



Top Trends in Property and Casualty Insurance: 2020

What you need to know



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Introduction

Alarmingly, global insured NatCat losses exceeded US\$140 billion in 2017, and less than 25% of insureds say they believe their existing policy offers comprehensive risk coverage. However, investors committed more than US\$800 million in InsurTechs in 2018 alone and more and more non-traditional firms enter the insurance space. So, what does it all mean to traditional property and casualty insurers?

The property and casualty landscape is rife with evolving risk, steep business competition, changing customer expectations, new regulations, and aggressive newcomers pushing to make their presence known.



Climate change and rising catastrophic losses necessitate effective underwriting, accurate pricing models, and claims processing systems. A low-interest-rate environment and slow economic growth are impinging on established insurers' revenue streams and profitability, which compels focus on operational efficiency.

Increasingly, policyholders are demanding more personalized offerings and seamless access to products and services via digital channels. Moreover, new business models, such as those enabled by the sharing economy, are encouraging insurers to explore innovative offerings that open new revenue streams.

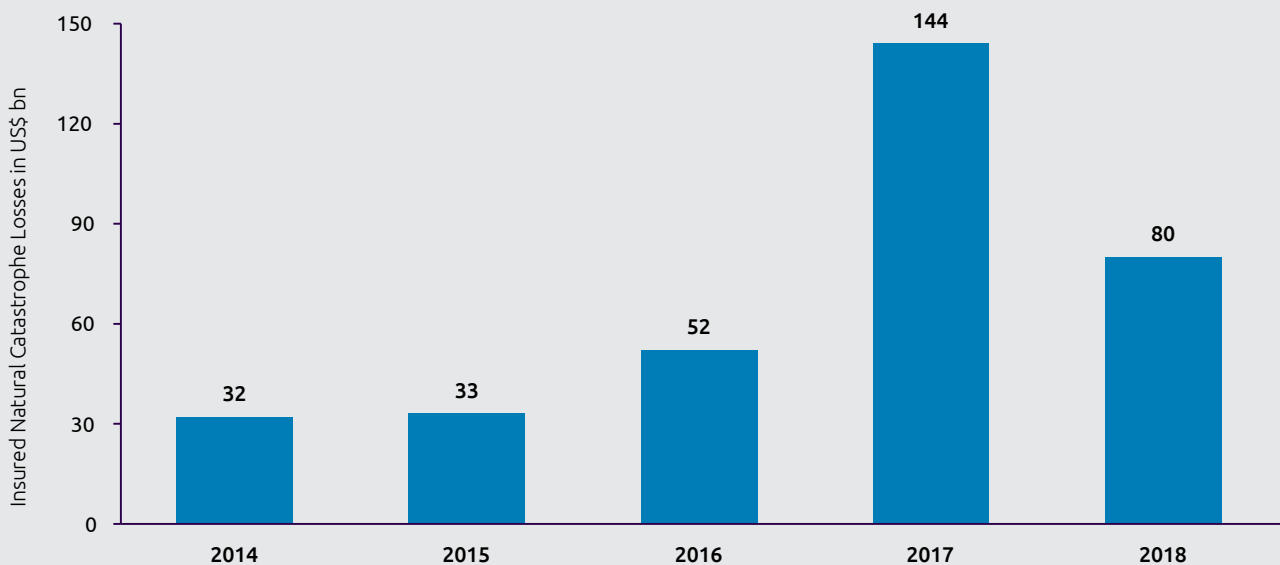
Insurers are leveraging emerging technologies such as IoT, artificial intelligence, cloud, and blockchain to develop competitive solutions and offerings. They are also building direct engagement channels and auto-adjudication systems to enhance the customer experience. To quickly infuse innovation within firm culture, insurers are investing in – and collaborating with – InsurTechs.

To ensure growth and future-readiness, firms must assume a **customer-centric** approach, support **product agility**, adopt **intelligent processes**, foster an **open ecosystem**, and strive to be an *Inventive Insurer*.

Property and casualty insurance landscape

P&C insurance is fast evolving and demands high-priority attention from industry players. The amount of insured losses from NatCat events has risen significantly in recent years (Exhibit 1).

Exhibit 1: Global insured natural catastrophe losses (US\$ billion), 2014-18

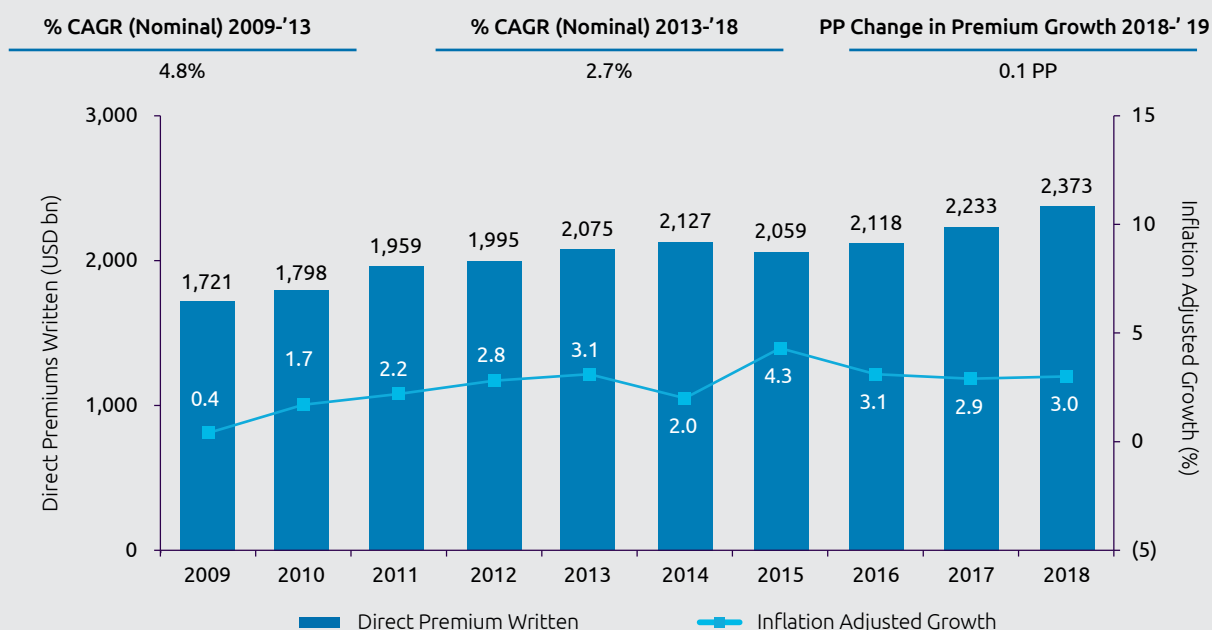


Source: Capgemini Financial Services Analysis, 2019; <https://natcatservice.munichre.com/>, accessed Nov 2019.

The business environment is becoming more and more challenging. The non-life insurance industry is experiencing slow but resilient premium growth, with inflation-adjusted premium growth standing at 3.0% in 2018. A low-interest-rate environment is expected to prevail for at least the next two years. Economic growth may slow to 2.8% in 2020, which will further squeeze P&C insurers' overall revenue and profitability.¹

¹Swiss Re Institute report, "World insurance: the great pivot east continues," July 4, 2019, <https://www.swissre.com/institute/research/sigma-research/sigma-2019-03.html>.

Exhibit 2: Global growth of direct non-life insurance premiums^a written (US\$ billion) and adjusted for inflation (%), 2009-18



Note *: Global non-life insurance premiums include health insurance premiums

Source: Capgemini Financial Services Analysis, 2019; <http://www.sigma-explorer.com/index.html>, accessed Nov 2019.

Within a somewhat harsh financial services environment, expectations are evolving as policyholders seek more personalized offerings accessible via their choice of platform/channel.





The sharing economy is gaining prominence through an increasing number of platforms focused on different lines of businesses, which opens new market opportunities for insurers.

In recent years, non-traditional players have actively entered the insurance space, focused primarily on distribution and policy administration. The technology capabilities of new entrants and their expertise in providing superior customer experience pose stiff competition to insurance firms.

P&C insurers are responding to fast-evolving market trends

P&C insurers are formulating several strategies to remain competitive within the changing business landscape (Exhibit 3).

Exhibit 3: How P&C insurers are responding to changing business dynamics

	Emerging Risk Landscape	TREND 1	A rise in natural catastrophes drives insurers to update risk assessment models
		TREND 2	Insurers are leveraging AI-based solutions to improve risk management capabilities
	Evolving Customer Preference	TREND 3	Insurers offer direct-engagement channels to small and micro-commercial businesses
		TREND 4	Regulations, customer concerns necessitate insurer focus on data privacy
	Changing Business Environment	TREND 5	Insurers launch new offerings suited to the sharing economy
		TREND 6	InsurTech investment is on the rise; late-stage startups draw the most attention
		TREND 7	Non-traditional firms slowly but steadily enter the insurance space
	Enhancing Operational Efficiency	TREND 8	More insurers use the cloud to deploy core systems
		TREND 9	Insurers explore auto-adjudication in personal lines, to process more complex claims
		TREND 10	Insurers are using blockchain to create a more integrated insurance ecosystem

Source: Capgemini Financial Services Analysis, 2019

P&C insurers are improving their risk assessment techniques by leveraging AI-based solutions. To meet evolving customer needs, firms are adding direct-engagement channels. Moreover, heightened concern around data privacy is demanding the development of incisive data governance strategies.

Insurers are set to unlock sharing-economy opportunities and are conceiving new-paradigm offerings with success potential. They are also investing in late-stage InsurTech firms and collaborating with a variety of newcomers to leverage emerging-tech innovations. Additionally, insurers must establish partnerships with non-traditional firms entering the market and strive to become their preferred suppliers.

To improve profitability amid a tight business scenario, insurers are increasingly focused on operational efficiency. They are leveraging cloud-based core systems, exploring auto-adjudication for more complex claims, and implementing blockchain for ensuring seamless data exchange with ecosystem partners.

Our *Top Trends in Property and Casualty Insurance: 2020* report explores the challenges shaping the property and casualty insurance industry and discusses strategies insurers are adopting to navigate and align with the insurance ecosystem of tomorrow.

Trend 01: A rise in natural catastrophes drives insurers to update risk assessment models

Global natural disasters have spurred the industry to augment risk-assessment techniques for more accurate pricing – and to close the coverage gap.

Background



- The *World Insurance Report 2019* found that only 13% of individual customers and 22% of commercial customers said they hold comprehensive coverage for emerging risks caused by natural catastrophes and weather-related calamities.²
- 2017 and 2018 were the costliest consecutive years for weather-related disasters.³
- Sustained population growth is trending in regions prone to natural disasters. In 2016 as many as 60 million US citizens lived along the Atlantic and Gulf of Mexico coasts – up from 52 million in 2000.⁴

Key Drivers



- Rising instances of major natural catastrophic events increase the need for accurate risk assessment.
- Outdated catastrophe models do not measure risk exposures precisely.
- Because of the ever-evolving risk landscape, insurers must work proactively with continuous and real-time risk assessment.

Trend Overview



- Firms are improving their risk identification and quantification techniques to gain in-depth knowledge about emerging risks spurred by more frequent natural catastrophes, and they are planning their product pipeline strategically.
 - Insurance Australia Group (IAG) partnered with AIR, a Verisk subsidiary, for a new earthquake model to manage New Zealand's catastrophe risk. The model offers a holistic risk view, helps IAG manage risk better, and reduces threats to communities.⁵
 - US-based InsurTech Kin Insurance serves homeowners in catastrophe-prone areas. It uses publicly available data points to offer tailored products to the customers.⁶

² Capgemini | EFMA, World Insurance Report 2019, <https://worldinsurancereport.com/>.

³ Aon, Weather, Climate & Catastrophe Insight – 2018 Annual Report, <http://thoughtleadership.aonbenfield.com/Documents/20190122-ab-if-annual-weather-climate-report-2018.pdf>, accessed November 2019.

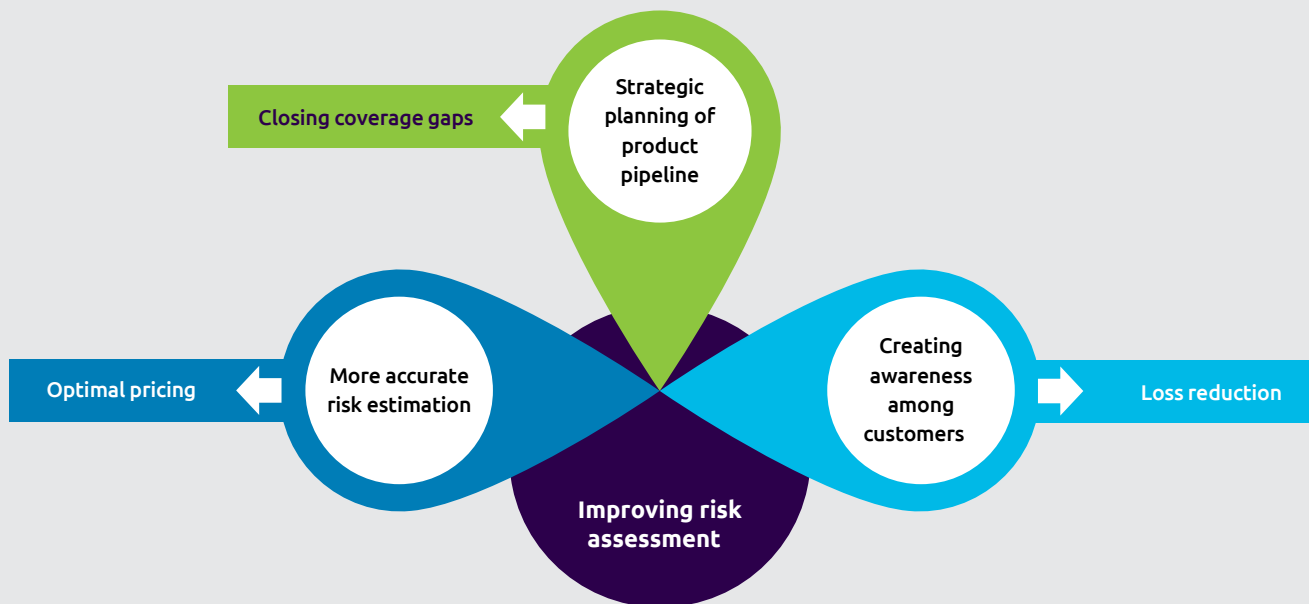
⁴ United States Census Bureau, "60 Million Live in the Path of Hurricanes," Darryl T. Cohen, August 6, 2018, <https://www.census.gov/library/stories/2018/08/coastal-county-population-rises.html>.

⁵ Insurance Innovation Reporter, "Insurance Australia Group Selects AIR's New Earthquake Model for New Zealand," Anthony R. O'Donnell, September 3, 2019, <http://iireporter.com/insurance-australia-group-selects-air-s-new-earthquake-model-for-new-zealand/>.

⁶ TechStartups, "Insurtech startup Kin secures \$47 million to focus on climate change impacted markets," August 27, 2019, <https://techstartups.com/2019/08/27/insurtech-startup-kin-secures-47-million-focus-climate-change-impacted-markets/>.

- In light of multiple weather-related disasters recently, it is prudent to reassess risk modeling, improve pricing, and increase policyholder awareness to manage threats more efficiently.
 - The Federal Emergency Management Agency (FEMA) is restructuring the US flood insurance program to measure risk potential better and to price risks accurately – while making it easier for agents and policyholders to understand.⁷

Exhibit 4: Key benefits of upgraded risk-assessment models



Source: Capgemini Financial Services Analysis, 2019



Implications

- A continuous and real-time risk assessment would help insurers better understand the risks and price the policies fairly.
- Accurate pricing would help in customer acquisition and help close the coverage gap.
- Insurers with a better understanding of risks can also raise catastrophe risk exposure awareness of customers and prompt them to optimize their coverage.

⁷ Insurance Journal, "Government Overhaul of National Flood Insurance Cheered by Climate Resilience Experts," Christopher Flavelle, March 18, 2019, <https://www.insurancejournal.com/news/national/2019/03/18/520933.htm>.

Trend 02: Insurers are leveraging AI-based solutions to improve risk management capabilities

Insurers have begun to use artificial intelligence to strengthen their risk-assessment and monitoring skills to focus on risk prevention.

Background



- Insurers have been using AI-based solutions across the value chain for intelligent automation of processes.
- Now, the focus has moved to the implementation of AI-based solutions that enhance risk-management capabilities – including continuous risk assessment, real-time monitoring, and risk prevention.

Key Drivers



- Inaccurate assessment of risk profiles costs insurers heavily.
- Technological advancements such as IoT and drones, in combination with edge computing, enable the collection of a large amount of granular data.
- Advancements in AI-based technologies (such as computer vision and image processing) open avenues to leverage data from varied sources to generate actionable insights.

Trend Overview



- With advanced machine learning algorithms and computer vision technologies, insurers can now accurately assess risk exposure, which allows for a better pricing strategy.
 - State Auto, an Ohio-based digital provider of property and casualty insurance deployed *Flyreel*, an AI-based solution that uses video captured on a policyholder's smartphone camera for property insurance underwriting, risk management, and claims.⁸
- Insurers are using AI and predictive modeling to create sophisticated tools that can provide a real-time view of a firm's cyber-risk and detect and repel cyber-attacks.
 - Munich Re partnered with FRISS, an InsurTech firm that provides AI-powered anti-fraud solutions so that P&C insurers can offer policyholders real-time risk assessment for underwriting and fraud-detection claims.⁹
- Moreover, insurers are evaluating data gathered by drones along with satellite imagery to build an AI-based model that conducts an automated risk assessment of personal and commercial properties.
- Insurers are monitoring the properties in real time, leveraging connected devices and mobile apps, and they provide personalized safety tips and timely alerts and assistance.
 - Liberty Mutual, with support from its incubator Solaria Labs, launched *Dwellbeing*, a resource that monitors home systems and appliances and notifies users when it detects that maintenance is required.¹⁰

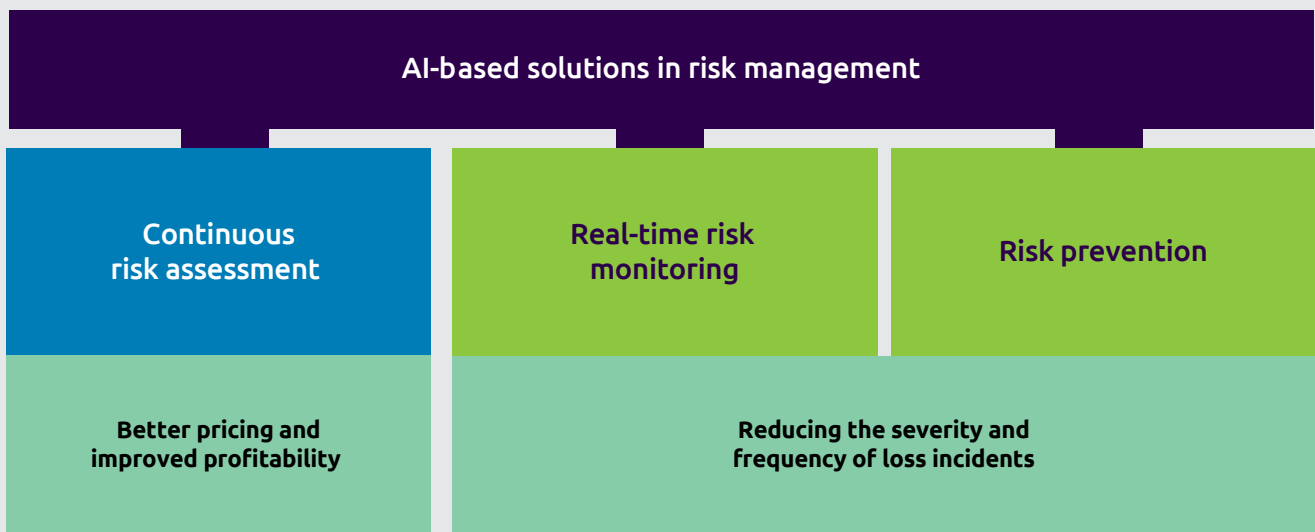
⁸ CISION PR Web, "State Auto Insurance Integrates Flyreel to Deliver AI-Driven Property Inspections," October 23, 2019, https://www.prweb.com/releases/state_auto_insurance_integrates_flyreel_to_deliver_ai_driven_property_inspections/prweb16661302.htm.

⁹ Insurance Journal, "Insurtech FRISS and Munich Re Extend Partnership to Support Insurers Fighting Fraud," October 8, 2019, <https://www.insurancejournal.com/news/international/2019/10/08/544823.htm>.

¹⁰ CISION PR Newswire, "Liberty Mutual Insurance Unveils Total Home Score and Dwellbeing, New Data-Driven Tools to Help Consumers Find the Right Home and Protect It," January 8, 2018, <https://www.prnewswire.com/news-releases/liberty-mutual-insurance-unveils-total-home-score-and-dwellbeing-new-data-driven-tools-to-help-consumers-find-the-right-home-and-protect-it-300578584.html>.

- Insurers can get accurate and real-time information about a driver's risk potential through telematics data and AI solutions. Insurers can improve safety and influence driving behavior by rewarding safer drivers with premium discounts.
 - Electric Insurance company tracks the driving behavior of customers using a mobile app and provides customized driving tips to improve their safety and efficiency.¹¹

Exhibit 5: AI-based solutions to improve risk management capabilities



Source: Capgemini Financial Services Analysis, 2019



Implications

- By encouraging safe behavior and providing timely alerts and assistance, insurers can become a *partner* and *preventer* in customers' lives.
- An accurate risk assessment would help insurers better price the risk and improve underwriting profitability.
- As AI solutions run on data, insurers must vigilantly align with regulations and customer concerns around data privacy.

¹¹ Electric Insurance Company, "The Great Driver™ Program Offers Great Discounts," <https://eic.electricinsurance.com/resources/great-driver>, accessed November 2019.

Trend 03: Insurers offer direct-engagement channels to small and micro-commercial businesses

Owners of small and micro-commercial businesses purchase insurance similarly to personal lines. Therefore, insurers offer direct-engagement channels to deliver a superior customer journey.

Background



- Small and micro-commercial businesses are set to expand rapidly, and the associated insurance market will grow proportionally.¹²
- In small and micro-commercial businesses, proprietors make insurance-related decisions, and their buying behavior is often similar to personal lines – they value convenience, agility, and personalization.

Key Drivers



- Small and micro-commercial business owners conduct business with support from digital tools, so they are naturally inclined toward digital engagement channels.
- Small and micro-commercial business owners are price sensitive and seek low-cost commercial insurance options.
- Direct platforms will be a competitive advantage for entering underserved segments such as gig-economy-based businesses.

Trend Overview



- The small and micro-commercial market is booming primarily due to the rise in startup activities and the gig economy. The gig economy, alone, is estimated to grow to US\$335 billion by 2025.¹³ This growth potential makes this segment a strategic target for insurers.
 - Moreover, 60% of businesses will be owned by millennials by 2020, and they prefer interacting with their insurers via digital channels.¹⁴
- To cater to business owners' evolving convenience and agility requirements, insurers are shifting to digital platforms.
 - Progressive offers small businesses a platform to buy insurance quickly. Online *BusinessQuote Explorer* (BQX) delivers multiple quotes from other carriers. Currently, BQX offers quotes for business owners, professional liability, workers' compensation, and general liability policies.¹⁵
 - Zurich Insurance Group and CoverWallet worked together to release an online small and micro-business insurance platform that helps business owners determine the types of

¹² Common micro-businesses include catering, childcare, photography, computer services, house cleaning, event planning, accounting, and cosmetology.

¹³ AON: The ONE Brief, "In Demand: The Growth Of The On-Demand Economy," <https://theonebrief.com/demand-growth-demand-economy/>, accessed November 2019.

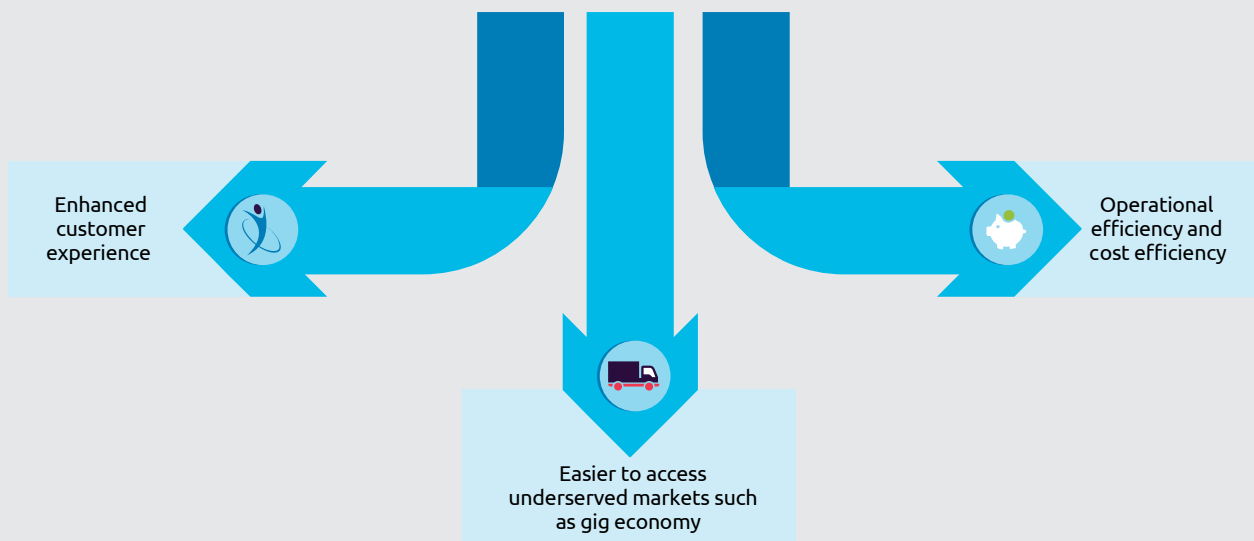
¹⁴ Insurance Thoughtleadership Website, "The Great Millennial Shift," Michael Sauber, Chris Mason, September 30, 2019, <http://insurancethoughtleadership.com/the-great-millennial-shift/>.

¹⁵ Insurance Journal, "Progressive Rolls Out Small Business Insurance Comparison Quoting Platform," May 08, 2019, <https://www.insurancejournal.com/news/national/2019/05/08/525899.htm>.

coverage they need, get real-time offers, buy insurance, and manage policies online in minutes.¹⁶

- With increased access to customer data from varied sources such as bespoke data lakes, external data aggregators, and third-party data providers, insurers can focus on low/no-touch underwriting, which can simplify the insurance purchase process.
 - Berkshire Hathaway's three-page policy, *The THREE*, provides comprehensive coverage for different small business needs, including general liability, errors and omissions, and cyber.¹⁷

Exhibit 6: Advantages of direct-engagement channels



Source: Capgemini Financial Services Analysis, 2019



Implications

- Though direct selling platforms can provide definitive advantages such as quicker turnaround time and reducing operational costs, insurers have to follow a balanced strategy and continue their focus on agent and broker channels as well to retain their loyalty.
- Insurers should focus on effective digital marketing strategies for achieving the desired results of the direct engagement channels.

¹⁶ Coverwallet, "Zurich Insurance Group and CoverWallet Launch Online Platform for Small and Medium-Enterprise Insurance in Switzerland," April 10, 2019, <https://www.coverwallet.com/press/zurich-and-coverwallet-launch-online-platform-insurance-in-switzerland>.

¹⁷ The THREE, "Why THREE," <https://www.threeinsurance.com/why-three>, accessed November 2019.

Trend 04: Regulations, customer concerns necessitate insurer focus on data privacy

While leveraging data to improve the processes across the value chain, insurers have to address the concerns from customers and regulators around data privacy.

Background



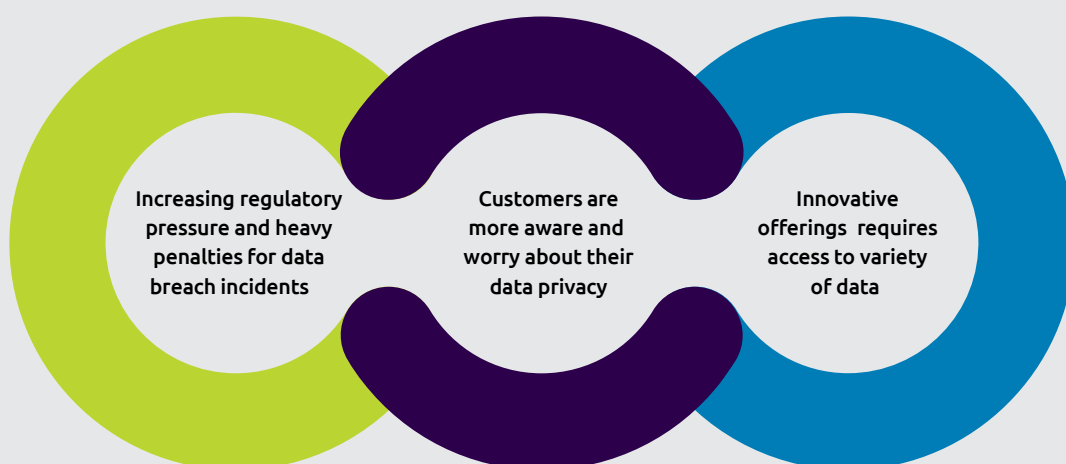
- Insurance, by its nature, is data intensive. Recent technological advancements have opened access to new data sources that can enable insurers to improve processes across the value chain.
- However, with increasing customer concerns about data security and new regulations on data access and use, insurers must take steps to ensure data privacy.

Key Drivers



- Innovative offerings from insurers such as low/no-touch underwriting and on-demand insurance require access to a variety of data sources.
- Recent data breaches and their impact are making customers more worried about data security and privacy.
- Regulations related to data privacy, such as the General Data Protection Regulation (GDPR) and the California Consumer Privacy Act (CCPA), focus on providing greater control to customers on their data.

Exhibit 7: Focus on data privacy: key reasons



Source: Capgemini Financial Services Analysis, 2019

Trend Overview



- Firms are improving their risk identification and quantification techniques to access data from a variety of sources (such as social media) to collect deeper customer insights. By leveraging data and insights insurers can deploy innovative solutions to improve process efficiency across the value chain, including underwriting and claims processing.
- Customer data and insight into their needs and preferences are critical for insurers aiming to offer policyholders convenience and personalization. Moreover, new business models such as on-demand insurance cannot be effective without access to customer data.
- However, recent data breaches, even among BigTech firms, highlight the need for effective data governance.
- Additionally, ongoing updates and additions to data management regulations and customer concerns about privacy force insurers to find a balance between providing innovative data-based offerings and ensuring data privacy.
 - The EU's GDPR focuses on data protection and citizen privacy. The law simplifies international business regulations and entrusts individuals with greater control over their data.
 - Similarly, California's Consumer Privacy Act (CCPA) mandates that companies disclose details about the personal data they collect, the reasons for collection, and specifics about third parties with which they have shared data.
- Businesses must make trade-offs and recognize that data can be a liability as well as an asset, considering the costs of protecting data and the legal, reputational, and financial risks associated with failure to safeguard it.
- Increasingly, insurers are collaborating with ecosystem players to provide services to customers seamlessly. Firms must share only pertinent data with third-party solution providers.
- Increased focus on data protection opens new opportunities for firms offering cyber insurance. They might also provide value-added services to help other firms strengthen their data governance policies.

Implications



- Insurers will have to implement robust data governance systems to comply with regulations concerning customer data handling and to guarantee that data is safe during storage, sharing, and processing.
- Insurers should include data privacy in their business decisions and require data protection in business processes and products that handle personal data.
- Strict data privacy policies can potentially slow down the implementation of AI systems, which primarily runs on data.

Trend 05: Insurers launch new offerings suited to the sharing economy

The latest sharing-economy developments open new opportunities for insurance firms.

Background



- The sharing economy is proliferating, and Juniper Research predicts that revenue from sharing-economy platform providers will reach more than US\$40 billion in 2022.¹⁸
- However, risks and a lack of sufficient protection will adversely impact customer participation. Around 58% of US and UK customers believe that risks outweigh the benefits of sharing their assets, according to a Lloyd's of London survey.¹⁹
- Regulatory authorities are launching insurance mandates, which opens a big market for firms.

Key Drivers



- The burgeoning gig economy and the need to provide risk coverage to partners and freelancers create substantial market potential for insurers.
- Sharing-economy platform providers are digitally agile, and insurance offerings can be integrated smoothly into their existing systems; relevant data for underwriting and claims processing can be accessed easily from their platforms.
- AI-based support systems can enable insurers to handle data in real time and provide on-demand, tailor-made policies for the sharing economy.

Trend Overview



- To ensure trust and infuse sustainability within the sharing economy, assets must be insured, so that stakeholders feel protected and can trust the system.
- However, implementation of traditional P&C insurance practices is rife with challenges, and existing insurance policies may not be relevant when it comes to coverage within the sharing economy.
 - Assets are fragmented, and there is little historical data available regarding prior losses to assess the risk involved.
 - The sharing economy focuses on apportioning personal assets for business use. Therefore, it cannot be covered under personal insurance policies, and existing commercial insurance policies might not be cost-effective.
- Established insurers and InsurTech firms are developing innovative offerings that complement the sharing economy.
 - Rideshare insurance: French multinational insurer AXA is collaborating with BlaBlaCar (a French online marketplace for carpooling) to provide protection for ride sharers. *BlaBlaSure* offers three levels of coverage, including a comprehensive-coverage policy. Users can subscribe online within seconds.²⁰

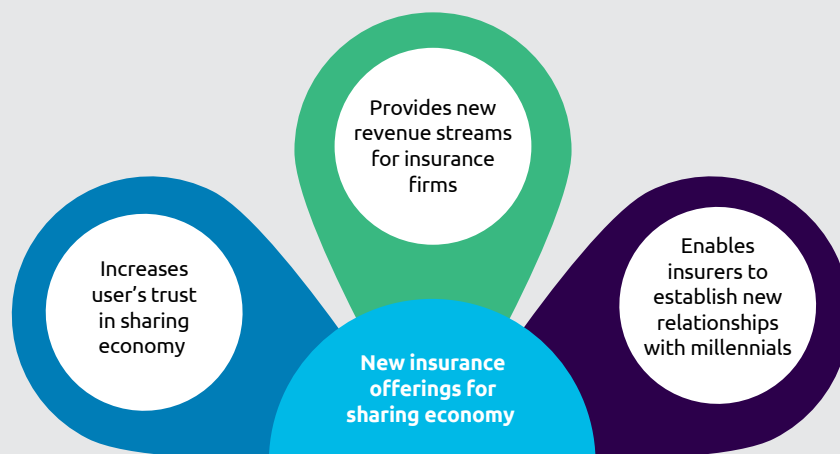
¹⁸ Juniper Research, "Sharing Economy: 3 Industries ripe for disruption," July 2017, <https://www.juniperresearch.com/document-library/white-papers/sharing-economy-3-industries-ripe-for-disruption>.

¹⁹ Insurance Thought Leadership, "Building Trust in the Sharing Economy," Tom Hammond, December 17, 2018, <http://insurancethoughtleadership.com/how-pc-insurers-sharing-economy/>.

²⁰ AXA Newsroom, "AXA and BlaBlaCar launch BlaBlaSure, the first insurance offer for ride sharers," May 29, 2018, <https://www.axa.com/en/newsroom/news/axa-and-blablacar-launch-blablasure-the-first-insurance-offer-for-carsharers>.

- Home-sharing insurance: Airbnb is collaborating with multiple insurance firms – including Zurich, Sompo Japan Nipponkoa Insurance, and Aioi Insurance – to provide experience-protection insurance to Airbnb hosts.²¹
- Insurance for gig workers: New York InsurTech Trupo partnered with Reinsurance Group of America to introduce short-term disability insurance for freelance workers in Georgia.²²
- Coverage for co-working spaces: US-based Nicholas Hill Group, which provides niche-market policies, offers insurance for co-working organizations and co-working spaces.²³
- With the proliferation of sharing-economy platforms, insurers should create robust solutions that can scale quickly to address coverage gaps.
- Regulators are taking steps to protect gig-economy participants. The state legislature in California passed a bill that mandates sharing-economy platforms to treat workers as employees.²⁴ This regulation will require platforms to provide staff with insurance coverage.

Exhibit 8: New sharing-economy offerings: Potential benefits



Source: Capgemini Financial Services Analysis, 2019

Implications



- Covering risk in the sharing economy will boost trust in the system and will attract more users, which, in turn, will expand markets for insurers.
- Insurers will have to be digitally agile with real-time data capturing and processing systems to provide seamless service.
- Association with sharing-economy platforms will help insurers establish their brand among millennials.

²¹ Airbnb, "Experience Protection Insurance," <https://www.airbnb.co.in/experience-protection-insurance>, accessed November, 2019.

²² Medium, "The Gig Economy – And How The Insurance Industry Provides Coverage For Its Workers," April 16, 2019, <https://medium.com/@inmediatesg/the-gig-economy-and-how-does-the-insurance-industry-provides-a-coverage-for-its-workers-f94c64878917>.

²³ Nicholas Hill Group, <https://www.nicholashillgroup.com/coworkinginsurance#>, accessed November 2019.

²⁴ Forbes, "It's Not Just Uber, California Bill Could Transform Tricky Tax And Legal Rules On Independent Contractors," Robert W. Wood, September 12, 2019, <https://www.forbes.com/sites/robertwood/2019/09/12/its-not-just-uber-ca-bill-could-transform-tricky-tax-legal-rules-on-independent-contractors/#140d103f4ad1>.

Trend 06: InsurTech investment is on the rise; late-stage startups draw the most attention

As InsurTechs become the primary source of industry innovation, investor interest in InsurTech firms is growing.

Background



- Investments in InsurTech firms increased from \$US63 million in 2012 to \$847 million in 2018, according to a recent report released by Willis Tower Watson and CB Insights.²⁵
- Mature, late-stage InsurTechs are increasingly gaining more attention from investors. Of all investment deals in P&C-related InsurTechs in 2012, less than 20% targeted developed firms. By 2018, investment in late-stage InsurTechs stood above 35% of total financing.²⁶

Key Drivers



- Leveraging emerging technologies, InsurTechs are addressing critical pain points in insurance across the value chain and lines of business.
- InsurTechs are offering solutions based on new business models to close the coverage gap.
- Insurers are recognizing the importance of InsurTechs and realizing the opportunity of collaborating with them.
- Innovation hubs, accelerators, and incubators are enabling InsurTechs to commercialize their innovative solutions.

Trend Overview



- A significant portion of InsurTech investment comes from venture capitalists and private equity firms. However, insurers have begun making strategic investments in mature InsurTech firms, and they are also incorporating their solutions after investment rounds.
 - California-based startup Metromile Inc. announced \$90 million in Series E funding co-led by leading insurance companies Tokio Marine Holdings and Intact Financial.²⁷
- Insurers are exploring InsurTech firms and enabling their growth by starting or participating in innovation hubs and incubator and accelerator programs. In addition to monetary support, insurers are also providing guidance and access to their infrastructure.
 - Hartford InsurTech Hub, powered by Startupbootcamp, is working to identify disruptive innovations that will affect the insurance sector. It hosts events through which InsurTechs showcase process improvement solutions ranging from customer engagement to property insurance claims.²⁸

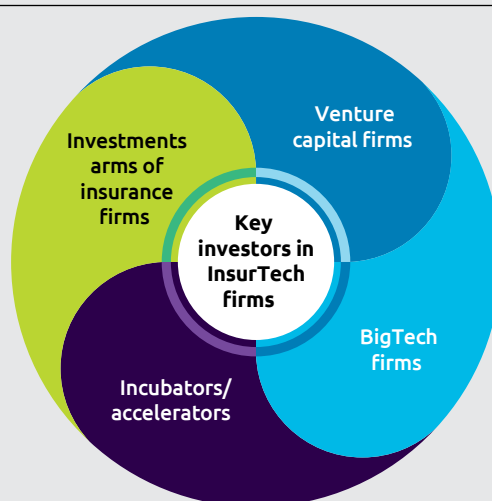
²⁵ Willis Tower Watson and CB Insights, Quarterly InsurTech Briefing Q2 2019, July 2019, <https://www.willistowerswatson.com/en-IN/Insights/2019/07/Quarterly-InsurTech-Briefing-Q2-2019>.

²⁶ Ibid.

²⁷ Insurance Journal, "Tokio Marine to License Metromile's Connected Intelligence Platform," Don Jergler, August 7, 2018, <https://www.insurancejournal.com/news/national/2018/08/07/497223.htm>.

²⁸ Insurance Business Magazine, "Hartford InsurTech Hub helps new start-ups," Ryan Smith, May 1, 2019, <https://www.insurancebusinessmag.com/us/news/technology/hartford-insurtech-hub-helps-new-startups-166184.aspx>.

Exhibit 9: Key investors in InsurTech firms



Source: Capgemini Financial Services Analysis, 2019

- BigTechs are also keen on investing in InsurTech firms.
 - Lemonade, an InsurTech powered by artificial intelligence and behavioral economics, received US\$300 million during a Series D funding round led by investors SoftBank Group, GV (formerly Google Ventures), Allianz, and General Catalyst.²⁹
 - In early 2019, Amazon invested \$65M in Series C funding in Acko, an India-based digital insurance provider. Amazon led Acko's previous funding round, with \$12 million in 2018.³⁰
 - Digital broker Young Alfred, based in Philadelphia, announced a \$10 million Series A round led by Gradient Ventures and Google's AI-focused venture fund.³¹
- Google is also emerging as a leading InsurTech investment player.
 - Google's investment arm, CapitalG, invested in Applied systems, a maker of cloud-based software for independent agencies that previously acquired PolicyWorks, a major platform for commercial lines business in Canada.³²

Implications



- Going forward, insurers and VC firms are likely to invest in select InsurTechs with proven solutions. Hence, the number of deals may come down. However, the deal value and the number of mergers and acquisitions will take off.
- Insurers are expected to play a more active role in InsurTech investments than venture capitalists as the critical focus becomes establishment of business collaboration.
- However, insurers should also support early-stage InsurTechs by opening innovation hubs and participating in accelerator programs to maintain the pace of innovation.

²⁹ Business Wire, "Lemonade Announces \$300M in Series D Funding," April 11, 2019, <https://www.businesswire.com/news/home/20190411005311/en/Lemonade-Announces-300M-Series-Funding>.

³⁰ TechCrunch, "Acko, a digital insurance provider in India, raises another \$65M at a \$300M valuation," Ingrid Lunden, January 15, 2019, <https://techcrunch.com/2019/03/13/acko-a-digital-insurance-provider-in-india-raises-another-65m-at-a-300m-valuation/>.

³¹ CoverageR, "Throw more confetti: Young Alfred raises \$10M," October 25, 2019, <https://coverager.com/throw-more-confetti-young-alfred-raises-10m/>.

³² Carrier Management, "Google Invests in Applied Systems, a Maker of Cloud-Based Software for Independent Agencies," Mark Hollmer, October 16, 2018, <https://www.carriermanagement.com/news/2018/10/16/185405.htm>.

Trend 07: Non-traditional firms slowly but steadily enter the insurance space

With better insights on customer preferences and superior digital distribution capabilities, non-traditional firms have the potential of securing a significant market share from traditional insurers.

Background



- In recent years, non-traditional players such as BigTechs, manufacturing firms, and retail players have entered the insurance space.
- New, non-traditional entrants are bundling insurance with their existing offerings, while some firms focus on distributing policies innovatively.

Key Drivers



- Non-traditional firms may have access to massive amounts of customers' personal and behavioral data that they use to design highly-personalized insurance policies.
- BigTechs are gaining customers' trust. According to the *World Insurance Report 2018*, around 30% of customers said they would be interested in buying at least one insurance product from a BigTech firm.³³
- New entrants are focused on building ecosystems that cater to customers' end-to-end needs, and as a part of their broader strategy, they enter insurance as well.

Trend Overview



- BigTechs such as Google, Amazon, and Alibaba have vast customer data and capital and are exploring multiple opportunities to enter the insurance space.
 - Amazon introduced *Amazon Protect* in the UK to offer coverage for a variety of products sold on its e-commerce site.³⁴
 - Apple entered into a partnership with Cisco, Aon, and Allianz to develop a cyber-risk management solution.³⁵
- In addition to BigTechs, original equipment manufacturers (OEMs) in the auto industry are dabbling in insurance.
 - In August 2019, Tesla launched its car insurance in California. A critical product feature is competitive pricing (up to 30% lower rates) because Tesla says its advanced safety features will reduce accidents.³⁶

³³ Capgemini | EFMA, World Insurance Report 2018, <https://worldinsurancereport.com>.

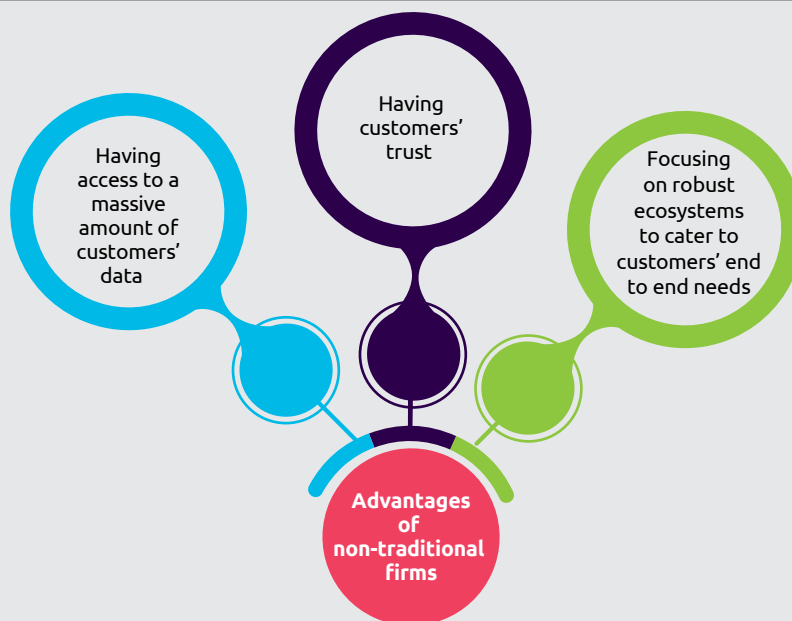
³⁴ CB Insights, "A Look at Amazon Protect: Amazon's Warranty Insurance Brand Expands In Europe," September 21, 2017, <https://www.cbinsights.com/research/amazon-protect-product-insurance>.

³⁵ 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-cybercoverage>.

³⁶ The Verge, "Tesla launches car insurance offering in California," Sean O'Kane, August 28, 2019, <https://www.theverge.com/2019/8/28/20837265/tesla-car-insurance-california-autopilot-discount>.

- Players in other industries such as Fast-Moving Consumer Goods (FMCG) and energy are also providing insurance offerings.
 - UK retail brand John Lewis offers multiple policies, including home, car, and pet insurance. The firm partnered with Covéa insurance for underwriting its specialist home and car insurance.^{37, 38}
 - British Gas, a UK energy and home services company, offers its customers home insurance. The policy, *Home Assistance*, is underwritten by a wholly-owned subsidiary of AXA Assistance Group. British Gas handles sales and policy administration.³⁹

Exhibit 10: Non-traditional firms – key advantages



Source: Capgemini Financial Services Analysis, 2019



Implications

- The entry of non-traditional players can take over the legacy carriers' share of the market, especially among millennials.
- To compete with non-traditional players on providing superior customer experience, insurers have to come up with innovative solutions, partnering with InsurTech firms.
- Insurers should prepare themselves for the business role of being a supplier and become a no-frill pure underwriter, while non-traditional firms take care of the distribution part.

³⁷ John Lewis, <https://www.johnlewisfinance.com/insurance.html>, accessed November 2019.

³⁸ Covea Insurance press release, May 1, 2019, <https://www.coveainsurance.co.uk/news-hub/press-releases/covea-insurance-extends-partnership-with-john-lewis-finance/>, accessed November 2019.

³⁹ British Gas, "Your Policy," <https://www.britishgas.co.uk/aem6/content/dam/britishgas/downloads/insurance/home-insurance-terms-and-conditions.pdf>, accessed November 2019.

Trend 08: More insurers use the cloud to deploy core systems

Insurers are expanding their use of the cloud for deploying core systems in efforts to improve digital agility and enhance operational efficiency.



Background

- P&C insurers started using cloud platforms for scaling up computing resources, setting up environments to test their applications.
- Then, they leveraged cloud and cloud-native services to introduce new channels, new applications that can support business processes across the value chain.
- Moving ahead, now insurers are increasingly deploying core systems to the cloud.



Key Drivers

- Cloud-based systems enable insurers to enhance their business agility for providing better customer experience and rolling out new solutions.
- Insurers can realize higher operational efficiency and cost savings by implementing cloud and cloud-native services.
- Cloud-based systems ensure the stability and availability of the systems 24/7, even during unforeseen events such as catastrophes.
- Legacy systems inhibit insurers' ability to implement seamless processing, and also the cost of maintenance of legacy systems is increasing.



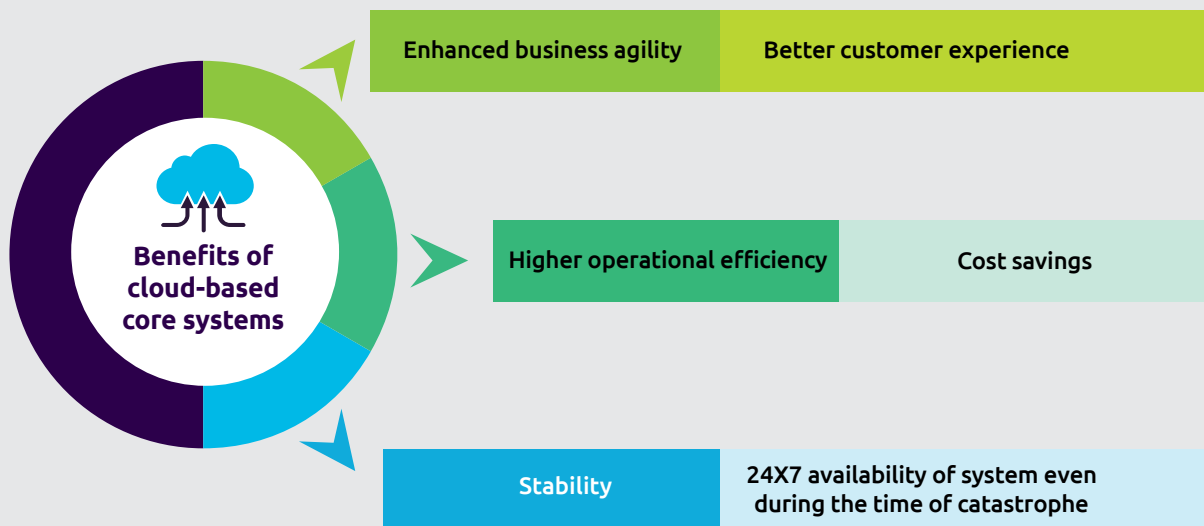
Trend Overview

- The changing business dynamics and increasing competition necessitates insurers to focus on enhancing their digital agility and focus on operational efficiency.
- According to a Novarica Research Report, on average, 52% of IT budgets are spent on core applications and infrastructure.⁴⁰ IT costs could be reduced significantly if core systems were implemented over the cloud.
- The deployment of core systems to the cloud will enable insurers to shift to customer-focused business models resulting in better customer experience and personalized offerings. Cloud services will also cater to the digital engagement needs of the insurers.
- Insurers can scale their computing power and technology capabilities without relying solely on in-house systems – this will improve their operational efficiency and cost control.
- By deploying their core systems to the cloud, insurers can seamlessly connect with ecosystem players and provide an end-to-end digital experience to their customers.

⁴⁰ Novarica Research Report, Insurer IT Budgets and Projects 2020, October 2019, <https://novarica.com/insurer-it-budgets-and-projects-2020>.

- Insurers have started implementing core systems in the cloud to support their digital transformation initiatives.
 - Many insurers in Europe, including Zurich, FRIDAY, Ethias, Tinkoff Online insurance, have implemented Guidewire’s InsuranceSuite along with the Guidewire Cloud™.⁴¹
 - West Bend Mutual Insurance has moved its existing Duck Creek core solutions to Duck Creek OnDemand, the provider’s SaaS solution for the P&C insurance industry to adjust rapidly to new market demands, enhance service levels, and lower its costs.⁴²
 - Indiana-based Mutual Underwriters LLC shifted its core system to CodeObjects’ *InsuranceEnterprise*, as a full cloud-enabled strategic insurance platform, to help grow its business.⁴³
- With core systems deployed to the cloud, insurers can move beyond just realizing operational efficiencies and focus on finding new revenue streams by implementing new business models.
- Cloud-based platforms are now coming up with hybrid models that have advanced data security features, protection against data theft, along with optimized risk management.

Exhibit 11: Cloud-based core systems – key benefits



Source: Capgemini Financial Services Analysis, 2019

Implications



- Cloud-based systems ensure software currency, as the service provider will maintain the infrastructure.
- The deployment of the core system over the cloud provides speed to market, agility, and better customer retention.
- With core systems in the cloud and seamless access to advanced analytics systems and computing power, insurers can efficiently implement new business models such as on-demand insurance.

⁴¹ Guidewire, "Absolute Commitment to Customer Success," <https://www.guidewire.com/customers>, accessed November 2019

⁴² Business Wire, West Bend press release, "West Bend Insurance Modernizes Operations with Move to Software-as-a-Service," May 24, 2018, <https://www.businesswire.com/news/home/20180524005113/en/West-Bend-Insurance-Modernizes-Operations-Move-Software-as-a-Service>.

⁴³ Business Wire, CodeObjects press release, "GMutual Underwriters Goes Live with CodeObjects' InsuranceEnterprise in the Cloud for Managing Business Owners and Commercial Property Products," February 14, 2019, <https://www.businesswire.com/news/home/20190214005230/en/Mutual-Underwriters-Live-CodeObject%E2%80%99s-InsuranceEnterprise-Cloud-Managing>.

Trend 09: Insurers explore auto-adjudication in personal lines, to process more complex claims

Having adopted auto-adjudication for basic auto claims, insurers are exploring emerging technologies to automate adjudication of more complex claims.

Background



- Claims adjudication is a complicated and time-consuming process and requires a lot of web analysis and decision-making ability.
- With massive amounts of data sources and advancements in technology, there is an opportunity for automation of the adjudication process even for more complex claims in property and auto insurance, which can drastically improve the turn-around time for claims processing.

Key Drivers



- The availability of data via a variety of sources such as drones and IoT devices provides an opportunity to automate adjudication processes.
- Between 2018 and 2019, losses and loss-adjustment expenses (LLAE) increased by 5.9% quarter-on-quarter.⁴⁴ Auto-adjudication can dramatically reduce costs per claim.
- Auto-adjudication systems can process large claims volumes with fewer resources, especially during times of disaster.

Trend Overview



- Increasingly, P&C insurers are implementing auto-adjudication systems to handle uncomplicated and low-value claims, such as glass claims. They are also exploring the possibility of automating adjudication processes for complex claims.
- Insurers are leveraging machine learning algorithms to automatically detect a vehicle's body and analyze the extent of the damage. The data can be leveraged to auto-adjudicate the claim.
 - Altoros, an automation and analytics solution provider, developed a car damage detection system that uses machine learning to assess car damage at the accident scene.⁴⁵
 - Galaxy.AI provides automation of damage detection in images for claim estimation and underwriting using artificial intelligence.⁴⁶

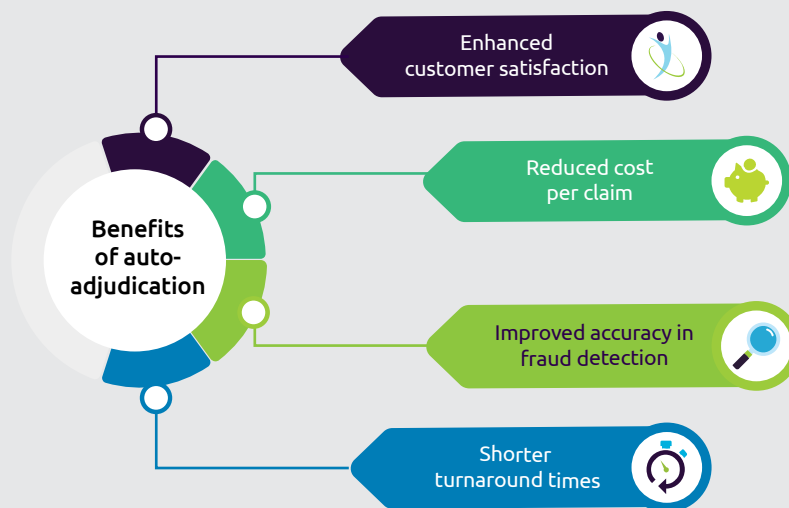
⁴⁴ Insurance Information Institute, "2019 - Commentary on first quarter financial results," July 24, 2019, <https://www.iii.org/article/2019-commentary-on-first-quarter-financial-results#LLAE%20and%20Expenses>.

⁴⁵ Altoros, <https://www.altoros.com/car-damage-recognition>, accessed November 2019.

⁴⁶ Galaxy.AI, <https://www.galaxy.ai/>, accessed November 2019.

- Insurers are employing drone technologies that can capture the full, high-definition image of the property to make an understanding of damages fast.
 - US-based Grinnell Mutual uses Kespary drones and aerial intelligence platform for both domestic and commercial roof inspections. These evaluations help to determine storm damage to make the best-possible claim decision.⁴⁷
- With the help of telematics, insurers can now compare driver and vehicle activity such as rapid acceleration, hard braking, airbag deployment, and fast lane changes against data such as age, gender, and driver education to create an accurate risk model for the auto-adjudication process.
- Insurers now understand that a working and effective fraud detection system is a prerequisite to implementing claims automation. Using data-rich analytics, firms can predict fraud patterns and automate fraud claims detection.

Exhibit 12: Key benefits of auto-adjudication



Source: Capgemini Financial Services Analysis, 2019

Implications



- Claims processing is a critical moment of truth for a customer, and improved turnaround time in claims settlement leads to enhanced customer satisfaction.
- Insurers should guarantee that claim information fed into auto-adjudication systems is reliable and accurate.
- Auto-adjudication systems can spot patterns in claims and help insurers in detecting fraud rings.
- There is faster processing of claims, which will cut down on costs and improve customer experience.

⁴⁷ Inside Unmanned Systems, "Grinnell Mutual Now Using Kespary for Drone Roof Inspections," June 3, 2019, <https://insideunmannedsystems.com/grinnell-mutual-now-using-kespary-for-drone-roof-inspections/>.

Trend 10: Insurers are using blockchain to create a more integrated insurance ecosystem

Blockchain solutions can be used to build a more integrated insurance ecosystem with simplified processes and streamlined exchange of information.



Background

- Insurers are leveraging blockchain technology for various use cases such as fraud prevention, expeditious policy creation, and claims processing, as well as asset tracking.



Key Drivers

- Insurers are increasingly focusing on improving their operational efficiency across the value chain.
- Reducing the turnaround time for services can drastically improve the customer experience.



Trend Overview

- Insurers are making their processes more efficient by leveraging blockchain technology for better data management, security, and transparency.
 - German financial services conglomerate Allianz is experimenting with a token-based blockchain system that is expected to streamline international insurance payments for corporate clients. The core infrastructure of the ecosystem had been built and tested as of August 2019.⁴⁸
 - London-based VouchForMe is a peer-to-peer insurance platform based on social-proof endorsements. Powered by blockchain, the platform enables policyholders to share their insurance deductibles with friends and family.⁴⁹
- New platforms for subrogation, proof of insurance, and employee benefits, will allow insurers to streamline the business processes and automate them to speed up their operations and cut down costs.
- With the help of blockchain, streamlined information exchange can help insurers reduce fraud-related expenses, which are estimated to be 10 percent of losses and loss adjustment expenses each year.⁵⁰
- Consortia such as B3i are exploring various use cases of blockchain in insurance. B3i has already launched a catastrophe excess reinsurance product based on blockchain to improve real-time access of contracts and remove manual tasks in the process.⁵¹
- In property and casualty insurance, blockchain can help in tracking the lifetime of assets and upgrading paper contracts to smart contracts, resulting in real-time access to data and process claims based on coded criteria.

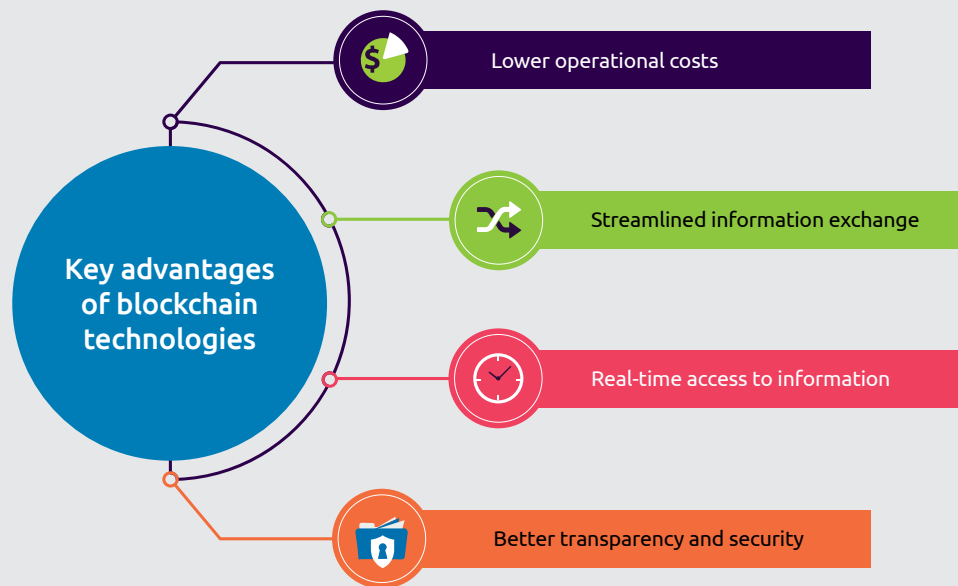
⁴⁸ Cointelegraph, "Insurance giant Allianz is working on a token-based blockchain ecosystem," Ana Alexandre, August 8, 2019, <https://cointelegraph.com/news/insurance-giant-allianz-is-working-on-a-token-based-blockchain-ecosystem>.

⁴⁹ Business Blockchain HQ, "Swissdacs and VouchForMe Enhance Insurance Policies Using Blockchain," David Akilo, April 5, 2019, <https://businessblockchainhq.com/business-blockchain-news/swissdacs-teams-and-vouchforme-improve-insurance-policies-using-blockchain/>.

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⁵¹ Insurance Journal, "Blockchain Initiative, B3i, Deploys Cat Excess of Loss Product for January Renewals," October 15, 2019, <https://www.insurancejournal.com/news/international/2019/10/15/545507.htm>.

Exhibit 13: Blockchain – key advantages



Source: Capgemini Financial Services Analysis, 2019

Implications



- By automatically checking claim/payment information that comes from third parties, blockchain aims to decrease administrative costs.
- Streamlined and automated processes would reduce manual tasks and mitigate errors.
- The transparency and security offered by blockchain-based systems and an active exchange of information across industry players and ecosystem partners can reduce fraud incidents.
- Blockchain can effectively manage, share, and monetize massive amounts of data generated by connected devices as it stores information in a static form that can be accessed by all parties.

Conclusion

To stay competitive and successful in an increasingly competitive and dynamic environment, P&C insurers must have a deeper understanding of customer expectations and their evolving behavior patterns, and come up with innovative products to suit new business requirements. They should also have intelligent processes to deliver the right product at the right time with increased efficiency, and more importantly seamlessly connect with the ecosystem players. We call such a carrier an **Inventive Insurer**.

An Inventive Insurer must be prepared to build a **customer-centric approach**, support **product agility**, adopt **intelligent processes**, and foster an **open ecosystem** (Exhibit 14).

Exhibit 14: *Inventive Insurer* competencies



Source: Capgemini Financial Services Analysis, 2019

As P&C insurers strive to manage the evolving business landscape, they are taking steady steps to be an *Inventive Insurer*.

They are developing direct-engagement channels to interact with customers. They are creating auto-adjudication systems, leveraging AI-based tools and techniques for quicker and more effective underwriting and claims processing. Firms are also developing sophisticated methods for understanding the evolving risk scenario to accurately price products and create customer awareness.

These approaches can help insurers provide superior customer experience during critical moments of truth.

Today's P&C insurers are more agile and able to offer flexible products for emerging business paradigms, such as the sharing economy. They are also investing in InsurTech firms to collaborate with them for innovative offerings.

They are making business processes more intelligent and capable by moving core systems to the cloud and exploring new use cases for blockchain. Blockchain will also help insurers collaborate better with ecosystem partners.

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