(Re)insurers are coming to see InsurTech as a transformational rather than disruptive force and embracing the innovative potential within their businesses. How can you make the most of this 'new normal'?

InsurTech
The new normal for (re)insurance

45%

of respondents currently partner with Insurtech

75%

see meeting changing customer needs with new offerings as most important impact from FinTech?

1–20%

Percentage of revenues seen at risk to InsurTech companies by 56% of respondents

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InsurTech
The new normal for (re)insurance

The disruptive impact of InsurTechs has been mentioned in a multitude of publications. But are InsurTechs really as disruptive as commonly claimed? Will they make incumbents obsolete? With the first wave of InsurTech well established and a second wave coming, we believe that CEOs have become well aware of how InsurTechs can impact their business. And we observe a change: Fear is turning into bullishness and scepticism into collaboration. The new norm is to embrace digital natives and open up for collaboration. Are InsurTechs truly disruptive?

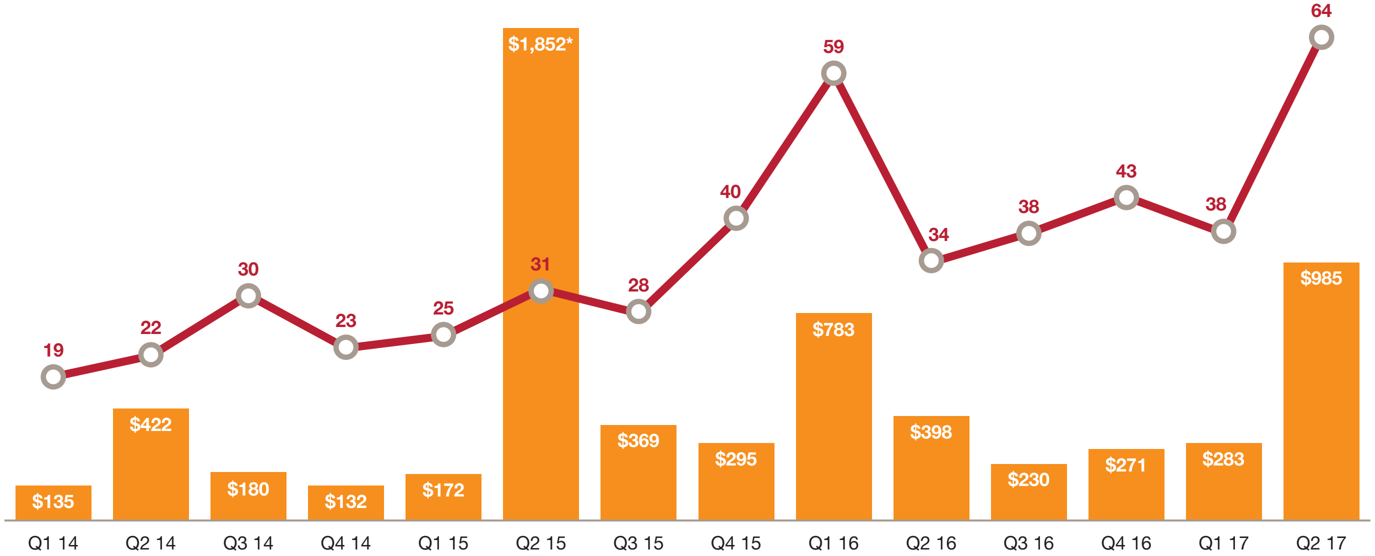
Are InsurTechs truly disruptive?

So when did you last buy a roll of film for your camera, a music CD, or wrote a letter on a typewriter? While you might nostalgically reminisce, these examples show true disruption through innovation: entire product groups and along with them well-established firms were swept off the market. New technologies positioned new players, who often came from a different background than the incumbents.

So when will insurance be truly disrupted and we buy our last insurance policy? Well, according to a recent PwC InsurTech study (http://www.pwc.com/gx/en/industries/financial-services/publications/insurances-new-normal-driving-innovation-with-insurtech.html), not so soon! The product in essence hasn't changed and the emergence of new risks in a changing world means there is more need than ever for individuals and businesses to protect themselves.[1]

InsurTechs bring fresh ideas and innovative solutions to the industry. More than half of all applicants for startupbootcamp, which is co-sponsored by PwC, focus on emerging technologies such as artificial intelligence, Internet of Things (IoT), robotics and blockchain[2]. The confidence their investors have in these business models suggests significant opportunity and a step-change impact in the future[3]. And there is no slowdown in sight. Investments have increased in 2017 and are expected to keep growing compared to the average in recent years.[4] The number of transactions has surged in the second quarter of 2017and we expect 2017 to exceed all previous years (see Figure 1).

Figure 1: Global InsurTech quarterly Financing



Source: PwC Corporate Finance LLC, InsurTech Insights, July 2017

Note: *Funding in Q2'15 includes a $931m capital raise by ZhongAn Insurance, a Shanghai-based internet insurance company

1 Ready for takeoff – How InsurTechs are poised to transform insurance, PwC, 2017
2 Startupbootcamp InsurTech, InsurTech Survey, 2017 (www.startupbootcamp.org)
3 Innovating to grow: A new world of opportunity for insurers, PwC, 2016
4 Ready for take-off – How InsurTechs are poised to transform insurance , PwC, 2017

It's also significant that more than 80% of InsurTech startups know the industry well by having at least one leadership team member with prior (re)insurance experience.[5]

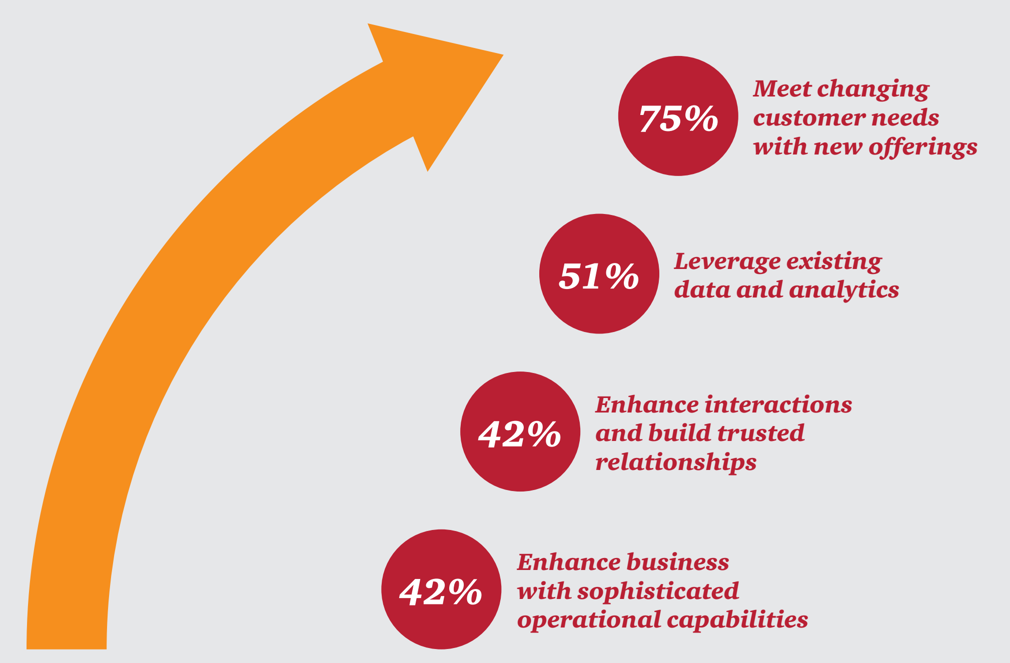
Yet despite all these promising indicators, InsurTechs don't offer fundamentally different competitor products to the actual insurance cover itself, although we've observed the emergence of more flexible forms of coverage to reflect changing customer needs. When we asked participants in our Global FinTech Report 2017 (https://www.pwc.com/gx/en/industries/financial-services/fintech-survey/report.html) what areas of the value chain do they believe will be most affected by FinTech, their responses invariably focused on the tailoring of products and enhancement of the customer interaction (see Figure 2).

So why do most InsurTechs have no insurance licence, but rather address other components of the value chain? We believe this is due to several practical hurdles and a complex set of entry barriers to the risk-taking component of the (re)insurance market:

- **Underwriting knowledge:** Startups do not have loss history and claims experience. Therefore, they lack the traditional data required to price risks effectively. Some InsurTechs try to overcome this by seeking to leverage Big Data, third party data vendors and open source data to compensate.
- **Capital:** Startups seldom have the capital strength which is needed to comply with the regulatory requirements for a (re) insurance company. Returns on equity aren't attractive for a venture capital firm and there are easier ways to invest.
- **Regulations:** Strong and continuously stiffening regulations pose a significant hurdle for startups. They require lots of knowledge, robust infrastructure and high investments in compliance early on.
- **Customers' trust:** While consumers are open to new solutions and services, they highly appreciate the brand and recognition of established (re)insurance players.

Figure 2: Business Challenges

In which areas do you see the most important impact to your business from FinTech?



Source: PwC Global FinTech Survey 2016

How should (re)insurers react to market transformation?

So is there nothing to worry about? Well, not quite! InsurTechs are real and their value proposition replaces or enhances many business aspects (re)insurers have historically claimed for themselves or shared with agents and brokers. A US insurance study shows that millennials are now the largest generation and so far the least insured[6]. What will happen when they close their insurance gap? Offering a new service and a state-of-the-art customer experience, along with speed and convenience, may allow some players to absorb significantly more market share than others.[7]

Transformation has had a tremendous impact on other industries and must not be underestimated. The key difference to disruption is it unfolds in an evolutionary way. A product evolves into something adjacent. Mobile phones turned into smart phones, cars are becoming electric and self-driving, and in both examples existing players need to amend their established competences with new ones, but have no need to completely reinvent themselves.

So how should incumbents react? To find answers it might be helpful to look into the history of another industry. When the iPhone was first released in 2007, incumbents reacted very differently. The world market leader, Nokia, chose to focus on its proprietary technologies and maintain its own operating system, maps applications, etc. Samsung, third largest phone manufacturer at the time, chose to collaborate with Google and released an Android-based smart phone a few years later. Today, Samsung sells more phones than any other manufacturer in the world, while Nokia has just released a nostalgic retrofit of their year 2000 blockbuster model 3310.

Our research suggests that in (re)insurance companies a strong culture of self-reliance and stability is one of the biggest impediments to a closer collaboration between established players and InsurTechs[8]. For (re)insurers, it will be crucial to build closer relationships, bridging the contrasting cultures and focusing on the joint opportunities. Being an investor in InsurTech will not be sufficient.

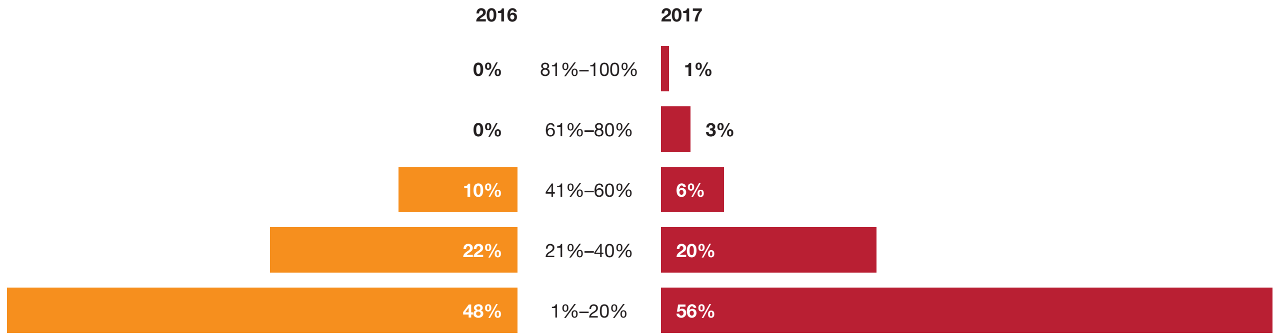
It is important to be a true partner in an innovative, new value proposition combining the long-term experience of incumbent players with the creativity and agility of an InsurTech.

The big news is that this new mindset has started to establish itself in the C-Suite of (re)insurance companies worldwide. The latest PwC CEO survey[9] confirms that today the perception of InsurTechs is changing: While they are still recognised as a major market force, they are also seen as a pivotal driver of the market's transformation. (Re)Insurance CEOs see InsurTechs as enablers and partners, and to a lesser extent as competitors (https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2017/gx/industries/insurance.html).

6 PwC Corporate Finance LLC, InsurTech Insights, July 2017
7 Blurred lines: How FinTech is shaping Financial Services, Global Fintech Report, 03/2016
8 Opportunities await: How InsurTech is reshaping insurance, Global FinTech Survey, PwC, 06 2016
9 PwC CEO Survey – Insurance Industry Report, PwC, 02-17

Figure 3: **Percentage of revenues at risk to InsurTech companies**

What percentage of your business (in terms of revenue) is at risk of being lost to standalone FinTech companies within the next five years?



Source: PwC Global FinTech Survey 2017, Insurance Sector Participants

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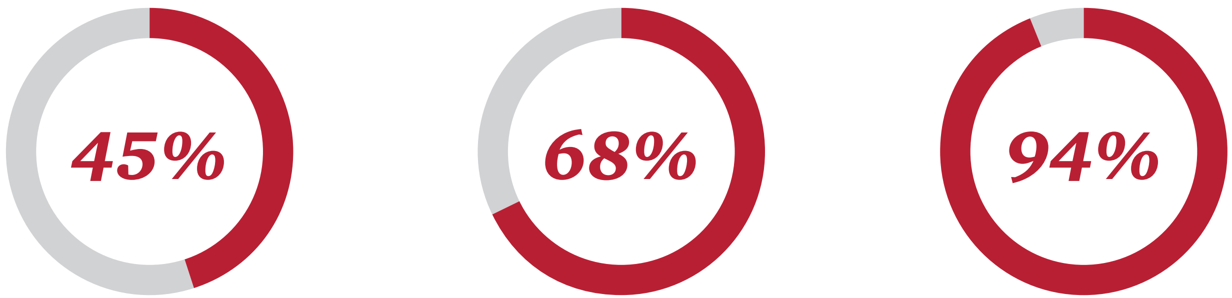
Partnerships have also increased and are becoming the new normal:

Figure 4: **Insurance's new normal – Driving innovation with InsurTech**



45% of respondents currently partner with Insurtech

68% of participants expect to adopt blockchain as part of an in-production system by 2018

94% of respondents are prioritising better risk insights and customer engagement

Source: PwC Global InsurTech Report – 2017

Leading (re)insurers will enhance their customers' experience, offer value-added services and new sophisticated products. They will also leverage technology to reduce distribution and administrative costs, and to prevent losses. Examples include the use of drones for facultative engineering risk inspections or post-catastrophe loss assessments, and sophisticated detection systems (e.g. through IoT.) monitoring large industry systems to get early warnings before complex machinery components fail. Beyond risk mitigation, the latter will serve (re)insurers as an ancillary revenue opportunity, with the provision of value-added services strengthening relationships beyond their current role.[10]

10 DeNovo represents he next generation of strategy consulting – a new platform powered by Strategy& and PwC that is focused on FinTech. http://www.strategyand.pwc.com/denovo

Successful collaboration: A few examples

We firmly believe that those (re)insurers who engage in collaborations with InsurTechs and augment their value proposition will shape their own success. We have already seen examples of (re)insurers serving as the risk carrier behind an innovative InsurTech or incumbent insurer offering new products.[11] They serve as the backbone to further develop new products and expand into new business models, which disintermediate established retail insurers.

Munich Re recently invested in Trōv, an innovative insurance company targeting the unlocking of the millennial market by offering "on-demand insurance for the things you love" through mobile devices. While Trōv is selling the insurance and manages the claim payments, institutional partners handle the underwriting and regulatory licensing.[12] Other examples include the partnership between Hannover Re and Sureify, to incorporate their automated underwriting solution into Sureify's LifeTime Platform, or the relationship between Lemonade and multiple reinsurance companies to facilitate their launch as a primary carrier.

Among other successful collaborations are the 2016 acquisition by Hartford Steam Boiler, a subsidiary of Munich Re, of Meshify, a startup focused on IoT, to improve their ability to help clients reduce losses.[13]

But choosing the right partners and designing the right solutions remains a challenge. Opportunities are ample and their acceptance by customers is seldom proven. In addition there is no one-size fits all approach. New value propositions need to be designed to the specific preferences and needs of the predominant customer group(s). Translating new technologies into tangible solutions is the real challenge, not the technology in itself.

This is why PwC has started to actively collaborate with a multitude of InsurTechs and co-created a Fintech startup accelerator, 'F10', supporting Switzerland's Fintech ecosystem on a long-term basis. Frederik Gregaard, a Digital Leader, explains: "We help our (re)insurance clients in identifying the right solutions for themselves. We provide a platform for InsurTechs and (re)insurers to connect. We sometimes help to make collaboration work, because we are convinced that to win in the market InsurTechs and (re)insurers have to collaborate. Based on our insights, a significant part of the industry is getting up to speed and those who address the ongoing digital transformation in an agile and strategic way will gain customers' trust and have the momentum on their side."

11 https://denovo.pwc.com/recons/partnering-could-be-eased-with-reinsurance-relationships

12 Global InsurTech quarterly Financing Source; PwC Corporate Finance LLC, InsurTech Insights, July 2017

13 Global InsurTech quarterly Financing Source; PwC Corporate Finance LLC, InsurTech Insights, July 2017

Way forward

(Re)insurance companies should have little concern about the disruption of their business through InsurTechs, but rather should recognise their transformational impact. And while this transformation may happen more slowly than in other industries, staying alert on latest developments and collaborating with InsurTechs to create a better value proposition to clients will be the key to success. Accelerators, consultants and startup communities can help in identifying the right opportunities for each player, and create tailored success stories. PwC is proud to be a trusted partner of many (re)insurance companies in navigating this important transformation.

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If you would like to discuss any of the issues raised in this report in more detail, please get in touch with your usual PwC representative or one of the authors listed below:

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