

# Insurance IoT Digital Report:

Insurers Enter the New Connected World



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## Insurers Enter the New Connected World

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### With Contributions from



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Global Head of Telematics



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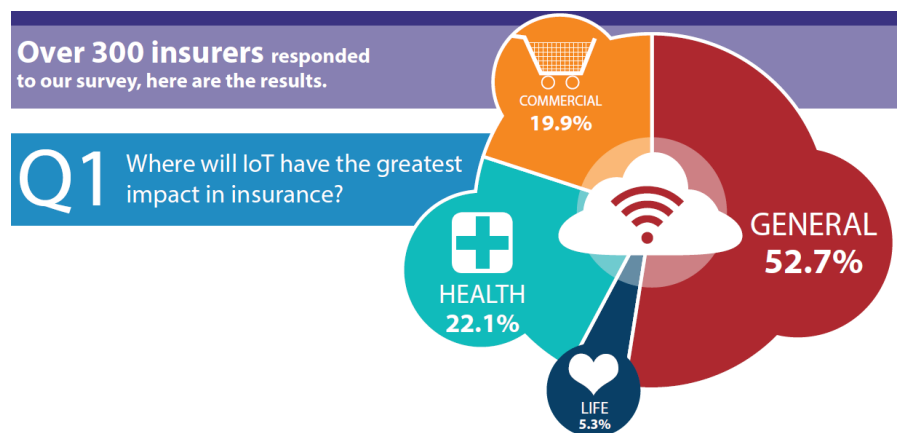
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### The rise of the machines - delivery expected 2020

The Internet of Things (IoT) is gradually making in-roads into the insurance industry globally; however, steps remain tentative. It largely remains a technologist's and early adopter's world. But, the results of our exclusive survey among 300 insurance executives, the *Insurance Internet of Things Industry Survey, 2015* shows how the sector as a whole is moving towards the universe of sensors and *things...*

According to the survey's respondents, general insurance will feel the greatest impact from IoT in the future (52.7%), with around a fifth of those surveyed also citing health (22.1%) and commercial (19.9%) as potential beneficiaries of the technology. Interestingly, despite the press surrounding the possible life-prolonging attributes of health-related wearables, only 5.3% of respondents felt IoT would have a significant impact on life insurance.

The concept of prevention rather than cure is increasingly pervading the insurance sector as demonstrated by the responses to the *Insurance Internet of Things Industry Survey, 2015*. Nearly a quarter (24.7%) of executives believe its value lies in customer 'behaviour steering'.



### Prime targets for IoT

By 'behaviour steering', insurers mean that they expect IoT to improve customers' risk profiles by diverting them away from risky behaviours resulting, ultimately, in fewer claims. However companies do it, the killer use of IoT technologies will be in making customers' complicated lives easy. Whatever tech they use or service they design must fulfil this remit.

"The best thing about IoT is that it makes life easier, quicker and more fun," reveals James Brown, Head of Product at ProtectYourBubble. "Whatever you do with all that good stuff and how you get the customer to access the benefits, you've got to design something so it's simple to understand - intuitive."

*"The best thing about IoT is that it makes life easier, quicker and more fun."*

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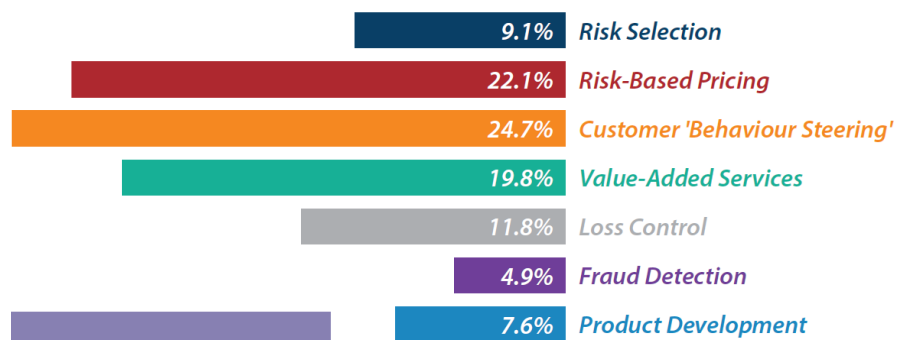
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IoT is not a single application technology however and its benefits can clearly be seen in other areas. Respondents demonstrated that they value its use in risk-based pricing (22.1%) and the creation of value-added services (19.8%). The latter is particularly important when one of the sectors greatest current concerns is the ability to keep customers engaged throughout their lifecycles and not just at the points of renewal and claim. Few (4.9%) believed that IoT, despite its reputation in telematics for example as a big brother, with black box technology, would be of great value in fraud detection.

### Q2 Where is the value for insurers in applying IoT in their business?



Value-added services are something that ProtectYourBubble's Brown is already considering: "As a gadget insurance specialist we've got to bundle our propositions more and it's not just the hardware and risk of loss, but risk of use. In general insurance terms it's all about the data you can glean and encouraging the customers to engage with you. Some health insurance brands do it very well - if you exercise weekly and track it on your fitness band you get points to spend and that opens opportunities for other value-added services."

Brown does warn however that the temptation to over-communicate through such schemes could turn insurers into the in-app equivalent of cold callers: "It has to be approached carefully and be customer driven."

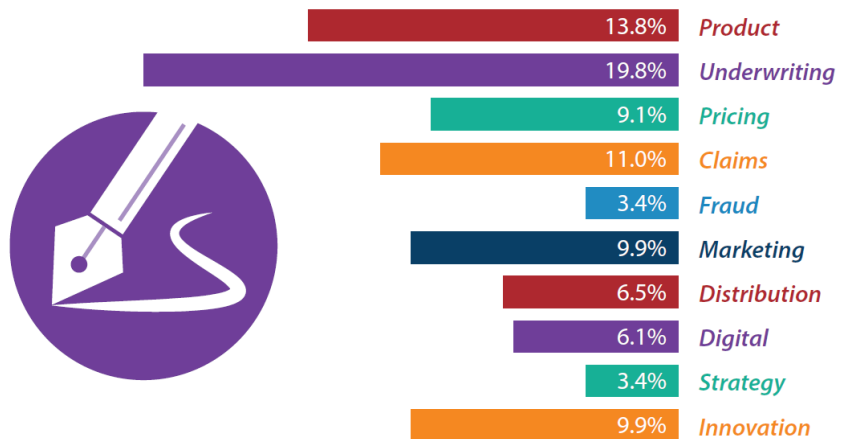
As a result, it is understandable that the majority of executives would feel that underwriting had the most to gain from IoT. With the ability of IoT to illuminate risk profiles and provide incentives to the customer to refrain from high risk behaviours, protecting the insurer's bottom line. It's natural therefore to see that product (13.8%) and claims (11%) should feature second and third on that list, with innovation (9.9%) not far behind.

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### Q8 Which department do you think has the most to gain from IoT?



But again, there are subsectors within the insurance industry that are taking their time to get to grips with IoT and, as mentioned above, life insurance is one of those. Mihkel Mandre, Head of Product Development at Swedbank explains: "We're still searching to understand the opportunities [of IoT]. While you can have sensors in a car to see how the driver is behaving, in life insurance it's much more difficult. VitalityLife and Oscar have been involved in this area already but overall, the life sector's involvement in IoT is very rare to date."

That said, the concept of behaviour steering is something that would deliver benefits within the life sector. Mandre notes that according to an World Health Organization EU health report, non-communicable diseases – such as cardiovascular diseases, cancer and chronic obstructive pulmonary disease – account for 80% of deaths in the European Region. "People's lifestyle has a major impact while both prevention and treatment are the most powerful tools to fight against. Lifestyle related data could be gathered from new devices. This could be used for motivating, educating and promoting "right" lifestyle (risk prevention). All of that could be a great opportunity for the life insurance sector to expand the current products and services value". He explains that if devices were able to motivate people towards good behaviour then there might be price benefits.

By adding in advice and coaching, the customer would feel they were getting much more value from their life insurance contract. It's easy to see how this could increase engagement with life insurers as the policyholder essentially never sees the benefit of their premiums, save for the altruism of passing funds on to the next generation.

### Don't believe the hype - believe the facts

Zurich's Global Head of Telematics, Domenico Savarese notes that marketing and customer engagement should also be higher up in executives' consideration. "We shouldn't underestimate this. We keep the risk tables top of mind because they clearly link to the bottom line but if you want to differentiate yourself, there is the possibility of bidirectional engagement during the policy with rich interactions."

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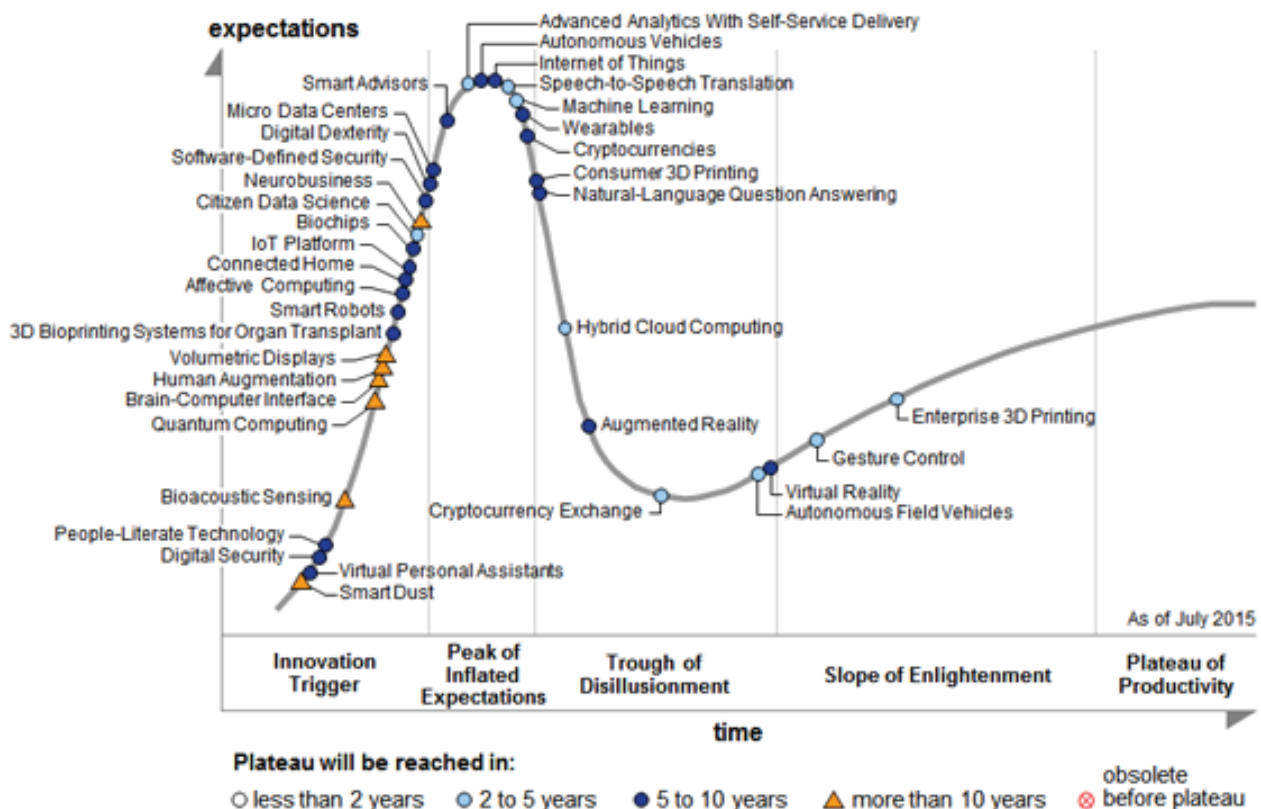
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With that being said, Savarese is not overly satisfied with insurers' efforts to engage with customers through IoT. "We also launched a driving style app in Italy and while it got downloads there were very poor conversion levels, so we pulled it and are reviewing it. We need to understand the balance between apps and getting the brand visibility against investing the same amount of money in fine-tuning our pricing strategy."

It is interesting to see that respondents to our survey concur with the latest research from Gartner, perpetuating the IoT hype cycle. The hype cycle is a representation of where new technologies and ideologies sit on the ratio of being talked about to actually deployed. The use of the word 'hype' does not mean that the technology's reputation is disproportionate to its value, it simply means that new ideas tend to be talked about much more than they are acted upon in the early days.

*"The whole topic for us must have a strict business relevance. We are moving beyond the hype."*

**Domenico Savarese, Global Head of Telematics, Zurich**



Source: Gartner, 2015<sup>1</sup>

In this case, our research noted that the largest volume of respondents to the question of where IoT sat in their company's priorities stated that it was moderate - fairly important, but not key. According to the Gartner hype cycle below, IoT and wearables are just coming over the peak of inflated expectations and heading towards the trough of disillusionment.

<sup>1</sup> <http://www.gartner.com/newsroom/id/3114217>

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Again, while this sounds overly negative, it is simply the lag between early adopters ironing out issues with their prototype programmes and the mainstream coming online with the 'Slope of Enlightenment'. As can be seen from the figure below, emerging from the trough are autonomous field vehicles, gesture control and enterprise 3D printing. These are leading where others such as consumer 3D printing and autonomous vehicles are following, with Gartner noting that "all major automotive companies are putting autonomous vehicles on their near-term roadmaps."<sup>2</sup>

The discovery from our research, that 35.4% have placed IoT in their top five priorities and 6.2% believe it is urgent and the number one priority, chimes with the conclusion that IoT is moving out of the early adopter phase and deeper into the mainstream insurance sector. With the industry known for its conservative stance in general, it is not surprising to note that 17.7% of those surveyed stated that IoT was not important to them. We expect this to change significantly in the next five years.

This timeline is echoed by respondents, 58.9% of whom agreed that they were not at the finish line yet as far as implementation was concerned and would take at least five years to get there, citing it as a long term goal. The concept of being the first mover was identified by 34.6% - a very similar number to those who had ranked it as a high priority already in their organisations. These people also agreed that the next 12 months would be critical to secure the coveted early adopter positioning.

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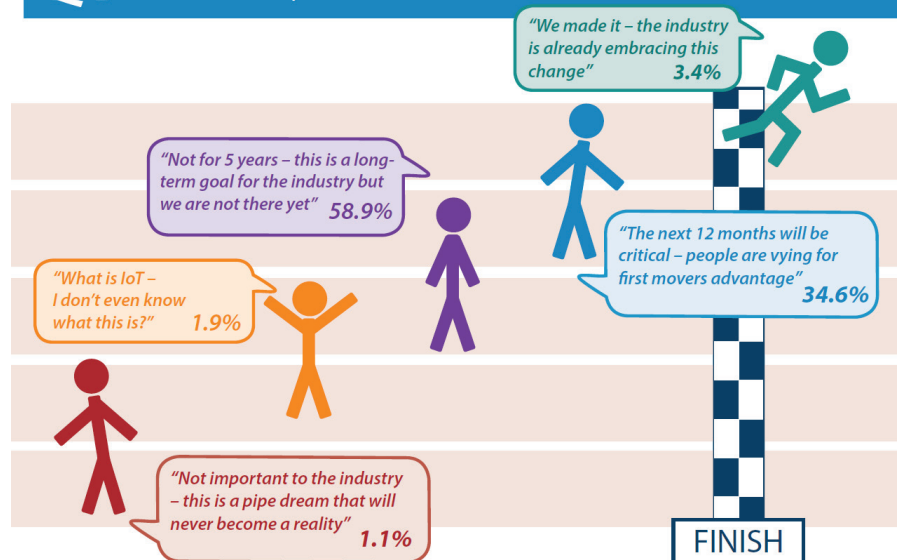
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### Q5 Where do you think the industry is so far in the race towards IoT implementation?



Zurich's Savarese is clear on where IoT's contribution stands with his company: "The whole topic for us must have a strict business relevance. We are moving beyond the hype. It's about the need for us to develop best-selling products, the best pricing strategies, the greatest customer acceptance and better processes."

He talks in terms of horizons Zurich needs to reach in three stages of IoT adoption:

<sup>2</sup> <http://www.gartner.com/newsroom/id/3114217>

**Horizon 1:** Launching as many propositions as possible relating to Zurich's appetite for risk and investment.

**Horizon 2:** Creating partnerships with like-minded organisations in telecommunications and technology.

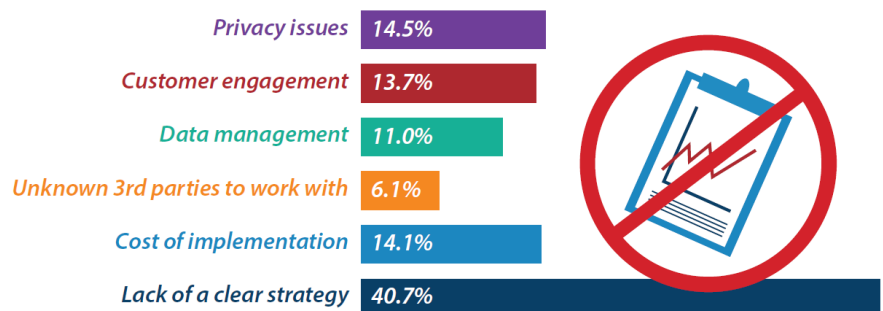
**Horizon 3:** Understanding how the liability discussion will evolve e.g. after the introduction of self-driving vehicles, partnering with as many breakthrough pilot tests as possible, such as CityMobil2.

### Finding direction

There are a number of interesting factors that could contribute to the fact that there was an exact 50/50 split between respondents as to whether or not they felt their company had a strategy for IoT adoption. With much of the impetus towards IoT coming from outside the insurance sector it is possible that its integration into strategy has been organic. Aside from Telematics which is very much a proactive tactic on behalf of the motor industry to manage driver behaviour and risk profile, many IoT products in the mainstream are consumer-driven, from Jawbone fitness trackers to Nest home management systems.

This is understandably concerning executives, 40.7% of whom noted that the lack of a clear strategy was the greatest challenge slowing IoT adoption. Issues that might trouble other sectors such as cost, privacy, customer engagement and data management were all low scorers (11%-14.5%), possibly due to the fact that the sector is already adept at and set up for managing the inflow of complex data that working with such technologies entails.

### Q9 What is the greatest challenge slowing IoT adoption for insurers?



There is no space for complacency however: "Security of data for insurers is a must because they will be collecting more than ever and sending it to different places. As an industry we have to make absolutely sure the data controls are good. Just as the industry is very focused on customer outcomes, we need to take a similar approach to data outcomes and where it goes beyond your organisation," ProtectYourBubble's Brown warns.

One element that may push IoT more to the forefront of executives' minds is in the area of new risks. With increasing amounts of consumers' lives being played out online, there is a real opportunity for insurers to move into protecting them against

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the new risks that poses. And in many cases the only way to do so effectively is to benefit from the insight and access IoT provides:

“More needs to be done on prevention and minimisation. At the moment we have a product that we distribute with Gadget Insurance that allows customers to monitor their credit profile and receive alerts if their personal details are detected as being available on the ‘dark web’, where they could fall into the hands of fraudsters. If something comes up that might suggest fraud, they can access support services to help reset the button and minimise the effect. It’s also about awareness and giving customers the tools so they can minimise the risk themselves,” Brown states.

Despite insurance companies’ relative comfort with the data aspect of IoT, there is a clear opportunity for someone to enter the market in the role of a guiding light. When asked which ecosystem player would be the most influential in supporting the growth of IoT for the insurance industry, the most popular answer was simply: ‘I don’t know’.

And, it’s not for want of being technologically savvy. As Mandre points out: “We have been really good at digitisation sales and aftersales through the internet. We have developed good products and applied innovative tele-underwriting. The potential next step could be in the mobile channel and using data from IoT. But, we don’t have practical, concrete things happening in this area. Estonia is digitally very well developed, but there aren’t many companies who have done end to end underwriting digitally. Equally, data is a new field where no-one is quite ready yet and a certain readiness is required to take new risks. In principle, the technology is ready but the question is, whether people are ready to wear the devices and whether service providers could build a valuable offering to go with them”.

The range of potential support brands mentioned was diverse and wide ranging in terms of competencies. Google, Amazon and Fitbit were mentioned in equal measure to generic ‘new market entrants’, sensor tech vendors and cloud computing. The opportunity for someone to step in and take the lead for the insurance sector is clear but, based on the other findings from our research, this entity must prove credible and be able to show a clear path off the hype cycle and onto the productive plateau.

**Q10** Which ecosystem player will be the most influential in supporting the growth of IoT for the insurance industry?



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The 'wait and see' attitude is prevailing with 47% of survey respondents noting that their investment in IoT was expected to stay the same over the next 12 months. Over a third agreed that they would increase their commitment slightly - again corresponding to the same number who felt IoT was a priority and who expected to complete their implementation plans over the next 12 months.

A small but significant number (17.9%) expected to decrease their investment over the coming year. It is hard to anticipate what the reasons for this might be although this could comprise a number of executives who feel they have already made their significant investments in technologies such as data mining, staff onboarding or partnerships. From the findings and comments from executives above, it would be surprising to see executives scaling back investment in order to scale back participation.

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### Conclusion

Our research showed confidence that IoT was going to make an impact on the insurance sector in a number of business-critical ways: product development, risk management and customer engagement. However, executives agreed that this was very much a long term strategy so it is unsurprising to find that less than a third (28.6%) believed IoT was going to be the single biggest disruptor for insurers in 2016.

**Q7** "IoT will be the single biggest disruptor for insurers in 2016."



Swedbank's Mandre notes: "Generally, insurance is quite a conservative industry and not so innovative. But, the Internet of Things is a really good opportunity to help the industry move forward."

As with all new technologies, it takes perhaps a sobering voice to bring the excitement level down off fever pitch. There is no argument that the Internet of Things has the potential to deliver across a wide range of business units in terms of data, customer satisfaction, loyalty incentivisation, risk reduction and more. But, what it is able to provide now, in a relatively immature market, needs careful consideration. It is not a question of stalling investment and waiting and seeing, but rather the advice to proceed with caution:

*"Generally, insurance is quite a conservative industry and not so innovative. But, the Internet of Things is a really good opportunity to help the industry move forward."*

**Mihkel Mandre, Head of Product Development, Swedbank Insurance**

"What is missing in the end game is Board-relevant profit positions. I've been making the case that this is a business decision so we need to make it relevant in the same way all decisions are analysed. I want to avoid discussions about specific technologies like Nest or apps. What is the net impact for us in the medium term? I'm not going to recommend to my senior executives that we spend one dollar when the net result is 99 cents..." concludes Zurich's Savarese.

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The purpose of this white paper was to develop thoughts and ideas in the run up to the conference. We are looking to build our intelligence in the area of IoT adoption in insurance and support the community of people who face challenges in this area.

Insurance IoT Europe has been created for the community by the community with research spanning over 6 months and an anticipated audience of over 150 expected at the event.

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