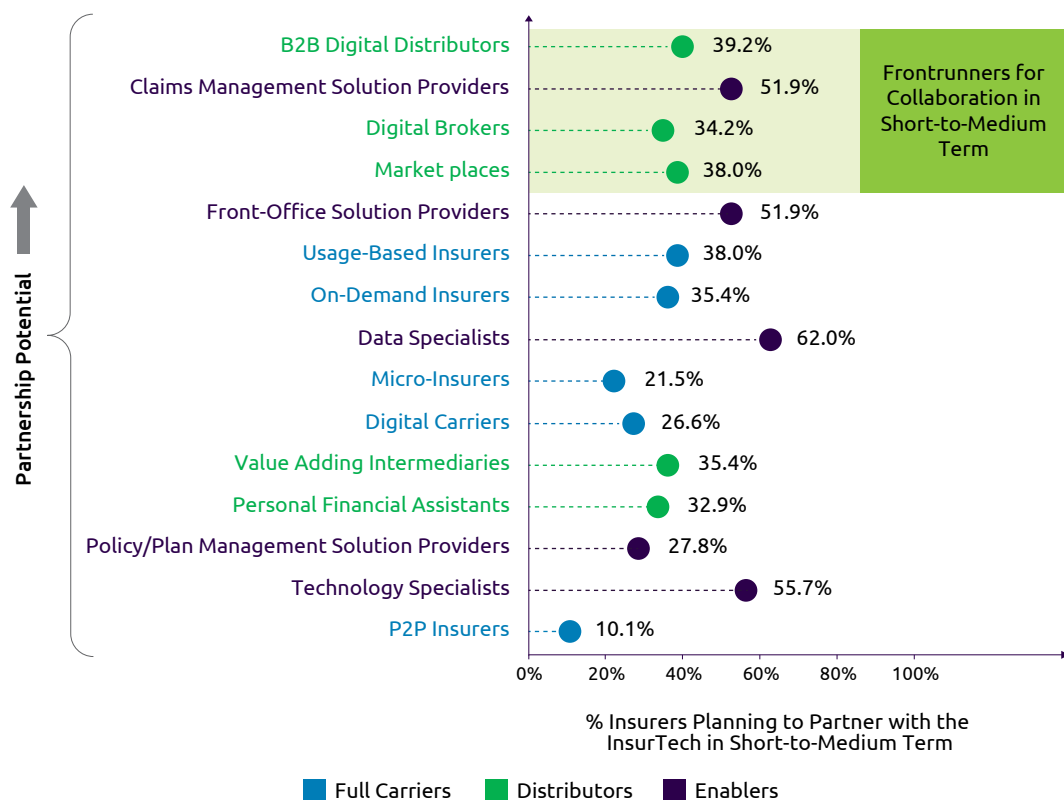
Distributors have emerged as frontrunners in the near term because of the popularity of online marketplace models across industries and because these InsurTechs are highly scalable and easy to integrate. Incumbent partnership with distributors is vital in the near-to-medium term as insurers risk losing a competitive edge in terms of reaching customers in their preferred manner, which may adversely impact new customer acquisition.

Among solution providers, established insurers have high interest in front-office and claims solution providers based on their high potential for

partnership, whereas policy management solution providers garnered less interest based on lower partnership potential.

Although data specialists fell back in rankings due to initial integration complexities, insurers are keen to partner with them, and 62% of insurers are considering data specialists for a short-to-medium-term partnership. Because insurers are experimenting with new pricing and risk assessment techniques involving new data, InsurTech firms that focus on enriching insurers with new types of data are earning increased success. Insurers are also highly interested in technology specialists, although their financial benefits and scalability have yet to be proven (Figure 2.4).

**Figure 2.4 InsurTech partnership potential<sup>a</sup> and insurers' preferences for short-to-medium-term partnerships, 2018**



a: Individual InsurTech types are assessed on their partnership potential in short-to-medium term based on a weighted average of ratings along the short-to-medium-term assessment factors, determined based on inputs from insurers, InsurTechs, and extensive secondary research. InsurTech types with an overall score above a defined level are then identified as frontrunners.

Source: Capgemini Financial Services Analysis, 2018; WTR 2018 Executive Interviews, 2018

# Established Swedish Insurer Leverages the Enabling Skills of Tech Specialist Startup

**Collaborative Partners:** With 4 million customers throughout Sweden, Swedish insurance company Folksam offers general insurance as well as savings and pension products and settles 600,000 claims annually. Prevention-as-a-Service startup Hiotlabs leverages internet-connected sensors to measure humidity and temperature data and enables early detection of water damage.

**Challenge:** Detection of water damage in Folksam-insured Swedish homes was often late, which led to high customer claims. In fact, water damage costs represented 30 - 40% of the total cost for damages in homes. Thus, there was a need to develop early detection and prevention capabilities. Folksam called on Hiotlabs to help reduce water damage costs and enhance meaningful customer engagement by providing proactive insights and timely water-leak intervention.

**Collaborative Solution:** The two firms partnered to create a pilot program that leverages Hiotlabs' Fairtrail IoT platform to prevent residential water damage. As part of the four-month pilot implementation, wi-fi connected Hiotlabs' sensors were distributed and installed for a pilot group of insured Folksam customers. Sensors were set to measure and

transmit humidity and temperature data. Applying machine-learning algorithms on sensor data, the Fairtrail platform detects and records humidity and temperature trends and changes. The platform then analyzes the data trends and sends a push notification when a leak is imminent.

**Potential Benefits:** Folksam expects cost savings from the capability to predict water damage occurrences and can alert customers to avert damage and minimize loss. By increasing customers' understanding about water damage risks and providing timely and proactive insights aimed at water-leak prevention, Folksam seeks to deliver on its promise to make customers feel secure in a sustainable world and bolster customer satisfaction.

Folksam is leveraging data from the sensors to derive additional customer insights, such as identification of high-humidity homes. While the Folksam-Hiotlabs' partnership is in the experimentation stage, it is expected to give Folksam a better view of risks connected to water damage and enable customers to lower their risks.

Source: Capgemini Financial Services Analysis, 2018, *WITR 2018* Executive Interviews, 2018

# Accelerator Support From Fortune-100 Insurer Spurs Startup's Innovative Blockchain Solution for Asset Appraisals

**Collaborative Partners:** German insurance giant Allianz has operations in more than 70 countries and serves more than 85 million customers. Monuma is French InsurTech firm dedicated to appraising and certifying valuables. The startup provides blockchain-powered asset estimates and authentication through an easy-to-use mobile app. The subscription-based platform is available to insurers, bankers, and brokers that want to offer their customers remote digital asset appraisal services.

**Challenge:** The traditional method of asset estimation – done in person by an expert appraiser – is time-consuming, expensive, and complicated. In case of a loss, the claims process can be problematic because the insurer doesn't have complete knowledge of the asset's value and the insured cannot easily prove the prior value of the property and the cost of damage. The untenable situation can lead to claims processing delays and customer dissatisfaction. Monuma seized upon the need for a solution that could enable insurers to offer a seamless, hassle-free claims experience.

**Collaborative Solution:** Monuma developed blockchain-powered asset appraiser Patrimonia, a mobile app, to allow users to photograph an asset and through an encrypted format, send the photo for appraisal. The firm performs asset evaluation and sends a report, which has probative value, again using encryption via the Patrimonia app. The image is integrated with a tamper-proof digital seal and is stored securely within a blockchain, along with

metadata such as geolocation, time stamping, image properties and the photographer's identity. The process enables asset appraisal and facilitates reliable identification. Thus, through blockchain and digital certification, an immutable seal of proof is created for the asset that allows efficient and straightforward traceability.

Monuma employees perfected the app at the Allianz accelerator lab in Nice, France, where they worked for nearly six months with a network of mentors and experts and gained structured development assistance. Monuma was then invited to enter a strategic partnership with Allianz to provide remote asset appraisal to Allianz clients via Patrimonia.

**Benefits:** The win-win partnership allows Monuma access to the wide Allianz customer base while the insurer realizes cost savings and efficiency. An in-person visit with a loss adjuster can cost on average US\$580, while the Patrimonia mobile app remotely performs the function for less than US\$60. The enabling InsurTech firm makes smooth, hassle-free claims experience possible for Allianz customers, which can increase loyalty and retention. Patrimonia also reduces the time to deliver a certified appraisal certificate from two weeks to 72 hours, which improves operational efficiency.

Source: Capgemini Financial Services Analysis, 2018, *WTR* 2018 Executive Interviews, 2018

## Identifying InsurTechs for High-Potential, Long-Term Partnership

A future-potential assessment that evaluates the sustained value capacity of an InsurTech’s offerings can help to identify suitable long-term partners.

InsurTech firms can be appraised based on the potential of their offerings for market adoption, their ability to withstand regulations and remain profitable over time, the sustained scalability of their operations, their ability to integrate into ecosystems, and the opportunity costs of not partnering with them (Figure 2.5).

*“The cost to serve at scale is a critical factor in ongoing success. In certain markets, this is more important than new business acquisition. The InsurTech firm must at the very minimum maintain cost to serve at scale and should preferably offer a reduced cost to serve at scale.”*

—Derek Wilcocks, Group Chief Information Officer, Discovery

*“With the rise of IoT and a globally connected world, insurance will become embedded in most ecosystems. This makes the ability to integrate into such ecosystems key.”*

—Quentin Colmant, Co-founder, Qover

Similar to the current-state assessment, the partnership potential of individual InsurTech types was measured based on a weighted average of ratings along defined factors derived from insurer and InsurTech input, and extensive secondary research.

### Future-potential assessment of Enablers

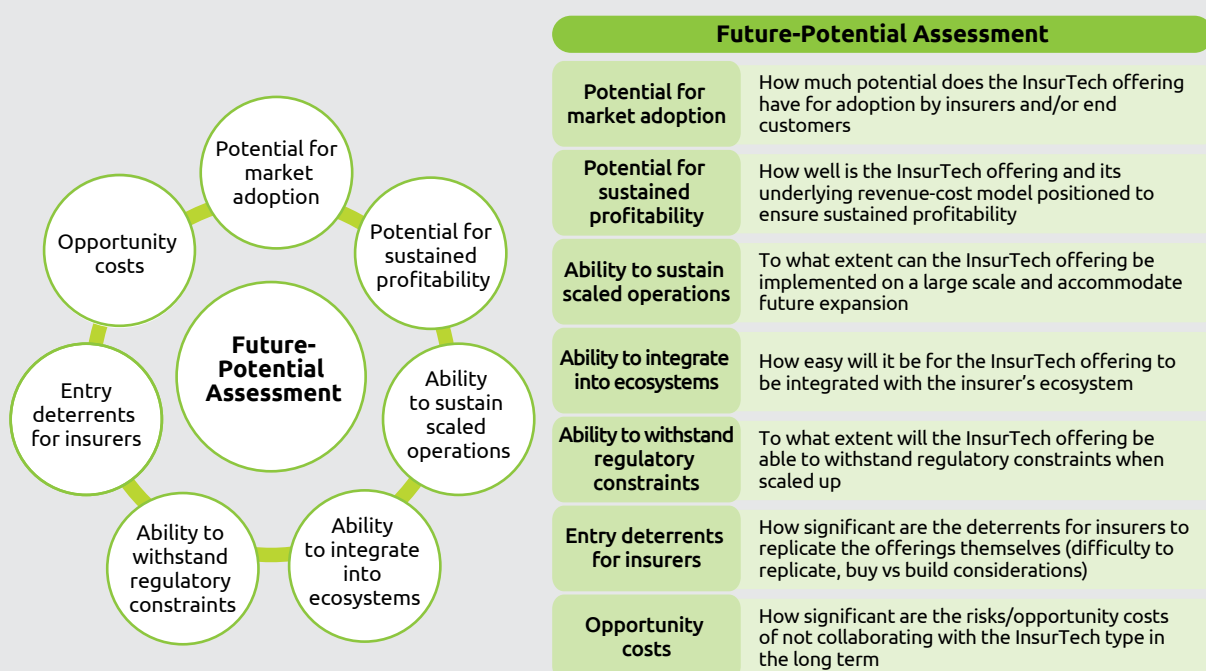
Excluding technology specialists due to lingering uncertainty, enablers generally score high on sustainability in terms of profitability, scale, and integration because they are designed with these aspects in mind and follow a fee-based model.

In the long term, insurers may lose a competitive advantage if they do not implement data-driven businesses by partnering with **data specialist** firms. **Technology specialists** also offer economies of specialization because they distribute the costs involved in implementing new technologies across insurers. However, their ability to sustain profitability, scale, and withstand regulatory constraints depends on whether their specific technology has been sufficiently proven.

*“The strongest position is to have an Enabler mindset. Working with carriers can deliver strategic advantages for all – the carrier, the start-up, the end user, as well as the intermediaries along the value chain.”*

—Donna Peoples, President & Global Head of Insurance, Pypestream

Figure 2.5 Future-potential/sustainability assessment: assessment framework



Source: Capgemini Financial Services Analysis, 2018

Enabler Assessment Factors	Front-Office Solution Providers	Policy/Plan Management Solution Providers	Claims Management Solution Providers	Data Specialists	Technology Specialists
Potential for market adoption	High relevance considering customers' growing digital adoption. Insurer adoption will depend on the provider's ability to customize.	High potential as customers demand convenient transactions and insurers aim to move away from piecemeal digitization approaches.	Potential is high as customers seek seamless claims services and insurers look for innovative claims solutions to differentiate during a key Moment of Truth.	As customers expect a high level of personalization, data-driven insights and solutions will become very important for insurers going forward.	Mainstream adoption of new technology-based models will also depend on technology proliferation and business case strength.
Potential for sustained profitability	A sound profitability model based on suitable fees for their solutions.	A sound profitability model based on suitable fees for their solutions.	A sound profitability model based on suitable fees for their solutions.	A sound profitability model based on suitable fees for their solutions.	A sound profitability model based on suitable fees for their solutions.
Ability to sustain scaled operations	Solutions are designed to be integrated with insurers; they are also intended to be scalable.	Solutions are designed to be integrated with insurers; they are also intended to be scalable.	Solutions are designed to be integrated with insurers; they are also intended to be scalable.	Solutions are designed to be integrated with insurers; they are also intended to be scalable.	Real-time models based on IoT and blockchain may be challenging to scale up quickly.
Ability to integrate into ecosystems	Solutions can integrate with other ecosystems through APIs.	Solutions can integrate with other ecosystems through APIs.	Solutions can integrate with other ecosystems through APIs.	As they aggregate data, they will form key components of future ecosystems.	Solutions can integrate with other ecosystems through APIs.
Withstanding regulatory constraints	Vulnerable to basic regulations around data security and privacy.	Vulnerable to basic regulations around data security and privacy.	Vulnerable to basic regulations around data security and privacy.	Vulnerable to basic regulations around data security and privacy.	There is some ambiguity about regulations related to technologies such as blockchain.
Entry deterrents for insurers	Not hard to replicate but customized solutions would be important for insurers to consider partnerships.	Not hard to replicate although insurers may prefer to outsource for cost and efficiency reasons.	Not hard to replicate but may be beneficial to partner with InsurTechs providing data/network aggregation.	Not easy to replicate because they are based on data aggregation and significantly benefit from economies of specialization.	Insurers may not prefer to build in-house due to high investments required and InsurTechs benefit from economies of specialization by distributing costs.
Opportunity costs	Unless the solution is unique, there are fewer opportunity costs for not partnering because large tech firms also provide front-office solutions.	Unless the solution is unique, there are fewer opportunity costs for not partnering because large tech firms also provide policy management solutions.	Large technology firms can also provide digital claims solutions but may not have data/network aggregation benefits.	Insurers may lose a competitive advantage if they don't implement data-driven businesses by partnering with data specialists.	Insurers may lose early mover advantage on new technology-based disruptive models.

## Future-potential assessment of Distributors

The potential for market adoption, sustained profitability and scale is high among distributors, barring inexact value-adding intermediaries.

As digital distributors create neutral platforms, they may form critical components of ecosystems, and it will be difficult for insurers to replicate their models. Among **value-adding intermediaries**, the ability

to sustain profitability and scale, and to withstand regulatory constraints will depend on the specific model.

*“I can see distribution being one of the more long-term collaboration opportunities in some of the spaces and particularly the power of APIs to disrupt the life business – we are only, however, starting to scratch the surface.”*

—Stephen Barnham, Head of APAC and Japan and CIO, MetLife Asia

Distributor Assessment Factors	Marketplaces	Personal Financial Assistants	Digital Brokers	B2B Digital Distributors	Value-Adding Intermediaries
<b>Potential for market adoption</b>	High potential as online transactions become more common and with the rise in younger and tech-savvy customers.	High potential as online transactions become more common and with the rise in younger and tech-savvy customers.	High potential as online transactions become more common and younger, and tech-savvy customer population grows.	High potential as online transactions become more common, and millennial-led businesses increase.	High adoption as solutions are customer-centric and offer insurers access to new markets.
<b>Potential for sustained profitability</b>	No significant fixed costs and generally have a robust revenue model based on commission fees.	Sound profitability model based on low fixed costs, commission fees, and high switching costs for customers.	No significant fixed costs and generally have a robust revenue model based on commission fees.	No significant fixed costs and generally have a robust revenue model based on commission fees.	Follow a commission model, but it is vital to ensure that costs for value-added services do not outweigh revenues.
<b>Ability to sustain scaled operations</b>	No scaling constraints as these platforms' scalability is determined by their supplier-customer network.	No scaling constraints as these platforms' scalability is determined by their supplier-customer network.	No scaling constraints as these platforms' scalability is determined by their supplier-customer network.	No scaling constraints as these platforms' scalability is determined by their supplier-customer network.	Some models like P2P may be challenging to scale up.
<b>Ability to integrate into ecosystems</b>	Popular platforms will create ecosystems where it will be important for insurers to be present.	Popular platforms will create ecosystems where it will be important for insurers to be present.	Popular platforms will create ecosystems where it will be important for insurers to be present.	Popular platforms will create ecosystems where it will be important for insurers to be present.	These InsurTechs can integrate their platforms with other platforms and applications through APIs.
<b>Withstanding regulatory constraints</b>	Regulations related to data security and privacy and sale of insurance will apply to these firms.	Regulations related to data security and privacy and sale of insurance will apply to these firms.	Regulations related to data security and privacy and sale of insurance will apply to these firms.	Regulations related to data security and privacy and sale of insurance will apply to these firms.	Regulations related to data security and privacy and sale of insurance will apply to these firms.
<b>Entry deterrents for insurers</b>	Replication of the neutral environment these platforms need to onboard more suppliers and customers may be difficult.	PFA's fundamental value proposition is a neutral one-stop platform across all the customer's policies. Therefore, entry barriers for insurers are high.	Replication of the neutral environment these platforms need to onboard more suppliers and customers may be difficult.	Replication of the neutral environment these platforms need to onboard more suppliers and customers may be difficult.	Insurers may not implement these models in-house as the investment and transformation required could be high.
<b>Opportunity costs</b>	Opportunity costs of not partnering would be reduced customer reach.	Opportunity costs of not partnering would be reduced customer reach.	Opportunity costs of not partnering would be reduced customer reach.	Opportunity costs of not partnering would be reduced customer reach.	Insurers only stand to lose a moderate amount of potential additional revenues by not partnering.



## Future-potential assessment of Full Carriers

While **digital carriers** and **usage-based insurers** have a strong proposition, insurers can easily build these models in-house and in case of usage-based insurance, they may prefer to do so for better access to customer data.

For **P2P insurers**, **micro insurers**, and **on-demand insurers**, there is uncertainty about sustained profitability and scale due to their more complex operations and their non-traditional approach to risk pool and capital management. These factors may also bring them under greater regulatory scrutiny in the long term.

Full Carrier Assessment Factors	Digital Carriers	P2P Insurers	Micro-Insurers	On-Demand Insurers	Usage-Based Insurers
<b>Potential for market adoption</b>	In the long term, customers may prefer to conduct all their insurance transactions mainly through digital channels.	Moderate potential, due to complexities and uncertainty on cost savings for customers if claims are made.	Adoption may be high in emerging markets and lower income population but less in traditional segments.	High potential as it is highly customer-centric and increases reach of insurers to new segments and offerings.	Likely to find a strong adoption as they provide a win-win proposition for the customers as well as the insurer.
<b>Potential for sustained profitability</b>	Operations are conducted digitally or automated, so there is greater operational efficiency and cost savings.	They have a fee-based model but do not account for long-term capital management and risk pool diversity.	Based on a low margin-high volume model, building scale and controlling overhead will be essential.	Long-term profitability may be affected by strength of pricing mechanism and unpooling and anti-selection risks.	Supports profitability through more accurate pricing, lower claims costs, and positive self-selection by customers.
<b>Ability to sustain scaled operations</b>	Digital operations would be easier to scale than manual operations.	May be difficult to manage multiple small groups at scale, especially when composition of groups fluctuates.	There are no major constraints to scaling these models and scale is important for profitability.	Due to automation, AI, and advanced analytics, on-demand models can be scaled up easily.	No major constraints to scaling UBI models; insurers are implementing them at scale even today.
<b>Ability to integrate into ecosystems</b>	Due to their digital nature, these carriers can easily integrate into ecosystems through APIs.	Can be integrated with social media or third-party apps but integration with connected devices may be complex.	Ecosystem integration will be important for these models to scale and this can be done through APIs.	As these models are digital, app-based and real-time, they can be integrated into ecosystems through APIs.	Models are digital, app-based and real-time, and can be integrated into ecosystems through APIs.
<b>Withstanding regulatory constraints</b>	They would be subject to mostly the same regulations as traditional insurers.	May come under greater scrutiny (as P2P lending has) for capital management and customer fraud.	May come under scrutiny for capital management but is likely to also have government encouragement.	May be scrutinized for pricing mechanisms, customer data security, and capital management.	Subject to different pricing, data, and privacy-related laws as per region of operation.
<b>Entry deterrents for insurers</b>	Insurers can easily digitize their own operations or opt for services from technology solution providers.	A P2P system would require significant change to traditional insurer models, so in-house development may not be preferred.	Some insurers are already implementing in-house and entry depends on business priorities.	Can be implemented with the help of automation, but incumbents may be challenged by legacy processes.	Insurers can replicate and may prefer their own programs for better access to access customer data.
<b>Opportunity costs</b>	Downside risks of not partnering with these firms are low as insurers can easily digitize their own operations.	Opportunity cost of not partnering is insignificant because P2P represents a small portion of the market.	Opportunity cost would be a large uninsured customer base and a stronger presence in emerging markets.	Loss of additional revenues from the new insurance opportunities and of early mover advantage in a new model that may find strong popularity.	Low opportunity costs as insurers can implement their own UBI programs.



### Overall assessment of InsurTech long-term partnership potential

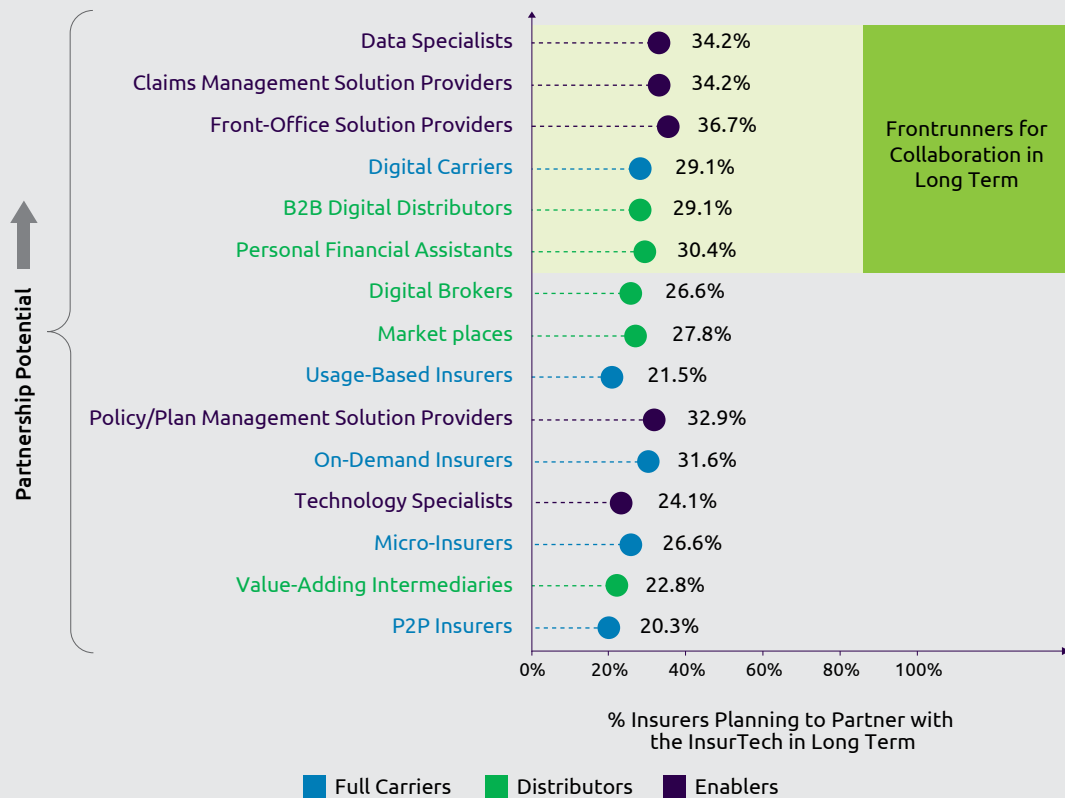
In the long term, **personal financial assistants, B2B digital distributors, data specialists, and solution providers for front office and claims** may emerge as frontrunners.

These InsurTech firm types commonly exhibit a stable and sustainable value proposition, a sound profitability model, offerings that are scalable and easy to integrate, and a hard-to-replicate advantage that builds over time.

However, fewer than 40% of insurers surveyed said they were planning a long-term partnership with any InsurTech type (Figure 2.6).

This response may have been the result of insurers' uncertainty about where to focus long-term investments within a highly-dynamic market, and amid rapidly evolving customer expectations and unpredictable technological disruptions.

Figure 2.6 InsurTech partnership potential<sup>a</sup> and insurers' preferences for long-term partnerships, 2018



a: Individual InsurTech types are assessed on their partnership potential in the long term based on a weighted average of ratings along the long-term assessment factors, determined based on inputs from insurers, InsurTechs, and extensive secondary research. InsurTech types with an overall score above a defined level are then identified as frontrunners.

Source: Capgemini Financial Services Analysis, 2018; WITR 2018 Executive Interviews, 2018

# Risk Modeling Specialist and Incumbent Reinsurer Partner to Develop Cyber-Risk SaaS Solution

**Collaborative Partners:** Tel Aviv-based Kovrr is a predictive cyber-risk modeling platform that empowers P&C insurers to manage the dynamic nature of cyber risk and underwrite it efficiently. Founded in late 2016, the startup helps insurers and reinsurers seek and select risks, grow business based on their risk appetite, and manage portfolios' risks. The incumbent collaborative partner is a Pan Asian reinsurer that focuses on substantial and specialized risks.

**Challenge:** The reinsurer was challenged to quantify its total underlying exposure to cyber risk within non-affirmative (or silent/passive) cyber risk in policies where cyber peril is neither explicitly included nor explicitly excluded. Potential exposure within the reinsurer's marine hull coverage for ocean-going and coastal vessels was of particular concern. The reinsurer wanted to understand its current silent cyber risk to define its appetite for affirmative cyber risk better. Kovrr was selected as an enabling risk modeling specialist partner to determine whether the reinsurer's affirmative and silent cyber risk aligned with its pre-defined risk appetite.

**Collaborative Solution:** The reinsurer's underwriting and actuarial teams worked with Kovrr to develop a software-as-a-service solution. Kovrr leveraged

artificial intelligence (AI), machine learning, and predictive analytics to measure cyber risk within the reinsurer's existing books and to quantify the cyber risk of new policies. Kovrr's platform provided data and insights into risk factors and accumulation per coverage, based on bespoke policy triggers and risk scenarios. Potential maximum loss scenarios were quantified to enable the reinsurer to continuously manage its risk accumulation, understand the capital at risk, and diversify its books. Kovrr provides the reinsurer continuous visibility for silent risk accumulation based on evolving threats and changes in the insured's security resilience, while also considering possible triggers based on specific wording and exclusions.

**Benefits:** Insights about existing silent cyber risk exposure combined with methods to measure risks from new policies enabled the reinsurer to price and adjust policies that covered cyber events accurately. The reinsurer was also able to underwrite faster, more accurately and efficiently.

Source: Capgemini Financial Services Analysis, 2018, *WTR 2018* Executive Interviews, 2018

# InsurTech Firms' Partnership-Potential Expected to Evolve

The InsurTech landscape is expected to evolve notably over time, with some firms gaining importance and some potentially declining in relevance.

**Personal financial assistants, front-office solution providers, and data specialists** will rise in importance as potential partners (Figure 2.7).

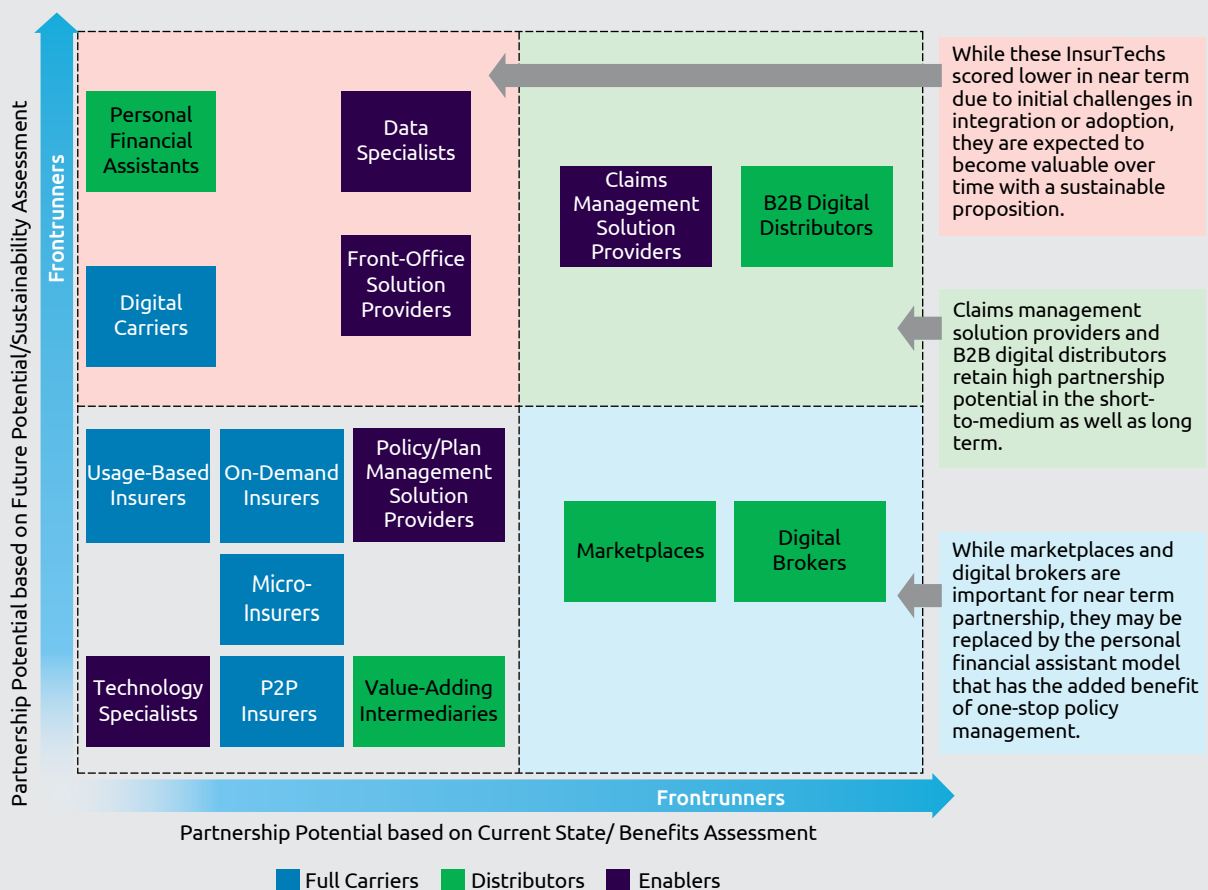
Personal financial assistants may replace marketplaces and digital brokers as the predominant digital distribution model as they have the added benefit of one-stop policy management and provide customers with a more comprehensive overview of policies. Existing marketplaces may adapt themselves to this model in the long run.

Front-office solution providers have a highly sustainable model, and strong end-user impact and front-office InsurTech firms that enable insurers to integrate with new ecosystems will stand out from the competition.

As data becomes an increasingly valuable asset for insurers, data specialists who are building a hard-to-replicate advantage through focused data aggregation and analytics will be strong potential partners.

**Claims management solution providers and B2B digital distributors** retain high partnership potential in the short-to-medium term as well as over time because they score high on benefits and sustainability and are difficult to replicate. Claims management InsurTech firms often provide data/network aggregation benefits. Also, it may be challenging for insurers to replicate the neutral environment that enables B2B digital distributors to onboard more suppliers and customers.

Figure 2.7 InsurTech partnership potential matrix



Source: Capgemini Financial Services Analysis, 2018; WTR 2018 Executive Interviews, 2018

# A Structured Approach Will Bolster Collaboration Initiatives and Mitigate Challenges

While collaboration offers tremendous benefits, insurers and InsurTechs face implementation challenges because of differences in culture, scale, and speed. IT integration and blending new technologies with legacy systems may also be problematic.

However, a structured approach may mitigate some issues (Figure 2.8).

*“Collaboration with third parties requires a new mindset in IT as well as adaptability in terms of strategy, process design and performance management.”*

—Adalbert Bader, Board Member, GVV-Versicherungen

While our three-step approach applies to all partners, nimble startups may also consider adapting their culture and processes to align with larger organizations rooted in traditional operational and technology systems. Moreover, for InsurTech firms to add value for multiple established partners, the ability to customize offerings will also be vital.

*“Working with a new vendor is always a risk, which is why it’s important for us, InsurTech vendors, to make every effort needed to prove beyond any doubt that our value propositions match and solve the data challenges facing insurers today.”*

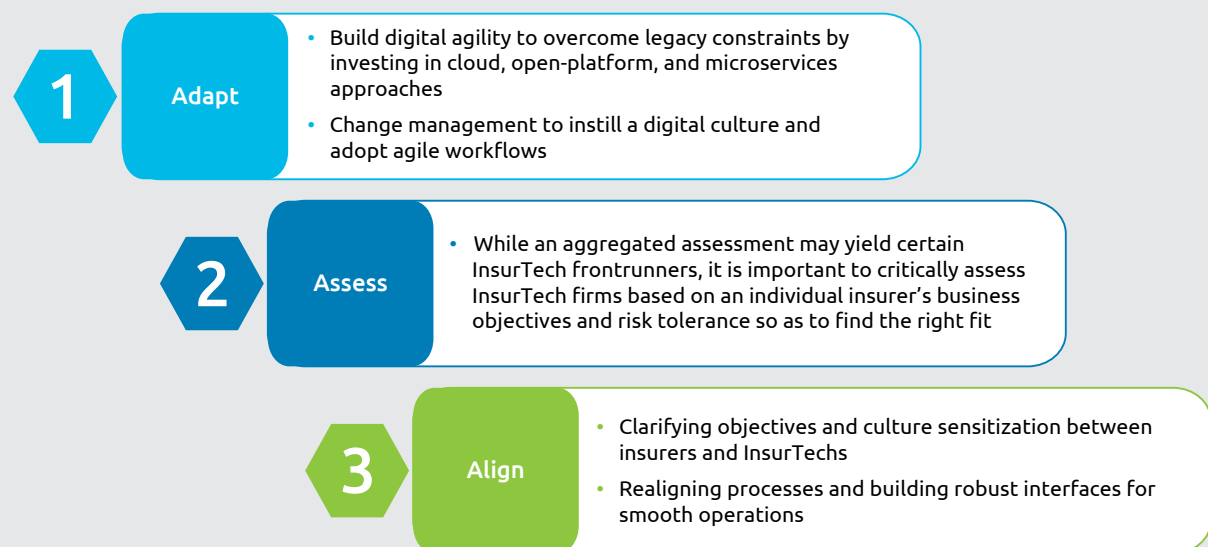
—Yakir Golan, CEO & Co-founder, Kovrr

## Advanced-Stage InsurTech Firms Can Boost Their Long-term Success Potential Through ScaleUp Qualification

Collaborative engagements between established insurers and InsurTech firms too often end prematurely and before product commercialization.

The Capgemini ScaleUp Qualification process was established to give collaboration a better shot at long-term performance and to encourage smoother sailing between traditional financial service organizations and ScaleUps (ScaleUps are revenue-generating startups that have raised institutional or private funds and have a dedicated C-suite team).<sup>17</sup>

**Figure 2.8 A structured approach to mitigate collaboration challenges**



Source: Capgemini Financial Services Analysis, 2018; WTR 2018 Executive Interviews, 2018

<sup>17</sup> Capgemini ScaleUp Qualification is a comprehensive process, leveraging Capgemini’s expertise in technology, cybersecurity, insights and data, digital customer experience (DCX), and consulting to identify and qualify the most prepared advanced-stage startups for efficient and effective collaboration with financial institutions, including insurers.

ScaleUp qualification involves a 360-degree qualification process across four phases to determine whether the InsurTech firm has the characteristics necessary for sustained business success. Participants are evaluated based on four pillars: *People, Finance, Business, and Technology*. (Figure 2.9)

Qualification ensures the firm’s readiness to effectively collaborate with business partners and to integrate easily to add value through better customer experience.

1. The phased qualification process begins with an assessment of the candidate’s reputation in the market through **web scraping**.<sup>18</sup> The objective is to gage *market sentiment* about the firm. Positive customer feedback, a compelling and intuitive website, and a solid financial track record are used to measure positive sentiment.
2. Next, the qualification candidate participates in a **self-declaration** exercise (including the web scraping findings) to confirm or modify the collected information or to add details.
3. The third phase involves **in-depth interviews** with Capgemini subject matter experts covering Business, Technology, People, and Privacy-GDPR topics.

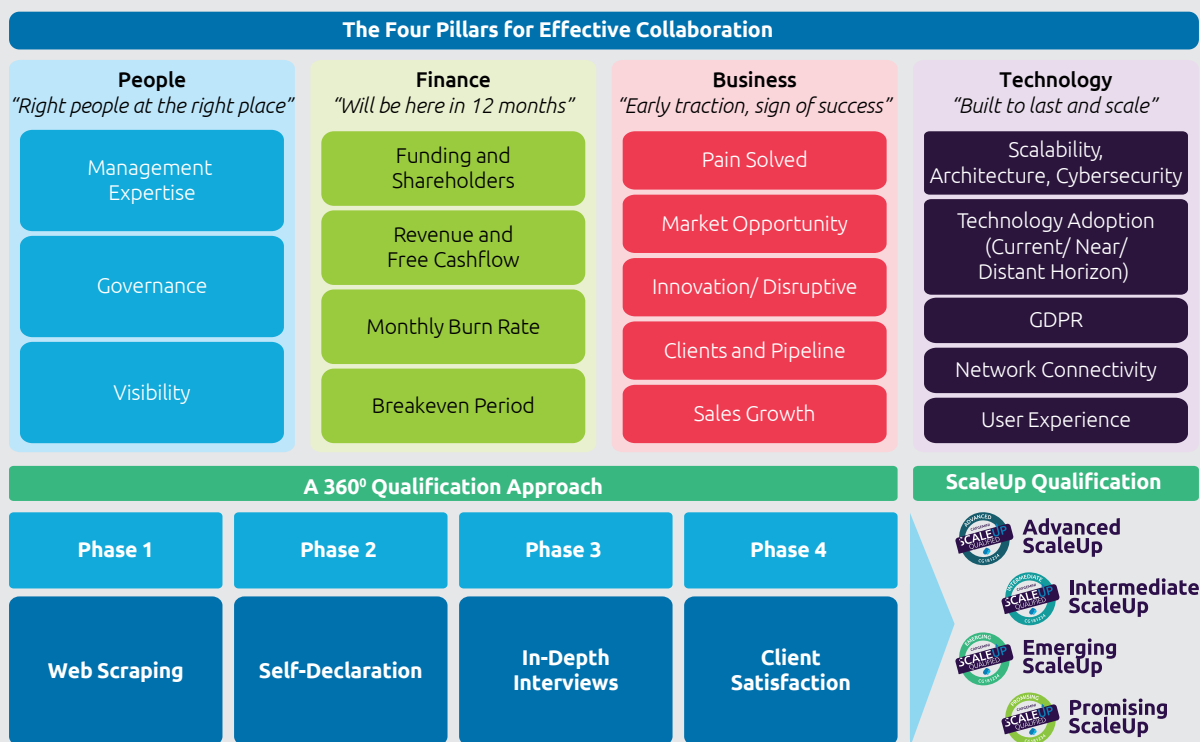
4. Phase four involves discussions and interviews with clients (insurers and third parties) that have collaborated with the InsurTech to assess their earned **client satisfaction**.

Upon completion of the four phases, the InsurTech ScaleUp receives a comprehensive evaluation, a quantitative rating and a qualification level (Advanced ScaleUp, Intermediate ScaleUp, Emerging ScaleUp, or Promising ScaleUp). Qualification levels are a means to evaluate the ScaleUp maturity towards effective collaboration with an insurer.

Once qualified by Capgemini, the ScaleUp can use their qualification, and the credibility it offers, in its commercial activities. Additionally, Capgemini will promote the qualified InsurTech ScaleUp to its extensive customer base.

With an eye on the dynamic future, both established insurers and InsurTech firms are pursuing strong competitive positions and early-mover advantages. Preparation for a collaborative future will require the ability to identify and assess strategic partnerships at different stages.

Figure 2.9 Effective Collaboration: A Phased Approach




Source: Capgemini Financial Services Analysis, 2018

<sup>18</sup> Web scraping through various methods collects information from across the internet. Generally, it is done with software that simulates human web surfing to collect specified bits of information from different websites. Web scraping is also called web data extraction, screen scraping, or web harvesting.



# The Way Forward

- **Collaboration Gains Momentum Across Insurance Business Lines**
  - **New Entrants Pose Potential Competitive Threats**
  - **What Will it Take to Become a Winning Insurer or InsurTech Firm in the Future?**
  - **Collaboration Strengthens Players, Grows Insurance Market, Ecosystem**
- 

# Collaboration Gains Momentum Across Insurance Business Lines

Incumbent insurers and InsurTechs are already on a path of collaboration and collaboration is gaining momentum across business lines. New deals are being forged with rising frequency as insurers look to leverage InsurTechs for new ways to reach the customer. However, strategic collaboration among rightly paired partners takes on renewed importance now as insurance industry dynamics change and new ecosystem models come into play.

BigTech firms are making inroads into insurance, especially when it comes to capabilities in healthcare, analytics, and IoT.

**Amazon** has taken steps in healthcare through the acquisition of online pharmacy PillPack and launch of a healthcare company in collaboration with Berkshire Hathaway and JPMorgan.<sup>19, 20</sup> Moreover, Amazon Protect offers insurance coverage against accidental damage, breakdown, and theft of Amazon purchases.<sup>21</sup> Additionally, Amazon has invested in India-based online insurer Acko General Insurance.<sup>22</sup>

**Alphabet**, Google's parent company, is investing in or establishing partnerships with InsurTech firms, such as Collective Health, Oscar, and Lemonade.<sup>23</sup> It launched a healthcare and life sciences subsidiary, Verily, in 2015 to identify tools and techniques for health data collection and preventive care.<sup>24</sup> Similarly, the company began New York-based Cityblock Health for low-income city-dwellers and DeepMind Health, which offers patient-status alerts to physicians affiliated with four large hospital groups in the UK.<sup>25</sup>

**Apple** ventured into digital health by subsidizing Apple Watches for Aetna's customers, and in February announced a cyber risk management solution for businesses through collaboration with Cisco, Aon, and Allianz.<sup>26, 27</sup>

**Alibaba** and its affiliate Ant Financial are exploring the InsurTech space. In 2013, Alibaba founded the digital insurer Zhong An in partnership with Ping An and Tencent.<sup>28</sup> Alibaba and Ant Financial partner with AXA to distribute insurance products and services.<sup>29</sup>

Other players, including automobile manufacturers, retailers, and telecom service providers, are also making their presence known within the insurance value chain, particularly in insurance distribution. Auto manufacturers, such as Volvo, Ford, and Tesla, are partnering with insurers to integrate coverage into their offerings.<sup>30</sup> General Motors partnered directly with Henry Ford Health System, a Detroit-based hospital system, to provide a new health care plan to its salaried employees and their dependents in southeast Michigan.<sup>31</sup>

Humana is looking at ways to expand its relationship with Walmart, which dates back to 2005 when the insurer began assigning sales agents for Medicare Part D drug plans in Walmart stores. What's more, in mid-July Walmart hired a former Humana senior executive to run its healthcare business, a move that could ignite speculation that the firms will forge a closer partnership.<sup>32, 33</sup>

In India, where telecom operators face brutal price competition, number-one telco Bharti Airtel and second-ranked Vodafone India offer device insurance coverage to increase subscriber stickiness – especially, among higher-paying subscribers.<sup>34</sup>

19 The Wall Street Journal, "Amazon Buys Online Pharmacy PillPack for \$1 Billion," Sharon Terlep, Laura Stevens, June 28, 2018, <https://www.wsj.com/articles/amazon-to-buy-online-pharmacy-pillpack-1530191443>, accessed August 2018.

20 Life Insurance International, "Amazon enters US healthcare market," GlobalData Financial Services, January 31, 2018, <https://www.verdict.co.uk/life-insurance-international/comment/amazon-enters-us-healthcare-market>, accessed August 2018.

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22 Precise, "Amazon Continues to Expand into the Insurance Industry," January 29, 2018, <http://go.preciseleads.com/amazon-continues-to-expand-into-the-insurance-industry>, accessed August 2018.

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24 Verily website, "Verily Projects," <https://verily.com/projects/>, accessed August 2018.

25 The Economist, "Apple and Amazon's moves in health signal a coming transformation," February 3, 2018, <https://www.economist.com/business/2018/02/03/apple-and-amazons-moves-in-health-signal-a-coming-transformation>, accessed August 2018.

26 Fortune, "How You Might Be Eligible for a Free Apple Watch From Your Health Insurer," Aaron Pressman, November 8, 2017, <http://fortune.com/2017/11/08/free-apple-watch-aetna/>, accessed August 2018

27 Business Insurance, "Cisco, Apple, Aon, Allianz collaborate on cyber coverage," Matthew Lerner, February 5, 2018, <http://www.businessinsurance.com/article/20180205/NEWS06/912318975/Cisco,-Apple,-Aon,-Allianz-collaborate-on-cyber-coverage>, accessed August 2018.



# New Entrants Pose Potential Competitive Threats

More and more traditional insurers believe they may face competition from BigTechs and manufacturers (Figure 3.1). More than half of insurers surveyed for the *World InsurTech Report 2018* perceived potential for competition from new entrants, such as Amazon, Alphabet (Google), and Alibaba.

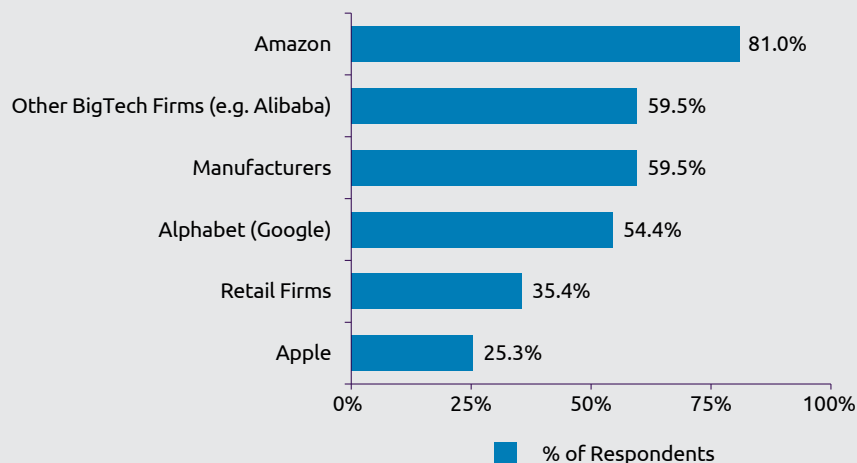
Advancements in connected cars as well as promotional incentives from auto manufacturers that include insurance coverage put automakers in position to self-insure. Not surprisingly, almost 60% of *WITR 2018* participants said they thought auto manufacturers could become potential competitors.

The prospect of self-insurance is also a rising trend among healthcare providers and employers exploring self-administered health plans for their employees.

However, other insurers said non-traditional players were more likely to act as new distribution channels rather than become Full Carriers.

As insurers continue to enhance their customer engagement capabilities, digital agility and a digitally integrated ecosystem will remain critical adaptive components to face changing market dynamics and to become future ready.

**Figure 3.1 Incumbent insurers' view on potential competition from non-traditional players (%), 2018**



Question: In the future, which of the entities outlined below is likely to compete with traditional insurers? Please check all that apply: (a) Amazon (b) Alphabet (Google) (c) Apple (d) Other BigTech Firms (e.g. Alibaba) (e) Manufacturers (f) Retail Firms.

Source: Capgemini Financial Services Analysis, 2018; *WITR 2018* Executive Interviews, 2018

- 28 The Digital Insurer, "Zhong An – China's first complete online insurance company," <https://www.the-digital-insurer.com/dia/zhong-an-chinas-first-complete-online-insurance-company/>, accessed August 2018
- 29 The Business Times, "AXA teams up with Alibaba to distribute insurance products," July 29, 2016, <https://www.businesstimes.com.sg/companies-markets/axa-teams-up-with-alibaba-to-distribute-insurance-products>, accessed August 2018
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- 31 The Washington Post, "Forget Amazon, GM's Move Should Worry Health Insurers," Max Nisen, August 8, 2018, [https://www.washingtonpost.com/business/forget-amazon-gms-move-should-worry-health-insurers/2018/08/08/e68171fc-9b3f-11e8-a8d8-9b4c13286d6b\\_story.html?utm\\_term=.2889045eada2](https://www.washingtonpost.com/business/forget-amazon-gms-move-should-worry-health-insurers/2018/08/08/e68171fc-9b3f-11e8-a8d8-9b4c13286d6b_story.html?utm_term=.2889045eada2), accessed August 2018.
- 32 Forbes, "Humana: Walgreens Clinic Partnership Won't Prevent Walmart Deal," Bruce Japsen, August 1, 2018, <https://www.forbes.com/sites/brucejapsen/2018/08/01/humana-walgreens-partnership-wont-preclude-deal-with-walmart/#60982be135ca>, accessed August 2018.
- 33 Benefits Pro, "Walmart taps former Humana exec for health care business," Matthew Boyle, July 17, 2018, <https://www.benefitspro.com/2018/07/17/walmart-taps-former-humana-exec-for-health-care-bu/>, accessed August 2018.
- 34 The Economic Times, "Now, telcos offer insurance, backup to retain customers," Devina Sengupta, June 13, 2017, <https://economictimes.indiatimes.com/news/company/corporate-trends/now-telcos-offer-insurance-backup-to-retain-customers/articleshow/59116646.cms>, accessed August 2018.

# What Will it Take to Become a Winning Insurer or InsurTech Firm in the Future?

As technological advancements and changing customer expectations drive new possibilities and imperatives, the insurance landscape is evolving. In a changing environment where the players and rules of the game are in flux, both insurers and InsurTechs will need specific attributes to help them sustain and succeed.

## The following characteristics will be essential differentiators for traditional insurers.

A **digital and lean organization** with robust infrastructure and agile processes will be critical as firms adapt to an evolving macroeconomic, operating, and regulatory environment.

- Automated processes and higher operational efficiency
- Cloud-based flexible resources that can help adapt and scale innovations quickly
- Real-time capabilities in data capture, analysis, and execution
- A microservices approach for flexibility and faster time to market in rolling out enhancements or innovations.

Digital transformation merits focus because the insurance industry lags behind other sectors when it comes to digital proficiency, with less than 30% of insurance firms qualifying as Digital Masters, according to recent Capgemini research.<sup>35</sup>

**Digital culture** is one of the most significant roadblocks to digital transformation and therefore developing a digital culture is an essential prerequisite for insurers.<sup>36</sup>

- An innovation and digital-first mindset instilled across the organization
- Alignment of the firm's core business strategy with its digital roadmap
- Buy-in and executive support of transformation initiatives
- Talent upskilling and empowerment to ensure firm staff is prepared to handle new digital technologies.

With myriad opportunities from which to choose, it will be important for insurers to develop a **focused investment strategy** that aligns with business priorities when it comes to new technologies, innovations, and partnerships. Concentrating on investments with strong business cases and planning a balance of quick wins and long-term strategic investments will help form a sustainable InsurTech strategy.

As ecosystem models spring up across industries and new players enter, insurers will need to develop **strong ecosystem positioning** by securing a niche, differentiated spot in the value chain. To retain and maximize direct access to customers, existing channels will need enhancement to ensure uninterrupted communication and connection via new channels. Building API-supported open platforms will encourage ecosystem integration. Moreover, the creation of a digitally agile and integrated ecosystem will equip insurers to be responsive to real-time information and to generate immediate, actionable insights.<sup>37</sup>

Digital **agility** will be critical for insurers to respond quickly to market demands, and that means organizational dexterity to adapt to changes and variable operating models while making sound decisions quickly. Agility will enable faster time to market, which, in turn, will require constant monitoring of customer and market trends.

Finally, an **industry reconfiguration and business model innovation** would be required for insurers to compete in the future market. To meet customer expectations going forward, insurers will need to redefine their customer relationships and become risk partners in customers' daily lives by delivering risk transparency and achieving risk control and prevention. Targeted process innovation will enable insurers to also meet customers' expectations for a seamless and integrated insurance experience.

*"Incumbent companies should have a culture of willingness to try things and fail as the nature of the startup system is that not all will necessarily be successful. They should be able to try different things and iterate quickly."*

—Christopher Smith, EVP and Head of Global Operations, MetLife

35 Capgemini, "Understanding Digital Mastery Today," July 3, 2018, <https://www.capgemini.com/resources/understanding-digital-mastery-today/>, accessed August 2018.

36 Capgemini, "The Digital Culture Challenge: Closing the Employee-Leadership Gap," June 8, 2017, <https://www.capgemini.com/consulting/resources/the-digital-culture-challenge/>, accessed August 2018.

37 *World Insurance Report 2018*, <https://www.worldinsurancereport.com/>, accessed August 2018.

*“Successful insurers of the future should go from the process and product view to a customer-centric view and start thinking in ecosystems. Successful InsurTechs should be open toward different cultures at traditional insurers and flexible to integrate into heterogeneous IT landscapes.”*

—York-Alexander Dornhof, Manager Digital Innovation Fund, ERGO Digital Ventures

*“The whole insurance value chain will change, and it is going to be important for insurance companies to decide their new positioning while also looking at start-ups for collaboration. Insurance companies need to sell safety, not insurance, and handle their customers’ whole life puzzle.”*

—Lars Engvall, Head of FutureLab, Folksam

*“The insurance companies who find the right partners for them will prove to be more successful.”*

—Muge Irfanoglu, Health Strategy & Business Development Group Manager, Allianz Turkey

*“Insurers have to become more than an insurer, and they have to find a new place of value.”*

—Thomas Ollivier, Head of B2B Development & Partnerships, MAIF

*“It is important for incumbent insurers to develop a way of working and culture that makes agile cooperation with InsurTechs possible.”*

—Petteri Miinalainen, CIO, Fennia Mutual Insurance Company

## Successful InsurTech firms will demonstrate these critical differentiating characteristics:

**Sustainability** and the ability to build maintainable business models are crucial and will hinge on solution designs that generate sustained or growing market demand and long-term profit. Sustainable design offerings must also accommodate new regulations that may be applicable after broad-scale implementation.

**Scalability** is vital for InsurTech firms seeking to meet mainstream market demand. A model’s ability to successfully scale rests on its operational complexity. Is the model straightforward enough for broad implementation? Will it continue to be to be profitable when implemented at scale? Has thought gone into the capital management of the scaled solution?

**Exceptional competitive advantages** will determine which InsurTech firms will thrive in the competitive landscape of the future. No doubt, an original and innovative value proposition will be necessary. Another source of such competitive advantage could be an unmatched capability to capture data that, through its unique aggregation proficiency, can garner monetizable analytics faster or more efficiently than the competition. The ability to offer economies of niche technology specialization through cost distribution among multiple insurers will be another hard-to-beat advantage.

**Ecosystem capabilities** will become increasingly important as the number of ecosystem models grows. InsurTech firms that design their offerings for easy integration will have an advantage. Therefore, solution design must keep integration with open-platform models at the forefront. Equally worthy of consideration are solution-as-a-service offerings, which are flexible and convenient. Similarly, the capability to customize solutions for different insurers will be a compelling value proposition.

As InsurTechs continue to test the market, an approach grounded in **adaptability** will enable greater success when it comes to anticipating changing customer needs and technological advancements as well as adapting or extending solutions portfolios based on market demand and opportunities.

*“The ability to understand the trend, customer needs and expectations, as well as to understand the challenges of incumbent insurance firms will differentiate successful InsurTechs in the future.”*

—Lex Tan, CEO, MotionsCloud

*“To remain competitive in the future, InsurTechs should be relevant for customers, fit for regulators, and able to integrate into existing needs.”*

—Kai-Nicholas Kunze, CEO, LINGS, powered by Generali

*“Insurance is all about bundling risk insights with efficient and effective risk transfer, promoting safer behavior. The InsurTech companies might focus exclusively on either the “risk” insights or the efficient “transfer” part of the equation. Those that can identify and execute strategies for both will succeed in the long run.”*

—Jessica Schuler, Vice President, Strategic Clients & Actuary, Praedicat, Inc.

# Collaboration Strengthens Players, Grows Insurance Market, Ecosystem

For both traditional insurers and InsurTech firms to be long-term winners, developing competitive capabilities and traits is essential. Collaborating with each other will also be critical to shore up weaknesses and to acquire new attributes and skills (Figure 3.2).

With their digital-native foundations as well as their ability to be nimble and adopt a fail-fast approach, InsurTechs are rapidly exploring new technology applications that transform existing insurance processes. They are exploring multiple collaboration approaches, such as incubators and white-labeling, to quickly examine and test new ideas and identify the right innovations to adopt. For insurers to keep pace, collaboration with InsurTechs will be a must.

*“InsurTech players are armed with scientific data on new-age consumers’ behavior and preferences that can help insurers to create focused products which they really need.”*

— Yashish Dahiya, Co-founder & CEO, PolicyBazaar.com

The groundwork is being set for InsurTechs to become the industry’s innovation and R&D hubs going forward and to be the catalysts for a growing market and ecosystem (Figure 3.3).

Leveraging each other’s strengths, traditional insurers and InsurTech firms can grow the insurance market and ecosystem. They can do this by accessing new customer segments with innovative offerings that target unserved and underserved markets by making insurance more accessible and affordable. Collaboration can also drive:

- Mining of existing customer segments with new offerings and use cases
- Better ecosystem integration through open platforms for a seamless customer experience and better distribution
- Enhanced internal efficiencies that work to scale operations quickly.

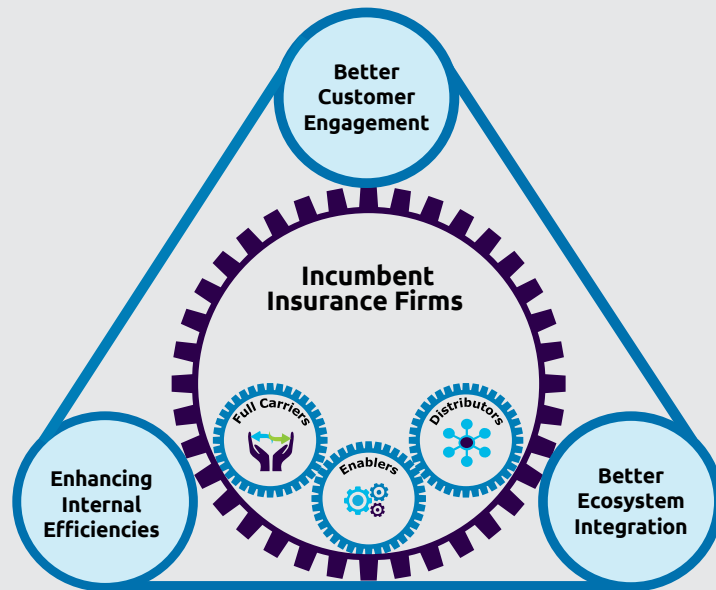
Taking their cue from the transformation that is taking place in banking, it makes sense for both insurers and InsurTechs to embrace collaboration to expand their market base and optimize their businesses through partnership and cooperation. Although the insurance industry may not be known for its speed or risk tolerance, now is the time to commit to trust and transparency and leverage the much-needed expertise available from all stakeholders.

**Figure 3.2 Collaboration – The way forward to acquire winning attributes**



Source: Capgemini Financial Services Analysis, 2018; WITR 2018 Executive Interviews, 2018

Figure 3.3 Collaborating to grow the market and ecosystem



Source: Capgemini Financial Services Analysis, 2018; WITR 2018 Executive Interviews, 2018

# Closing Thoughts from our Executive Steering Committee



*“The ability to adapt with the help of agile organizational and technological structures, understand the dynamics of the market and technological evolution, achieve 100% customer orientation, and create effective ecosystems will determine the winning insurers of the future.”*

–Antonio Fragero, Director of Strategy and Corporate Development, SegurCaixa Adeslas

*“The world we operate in is changing faster than ever, and the insurance industry is facing disruptors ranging from InsurTech startups to Silicon Valley titans. While regulations and balance sheet strength are significant barriers to entry in life insurance, we cannot afford to stand still. We have to be our own disruptors before someone else does it for us.”*

–Christopher Smith, EVP and Head of Global Operations, MetLife



*“Engaging with regulators early and often is an extremely beneficial step for disruptive start-ups to ensure they are implementing a compliant and sustainable model.”*

–Donna Peebles, President & Global Head of Insurance, Pypestream

*“The greatest impact InsurTech firms are having on the insurance industry is that they serve as a ‘Wake up call’ to incumbents. Insurers suddenly realised that the paradigm shift in technology will fundamentally impact the industry and put their existing business at risk. As a consequence, many insurers are now exploring how to drive digital innovations and partnerships with InsurTechs that can support the transformation of their business. Adapt or die”*

–Ingo Weber, Group CEO & Co-Founder, Digital Insurance Group



*“Identification of the right product-market fit, scalability of the solution, and the value-proposition offered to insurers, in terms of cost-savings or revenue potential increase, will differentiate the winning InsurTechs of the future.”*

–Jas Maggu, CEO, Galaxy.AI

*“I think the greatest impact InsurTech firms are having is in their ability to change almost everything. They will probably not change what it means to have insurance, but they are impacting what is purchased, where it is purchased, and even the very definition of being an insurance company. Arguably the most important impact though is getting a new generation of talent thinking about this space.”*

–Jay Weintraub, Co-Founder & CEO, InsureTech Connect



*“The proliferation of InsurTech companies must be viewed in the historical context of the three hundred and fifty year old insurance industry; this is truly a Renaissance-like moment for the industry. InsurTechs are forcing the industry to open itself to new ideas and new energy, to question assumptions and to reinvent itself to address this 24x7, always-connected world that we live in.”*

–Jonathan Kalman, General Partner, Eos Venture Partners



*“For InsurTechs to differentiate themselves with investors and carriers, the track record of the management team and real engagement of industry advisors make a BIG difference in the initial stages of business expansion.”*

–Michael Kalen, CEO, Covr Financial Technologies



*“Manufacturers and retail firms will be established as a very important new distribution channel, for which insurers will have to prepare our systems and processes if we want to have a presence in them.”*

–Patricia Torpedo Moreno, Strategy and Innovation Director, Reale Seguros



*“Winning insurers of the future will be differentiated by their boldness in exploring ideas that do not exist in the market and their agility in quickly iterating on different approaches to find product-market fit.”*

–Peter Gunder, Chief Business Development Officer, American Family Mutual Insurance Company, S.I.



*“InsurTech firms are raising the bar for customer experience, speed, and process fidelity. The result is that they are pushing traditional carriers to improve their level and quality of service, as well as their degree of digitalization and automation in order to meet rising customer expectations for speed, frictionless transactions, and bespoke experiences.”*

–Robert Pick, SVP & CIO, Tokio Marine North America Services



*“InsurTech firms are forcing insurers to rethink their digital transformation and business innovation strategies, aligning them more closely to deliver better customer outcomes. InsurTechs provide insurers with the imagination to deliver new types of engagements and experiences that could revolutionise the way insurance is bought, and the use cases to make them real.”*

–Sabine VanderLinden, CEO, Startupbootcamp InsurTech



*“In five years, customers will have less of an appetite to work with companies that don't have an incredibly easy, nimble, flexible and personalized mode of service delivery despite good products, coverage, price, etc. There will be a tendency and strong preference to work with those insurance companies that can provide a smooth and personalized experience on their terms as a customer. To get to this state, traditional insurers will need the assistance, guidance and expertise of more innovative InsurTech firms to help them leap frog others and get there more effectively.”*

–Seth Hall, SVP Customer Service, Philadelphia Insurance Cos



*“In a world of shrinking risk where products become smart and useful for preventing claims incidents, the winners will be the industry players that can best get in the game of helping with risk prevention and those that are best at coming up with new products in the new economy.”*

–Stacey Brown, InsurTech Hartford Founder



*“If you think of an incumbent as a massive ocean-going liner, it's got a great reputation and that's why it can attract a lot of passengers but to change direction, the ocean liner can take a number of hours. In comparison if you think of a small, agile speedboat, who can only accommodate a few passengers, they have to be focused in their aim but they can turn and quickly go in a new direction; the opportunity for a large ocean liner is therefore to work out how it can best partner with these fast speed boats.”*

Stephen Barnham, Head of APAC and Japan and CIO, MetLife Asia



# Appendix 1

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# Methodology

## Scope and research sources

The *World InsurTech Report (WITR) 2018* covers all the three broad insurance segments—life, non-life, and health insurance. This year's report draws on research insights from two primary sources – surveys and interviews with traditional insurance firms and those with InsurTech firms. These primary research together cover insights from over 140 executives across 33 markets: Austria, Bangladesh, Belgium, Brazil, Canada, Chile, Colombia, Czech Republic, Finland, France, Germany, India, Indonesia, Ireland, Israel, Italy, Japan, Kenya, Lebanon, Mexico, Netherlands, Peru, Philippines, Poland, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

## InsurTech Partnership Potential Assessment Methodology

The partnership potential of the various InsurTech types was assessed in short-to-medium term and long term along the current state assessment and future potential assessment frameworks. Each framework consists of seven factors of evaluation, wherein the importance of each factor was determined by the inputs from InsurTechs and traditional insurers.

Each InsurTech type was then rated across all the factors based on inputs from Insurtech firms and our detailed secondary research. The final aggregate score was arrived at based on a weighted average of the scores across all the factors. InsurTechs who scored above a defined level were then identified as the frontrunners.

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