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Insurance Nexus Global Trend Map 2017

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ABOUT INSURANCE NEXUS

Insurance has been disrupted, and the accelerating pace of change has created many challenges and opportunities for insurance executives. New technology, innovative business models and the rise of IoT, digital transformation and customer engagement is changing the face of the industry and inspiring new products, services and strategies. Insurers must seize the opportunities that digital transformation brings.

Situated between London's Silicon Roundabout and the City, Insurance Nexus is at the innovative heart of an industry undergoing significant disruption and innovation. We are a team of energetic professionals who are passionate about insurance, technology and innovation, and are ready to provide the tools, insights and opportunities for insurers to thrive in the future.

Insurance Nexus is the central hub for insurance executives. Through in-depth industry analysis, targeted research, niche events and quality content, we provide the industry with a platform to network, discuss, learn and shape the future of the insurance industry.

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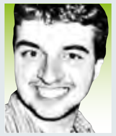
Introduction

This report explores both the overarching trends shaping the insurance industry in 2017 – a market cycle characterised by low interest rates and soft market conditions, increasingly complex global risk and insurance's growing fixation on the customer – and the specific technologies that accompany them at every level of the insurance operation: from analytics and AI to Blockchain and IoT.



ALEXANDER CHERRY

Head of Research at Insurance Nexus

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Welcome to Insurance Nexus' annual **Insurance Nexus Global Trend Map.** We hope that you find this an enjoyable and useful read.

From 2016-7, Insurance Nexus undertook wide-ranging research with the aim of understanding the global state of the insurance industry, not just in terms of the overarching themes within it but also on a regional basis: to create a first-of-its-kind 'map' of insurance trends worldwide. In the course of our outreach, we collected over 1,000 survey responses from all around the world, increasing our range via partnerships with a number of regional insurance associations.

In the following pages, we present our findings in glorious technicolour, through a combination of infographics, written explication and industry commentary. We explore not just the key themes grabbing people's attention in today's insurance universe – analytics, IoT, AI and customer-centricity to name a few – but also how these themes vary on a region-by-region basis, with comparison of key trends in North America, Europe, Asia-Pacific, LatAm, Africa, the Middle East and Central Asia, supplemented by extensive direct testimony from respondents in these regions.

Throughout this report, we have tapped our network of insurance influencers, drawn not just from leading global insurers but also from the brave new world of Insurtech, so that we can provide up-to-the-minute comment (details of all our influencers can be found at the back). This report aims to present both our key survey findings and the observations of our influencers as clearly and objectively as possible – although we allow ourselves a level of speculation where we believe this to be justified.

The fundamental challenge putting this report together was the need to present both regional and thematic trends in a way that readers would find useful and accessible. For this reason, we have split the body of the report (which is preceded by an in-depth overview of our respondents) into three key sections, each one with a different flavour.

SECTION 1 (Global Trends) a **general** section on insurers' key challenges, priorities, service consumption and investments across the world.
SECTION 2 (Key Themes) a **thematic** section that looks in more detail at specific topic areas, departments and technology developments within the insurance industry.
SECTION 3 (Regional Profiles) here we take each part of the world under the microscope for a closer examination of **regional** trends.

Whether your interest in today's insurance market is **general**, **thematic** or **regional**, our report is designed to give you immediate access to the information you are most intent on finding out. Using the interactive menu on the right, simply jump straight to the section of your choice, whichever angle you want to approach the industry under.

We hope that you find value in this Trend Map, whatever the nature of your involvement and interest in insurance, and we look forward to hearing what you think!

Thanks and regards,

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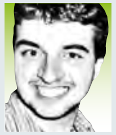
About our Respondents

Comments from our 40+ influencers drawn from every corner of the insurance industry can be found in the page margins – complementing the trends, observations and statistics from each section. Details of all our influencers, as well as of our additional contributors, can be found at the back of the report. You can share your favourite infographics on the way via the built-in Twitter widgets, so please join the social conversation!



ALEXANDER CHERRY

Head of Research at Insurance Nexus

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Before we get started, we'd like to quickly introduce you to our respondents. You may find this section most useful as a reference, and you can jump back to it at any time via the interactive menu on the right – in any case, the stats we use in the later sections should always be self-explanatory.

Given the all-encompassing nature of this Trend Map, Insurance Nexus sought responses not just from every global region but from every part of the insurance ecosystem – from (re)insurers through brokers and affiliate partners to technology providers, regulators and associations. Furthermore, due to the variety of specific themes we wanted to explore in detail, we needed responses from every single division within (re)insurers, from claims and underwriting through to cybersecurity and investments.

For the survey underlying this report, we gathered over 1000 responses, capturing information about: Respondent Region, Respondent Company Type, Respondent Department, Respondent Insurance Line and Respondent Seniority.

As far as our treatment of the stats is concerned, we have been guided primarily by what we deem most useful and interesting for readers. We have also tried, wherever possible, to corroborate and qualify our findings with input from respected industry commentators. We now briefly review our audience segments.

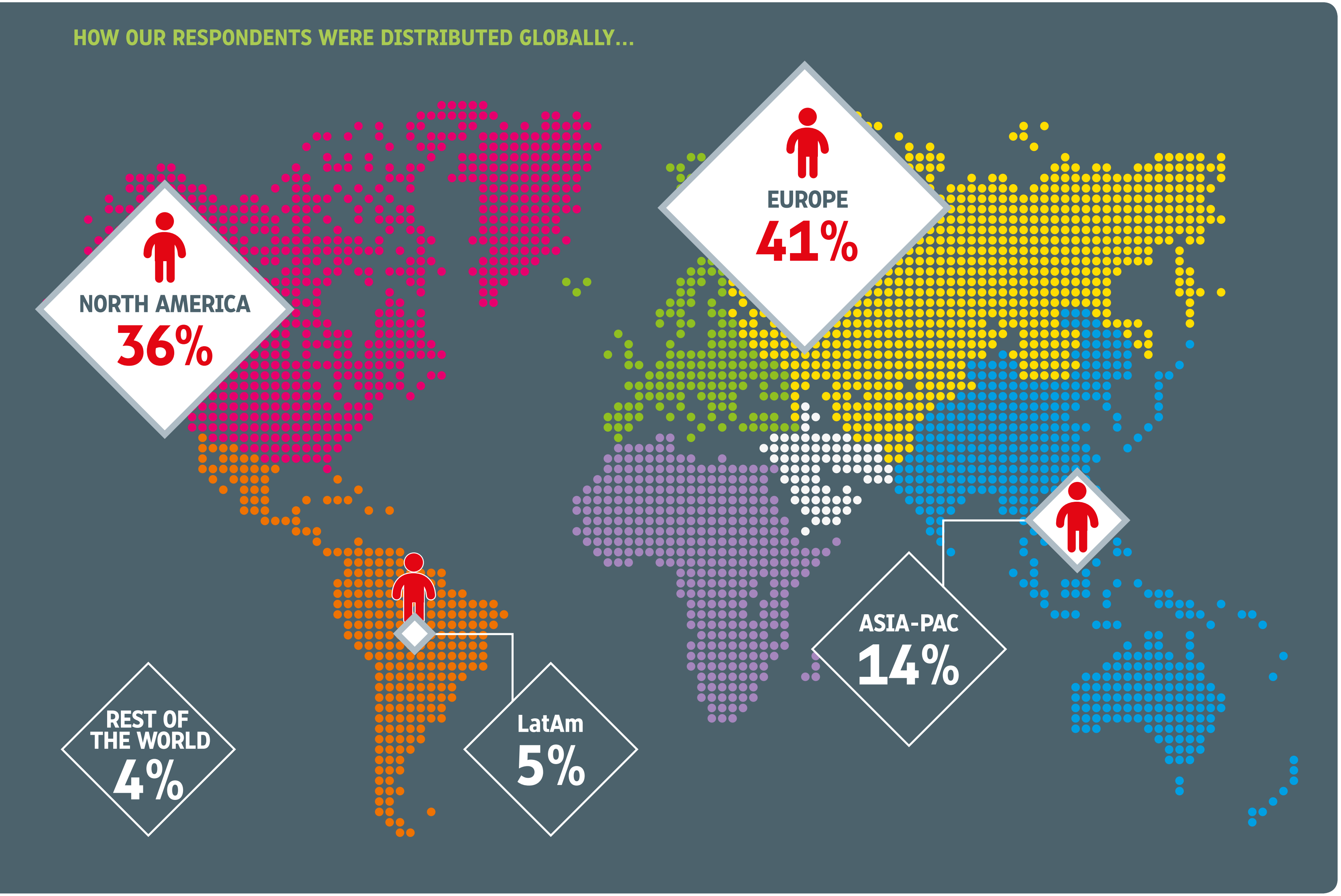
RESPONDENT REGION

For the purposes of this Trend Map, we divided the world into seven regions: North America, Europe, Asia-Pacific, LatAm, Africa, Middle East and Central Asia. The world-map diagram on the next page illustrates exactly how we have defined these regions, and shows the share of our respondents that came from the first four of these.

As a result of the high level of representation, we have been able to segment most of our general stats on North America, Europe and Asia-Pacific, which for this reason we sometimes refer to during the report as our 'three key regions'.

We explore the key challenges, priorities and developments within all our regions as part of our Regional Profiles section at the back, drawing heavily on perspectives from in-region correspondents. This way, we have been able to provide a qualitative picture of those regions for which we have limited statistics (LatAm, Africa, the Middle East and Central Asia).

About our Respondents



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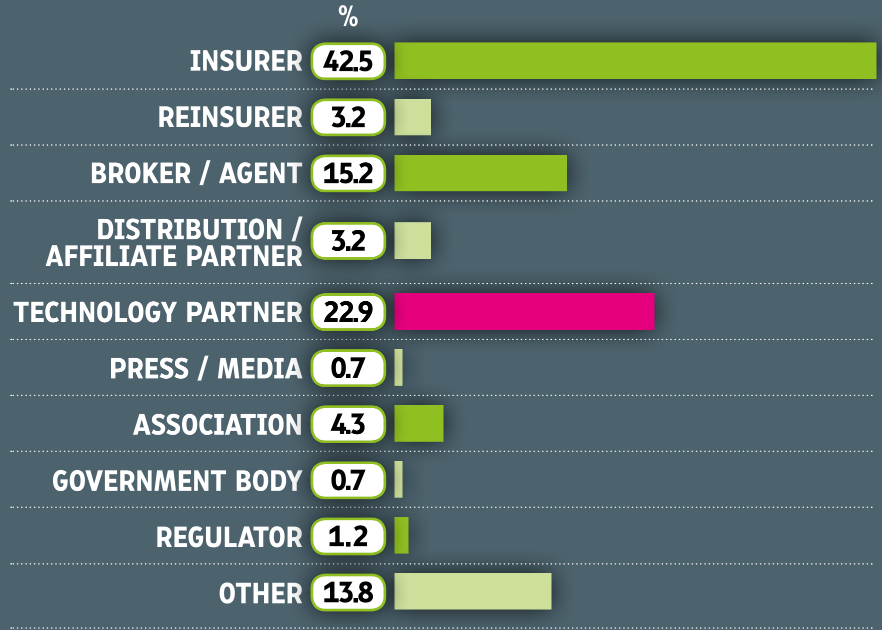
RESPONDENT COMPANY TYPE

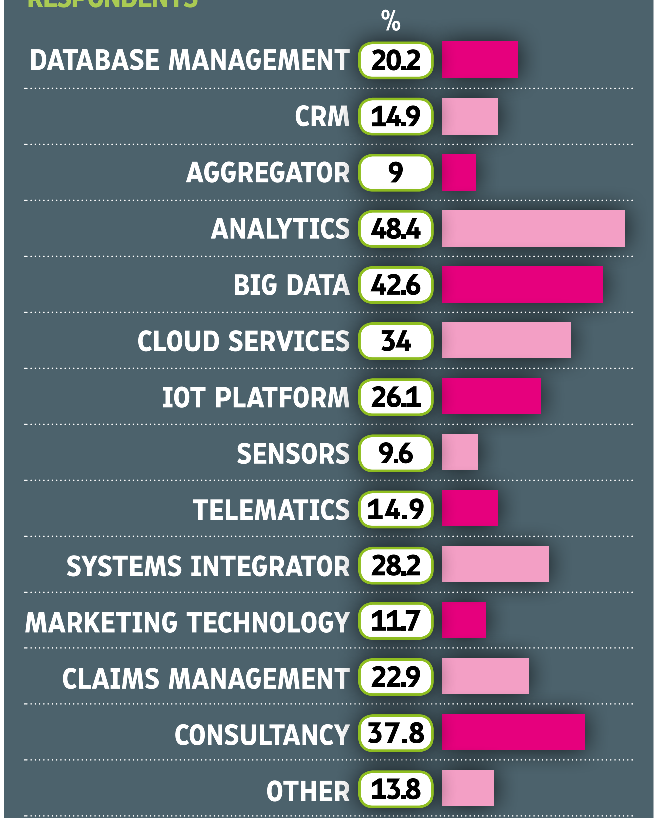
The insurance ecosystem is a varied one, with a multitude of different players performing a multitude of different roles, and we gathered responses from every corner. We gave our respondents the option to choose from nine different company types, which we array in the following table:

WHICH SORTS OF COMPANIES DO OUR RESPONDENTS WORK FOR?



44% of our respondents identified themselves as being either Insurers or Reinsurers (a number indicated that they were both). The other abundantly represented categories were Brokers & Agents and Technology Partners. Under 'Other', we found a diverse range of unlisted company types, including loss adjusters, legal assistance and search firms.

BREAKDOWN OF OUR 'TECHNOLOGY PARTNER' RESPONDENTS



Within the category of Technology Partner, we gave respondents the opportunity to identify themselves further. This gives us a good idea of the sorts of vendors and services dominating in today's market. The top Technology Partner categories are thus Analytics provider, Big Data services, Consultancy, Cloud Services, Systems Integrator and IoT Platform provider.

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About our Respondents

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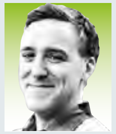
Insurance Nexus is active across the insurance ecosystem, with a focus not just on the rise of new cross-functional technologies but also on the prime concerns of specific departments. This breadth – as well as the seniority of our community – is reflected in these stats detailing the make-up of our respondents.



JAMES VINCENT

General Manager at Insurance Nexus

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RESPONDENT DEPARTMENT

We also asked Insurers & Reinsurers to specify which departments they worked in from a range of 20, laid out in the table below (the figure in brackets is the percentage working in OR with that department).

Actuarial	12.3%	(25.4%)
Analytics	21.6%	(27.9%)
Broker Relations	9.6%	(14.4%)
Capital Management	4.7%	(9.1%)
Claims	14%	(28.2%)
Customer Services	12%	(22.1%)
Digital	13.5%	(21.6%)
Distribution	10.8%	(22.9%)
Fraud	6.4%	(11%)
Investment	3.8%	(8.8%)
IT	14.6%	(26.2%)
Marketing	17.5%	(27.1%)
Operations	15.2%	(25.4%)
Pricing	12.9%	(20.3%)
Risk	14.9%	(21.8%)
Sales	10.5%	(22.4%)
Senior Leadership	19.9%	(29.7%)
Strategy	29.2%	(32.3%)
Treasury	3.2%	(5.7%)
Underwriting	20.2%	(29%)

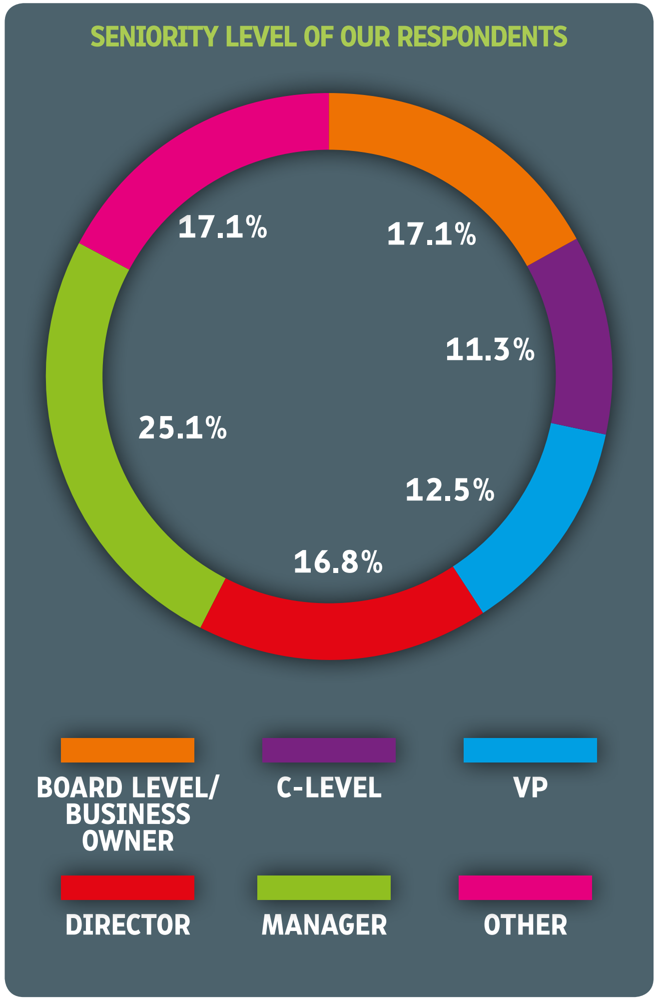
RESPONDENT INSURANCE LINE

We achieved representation from six main lines, with the majority of respondents working in multiple lines:

Auto	60.1%
Home	53%
P&C/General	63.1%
Commercial	53.7%
Health	32.9%
Life	37.5%

RESPONDENT SENIORITY

Finally, a note on the seniority of respondents. As can be seen from the pie chart below, the level was generally senior, with 28.4% belonging either in the C-Suite or in the Board Room.



Sections 1 and 2 are not part of this preview but you can access them for free at any time by downloading the full version of the Trend Map below

SECTION 1: GLOBAL TRENDS

- Industry Challenges
- Insurtech Perspectives
- Insurer Priorities
- Services, Investments and Job Roles

150 further pages of insight, 30+ full-colour infographics and 50+ contributors, all waiting to be delivered to your inbox free of charge...

SECTION 2: KEY THEMES

• Analytics • Digital Innovation
• Internet of Things • Fraud
• Marketing and Customer-Centricity
• Distribution • Cybersecurity
• Investment • Management Regulation
• Product Development

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3 Regional Profiles

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Section 3: Regional Profiles

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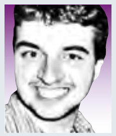
Use the interactive world map overleaf to navigate to any one of our seven global regions: Europe, North America, Asia-Pacific, Latin America, the Middle East, Africa or Central Asia. Each profile presents an overview of the state of insurance in that region, based on a mixture of our stats (where available) and direct testimony from in-region correspondents.



ALEXANDER CHERRY

Head of Research at Insurance Nexus

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This section presents an overview of the state of insurance around the world, developing on a regional basis the themes we have introduced in the report so far. As part of this, we draw on testimony from in-region correspondents in order to corroborate and qualify the market characterisations we have attempted.

- We introduce our profiles on Europe, North America and Asia-Pacific with a table of stand-out stats in the style of Top Trumps (this serves as a quick overview of each region before our more in-depth exploration). These measures should be self-explanatory but a key explaining exactly what each one refers to is included at the end of this section.
- For Europe, North America, Asia-Pacific and LatAm, we indicate how the external and internal industry challenges vary locally from the global trend we outlined at the beginning of this report in the Global Trends section. We explore any significant variations in the course of each profile.
- We provide a qualitative perspective on all our regions – Europe, North America, Asia-Pacific, LatAm, the Middle East, Africa and Central Asia – based on interviews with industry participants active locally.
- We conclude our profiles on Europe, North America and Asia-Pacific with a high-level look at how the key industry challenges and insurer priorities vary across local sub-regions.

These regional profiles are naturally not exhaustive summaries of everything insurance-related within each region, and we acknowledge that there is often massive variation across the large geographical areas under our consideration which we have not been able to do justice to.

However, we hope that what we have put together will at least give you a sense of the different dynamics at work in insurance markets around the world, as well as of the varied opportunities on offer.

The full-page world map overleaf serves as a visual contents page: jump to the Regional Profile that interests you the most by clicking on the relevant region (you can navigate back to the main map from each Regional Profile by selecting the compass in the corner of each regional map). The icons superimposed on the world map represent the leading regionally differentiated challenges based on the external and internal challenges we introduced in the Global Trends section (two from the external, and one from the internal, category per region[1]).

[1] To arrive at these regionally differentiated challenges, we removed 'Technological advancement', 'Lack of innovation capabilities' and 'Legacy systems' from contention since these challenges led in every region and would have defeated the object of a regional comparison

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KEY EXTERNAL AND INTERNAL CHALLENGES FACING THE INSURANCE INDUSTRY

- CHANGING CUSTOMER EXPECTATIONS
- CHANGING ECONOMIC CONDITIONS
- SILOED OPERATIONS
- INCREASED REGULATION
- FINDING AND HIRING TALENT
- NEW EMERGING RISKS
- DIGITAL CHANNEL CAPABILITIES

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Europe

TURN OVERLEAF FOR THE FULL REGIONAL PROFILE...

MARKET CONDITIONS	Legacy Burden	43
	Regulatory Burden	69
	Disruption Score	23
STRATEGY	Digital Strategy	82
	Mobile Strategy	67
	Cross-Platform Strategy	53
	Omnichannel Strategy	68
CUSTOMER	Aggregator Impact	42
	Customer-Centricity Appraisal	38
	Customer Engagement	23
	Consistent Customer Experience	23
	Direct-to-Customer	76
	UBI Strategy	38
CLAIMS	Before-the-Claim Fraud Strategy	80
	Automated Claims Handling Process	44
	Claims Loss Mitigation	55
TECHNOLOGIES	IoT	56
	Analytics	58
	AI/Machine Learning	30
DATA	Data Governance	57
	External Data Usage	81
	Customer Privacy and Data Security	73
	Cyber Resilience	73

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> Europe presents us with a potentially gloomy picture, with the on-going issues of low interest rates and weak growth prospects, to which we may add growing regulatory burdens and political uncertainty – especially in the wake of the UK's Brexit vote. However, we have nonetheless gathered plenty of evidence that incumbents have the tools in place both to come through and to hold their own against new entrants.

HELEN RAFF

Head of Content at Insurance Nexus

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We now present our overview of the state of insurance in Europe, building on the statistics we have presented in the course of the two preceding sections on Global Trends and Key Themes.

Firstly, we look at where Europe stands in relation to our global trends (internal challenges, external challenges and insurer priorities).

Secondly, we explore the profile within the region of the more specific themes we have covered in this report by drawing on direct contributions from two of our influencers in the region:

- Switzerland-based venture capitalist Spiros Margaris, VC (InsureScan.net, moneymeets & kapilendo), ranked Global #1 Fintech & #2 Insurtech Influencer by Onalytica
- Charlotte Halkett, General Manager of Communications at UK-based telematics provider Insure The Box

We close the write-up with a look at local variations across different sub-regions within Europe: United Kingdom & Ireland, the Nordics, Western Europe, Southern Europe and Eastern Europe.

The External Challenges: Europe

In Europe, the top three external challenges follow the global trend we outlined in our first section: 'Technological advancement', 'Changing customer expectations' and 'Digital channel capabilities'.

Looking further down the table, some points of note are the higher position attained by 'Increased regulation' and the lower positions of 'New emerging risks' and 'Catastrophe risk'. Compared to some of our other regions, like Africa and Asia-Pacific, Europe is relatively sheltered from natural catastrophes and the associated risks that they bring with them, which possibly explains the lower scores we find for 'New emerging risks' and 'Catastrophe risk'.

As for the prominence of the regulatory challenge, we need look no further than the EU's Solvency II, which came into effect at the start of 2016 and represents the first major shake-up of the landscape since the 1970s.

CHALLENGE	RANK	VS GLOBAL
Technological advancement	1	-
Changing customer expectations	2	-
Digital channel capabilities	3	-
Increased regulation	4	+2
Changing economic conditions	5	-
New emerging risks	6	-2
Increased competition	7	-
New entrants to the market	8	-
Absence of a clear strategy	9	+2
Climate change	10	-
Catastrophe risk	11	-2
Lack of company investment	12	-

+1 indicates that a challenge is one place higher in Europe than globally

"Customer-centricity is an important issue because insurance is a 'trusted good'. To address social values and preferences is important. Customer-centricity means building trust, branding and a business model based on relational values. Not for nothing: Empirical evidence shows that identity is the strongest customer KPI.

ANDREAS STAUB

Managing Partner at FehrAdvice

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The Internal Challenges: Europe

Internally, the top challenges are close to the global trend: 'Lack of innovation capabilities' and 'Legacy systems' take first and second place respectively, with 'Siloed operations' edging out 'Finding and hiring talent' in third place.

CHALLENGE	RANK	VS GLOBAL
Lack of innovation capabilities	1	-
Legacy systems	2	-
Siloed operations	3	+1
Finding and hiring talent	4	-1
Lack of company-wide dedication to core priorities	5	-
Mergers & acquisitions activity	6	-

+1 indicates that a challenge is one place higher in Europe than globally

Insurer Priorities: Europe

Here are the priority areas on which European insurers lead, as detailed on our medals table in the Insurer Priorities section:

CLAIMS

CUSTOMER-CENTRICITY

MOBILE

REGULATION

We expand on these challenges and priority areas over the coming pages as part of our qualitative exploration of the European market, with additional insights from our two regional contributors, Spiros Margaris and Charlotte Halkett. Key focal points are:

- Growth opportunities in a relatively saturated market
- The European consumer and Europe's 'early adopter' status
- How European insurers are using new technologies to deliver on their customer promise
- Dynamic, real-time insurance and IoT
- Progress on developing connected insurance models across the continent as a whole

Old Problems — New Solutions

While Europe, with a population of 750 million people, is a larger market than North America, it is still less than a fifth of the size of what we estimate for our Asia-Pacific region (4 billion). We therefore expect Europe to be relatively well aligned with North America in terms of the range of market opportunities on offer.

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"European carriers have a raft of incoming regulation to implement and prepare for... In addition to the implementation of Solvency II, we can also point to the IAIS's Insurance Capital Standard (ICS) slated for 2020, the introduction of International Financial Reporting Standards (IFRS) and the transposition into national law of the Insurance Distribution Directive (IDD) in time for 2018.

JAMES VINCENT

General Manager at Insurance Nexus

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That said, Europe does comprise a broader spectrum than North America, including some of the world's leading economies (United Kingdom, Germany, France) alongside more emerging markets (like much of the former Soviet Bloc), which are not as advanced per se but offer attractive growth opportunities.

As is the case globally, low interest rates are adversely affecting insurers' investment outlook and forcing them to refocus on their core underwriting business. In Europe, this situation is compounded by a stringent regulatory environment (Solvency II), which makes running a profitable investments business harder still.

'Solvency II regulation is good, but in the kind of environment where we have low interest rates, it makes it much harder for insurers to find opportunities to make money,' comments Spiros Margaris.

This is borne out in the stats we gathered on regulation:

- Among our key regions, Europe leads on Regulation as a priority area
- In our Regulation section, a relatively high proportion of European respondents indicated that regulation was impeding progress at their organisations 'a lot', with Solvency II and the Insurance Distribution Directive (IDD) being identified by European respondents as cause for concern
- Also, consistent with our other regions, a large majority of European respondents believed regulation was posing more of a challenge to their organisations presently than during the previous 12 months

Interest rates and regulation make it imperative for insurers to seek growth and profit opportunities elsewhere. While there does exist a low-end market opportunity in Europe, this is nowhere near on the scale we see in Asia-Pacific, Africa and LatAm. This means that, in the main, insurers must focus on established demographics and look either for entirely new risk categories or for ways to serve their clients' existing risks better and more extensively.

A key emerging risk area on the commercial side is cybersecurity, as we will see also in our write-ups on North America and Asia-Pacific. This isn't entirely new as a risk category but it is looming larger and larger for any company that operates using customer data (i.e. every company). Unfortunately, cyber risk is not an easy category of risk to insure, given the wide range of dependencies involved,

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> There is an abundance of capital available in the global economy, and right now money is cheap. There is minimal value in continually driving down price and adding further competition to a saturated market place. Putting digital at the core of distribution strategies will allow previously untapped markets to be exploited for a relatively low cost, allowing that capital to be deployed more effectively.

GARETH EGGLE

Head of Insurance at Flint Hyde

#insurancemap

encompassing everything from reputational damage to share-price hits. It is partly for these reasons, Margaris notes, that many insurers have been reluctant to jump on the cyber bandwagon, at least for now.

Cybersecurity is also an issue that insurers are on the receiving end of, insofar as they steward vast quantities of customer data, all of which must be secured. Consistent with our other regions, a majority of European (re) insurers are very concerned about information security breaches; fortunately, a majority also have mitigation plans and have adjusted their security strategy in order to reflect the rise of new digital platforms.

Beyond exploring completely new risk categories, like cybersecurity, insurers in Europe will find fresh profits by focusing on what they have always done – only better.

Retention of existing business is therefore of primary importance, and we did indeed find a high focus on customer loyalty among European insurers. Part of this also involves increasing the lifetime value of customers already on the books, with around half of European respondents indicating that they have a strategy to bundle and upsell products based on customer lifestyle analytics, consistent with our other regions.

Additionally though, growth will come from going after new customers in the established demographics, and this will require insurers to better adapt their existing products to the sorts of risks people want to insure against and to offer them at an appropriate price. While this new drive towards customer-centricity will, generally speaking, result in lower premiums (insurance is not a designer item, and less is always more from a price perspective), it also allows greater scale and, ultimately, lower operating costs.

If we take the UK motor-insurance market as an example, we see that there is plenty of old business to be better served and new business to be won. Charlotte Halkett, speaking from her experience at telematics provider Insure The Box, mentions that the cost of motoring in the UK is a particular challenge and draws attention to unlimited liability as well as to various government-influenced changes, such as the Odgen Rate,[1] which disproportionately affects younger drivers less well-placed to front the cost of auto insurance.

It is this opportunity – not just to improve driver safety but to bring down the cost of motoring – that Insure The Box is taking full advantage of. By monitoring driver behaviour through telematics, the company is able to incentivise safer driving behaviours and ultimately guide motorists to lower premiums. We will explore their Usage-Based Insurance (UBI) model later on in this write-up.

[1] insurancebusinessmag.com/uk/news/auto-motor/direct-line-drives-up-prices-after-ogden-rate-cut-66735.aspx

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Anyone who believes that business will stay as in the past, will face a so-called 'Kodak' moment and will not survive increasing competition. There is an urgent need to systematically deal with innovation and challenge the current offering or even business model.

MONIKA SCHULZE

Global Head of Marketing at Zurich Insurance

While Insure The Box forms part of an incumbent insurer's technology stack through its parent company Aioi Nissay Dowa Insurance Europe, it is unlikely that the new play for personalised, customer-centric insurance will work out solely for the benefit of incumbents. Indeed, the opportunity is already attracting many new market entrants (like Insurtechs), who represent a serious threat to legacy insurers' hitherto cosy models.

Margaris gives a high-level explanation as to why Insurtechs are such a threat to traditional players:

'Consumers will ask themselves why is it so much cheaper with an Insurtech company and why does it cost so much at the insurer's end? So there will increasingly be a margin pressure. The example I often present: if somebody gives the milk away for free, will you go to the deli and pay $1? You'll say, I get it free there. I want to stay with you, but I'm not going to pay you a dollar for it. And that's what Fintech/Insurtech does, it piles on margin pressure.'

Even if insurers can get the price of their products down, Margaris still believes Insurtechs have an edge due to their stronger customer credentials.
'If Insurtech companies provide solutions that feel very personalised, customised to the user's needs, people will feel like what their insurance company is offering is so old-fashioned,' he elaborates. *'So there will be dissatisfaction with the incumbent services that they're getting, and of course pressure not to pay up for that.'*

Much of the difference between old-fashioned and newfangled comes down to the user interface. In this regard, Margaris compares the old and the new in insurance to the old and the new in software:

'If we go back 15 years and look at the user experience with software then – nowadays, you're left asking, how did people use it? But at that point we thought it was cutting-edge. Now though, people don't want to think about what they've got to do, everything has to be seamless.'

Price and personalisation (the two Ps) are the two key areas that insurers have to work on as they square up to new market entrants. We will see later on in this write-up that insurers' ability to lower premium prices in fact goes hand-in-hand with improving personalisation – in the sense that more frequent customer touchpoints and interactions provide the very data insurers need to price accurately and to offer the incentive of lower prices still.

Europe as Early Adopter

The trends we have just outlined – falling investment returns and a renewed drive towards customer-centricity

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> From IoT in the field to analytics and emerging AI solutions at the backend, European carriers are grasping with both hands everything the technology community has to offer in their bid to win the race for the customer. This promises to be a very exciting period for solution providers!

GUY KYNASTON
Commercial Director at Insurance Nexus

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– all manifest themselves, in some way or another, in the other markets we examine in this report, as does the growing threat/opportunity of Insurtech. But how does Europe compare to other markets in this regard?

Throughout this report, we have characterised the current disruption sweeping through the insurance industry as being customer-driven. We further identified its roots in the growth of digital outreach and distribution channels, not just in insurance but in the online economy more generally (a case in point being online retail), in the sense that these open up formerly captive markets to fleet-footed digital competitors.

Based on the statistics we presented in the two preceding sections on Global Trends and Key Themes, we have reason to believe that Europe is not just a heavily disrupted market but one in which insurers are showing themselves relatively well-equipped to deal with this, compared to our other key regions (this comes of course with the caveat that the European market varies substantially from country to country in ways we can only explore here at a relatively high level).

In our Marketing and Customer-Centricity section, we characterised Europe and Asia-Pacific as exhibiting a marginally more 'problematic' insurer-customer relationship than North America. In Europe's case, we pointed to the high priority score (higher than our other key regions) that it achieved for Customer Centricity (56 compared to North America's 51). Our thesis was that higher customer expectations in the region were driving customer-centricity not just high up but to the very top of the European priority rankings.

In line with our view that changes to distribution are intimately tied up with disruption in insurance, we

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"In 2016, we saw Insurtech investments in the UK more than double to £15 million, ahead of next-placed Germany and France. Given the prevailing openness of UK consumers towards innovation in financial services, we expect to see continued adoption of Insurtech solutions over the next 12-18 months.

ANT GOULD

Director of Faculties at the Chartered Insurance Institute (CII)

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expected to find a relatively shaken-up distribution landscape in Europe. A few thoughts on this:

- The digital direct-to-customer channel is well-established in Europe (as we saw in our Distribution section, if any region is a laggard, it is North America)
- Affiliate partnerships have a long tradition in Europe, for instance with Tesco insurance in the UK, and a majority are increasing their distribution through these channels
- We know anecdotally that aggregator impact is high in Europe, likely a consequence of the volume of direct business and the plethora of digital channels

While distribution disruption is what fundamentally enables customer disruption, these two trends are ultimately bound together with consumers, once empowered, setting ever higher precedents for distribution. Halkett gives a brief overview, from a UK perspective, of this consumer/distribution complex:

'The UK consumer is a very early adopter of things like online retail purchasing, and that means that new entrants can get to their market much more easily than in other markets.'

She continues: *'The UK insurance market has been the most innovative for many years. They were the first to have direct insurance and the first to then start widescale adoption of aggregators, and now Insurtech leads in the UK as well.'*

Aggregators in particular allow new entrants to get in front of a vast number of consumers with minimal upfront cost. Halkett recalls how it was the aggregator route that first brought her start-up Insure The Box to prominence:

'We started with almost no brand, no marketing spend, we got onto our first aggregator and that meant that lots of consumers could see our proposition very, very quickly. That's how you find those early adopters and that's how the ball starts rolling. The UK consumers are very willing to try different financial products this way.'

Aggregators are particularly well-established in the motor-insurance sector, and Halkett estimates that the percentage of UK customers that use an aggregator before taking out a policy is in the 80% range and that this rises into the high nineties for young drivers.

Based on the two lines of enquiry we have pursued in this sub-section (high customer priority and a wide-open distribution landscape), we conclude that disruption has definitely arrived in Europe, and that the European market may in this respect be marginally ahead of the North American market.

We feel similarly about Asia-Pacific, although it appears that the disruption wave is only just breaking over this market. On the other hand, it is our conviction that European (re)insurers have already gone some way towards establishing a new normal and are relatively well-equipped to deal with disruption.

One key measure that speaks for this is the fact that it is Asia-Pacific, not Europe, that trails on cross-channel consistency (as we noted in our section on Distribution). If Europe is marginally ahead here, this would suggest that European insurers' omnichannel strategies – a reaction to disruption – have gone some way towards

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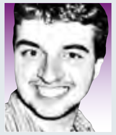
> From the measures we have gathered – covering customer-centricity, distribution and market dynamics – it appears that carriers in Europe are marginally more mature than their North American and Asia-Pacific counterparts, as insurance prepares for its big, tech-powered turn. While Insurtech remains the ultimate challenger, European insurers' confidence in their own armoury is still intact.



ALEXANDER CHERRY

Head of Research at Insurance Nexus

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flattening out the fractured distribution landscape. Similarly, we can point to the lower prominence, compared to Asia-Pacific, of the Chief Customer Officer role in Europe among recent or imminent appointments (see the Services, Investments and Job Roles section).

The lower importance of the Chief Customer Officer appears at first glance hard to square with the high priority Europe currently accords to customer-centricity. However, rather than Chief Customer Officer and other customer-related job roles being unimportant in Europe, we might conclude instead that they are simply not of recent creation. In Asia-Pacific by comparison, which we have suggested is only now feeling the full force of customer-driven change, Chief Customer Officer is the stand-out new job title.

Intuitively, we expect new job roles to get created when the perception of a market threat is at its highest, in some sense as a knee-jerk reaction. If we infer from our job-role stats that Chief Customer Officer is currently all the rage in Asia-Pacific but was last year's role in Europe, the implication is that the wave currently breaking over Asia-Pacific broke over Europe a short time ago and that Europe is marginally further along with its journey towards tomorrow's new normal.

The key stat to bear in mind here is the 'disruption score' relating to lost market share from the Insurtech Perspectives section: only a small minority of (re) insurers in Europe (23%) reported that they are currently losing market share to new entrants. We have already emphasised the psychological component of this score, so – at least in terms of how European (re)insurers perceive their own market – Europe is in less deep trouble than Asia-Pacific, where 47% of (re)insurers believed they were losing market share.

'I think European insurers are not panicked yet that the Insurtech companies will destroy their business,' comments Margaris. *'We haven't seen much business deterioration through Insurtech companies yet, but it will happen, that's certain.'*

It would therefore appear that Europe is not so much the most disrupted of our key regions as the longest-disrupted. In line with this reasoning, it is Asia-Pacific that could be termed the most disrupted, in the sense that it is being hit by a storm that Europe has entered already, and North America the least disrupted, in the sense that the storm has not (quite) broken yet. We explore the nature of disruption in the APAC and North American markets in greater detail in our upcoming dedicated profiles on these regions.

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"It is important to listen to your customers and speak their language in order to influence your top and bottom line. If you want to satisfy your customers, you have to know what they want and need, what they're saying about you, and how they feel about your products, services and brand.

MONIKA SCHULZE

Global Head of Marketing at Zurich Insurance

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None of this is to imply that the material level of disruption in Europe is declining or that the storm has been ridden – far from it – just that (re)insurers have gone further to take it on board. Indeed, as Margaris has pointed out, more business deterioration is likely on its way. There is also no reason for markets to develop in a linear fashion, with innovations (and threats) arriving onto the market in a constant stream, so relative confidence among insurers today could turn into (or back into) panic pretty much overnight. For the time being though, we believe we have discerned a slight innovation lead in Europe, which we explore further in the next sub-section.

Delivering on the Customer Promise

Embracing innovative distribution methods is only part of the story for European insurers seeking to engage digitally savvy and ever more demanding consumers; another key aspect is to incorporate a greater level of personalisation into the products they are offering.

'The consumer is used to a really personal experience now, and that is exactly the same as when they're buying a pair of shoes online,' comments Halkett. *'They're used to being able to get something if they want it, where they want it and at the cost they want, including complete information like the exact half hour it's going to turn up in their house and what colour it is.*

That's the same for the £1000 insurance they're going to buy, they want to have that real personalised experience to get the cover they want, how they want it, and to be able to influence the price that they're going to pay. The big, overwhelming message is that the insurance industry is going to need to be flexible and innovative, because consumers are becoming ever more demanding and the base level of their expectations is rising all the time.'

Personalisation in insurance extends from offering positive customer service across channels to customising policy prices on an individual basis (UBI). Halkett believes that the UK market in particular has been a leader in this sense:

'The complexity of pricing has always been at the cutting edge in the UK,' she explains. *'From developing general linearised modelling through to telematics, the initial development has occurred within the UK. And it's partly to do with this being a worldwide centre of insurance, that's true, but it's also to do with the consumer. It's very consumer-led: consumers are very willing to adopt, consumers are very willing to try new things.'*

Halkett believes the UK has served as a guinea pig for in-car telematics and that the models developed here can benefit a wide range of insurance markets. This impression fits in with our product-development stats for Europe overall: Auto was indeed one of the lines respondents identified as driving the most product innovation in the region (the other was Health). We explore UBI models, especially as they relate to the Auto line, in the next sub-section.

All these customer initiatives, if they are to be more than just good intentions, require far-reaching back-office transformation; investment is required in new technologies and solid digital capabilities (such as analytics), and these in turn need to be grounded in well-conceived strategies if they are to truly take root and flourish at an organisational level. Let's look now at what European insurers are doing practically to deliver on their customer promises.

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"The one who is doing similar business to you should be considered as a chance and not as a risk - being connected via Open APIs based on your Open Insurance Eco System. You will win because your processes and technologies are faster, cheaper and more customer oriented than others, because you are open.

OLIVER LAUER

Head of Architecture / Head of IT Innovation at Zurich

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Encouragingly, a large majority of European respondents acknowledged having formal digital, mobile and cross-platform strategies, so digitisation appears to be well underway among European (re)insurers (consistent with our other regions). We also found a strong increase in analytics focus/investment among our European respondents, as well as a reasonable level of coordination of analytics across their organisations.

Analytical and machine-learning models have plenty to get their teeth into with what customer data has been captured directly by insurers, but they can additionally be supplied with external data from third parties. We found this practice to be widespread in Europe, as indeed were formal data-governance strategies.

One major hurdle for the implementation of more data-driven, customer-centric systems is the presence of legacy, and this is just as present in Europe as anywhere else. 'Legacy systems' came in second place among the internal challenges (in line with the global trend), and was additionally identified by our European contributors as a serious challenge for the region. Margaris highlights a couple of particular pain points as far as legacy systems go:

'If you have legacy systems, it's difficult to put cutting edge technology on top of them,' he points out. *'Legacy systems make it so much harder for incumbents to innovate and to comply with regulations.'*

Taking Insurance into the Real World, Real-Time

Over the preceding sub-sections, we have tentatively identified Europe as an early adopter, and we saw this tendency manifested in the prevalence of new-age distribution channels and personalised, customer-centric products.

Here, we extend this line of enquiry by turning to the vanguard of personalisation in insurance, namely the Internet of Things, and exploring the progress it has made within European insurance. IoT is the final frontier of customer-centricity in the sense that it takes insurance

> The IoT development (expected to reach 20.8bn by 2020, according to Gartner Inc forecast) should help a new insurance to emerge, increasing customer centricity and decreasing costs. An example of IoT impact on insurance is wearable tech, a passive way to monitor health and wellbeing, in real-time and for everything. By identifying those who seem to be looking after themselves, insurers can drive premiums down for them.

MINH Q TRAN

General Partner at AXA Strategic Ventures

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into the real world on a real-time basis, placing the customer literally, and not just figuratively, at the centre.

If Europe is marginally further along the journey of customer-driven disruption than our other regions, as we have suggested, then we would expect IoT to be marginally ahead as well. And while the technology is making strides the world over, our stats do place Europe above trend on the IoT-for-insurance adoption curve, at least in terms of current platform implementation (see our Internet of Things section), and the pre-eminence of the continent in this field is borne out by much of our broader research.

While Internet of Things was not a priority area that Europe led on in our Insurer Priorities section (it came second behind Asia-Pacific), Europe did achieve top spot for 'Mobile', 'Customer-Centricity' and 'Claims' – which form a constellation very auspicious for IoT-enabled business models and innovation.

Margaris tends to agree on the importance of IoT for European insurers, and Halkett, as we have already mentioned, credits the UK market as having fostered the development of in-car telematics.

As we indicated in the previous sub-section, the real personalisation opportunity for insurers consists not just in personalised experience à la retail but in personalised pricing, so that the price customers pay reflects their real-world usage as captured by connected devices.

It is thus that personalisation and premium-price reductions actually go hand in hand; rather than requiring two strategic thrusts, they can be part of one IoT-enabled customer-centric approach. These two Ps – price and personalisation – are the two main advantages enjoyed by Insurtechs, so insurers looking to the future, and to future-proof themselves, should definitely be taking an interest in IoT.

While still only a minority of insurers in Europe have a strategy on Usage-Based Insurance (UBI), this is in line with our other key regions; we expect to see this percentage rise dramatically across the board over the coming years. Auto, Home and Health are the leading lines across all our regions in terms of the expected IoT benefits, though the benefits of sensor networks in other lines should not be ignored.

Auto is an example of a line that has already been extensively transformed by IoT in the form of telematics. This area is home to solutions of varying sophistication, from smartphone apps to 'black boxes' built into cars. Depending on the richness of data coming from in-car

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> Automated data capture through IoT does not just help insurers pre-empt claims, it also helps mitigate losses and improve customer service when claim events do occur, by rooting out fraudulent or inflated claims and enabling faster turnaround of legitimate ones. Provided customer privacy concerns form part of the discussion, there is no reason why connected claims cannot be a win-win for everyone.

MARIANA DUMONT

Head of New Projects at Insurance Nexus

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sensors, a variety of insurance use cases and business models are enabled.

The one that most immediately jumps to mind is UBI, incorporating dynamic pricing and driving behaviour modifications. By making customers' premiums dependent on how they drive, insurers both incentivise better driving (which is good for everybody) and lower the cost of premiums, which helps to get more people, more affordably, on the road.

'The joy of all insurance is the same: the financial desire of the insurance company is completely aligned with customers' needs. So nobody wants to have crashes! The consumer doesn't want to have crashes and the insurance company would like to reduce the risk on their books,' explains Halkett. *'With telematics, you really get to do that, it's not only that you get to understand the risk of the individual consumer, it's that you get to influence that risk, so the risk that you write does not have to be the risk that you keep.'*

Even if premium prices remain the same, a premium with the potential for reduction is an infinitely more saleable proposition than the fixed-price alternative. And it is not solely up to drivers to educate themselves – insurers can take a much broader tutelary role by communicating tips and advice on an on-going basis. In this way, Halkett sees Insure The Box as being much more than just a provider of telematics.

'We take customers and then we make them safer drivers,' she says, *'and we do that via communications, online portals and via direct messages to the consumers, all the time rewarding safer driving behaviours.'*

From language courses to money-saving apps, gamification has proven itself time and time again to be a powerful force for bringing about positive outcomes, and the case with telematics is no different. The key is to engage the customer via whichever touchpoints are the most natural and offer the highest level of trust and engagement.

Insurers should not therefore conceive IoT solely in terms of inbound traffic (data traveling from customer devices to their back office) but also as a means of achieving higher engagement for their outbound messaging (from insurers to customers). Halkett points out the potential of connected home devices, such as the voice-enabled Amazon Alexa, for initiating contact with consumers in a world where 'mobile' refers to much more than portable telephones.

Beyond facilitating UBI models and continuous customer engagement, IoT solutions also give insurers detailed insight into what is actually happening on the ground on a second-by-second basis. Admittedly, this requires a lot of data and sophisticated models and, in telematics for example, it is certainly a lot more than just detecting high G-forces.

Indeed, Halkett recounts an example from the early days of Insure The Box, where a spike in G-forces triggered an accident alert but actually turned out to be nothing more than the forceful slamming of one of the car doors. Nowadays though, the company can reliably detect the tell-tale signs of accidents and other claim events from the incoming stream of black-box data in real time and react accordingly. With motor accidents, speed is of the essence, so being able to dispatch an ambulance instantaneously to the scene can be the difference between life and death: the ultimate in claims loss mitigation.

This data is also useful in the inverse case, where

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Certainly, the personal lines space seems to lend itself to automation more readily because you can build rules more easily to deal with standard terms and conditions that allow the majority of those claims to be processed with exceptions being spat out for manual intervention. The Lloyd's market is a specialty property and casualty market so automation hasn't been considered to the same degree.

TIM WILLCOCK

Director of Operations, Lloyds Market Association

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insurers want to demonstrate that an accident has not in fact occurred (and that, therefore, an associated claim is fraudulent).

The business case for IoT in claims is self-evident; as we recall from our Internet of Things section, a majority of our respondents selected claims as one of the areas best-placed to benefit from IoT. Further still, in our stats on Claims, a majority of respondents believed that IoT would impact the claims department, and a majority also acknowledged having a high level of focus on claims loss mitigation.

The immediate access that IoT gives to data, which does not have to be sought out and gathered but simply ends up in insurers' back-end systems as a matter of course, is driving the development of automated or 'straight-through' claims-handling. We found a reasonable incidence of automated claims-handling among our European respondents, whose claims departments also expressed a strong focus on customer experience.

In the context of continually expanding horizons, we asked ourselves what the next stage of dynamic real-time insurance might be. Continuing this section's particular focus on the Auto line, we of course cannot ignore the amount of chatter around autonomous driving and what it means for the insurance industry.

While some believe that autonomous driving may eliminate the Auto line, the truth of the matter is that human error is not the sole source of catastrophic events on the road.

'You don't just eliminate all risks by making your vehicles autonomous,' Halkett points out.

'And that's before you even start to think about what you'd need to do to have an entirely autonomous ecosystem. The environment is going to have to have so many significant changes before it can support current autonomous functionality, and the journey between now and 100% autonomous – even if that does happen, and it's not certain it will – is not straightforward at all, and there will be lots of different forms of mobility between now and then.'

Halkett underlines rural and city driving as two key hurdles to be overcome on the way to full autonomy. For now and the immediate future, she believes there is food for thought enough in the intermediate stages between today's conventional cars and the putative point of total autonomy in the future:

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> Italy is recognized as the most advanced auto insurance market at the global level for telematics. Leveraging the experience of the auto business, the country is affirming its position as a laboratory for the adoption of this new paradigm by other business lines.

MATTEO CARBONE

Founder & Director at Connected Insurance Observatory

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'We're going to have multiple different vehicles, some with ADAS systems, some with minor help for driving in there and some with barely more than a glorified cruise control, up to fully autonomous vehicles, all on the road at the same time with drivers behind the wheel with very differing levels of experience and expectations for that driving too.

And what they are going to want from their insurance is a seamless product that just covers them for whatever they're going to do – that is the reality of what the insurance industry is facing over the next 10-20 years.'

And instead of focusing exclusively on different degrees of autonomy within what is essentially a private ownership paradigm, Halkett believes insurers should also be looking laterally, at emerging mobility formats:

'I would be looking at things like ride-sharing, things like shared ownership and different forms of vehicles, before we ever got to the point of complete autonomy,' she concludes.

Driving Connected Insurance Models Across the Continent

Our write-up so far has leaned towards the UK. But what sort of progress have new-age insurance models made across the continent as a whole?

Another country that currently boasts plenty of IoT buzz is Italy. Our influencer Matteo Carbone, of the Connected Insurance Observatory, draws attention to the telematics leadership shown by the Italian market, citing the nation's 4.8 million connected cars (as of the start of 2016), compared to 3.3 million in the United States and 0.6 million in the UK.[2]

However, to compare IoT progress in blanket fashion across different national markets and insurance lines can be like comparing apples and oranges to pears and plums, given the uncategorizable variety of the problems IoT solves and the sheer number of different business models it enables.

In Italy for example, telematics boxes have been mandatory in all new cars for several years now, as a result of legislation aimed at reducing fraudulent whiplash claims. Such legislation does not currently exist in the UK but, as we have pointed out, the UK telematics market could be considered a frontrunner in other respects.

Leaving aside the question of who leads and who trails, one thing is certain: that IoT-based solutions for insurance, both within the Auto line and beyond, are only going to become more prevalent as the unit cost of

[2] insurtechnews.com/insight/connected-insurance-is-here-to-stayare-you-ready-for-this-new-insurance-paradigm.html

> At some point in time, everyone is going to get connected. People will feel more empowered as they have a greater control on preventing risk events. This will be the origin of the new business model. In some countries, insurers don't have a high level of trust because they are establishing conditions, changing prices and the relationship is only one way. This is going to change, because in the future clients will have their data as an asset.

CECILIA SEVILLANO

Head of Partnerships, Smart Homes, at Swiss Re

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sensors comes down and the demonstrable savings from the technology rise further.

'The cost of technology is coming down all the time and customer understanding is going up,' explains Halkett. *'So the business model becomes easier and easier for a wider portion of the market. Consumers in other countries will more readily adopt these sorts of technology-led products, and insurance markets are becoming more sophisticated as well.'*

To continue with our Auto focus, we can see how the advantages of in-car telematics – whether we are talking road safety, lower premiums of counter-fraud – are advantages for people of every age in every market, so there is no fundamental limit on the applicability of the technology.

This is not to say that the specific use cases will be the same everywhere. Halkett believes that the technology will bring about a bigger quantum leap, from a road-safety and world-health point of view, in those countries where infrastructure currently lags.

'I think when you stand back and start looking at the benefits of telematics, there's an awful lot that could be used in different markets for very different reasons,' she says.

'For example, if you look at the accident alert service and it tells you when someone has had a serious road accident – that would be so useful in rural areas in poorer countries which perhaps do not have the same infrastructure or the same emergency services as we do in the UK. And to have that pinpointed alert would be even more valuable in countries where not everyone has a mobile phone and hospitals are perhaps less accessible.'

This is a classic case of high-end technology bringing the full benefits of insurance to the lower-end market, a recurring theme across our other regional profiles as well; underdeveloped markets, especially when they lack the burden of legacy systems, have a chance to catch-up with and even leapfrog more established markets.

Margaris believes that this will be the case, not just for IoT adoption but for innovation more generally, in those parts of Europe that are currently less developed.

'The truth of the matter is that in less affluent countries you will see a faster adoption of Insurtech because it's cheaper and more personalised than what the incumbent insurance players offer,' he observes. *'Furthermore, I believe that the richer the countries, the less there is a need by consumers to adopt the cheaper business models that are offered by Fintech and Insurtech start-ups. So, therefore, I would say, the more developed the country, the longer it will take for innovative technology and business models to be adopted.'*

Looking at our local trends (which we present in full in the next and final section of this write-up), we see that 'Legacy systems' is highly ranked in every sub-region apart from Eastern Europe, where it actually drops into

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> Insurtech will offer new ways to harness IoT potential, with use of AI and machine learning. Through partnerships with these startups, incumbents can definitely accelerate their modernisation. And this is a win-win situation as Insurtechs have technological expertise and, in return, insurance leaders can provide them the one resource which they lack: money.

MINH Q TRAN

General Partner at AXA Strategic Ventures

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the bottom half of the challenges table – confirming our suspicion that there is less legacy in Europe's most emerging market. If this is indeed the case, then we expect Eastern European insurers to be better placed than most to meet the Insurtech challenge.

Looking beyond Europe for other emerging markets with 'leapfrogging' potential, Margaris points to Africa as ready-made example, referring specifically to mobile technology (something we explore in further detail in our Africa section):

'Look at Africa, where with a normal phone – not even a smartphone – you can already transfer money, you can do anything,' he comments. *'Because with low incomes, you will find a greater need for innovation.'*

This forms an unfavourable contrast with some established markets, and Margaris sees his native Switzerland as a case in point:

'In Switzerland, where I live, there is a lesser need for innovative business models because people have enough money. Not everyone is well-off of course, but in general, there's such a comfort level that people say, the status quo works well, so we don't need to go for Fintech or Insurtech solutions that are or might be cheaper or better.'

Margaris picks out Insurtech and AI as two growth areas towards which sizeable investments are currently flowing, with London and Berlin being the premier European hubs. As for how the Insurer-Insurtech confrontation will play out, he points to the case of Fintech – which has a couple of years' lead on Insurtech – as a likely indicator of how things will go here as well.

'If we look at Fintech, which is in a more advanced phase than Insurtech, you see a clear trend of cooperation, meaning partnership or outright buying by incumbents. I think this will also happen to the Insurtech space,' he explains.

While this prognosis (cooperation winning out over competition) is generally positive for insurers, Margaris believes that in some ways insurers have it more difficult than banks:

'Banking has the same issues but banks are much more experienced with customer interaction on a daily basis. While, with insurance, usually you talk to an insurance agency once a year, like when you have a claim. So legacy technology and the Insurtech industry as a whole is worrisome for the insurance industry, but it's also an opportunity.'

This compromise between incumbents and new entrants, at least for now, stems from the fact that neither has all the ingredients to win outright. While we pointed out the two trump cards of Insurtechs in the opening sub-section of our write-up (price and personalisation), let's now examine the advantages of incumbent insurers.

'Insurers have the customers, they have the money and they have the brand,' explains Margaris. *'They can adapt quickly and say: OK, let's take the cutting-edge technology and we can make it happen.'*

He gives the pharma industry by way of an analogy:

'The pharma industry spends billions on R&D and innovation. At the end, most of them – the big pharma players – who have much more experience in this field of innovation, they buy biotech companies and

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The Insurtech discussion all too often centres around the premise that shiny new start-ups will win at the expense of the tired old incumbents. Many see the battleground between them being at the distribution end of the customer journey. For me the Insurtech opportunity extends all the way along the value chain.

NICK MARTIN

Fund Manager at Polar Capital Global Insurance Fund

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integrate. Because what the big guys do well is selling and distribution. If you give an insurance company a great product, they know how to make the most out of the potential. Incumbents and Insurtech start-ups have to play to each other’s strengths.’

Halkett agrees that traditional insurers have plenty to offer as part of any insurance model of the future, in particular the sheer volume of data, insights and expertise that they have at their disposal. However, she queries whether today’s incumbents are structured in such a way as to make the most out of these assets.

This may involve moving away from a centralised model towards more of an ecosystem play, with the insurer overseeing different components of a technology stack. Insure The Box is itself an example of this, being owned as it is by Aioi Nissay Dowa Insurance Europe, which is the ultimate bearer of risk and also has a long-standing partnership with automotive OEM Toyota.

At the end of the day, it is not a case of either/or with the partnership and Insurtech-domination models, and we are likely to see some Insurtechs eventually make it big alongside Insurer-Insurtech tie-ups.

‘It will happen. We’ve seen the Googles, Amazons, Facebooks of this world, and we’ll see the same thing occur in Insurtech whereby some will become huge players. However, I believe we will see more partnerships or acquisitions because it’s very hard to scale,’ concludes Margaris.

Local Trends: Europe

Europe is a challenging region to segment, given the number of countries and their immense variety.

Following, as much as possible, historical and economic continuities, and avoiding over-segmentation, we have created five broad sub-regions:

- United Kingdom & Ireland
- the Nordics
- Western Europe (German-speaking countries, France, Benelux and Monaco)
- Southern Europe (Spain, Portugal, Italy, Andorra, Malta, San Marino)
- Eastern Europe (the former Soviet bloc + Greece, Turkey and Cyprus)

A comparison of external and internal challenges, as well as of insurer priorities, in these sub-regions reveals, alongside plenty of consistencies and noise, a number of tendencies in line with the foregoing discussion and certainly worthy of further exploration.

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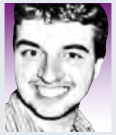
The continent's most emerging market, Eastern Europe, seems on the one hand less out of sync with the customer and less burdened by legacy, while being, on the other, firmly focused on digital channels and sourcing talent. Whether insurance players in this region are able to drive accelerated adoption of new-age insurance models remains to be seen.

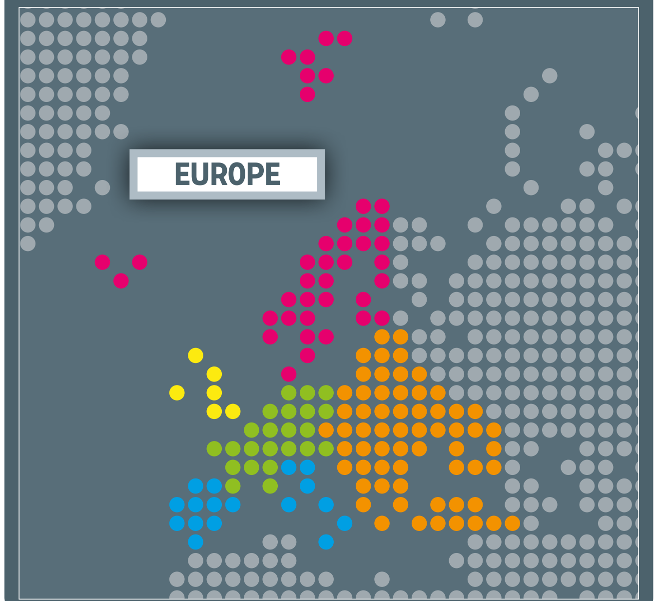


ALEXANDER CHERRY

Head of Research at Insurance Nexus

#insurancemap

LOCAL TRENDS: EUROPE



External Challenges: Local Variations
'Increased regulation' is a high-ranking challenge in Western Europe, the Nordics, and Eastern Europe, and a mid-ranking priority in the UK & Ireland and Southern Europe.

'Increased competition' is generally a mid-ranking challenge, scoring slightly higher nonetheless in the Nordics and Eastern Europe.

'New emerging risks' is a mid- to low-tier challenge, except in Southern Europe, where it almost tops the table.

'Digital channel capabilities' is generally a mid-ranking challenge, except in Eastern Europe where it tops the table.

Eastern Europe is the only place where 'Technological advancement' falls from first to second place, in addition to 'Changing customer expectations' falling out of the top three.

Internal Challenges: Local Variations
Internally, 'Legacy systems' is the dominant challenge in the UK & Ireland and the Nordics, whereas elsewhere it is 'Lack of innovation capabilities'.

'Legacy systems' remains a high-ranking challenge everywhere else apart from in Eastern Europe, the only place where it features in the bottom half of the table.

'Finding and hiring talent' is generally not a high-ranking challenge but makes it into the top half of the draw in Southern Europe and Eastern Europe.

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LOCAL TRENDS: EUROPE

INSURER PRIORITIES: LOCAL VARIATIONS

The insurer priorities opposite are in the same rank order as in our Insurer Priorities section (as voted by European insurers). In each case, we give an indication of how these priorities trend across our subregions.

DIGITAL INNOVATION	leads in Western Europe & Southern Europe, coming second in Eastern Europe; in the UK & Ireland and the Nordics it is middling
CUSTOMER CENTRICITY	is a high-ranking priority across the board, taking the top spot in both the Nordics and Eastern Europe
ANALYTICS	is everywhere a high-ranking priority, highest in the UK & Ireland and the Nordics, lowest in Eastern Europe
CLAIMS	is mostly mid-ranking, edging towards top-table in the UK & Ireland (where it makes first place) and the Nordics
REGULATION	is top-tier in Eastern Europe, mid-tier in the UK & Ireland, Western Europe and the Nordics, but trails in Southern Europe
PRODUCT DEVELOPMENT	is a mid-to-low-ranking priority for most regions, coming in slightly higher in Southern Europe and Eastern Europe
PRICING	is high up on the agenda in the UK & Ireland and the Nordics relative to our other sub-regions
UNDERWRITING	is generally a mid-ranking priority, coming out slightly lower in Southern Europe and Eastern Europe
DISTRIBUTION DIVERSIFICATION	is on balance a low-ranked priority, except in Southern Europe and Eastern Europe, where it edges into the middle of the table
INTERNET OF THINGS	is a low-ranking priority, except in Southern Europe, where it enters the middle of the table
MOBILE	is generally a mid-ranking priority; in the UK & Ireland and the Nordics though, it drops towards the bottom of the table
RISK MANAGEMENT	is a relatively low-ranking priority across the board, through it reaches the middle of the table in Eastern Europe
CYBERSECURITY	is generally towards the bottom of insurers' priority lists throughout Europe, except in the UK & Ireland, where it is a mid-ranking priority
FRAUD	is generally low-ranked (last in Western Europe) but scores slightly higher in the UK & Ireland than elsewhere
INVESTMENT MANAGEMENT	comes in last or second-to-last position across the board.

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TURN OVERLEAF FOR THE FULL REGIONAL PROFILE...

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> Rising claims costs – both attritional and catastrophic – against a backdrop of low interest rates calls for a new approach to insurance in North America. That the lion's share of Insurtech deal money has been going to US companies suggests that this change of approach may not be long in coming.

MARSHA IRVING

Head of Innovation / Commercial Director at Insurance Nexus

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The following pages contain our overview of the state of insurance in North America, based upon our statistics from the two preceding sections on Global Trends and Key Themes.

We begin with a look at where North America stands in relation to our global trends (internal challenges, external challenges and insurer priorities).

Secondly, we examine where the region stands on the more specific themes we cover in this report, with direct contributions from two of our influencers in the region:

- Chicago-based Stephen Applebaum, Managing Partner at Insurance Solutions Group
- Boston-based Matthew Josefowicz, CEO at Novarica

We bring the write-up to a close with a high-level comparison of how these trends vary between the USA and Canada.

The External Challenges: North America

In North America, the top external challenges follow the global trend, with 'Technological advancement' and 'Changing customer expectations' taking first and second place respectively, except that in third place we find 'New emerging risks'. By way of comparison, this comes in at 4th place globally and only makes it to 6th place in Europe – which, as we suggested in our Europe section, is likely a reflection of some parts of the world being more exposed to disasters (and hence to concomitant risks) than others. Further down the table, 'Increased competition' moves up one place, knocking 'Increased regulation' down one spot to 7th.

CHALLENGE	RANK	VS GLOBAL
Technological advancement	1	-
Changing customer expectations	2	-
New emerging risks	3	+1
Digital channel capabilities	4	-1
Changing economic conditions	5	-
Increased competition	6	+1
Increased regulation	7	-1
New entrants to the market	8	-
Catastrophe risk	9	-
Climate change	10	-
Absence of a clear strategy	11	-
Lack of company investment	12	-

+1 indicates that a challenge is one place higher in North America than globally

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Legacy systems has long been a core challenge for executives across functions within insurance carriers who are focused on innovation, customer experience and efficiency. Impacting product development, applying analytics, claims modernization, marketing optimization and more, it’s no surprise this is such a top priority for insurers. In the future, I think we’ll see more legacy system upgrades across insurers looking to digitize and streamline operations.

EMMA SHEARD

Head of Strategy at Insurance Nexus

#insurancemap

We explore the regulatory challenge, which is certainly significant in North America, later on; whether it is increasing as a challenge is another question.

The Internal Challenges: North America

Looking internally, the top challenges are the same as in the global trend outlined in the first section, except that ‘Legacy systems’ wrests the top slot from ‘Lack of innovation capabilities’ (which, by way of comparison, comes first in Europe, Asia-Pacific and LatAm).

CHALLENGE	RANK	VS GLOBAL
Legacy systems	1	+1
Lack of innovation capabilities	2	-1
Finding and hiring talent	3	-
Siloed operations	4	-
Mergers & acquisitions activity	5	+1
Lack of company-wide dedication to core priorities	6	-1

+1 indicates that a challenge is one place higher in North America than globally

Innovation is, at its heart, customer-driven, and we will later be comparing the insurer-customer relationship in North America with what we find in our other key regions – and this may well explain the different positions ascribed to ‘Lack of innovation capabilities’ in their respective challenge tables. The parallel suggestion is that ‘Legacy systems’ play more of a role in North America, which is another theme we investigate further.

Insurer Priorities: North America

These are the priority areas on which North American insurers lead, as detailed on our medals table in the Insurer Priorities section:

ANALYTICS

CYBERSECURITY

INVESTMENT MANAGEMENT

RISK MANAGEMENT

UNDERWRITING

PRODUCT DEVELOPMENT

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> Innovative products and the market segments they support are underpinning the design of new Insurtech business models with companies like Lemonade, Slice, TROV, Cuvva, Surify and others who are establishing new model footholds in the market.

DENISE GARTH

SVP of Strategic Marketing, Industry Relations and Innovation at Majesco

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Over the coming pages, we expand on these challenges and priority areas, and present a qualitative market overview with additional insights from our two regional contributors, Stephen Applebaum and Matthew Josefowicz. Some of our key points of interest are:

- Insurers' renewed focus on their primary underwriting business in the face of low interest rates and impending market disruption
- The rise of the 'new consumer' and how this is changing the insurer-customer relationship
- Customer-centricity as the prime mover of distribution and product
- The impact of legacy systems and regulation on (re)insurers' innovation and transformation efforts
- How insurers are to unlock new sources of growth in a mature market

In the Eye of the Insurtech Storm

North America, as we have defined it (that is, the USA and Canada), has a total population of around 350 million people, making it one of our smaller markets at less than 10% the size of Asia-Pacific. Not only are we looking at a smaller population, but it also has the biggest middle-class skew of any of the regions we deal with in this report.

This is predominantly a market of existing customers, and the low-end market opportunity is much less substantial than in Asia-Pacific, Africa and LatAm for instance. So, while insurers in the developing world have to juggle the needs of an emerging middle class and those of the uninsured millions (often microinsurance candidates), in North America they can focus more single-mindedly on retaining and growing the custom of their existing policyholder demographics. It is therefore no surprise at all that North American respondents exhibited the greatest focus on customer loyalty out of all our regions.

This focus on the existing business has become paramount with the continued pressure (re)insurers are facing from low interest rates (admittedly, a global phenomenon), which is limiting the returns they can make on their investments and shining a spotlight on the profitability and sustainability of underwriting practices.

'The real challenge is focusing on the underwriting itself and using data, analytics and market segmentation in order to really maximise underwriting profitability,' comments Matthew Josefowicz.

Insurance has always been a cyclical industry in this sense, moving with interest rates, so insurers – at least looking at the big picture – are used to periodic readjustments. However, this time is shaping up to be different in the sense that their underwriting market is no longer being served to them on a plate in quite the same way as before. Insurers the world over must now contend with new market entrants, such as Insurtechs, who are raising the bar for customer service and lowering it for price.

While insurers are already having to up their game in order to keep their underwriting customers, the overall turn towards Insurtech is still in its infancy and also varies considerably from region to region. So, at what stage is this customer-led disruption in North America?

The indicators we have gathered across this report lead us to believe that North America is late – though only marginally – compared to Europe and Asia-Pacific, and

> You have to change your culture and embrace experimentation. We've set up labs around the world where we incubate innovation. It's about embedding it through the employee base and being attuned to the customer. And it has to be top down to be effective.

CINDY FORBES

EVP & Chief Analytics Officer, Manulife Financial

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we will explore this perspective more fully in due course.

Looking at things at the highest level, our most telling stat is the 'disruption score' for North America, from the Insurtech Perspectives section. Only a quarter of (re)insurers in North America indicated that they were losing market share to new entrants, whereas this figure rose to nearly half of (re)insurers in Asia-Pacific. Whether interpreted literally or as an indication of (re) insurers' current mood, this implies that disruption – while certainly present – has not yet reached the fever pitch in North America that it has elsewhere, and potentially explains the lower prominence assigned to 'Lack of innovation capabilities' among the internal challenges for the region.

Speaking primarily from a P&C/General perspective, Stephen Applebaum acknowledges that the USA market at least may be somewhat of a laggard, although he is careful to distinguish it from Canada. He places the Canadian market ahead of the USA in terms of innovation and technology adoption. Applebaum ascribes the leadership shown by the Canadian market to a mixture of culture, infrastructure and population size (Canada having approximately 10% of the population of the USA). We also call attention to Canada's different approach to the broker market, its different regulatory regime and its different methodologies for data exchange. All of this said though, the sorts of consumer needs insurers in each market are trying to serve are fundamentally the same.

In any case, regardless of where the North American market stands today, Applebaum believes that a huge amount will change over the coming 18 months and beyond. This is due partly to the steady globalisation of technology (Applebaum cites as an example of this the recent push by Italian Octo Telematics into the US market), partly to the size of the prize inevitably attracting takers.

This prize would appear to be more tantalisingly poised in the US than elsewhere, if indeed there is a slight lag in that market, as this makes it easier still for light-footed new entrants to outflank incumbents and capture market share. We have seen the rise of several high-profile Insurtechs in the USA, such as Lemonade on the home-owner and Insureon on the small-business side, and we note also the recent estimate that nearly half of investment money for Insurtech in 2016 went to US companies.[1]

If this gives the impression of a silently massing army waiting to storm the sleepy, unguarded border forts of insurance, then that is certainly a long way from the truth. Incumbent insurers in the USA are waking up to the threat of disruption in a big way. Applebaum, once again talking primarily from a P&C/ General perspective, explains the twofold consideration going through insurers' minds:

'The first point to remember is that, while disruptors may still represent less than 5% of the P&C insurance market today, 5% of $200billion is a significant amount of revenue lost from the traditional carriers,' he states. *'And the second point is that the rate of growth seems to be accelerating fairly rapidly, so that what is 5% today could very well be 25% five years from now, and that suddenly represents a material challenge to the industry. Nobody is ignoring it because they know that the adoption curve is going to look like a hockey stick.'*

This recognition on the part of incumbents is finding expression in their recent Insurtech investments – so it

[1] letstalkpayments.com/insurtech-industry-has-grown-by-25/

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“The Insurtech space got crowded in the last 18 months, with significant funding for new entrants. Now the rubber's hitting the road as startups bring products to market. It should be interesting in the coming year to see who's able to navigate the world of regulations and carrier relationships, and whether they're able to do it at scale.

TED DEVINE

CEO at Insureon

#insurancemap

is misleading to interpret the high investment figure we invoked earlier as signifying only what is stacked against insurers. One of the main reasons it is being driven so high is in fact because of legacy insurers trying to get in on the action.

Josefowicz, whose clients at Novarica include numerous Fortune 100 insurers, also acknowledges insurers' growing preoccupation with Insurtech.

'The number of insurers that have internal development funds and investment funds is skyrocketing, as everyone is trying to stay in touch with all these new developments and approaches to using technology in the industry,' he explains. *'I don't think it's that the insurers believe the companies they're investing in are going to be the next Facebook or Snapchat but I think they do believe that these companies are going to show them the way and that they're going to be able to learn a lot from them. Not just in terms of how to engage with customers but also how to use analytics and digital channels effectively, as well as all kinds of innovative practices that are difficult for a mature company to come up with on its own.'*

Rise of the 'New Consumer'

As we intimated in the previous sub-section, the 21st-century customer represents the ground on which Insurtechs stand to challenge insurers: by raising the bar for customer service and lowering it for price. In line with this, both Josefowicz and Applebaum identified changing customer expectations – that is, how customers want to buy insurance and interact with insurers – as a key challenge for insurers in North America.

We are witnessing what Applebaum describes as the rise of the 'new consumer', and he believes furthermore that this is the number one challenge facing insurers in the region:

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Insurance in the US has long been a product-driven, not a customer-driven industry. Faced with high churn and the spectre of ambitious new market entrants, insurers are finally waking up to the need to better engage and service customers. To this end, we are increasingly seeing the creation of cross-functional customer-experience teams within carriers.

MARIANA DUMONT

Head of New Projects at Insurance Nexus

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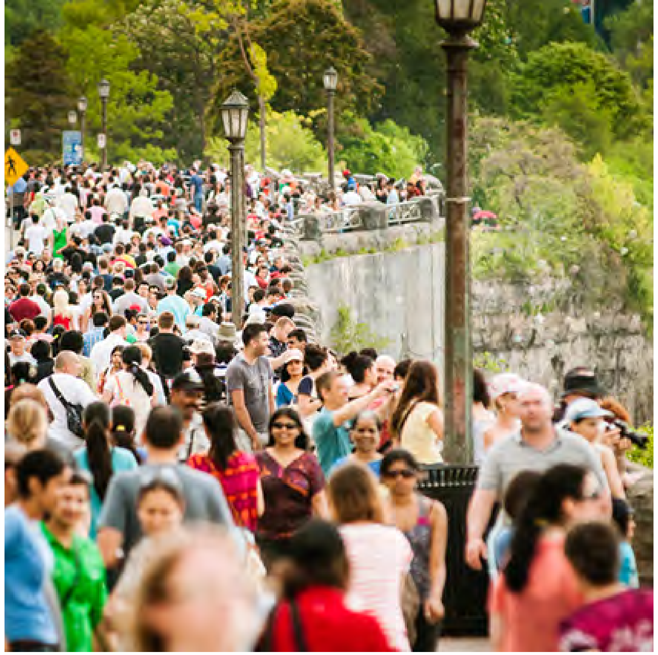
'It's not only the millennials and the emerging demographic groups but basically the new customers who are almost always connected digitally,' he elaborates. *'They have come to expect that all of their interactions will be digital.'*

In our section on Marketing and Customer-Centricity, we characterised North American insurers as having a marginally less 'problematic' relationship with their customers. While the customer certainly remains a core strategic priority, respondents in this region are marginally less focused on it than in Europe and Asia-Pacific. Below are certain measures that bear this out:

- North America achieved the lowest priority score for 'Customer Centricity' out of all our global regions (see the Insurer Priorities section)
- Chief Customer Officer was a relatively unimportant new appointment within North American companies, at least compared to the prominence attained by Chief Information Security Officer, Chief Data Officer and Chief Analytics Officer
- In our regional assessment of internal challenges, North America is the only region in which 'Lack of innovation capabilities' fails to make the top spot.

At the end of our section on Marketing and Customer-Centricity, we tentatively concluded, based on this constellation of factors, that North America has been fractionally late on the current customer-led disruption of insurance compared to our other regions; if customer expectations are more easily met, then this will result both in the customer rising less high up the priorities ladder and in current levels of customer-centricity



being deemed more adequate. This is of course a question of degree, as the customer is still critically important to North American insurers – as we shall see.

'I think that in a lot of ways North American consumers are behind other advanced markets when it comes to insurance,' comments Josefowicz. *'For example, in the UK a large portion of small-business insurance is now bought online. Here, that's still very much an emerging segment of the market. The heavy shift to direct auto purchase in other mature markets is evident here but not quite as developed.'*

At various points in this report we have tied the current consumer-led disruption sweeping through insurance (and all consumer industries for that matter) to changes in distribution. Digital channels have given new, non-traditional players with alternative products and services access to insurers' customer base. This added element of competition – on both price and customer service – has fundamentally changed the way customers relate to all the products they buy, and this in turn is driving change within the insurance industry.

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> Digital direct is new in Canada and there's a certain profile that it's most suitable for. We are looking to target and attract the right customer. Then we want to capture as much data as we reasonably can along that journey so we can attract and convert customers while also understanding what's working effectively to optimise our marketing efforts.

MICHAEL SHOSTAK

SVP and Chief Marketing Officer at Economical Insurance

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In line with this view and with our hypothesis that disruption has not yet arrived with full force in North America, we expected the distribution landscape here to be relatively more stable than elsewhere. This is indeed the impression that we have received:

- Among our three key regions, the direct digital channel appears to feature least prominently in North America
- While our respondents in all our geographies were increasing their distribution through affiliate partners, our broader research points to this channel being less well developed in North America than in Europe and LatAm for example

These measures suggest that traditional channels are indeed relatively more in intact in North America than elsewhere, and this may be more the case in the USA than in Canada. Josefowicz puts this down in part to the innovator's dilemma, whereby the need to innovate is mediated by the fear of cannibalising the existing business:

'If all your money is coming today through the broker channel, it's very difficult to plan for a future where that's not true, without disrupting the present,' he explains.

As customer behaviours continue to evolve, we expect to see growth across North America in the direct-to-customer channel. This, along with the steady growth in

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> Insurers must focus on removing the friction points customers encounter in their interactions if they wish to meet the needs and expectations of their customers. Processes and customer interactions need to be redesigned from the customer's point of view.

CINDY FORBES

EVP & Chief Analytics Officer, Manulife Financial

#insurancemap

affiliate channels, will increase the number of channels that North American insurers must manage.

'I think that the US will start to look more like Europe in terms of the distribution models across the different product lines,' Josefowicz comments.

'We don't believe that intermediary distribution is going to disappear in North America but it is already losing its monopoly hold on the market. So what insurers are going to be dealing with is not a future where everything is direct, but a future that is much more multichannel.'

A 'New Insurance' for the 'New Consumer'

One key response axis for insurers faced with the challenge (and the opportunity) of the new consumer is distribution. It is not enough just to focus on customer-centricity in a broad sense; since distribution disruption is the root of customer disruption, it is on this ground that insurers must stand and fight. We would deem this a necessary, although not sufficient, condition for them prevailing over their new-age competitors.

It unsurprising, then, that we discern a fresh strategic focus on distribution:

'Every major, every top-tier P&C carrier is actively developing multi-channel communication capabilities and multi-channel distribution capabilities,' states Applebaum.

This is far easier said than done, given the legacy constraints that insurers find themselves under, which we explore further in the next sub-section.

'Insurers' infrastructure, which has been built over literally hundreds of years, never anticipated having multiple channels of communication to support, so insurers are scrambling to learn how to do that,' Applebaum continues. *'In the past, it was a paper-based business and the postal service was the method of communication, or the agent was the method of communication. The role of the agent is dwindling, as is that of the post office in P&C insurance.'*

There is a risk that insurers attempt to become all things to all people from a distribution perspective, dissipating their energies, and the task of transforming distribution will certainly be a much more manageable one if they can focus their efforts on what really works for their specific customers and products.

'Different segments of the market and different products imply different distribution methodologies – so it's a matter of dealing with increasing complexity,' summarises Josefowicz.

While distribution is arguably the centrepiece, the heightened demands of 21st-century consumers in fact apply to the entire customer journey from start to finish. It is not enough to give customers the option of researching, buying and accessing their products via digital channels in addition to physical ones – the entire interaction must be as frictionless as possible, and all of this irrespective of access device. Applebaum gives us some context around what this means for insurers:

'Whether it's filing a claim through an app on their phone or receiving a claim payment electronically to an app or to their bank account, or even just exchanging information like adding another vehicle to the policy, today's consumers don't want to have to make phone calls and they don't want to send emails. They basically just want to exchange digital information as quickly and efficiently as possible.'

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The whole business understands the value of what analytics can help deliver. In traditional businesses, this seems to mean reports, hundreds of them every month that are mostly rear-view mirror. Getting intelligence out of that is what many companies should be focusing on and then making use of it.

MICHAEL SHOSTAK

SVP and Chief Marketing Officer at Economical Insurance

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Encouragingly, most North American respondents indicated that they had digital, mobile and cross-platform strategies in place.

Friendly interfaces with high usability go some way towards eliminating friction from customer experience but the greatest improvement is to be wrought at the back end, by achieving transparency and straight-through processing. The analogy of the retail industry (as it moves towards e-commerce) is once again instructive: what matters to retail customers is not always the absolute speed of their order but often their ability to track its progress. Offering this level of immediate insight to customers – as well as satisfaction – generally requires some level of automation.

If we take claims as an example, we see that automation does not imply that the whole process is automated across the board, rather that enough is automated to provide clarity on the status of a given claim. Some simple claims will be dealt with automatically, while, for more complex claims, customers can be provided with a working estimate for the resolution time – the key point in each case is the clarity and feeling of control that customers are left with. In our section on Claims, we registered a moderate degree of automation among North American respondents, in line with our other regions.

In addition to a seamless, zero-friction experience, customers are also demanding personalisation, and in the context of insurance this applies first and foremost to range of coverage and premium price. Usage-Based Insurance (UBI), which we went into in greater depth in our Europe section, is a fundamentally ‘new’ insurance for the ‘new consumer’. Formal UBI strategies are only acknowledged by a minority of North American respondents but this is consistent with our other key regions.

The premise of UBI is that insurers can leverage real data on individuals’ actual usage (for example of a car) to tailor prices and ultimately incentivise better risk behaviours. The two key ingredients here are data and analytics.

Analytics was in fact one of the priority areas that North America led on. A majority of North American insurers also reported increasing their investment in this area, and the salience of the Chief Analytics Officer role in the region has already been noted.

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> With connected devices becoming more and more ubiquitous, the availability of data is increasingly a non-issue. The next hurdle for insurance carriers in North America is finding ways to incentivise customers to adopt IoT solutions and part with their personal data – and this requires careful investment in building customer engagement.

EMMA SHEARD

Head of Strategy at Insurance Nexus

#insurancemap

As for data, this is available from a variety of sources. In North America, we find well-established the use of third-party aggregators as a supplement to first-party data, although this data is often neither personal nor in real-time (two key criteria for UBI).

The preeminent ingress for UBI data must remain IoT, which appears not to be quite as well-established in North America as in our other regions. Revisiting our Insurer Priorities section, we should point out that, while IoT was not ranked highly as a priority in any of our global regions, it came out lowest in North America with a rank of 13th (compared to 10th in Europe and Asia-Pacific). We also suggested in our Internet of Things section that Europe has the lead in terms of platform implementation.

These measures aside, Applebaum is quick to point out that all the familiar consumer devices that enable IoT in insurance have a presence in the North American market, from in-car telematics to smart-home security and connected-health devices, and he even points out a couple of areas that are well ahead of the curve:

'I think IoT is catching up but there are a couple of specific areas, like water leaks, where it is quickly gaining traction in the US market, both in personal-line and in commercial-line policies,' he explains. *'IoT devices that control water leakage are becoming very popular.'*

Josefowicz points to the strong IoT opportunity for the US market in commercial property and commercial inventory. Applebaum also acknowledges the property opportunity and hints at some of the innovative uses of drones in this area:

'Drones, which are also IoT devices, are being used by property and casualty companies to examine property damage after catastrophes and storms, saving them a lot of time and money, so people don't have to climb up on the roofs, which is dangerous and time-consuming. So drones, water-leak management and of course telematics are prime examples of IoT where there is adoption.'

Given the strong growth indicators for the next 2-3 years, it would be foolish to read too much into our depiction of North America as an IoT laggard. Indeed, our stats on IoT platform implementation suggested that our key global markets could be aligned in as little as a year.

One extension of IoT that Applebaum flags as a space that insurers are watching closely is autonomous driving.

'We will have a situation where people don't drive cars, where software drives cars and cars don't have many accidents – but when they do, they are going to be extremely serious and will involve large liabilities,' he explains, and we touched on some of these aspects in our section on Europe.

'There is a lot of IoT left where there is no adoption as of yet, it's just being developed, it's emerging, and that would cover all the other 50 billion sensors that are going to be broadcasting data by 2020,' Applebaum concludes.

Insurers looking to usher in the 'new insurance' must, concurrently with expanding their sources of real-time data through IoT, build out their back end so that it can firstly cope with and secondly capitalise on the influx of sensor data; to have the unprecedented volume of customer and thing data that IoT promises but deficient systems for accommodating it would be like striking oil in a world without refineries.

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> The CTO or CIO is driving both the 'cleanup' of redundant systems and systems that don't communicate well but additionally he or she would typically have the responsibility for driving the vision of the future. They need to be finding efficiencies where possible and pinpointing the best investment areas for the future. The CTO must understand the needs of customers, business partners (third parties) and also internal stakeholders such as sales, marketing, actuarial and finance.

DAMON LEVINE

CFA, CRCMP, ERM Practitioner, Writer & Industry Speaker

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Fundamentally, front end and back end must be developed in synchrony, given the dependencies that each one has on the other, although we believe that organisations may place a different emphasis on them depending on the point they have reached in their transformation. One hypothesis would be that focus on the back end – which is the foundation of the whole transformation effort – is higher at the outset and that, with the passing of time and the steady expansion of capabilities, the C-suite's strategic focus shifts towards harvesting the rewards at the front end.

As we may remember from the international priorities table in the Insurer Priorities section, North America has a substantial lead over Europe in Underwriting (by 19 points), Risk Management (13 points) and Product Development (5 points); Europe on the other hand leads North America on Internet of Things (by 11 points), Pricing (9 points), Digital Innovation (5 points), Customer Centricity (5 points) and Claims (3 points).

We feel intuitively that, in the context of emerging UBI models, the priority areas on which Europe leads have more of a front-end flavour, and those on which North America leads more of a back-end flavour (we recall of course the prominence of the 'Legacy systems' challenge). We suggested earlier that the North American market might be marginally behind Europe in terms of customer-led disruption, and it is possible that Europe's front-end overtone reflects this market having progressed marginally further down that path – this can remain a moot point.

Whatever the blend, every insurer must juggle early-stage and late-stage initiatives all at once, managing their investments across these 'tranches' like they'd manage any other investment portfolio.

'We think it's very important for insurers to exist in three timelines at the same time,' emphasises Josefowicz. *'They have to mitigate the limitations of their legacy systems, they have to address current business needs – short-term, tactical business needs – and then they have to keep an eye on the future in terms of how technology is going to change their business tomorrow.'*

How Insurance Must Set its (Digital) House in Order

Standing at the start of the road of digital transformation, incumbent insurers find themselves in many respects in an awkward position. In one sense, operating a pre-existing business should represent a head-start over new players. However, their established systems and processes quickly reveal themselves to be less a blessing than a curse when we consider the rampant dependencies that exist between them. Josefowicz briefly sketches how this becomes problematic for insurers:

'The majority of insurers in the US are working with 20th-century systems that didn't anticipate 21th-century challenges,' he explains. *'Most of the systems of record or policy-management systems that most insurers have are from the 90s or before, and they didn't anticipate this level of digital and this level of analytics, so they aren't necessarily as flexible as they need to be to bring new products to market quickly.'*

It is to the drag of these legacy systems and processes that Applebaum attributes the relative tardiness of the US market (compared to Europe and Asia-Pacific) on which we remarked earlier, with much of the previous generation of technologies being more entrenched in the USA than elsewhere in the world (a good analogy would be with telecoms, whereby cell phones have achieved their highest penetration in precisely those areas where

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Section 3: North America

> “
>
> The key considerations for choosing a technology platform include compatibility with existing customer information storage and analysis platforms at your company. Of course, cost and adaptability to a changing data landscape are also of interest. The regulatory landscape, including penalties for data loss, will evolve.

DAMON LEVINE

CFA, CRCMP, ERM Practitioner, Writer & Industry Speaker

#insurancemap

legacy fixed-line infrastructure is missing). This is presumably reflected in ‘Legacy systems’ rising to first place among the internal challenges in North America while nowhere else getting above second.

The ideal solution to legacy would be wholesale system replacement but, given that budgets are limited, (re)insurers are more often than not forced into an uneasy coexistence with systems old and new. The overwhelming challenge North American insurers face today – starting with their back office – is to orchestrate the myriad pieces of the transformation jigsaw, keeping cost, time and adverse business impacts to a minimum, and we will see that there are various approaches that they can take.

‘The last decade has really been insurers struggling to make their 20th-century systems meet 21st century business challenges, and replacing them when they can,’ notes Josefowicz.

Applebaum observes that digital transformation is overwhelming the resources of most insurers, who simply cannot provide all the pieces of the puzzle in-house, and that this is forcing them to look further afield.

‘Insurers want to be all things to all people, they want to be available by all channels,’ he comments. *‘If they can’t do it internally, for whatever reason – like they’re not fast enough or the skills don’t exist – then they will partner. And if they can’t partner, they’ll buy. But basically, it’s by any means possible.’*

In the longer term, Applebaum believes, many components of the ‘stack’, like the management of IoT data streams, will end up as the preserve of large third-

party software vendors, who can not only specialise but also operate at a scale far beyond that of even the largest insurance carrier.

This will also work out positively in other ways, like from a cybersecurity perspective, because it will shift the liability from the insurer to a third party that can bring to bear a much wider experience with cyber threats. Incidentally, Cybersecurity was one of the priority areas on which North America led our other global regions (see Insurer Priorities).

Alongside legacy, we should draw attention to the regulatory environment – at least in the USA – as another hurdle that insurers have to get over in their efforts to innovate:

‘The regulatory environment in the US is extremely complex, with the insurance industry regulated at the state level, so essentially that’s like operating 50 different insurance companies when you are just one insurance company, because you have to adhere to this never-

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> The most progress will likely be made by partnerships between innovative nimble start-ups and incumbents who are skilled at navigating a highly regulated and complicated ecosystem. Insurtech is not a zero-sum game.

NICK MARTIN

Fund Manager at Polar Capital Global Insurance Fund

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ending, changing regulatory environment, state by state by state,' elaborates Applebaum. *'That's not the case of course in the European markets or in the Asian markets, where country markets are regulated by a single national authority. So that's a real issue for carriers and they're trying to deal with it. It's expensive, it's complex and it's a reality.'*

Josefowicz agrees that regulation will remain a key factor for North American (re)insurers, though he notes that this applies less to the Canadian market, which does not have the fifty separate regulatory regimes on a state level that the USA does. While this framework is indeed onerous, requiring insurers to file for the same product in multiple jurisdictions and potentially structure it differently in each one, insurers at least operate on a level playing field with Insurtechs in this respect.

Indeed, Josefowicz believes that incumbent insurers' established regulatory competence and compliance may be one area where they can convincingly trump new market entrants:

'Most insurance companies that exist are already pretty good at managing the state regulatory process, and in fact they see that as a defensible capability because it's something that they have a lot of experience in that new entrants struggle with,' he says. *'And you can see what happened with Zenefits, where they ran afoul of the licensing requirements, as either inexperience or a willingness to disregard regulatory challenges a la Uber, which is much more painful in the financial-services world than it is in the taxi world.'*

As a final point on this topic, we asked respondents to indicate via an open-text response what regulation was currently the greatest cause for concern. There were too many responses to list everything but one that stood out from North American respondents was the DOL Fiduciary Rule.

Mature Growth: Where are the Opportunities?

If the current renovation underway at many insurers – complex, expensive and ultimately aimed at creating a lower-price model – is perceived as a cloud, then the silver lining is the greater scale that it will enable.

We earlier characterised the North American market as being middle-class and relatively saturated, lacking the low-end market opportunities on offer in many parts of the world, like Asia-Pacific, LatAm and Africa to name a few. While this is a useful designation for understanding how dynamics vary from market to market, it can be misleading: the truth is that, in absolute terms, even 'saturated' markets are underpenetrated.

Simply by rendering the coverage they offer more fit-for-purpose and intuitive, North American insurance players can bring more customers into play in existing segments and product lines – without having to completely reinvent the wheel. This way, even if it does sometimes appear a race to the bottom, the current convulsion in the industry will ultimately result in a denser pie.

Obviously, some products and segments are riper for growth than others, and it is by identifying these early on – as well as the particular customer pain points to be overcome – that insurers can bring much-needed focus to their transformation efforts, which otherwise threaten to become too thinly spread and to do no more than reduplicate the flaws of the legacy business, just in a shinier form.

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"Advanced analytics, combined with digital and social tools, can provide a much more cost-effective way of reaching clients, and educating them about risk and prevention. We know that clients understand the concept of life insurance but still aren't familiar with the products themselves. Through analytics tools and possibly AI we can deliver more information to the market, customised to clients, in a proactive way."

CATHERINE BISHOP

Head of Insurance Strategy and Data at RBC Insurance

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'Insurers need to shift their orientation and look at the needs of individual market segments. Instead of starting with the risk, they need to start with the market,' explains Josefowicz. *'They need to be asking: what kind of coverage does the market need, how much detail do they want in it and how comprehensive does it need to be in terms of what they need to buy?'*

Josefowicz points to several innovative new entrants who are successfully taking this bottom-up approach to insurance.

'There are innovative companies like Slice that are doing insurance for the gig economy, and there are folks like Trōv who are doing single-item insurance in a scalable way – so there are many ways to approach the different kinds of risk that buyers need insuring,' he expands.

In many cases – particularly in mature markets like North America – the factor inhibiting growth is not the price or extent of coverage per se but rather insurers' failure to distribute the product in an appropriate way.

'I think that for some insurance lines, for example in life insurance, the reliance on traditional distribution and traditional sales processes is actually boxing the industry out of some market segments, who just won't tolerate that buying process,' comments Josefowicz. *'Life insurance is very underpenetrated in North America, and I think the opportunity is to use technology to*

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There will be an evolution of customer experience. Economical is the first to launch as a coast-to-coast, fully digital service and there is education required in the marketplace, but my expectation is that others may well follow our path and this will be the customer's expectation.

MICHAEL SHOSTAK

SVP and Chief Marketing Officer at Economical Insurance

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make the buying exercise easier for those underserved segments that have been put off by inefficient and unpleasant buying processes.'

This injunction to double down on the customer – rather than simply redoubling sales efforts on fundamentally outdated products – applies not just to personal lines but also to commercial ones. The reality of doing business, whatever industry you are in, is changing rapidly, and the palette of risks businesses need protection against would be unrecognisable to the insurers of yesteryear, one conspicuous addition being cyber risk. Josefowicz believes that it's still early days but that insurers are now moving towards effective product-offerings in this challenging area.

We have touched on the endeavours of Insurtechs Trōv and Slice in creating more fit-for-purpose insurance products, but it is important to bear in mind that the confrontation between insurers and Insurtechs is not a zero-sum game, given that it is happening in the context of an expanding addressable market. We asked our contributors to go into a bit more detail on how they see this 'confrontation' playing out.

As we see in our other regions, there is a trend towards collaboration between incumbent insurers and Insurtechs. While the disruptive intent of some players is clear, many of them, strongly backed by none other than insurers themselves, will end up as components of the overall technology stack. In some cases, the Insurtech start-up is in fact just an incumbent appearing in a nimbler guise. Applebaum gives the example of Canadian insurer Economical, which recently created brand-new start-up Sonnet as a way of innovating more quickly than they would be able to in-house.

'Economical traditionally was an agency distribution model, so all of their insurance was sold through agents,' clarifies Applebaum. *'Sonnet is a direct-to-consumer business, so that's the way Economical is going to walk both sides of the street.'*

Josefowicz stresses the role of Insurtechs as trailblazers over and above their much-hyped role as predators.

'A lot of the new entrants are pointing the way. I don't know how many of them will become significant competitors in and of themselves, but they are clearly demonstrating to insurers that there is an opportunity to engage differently with customers and that customers are hungry for a different type of engagement,' Josefowicz explains. *'To put it in a capsule, I don't think Lemonade is going to become the biggest personal insurer in the world, but I do think a lot of personal insurance is going to look like Lemonade in the near future.'*

Following Insurtechs down this route, be it through imitation, partnership or outright buying, will allow insurers to open up and serve those market segments that have hitherto been cut out of traditional forms of distribution and service – much like prospectors returning to bypassed reserves in mature oilfields – and this is where they should set their sights.

'I think the most successful Insurtechs will be purchased by insurers, similar to the Allstate purchase of Esurance from the previous generation of e-insurance start-ups,' Josefowicz concludes.

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> The Canadian insurance industry has made significant strides in adopting analytics and embracing new technologies. We can see through the examples of the 2016 Insurance Analytics Canada Innovation Award winners Opta and The Cooperators how significantly those at the helm of the ship are steering the industry forward!

MARSHA IRVING

Head of Innovation / Commercial Director at Insurance Nexus

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LOCAL TRENDS: NORTH AMERICA

Local Trends: North America
This region was straightforward to segment, as it contains only the United States and Canada.
While these two countries are unsurprisingly well-aligned, some local tendencies can nonetheless be discerned across the varying challenges and priorities identified by respondents in each one. Let's quickly run over the ones that stand out the most…

External Challenges: Local Variations
Both 'Catastrophe risk' and 'Climate change', which are low-ranking challenges in the USA (and in most of the regions we have considered around the globe), are mid-ranking challenges in Canada.

'Increased competition' and 'New entrants to the market' are high-ranking challenges in the USA but low-ranking challenges in Canada.

'Increased regulation' is a noticeably higher-ranking challenge in Canada than in the USA.

Internal Challenges: Local Variations
The USA and Canada are closely aligned.

Insurer Priorities: Local Variations
The insurer priorities overleaf are in the same rank order as in our Insurer Priorities section (as voted by North American insurers). In each case, we give an indication of any local differences we detected between the USA and Canada.

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LOCAL TRENDS: NORTH AMERICA

DIGITAL INNOVATION	is a high-ranking priority in both countries but only makes the top spot in Canada
ANALYTICS	is aligned across both countries
CUSTOMER CENTRICITY	is a high-ranking priority in both countries, coming in absolute top position in the USA
CLAIMS	are aligned across both countries
PRODUCT DEVELOPMENT	
DISTRIBUTION DIVERSIFICATION	
REGULATION	is a low-ranking priority in the USA but a mid-ranking one in Canada – this is consistent with 'Increased regulation' being adjudged a bigger challenge in Canada than in North America
RISK MANAGEMENT	is a lower-ranking priority in the USA than in Canada, coming in second-to-last place there
PRICING	are aligned across both countries
CYBERSECURITY	
MOBILE	
INTERNET OF THINGS	is a mid-ranking priority in the USA – like in most of the regions we have assessed globally – but emerges, intriguingly, as a very low-priority item in Canada, in second-to-last position
FRAUD	is a low-ranking priority in both the USA and Canada, though lower in the former, where, in fact, it came in absolute bottom place
INVESTMENT MANAGEMENT	is a low-ranking priority in both countries, though with fractionally more interest in Canada

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Asia-Pacific

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TURN OVERLEAF FOR THE FULL REGIONAL PROFILE...

MARKET CONDITIONS	Legacy Burden	50
	Regulatory Burden	64
	Disruption Score	47
STRATEGY	Digital Strategy	74
	Mobile Strategy	61
	Cross-Platform Strategy	61
	Omnichannel Strategy	57
CUSTOMER	Aggregator Impact	37
	Customer-Centricity Appraisal	40
	Customer Engagement	28
	Consistent Customer Experience	9
	Direct-to-Customer	84
	UBI Strategy	33
CLAIMS	Before-the-Claim Fraud Strategy	70
	Automated Claims Handling Process	41
	Claims Loss Mitigation	46
TECHNOLOGIES	IoT	46
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> The most significant challenges for insurers in Asia, from an IT perspective are: firstly, moving services to online sales – for agents, brokers, bancassurance and direct to customers; secondly, providing instant and ideally paperless servicing on claims management; and finally, the development of Chinese Insurtech players if they decide to compete outside of their local market.

ASH SHAH

Regional CIO and Chief of Staff Property and Casualty at AXA Asia

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In this section, we present our regional profile for Asia-Pacific, bringing into play the statistics we have laid out over the two preceding sections on Global Trends and Key Themes.

We begin with a look at how trends in APAC compare to our global trends (internal challenges, external challenges and insurer priorities).

We then examine where the region stands in relation to some of the more specific themes covered in this report, with direct contributions from three of our in-region commentators:

- Steve Tunstall, CEO at Singapore-based Insurtech start-up Inzsure
- João Neiva, Head of Innovation, IT and Business Change at Zurich Topas Life in Indonesia
- David Piesse, Chairman of IIS Ambassadors and Ambassador Asia Pacific at the International Insurance Society (IIS), based in Hong Kong

We close this section with a look at local variations within the region, focusing on two broad country groupings.

External Challenges: Asia-Pacific

In Asia-Pacific, the top external challenges follow the global trend with 'Technological advancement' and 'Changing customer expectations' taking first and second place respectively, except that, as in North America, in third place we find 'New emerging risks' (by way of comparison, this challenge only makes 6th place in Europe).

One possible explanation for the higher ranking of 'New emerging risks' is to be found in the related challenge of 'Catastrophe risk' – which also results one place higher in Asia-Pacific than was the global trend.

CHALLENGE	RANK	VS GLOBAL
Technological advancement	1	-
Changing customer expectations	2	-
New emerging risks	3	+1
Digital channel capabilities	4	-1
Increased competition	5	+2
Changing economic conditions	6	-1
Increased regulation	7	-1
Catastrophe risk	8	+1
New entrants to the market	9	-1
Climate change	10	-
Absence of a clear strategy	11	-
Lack of company investment	12	-

+1 indicates that a challenge is one place higher in APAC than globally

While natural catastrophes are not emerging risks, in the sense that they have always occurred, their consequences are becoming more multifaceted as a result of the massive growth in urban areas and the rife internetworking of business in today's globalised economy. This has introduced a new class of accumulation risk which could justifiably be called 'emerging'.

We know anecdotally that this phenomenon is particularly pronounced in the APAC region, which boasts some of the densest urban and business conglomerations in the world, in and among noted catastrophe zones, and the trend towards urbanisation and megacities is only set to continue.

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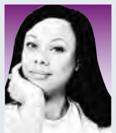
"Doing nothing is not an option any longer. The top priority for many CEOs is to acquire the capabilities to deliver true digital innovation that achieves competitive advantage in a very short period of time. Understanding the agile and flexible lean techniques used within the start-up world can help. Analytics, the IoT or mobile are just enablers to ease such transformation.



SABINE VANDERLINDEN
Managing Director at Startupbootcamp

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Another detail we notice with the external challenges is the relatively high position attained by 'Increased competition' (two places up on the global trend), and we believe this is a natural consequence of the expansion opportunities on offer in the region. As will become clear from the remainder of this section, this uneasy marriage of high growth and high competition is in many ways APAC's defining market characteristic: to win is only ever to win big.

Internal Challenges: Asia-Pacific
The internal challenges highlighted by APAC respondents exactly replicate the global trend we outlined in the first section, with a top three constituted by: 'Lack of innovation capabilities', 'Legacy systems' and 'Finding and hiring talent'.

CHALLENGE	RANK	VS GLOBAL
Lack of innovation capabilities	1	-
Legacy systems	2	-
Finding and hiring talent	3	-
Siloed operations	4	-
Lack of company-wide dedication to core priorities	5	-
Mergers & acquisitions activity	6	-

+1 indicates that a challenge is one place higher in APAC than globally

Insurer Priorities: Asia-Pacific
These are the priority areas on which Asia-Pacific insurers lead, as detailed on our medals table in the Insurer Priorities section.

ANALYTICS

DISTRIBUTION DIVERSIFICATION

DIGITAL INNOVATION

INTERNET OF THINGS

PRICING

FRAUD

We reprise these regional challenges and priorities over the coming pages, in which we present a qualitative market overview through the perspectives of our regional contributors Steve Tunstall, Joao Neiva and David Piesse. Points of interest include:

- The high-growth, high-competition dynamic inherent in the Asia-Pacific insurance market
- The new calling for customer-centricity and the related question of disruption
- Using data and analytics to create more customer-centric products, such as personalised, on-demand insurance
- APAC distribution landscape and what insurers are doing to ensure scale for their products
- How to successfully manage back-office digital transformation

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“The biggest challenge for Asia is the risk-averse mindset of people, who really need to adopt faster, and be more dynamic and agile in delivering solutions. This impacts the ability to deliver flexible changes in Asia at a reasonable pace.

ASH SHAH

Regional CIO and Chief of Staff Property and Casualty at AXA Asia

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Asia-Pacific: Large Pie, Many Forks
We begin with a high-level characterisation of the APAC market, which is very different from the others we present in this report.

First and foremost, we must emphasise its sheer size and diversity: we are considering an arc from Pakistan in the West to Japan in the East, incorporating on its way all of Australasia and taking us to a total population well in excess of 4 billion people, many of whom find themselves in high-growth emerging markets. As Singapore-based Steve Tunstall aptly summarises:

‘You're talking about a region with more than half the world's population now, you're also talking about a region with probably three quarters of the world's GDP growth for the next 50 years… North America and Europe are probably going to stay pretty flat, and Asia is going to go gangbusters between 3 and 6%. So in terms of growth, all the opportunities are here. In terms of technology penetration, some of the countries here are already world-leading.’

This growth (made up of both new and existing business) will fundamentally be driven by two things: the continued development of an already burgeoning middle class and hundreds of millions of people coming onto the insurance radar for the first time. By comparison, the West is relatively saturated from an insurance perspective – penetration is higher and the underlying wealth of those with policies is not drastically changing, nor is it projected to change a huge amount over the coming decades.

Multinational insurers are therefore looking to Asia-Pacific to be the key engine for growth in their global business, and

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Section 3: Asia-Pacific

> Through innovation and use of AI and machine learning, startups are already challenging the leaders on the low levels of trust and satisfaction of their clients. Incumbents have to follow the trend, by building partnerships, with these startups for instance.

MINH Q TRAN

General Partner at AXA Strategic Ventures

#insurancemap

they are seeking to achieve this by providing more value to customers for less cost and by boosting policy distribution; insurers don't just need affordable, value-adding products to sell, they need a low-cost way to get them in front of potential customers without destroying their margins.

A large prize necessarily invites takers, and the APAC insurance market is no exception. We have already noted the prominence of the 'Increased competition' challenge. Furthermore, of our three key regions, Asia-Pacific had the greatest number of (re)insurers indicating lost market share (a stat we termed our 'disruption score' in the Insurtech Perspectives section).

This eroding market share reflects both the rapidly growing APAC market – you must grow just to stay the same in terms of market share – and the disruptive approach of non-traditional entrants who are challenging the traditional insurer-customer relationship. Indeed, we have characterised Asia-Pacific as the most disrupted of our three key regions, something we explore in greater detail in the next sub-section and which we have touched on in any case in our dedicated profiles on Europe and North America.

In addition to its enormous size and growth potential, another key characteristic of the APAC market is the variation between the different national markets it comprises, which is perhaps greater than what exists in any other global region, and this is often as cultural as it is economic.

'Individual markets over here are at very different stages of development,' comments Tunstall. *'HK, Singapore, Japan, Taiwan and Korea lead the world in technology penetration — HK has the highest penetration of smart phones in the world. But if you go to Indonesia, a lot of China in the West, Vietnam, Cambodia, Thailand, large parts of Malaysia, and certainly when you get as far across as*

India... The technology is penetrating through but whether the population would ever buy insurance is another matter entirely.'

The peculiar dynamic of the Asia-Pacific market – where, crudely put, insurers are attempting to meet the needs of both new customers in underdeveloped markets and existing customers in developed ones – is reflected in the lower focus we found in the region on customer loyalty (relative to more saturated, stable markets like North America).

Product diversification on the other hand is a key component of chasing new customers, and we see this accorded substantial importance by APAC (re) insurers, a large majority indicating that it informed their organisations' growth strategies.

Fulfilling the Customer Covenant

As we have outlined, the market opportunity in Asia-Pacific consists firstly in the millions of current customers (typically in the emerging middle class), whose ties to traditional insurance models are perhaps not as strong as we find them in the West and who are therefore susceptible to the offers of new market entrants, and secondly in the

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> If insurance works openly on data not to follow but to generate the wave there is a lot of opportunity out there. Pay-per-use has a lot of applications. Companies like Zhong An have a huge knowledge of the customer and are using all that intel to provide appropriate services and products. As a result, they're growing every month. A lot of companies go online and open a shop but it's just a version of the shop they have offline. The behaviour of customers in a marketplace for example, is very different.

MARCO BUCCIGROSSI

Business Development Director, Mapfre

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millions of new customers, generally on low incomes, who have not had insurance before and whom existing insurance business models may be totally incapable of addressing.

Insurance has for some time now been on the sleepier side of financial services, and insurers have perhaps taken their steady business for granted. However, this is changing fast with the advent of Insurtech and the entrance of dynamic new players into the insurance market.

For example, 2013 saw the formation of Alibaba-backed digital-only insurance firm Zhong An, which underwrote over 630 million policies and serviced over 150 million clients in its first year of business alone. [1]

Such a sudden change of pace, with new entrants quick to recognise and exploit what makes today's consumers tick, regardless of which market category they are in, makes it more important than ever for insurers to re-evaluate their relationship with the customer and the value proposition they are offering. However, Tunstall for one believes that the incumbent insurance market has been slow on the uptake and is still not putting together products that meet customer needs, in commercial and personal lines alike.

'The big issue is that, if it's not careful, the insurance sector is becoming less and less relevant,' Tunstall elaborates. *'10 years ago as a risk manager, you'd sit down with the CEO and work out what all the big risks were across the organisation, and perhaps as much as 20% of those risks would be insurable. That's probably down to 15% or perhaps even 10%. The business world is moving incredibly fast and insurance isn't.'*

One key commercial area where insurers are failing is cyber protection, and given that commercial customers' businesses are only going to move more online – and not

less – this represents a considerable missed opportunity on the part of insurers.

'They just don't have the capability or the skillset to produce things that customers want to buy, particularly with so-called cyber products that mostly don't cover the specific risks that the clients are concerned about,' explains Tunstall. *'There's a total disconnect there between the reality of business for all the Fortune 500 companies in the world and what insurers think they're going to provide them by way of services and products.'*

This lack of readiness is reflected also, Tunstall believes, in the personal lines, where he foresees the rapid onward march of peer-to-peer (P2P) platforms. This is by no means to signal total doom and gloom for incumbents seeking to adapt to this huge customer-driven shift, which after all enfolds far more than just the insurance industry. But it is clear that insurers, now more than ever, must work harder to ensure relevance to consumers.

'There needs to be a massive sea-change in their approach. Some of these guys, they are changing, but they're just making better and better carts to go behind horses while their clients are driving around in cars,' he concludes.

[1] insuranceasianews.com/news/zhong-an-insurances-value-set-to-pass-usd10bn-after-first-financing-round/

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Many APAC carriers are in the process of establishing transformation teams and incubators in order to fast-track customer-centric innovation both within, and without, their four walls. A good example of this is IAG's recently announced Insurtech hub in Singapore (Finmark Labs).

MARIANA DUMONT

Head of New Projects at Insurance Nexus

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Despite this, it does seem that insurers in the region are heeding the message and waking up not just to the market threat but also to the sizable market opportunity. Across our statistics, we see a veritable obsession with the customer in Asia-Pacific! Let us quickly review the different ways that (re)insurers here are prioritising the customer:

- A greater proportion of APAC respondents indicated that they would be seeking third-party services relating to Customer-Centricity than was the case with Europe & North America
- When we look at new job roles being created within insurance organisations, the post of Chief Customer Officer is particularly prominent in Asia-Pacific, standing out alongside Chief Digital Officer and Chief Information Security Officer
- Asia-Pacific leads on Digital Innovation as a priority area (over our other major regions), and comes second to Europe on Customer Centricity by only 1 point (see Insurer Priorities section)

As we pointed out in our Marketing and Customer-Centricity section, measures of customer priority and measures of customer performance stand in stark contrast to one another (all our regions expressed dissatisfaction in relation to the customer-centricity of their organisation, meeting customer expectations and levels of customer engagement). While only a small minority of insurers globally reported that their customer experience was consistent across channels (essentially a measure of omnichannel performance), Asia-Pacific trailed our other regions on this important performance measure (see our Distribution section).

With its current deficiencies but firm stated aims around the customer, it is clear that the insurance industry in Asia-Pacific is going somewhere – but it has not arrived yet. As their efforts prioritising the customer begin to bear fruit over the next 2-3 years, we expect the relatively negative self-assessment of APAC insurers regarding their customer performance (including their cross-channel consistency) to right itself.

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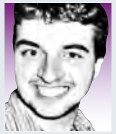
> Carrier perceptions of market-share loss in Asia-Pacific may well adjust down over time, even as Insurtechs continue steadily to gain traction. While carriers may have 'priced in' the potential for a rout, new entrants still face numerous issues, scale and regulation being just two. It may be a couple of years before we have a mature assessment of where the market is headed.



ALEXANDER CHERRY

Head of Research at Insurance Nexus

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Throughout this report, we have tended to see in this combination of high customer priority and low customer performance the hallmark of market disruption; the more unwanted competition insurers face, the more forcefully they will prioritise customer-centricity initiatives.

Out of our three key regions, we have tentatively characterised Asia-Pacific and Europe as the more disrupted markets on account of their strong prioritisation of the customer, leaving North America as a (relative) laggard. In our section on Europe, we further categorised Europe as the longest-disrupted of our markets and Asia-Pacific as the most disrupted. By this we meant that the 'wave' of disruption is right now breaking over Asia-Pacific, having broken on Europe some short time ago.

In support of this (and you can read more in our Europe profile), we pointed to Asia-Pacific's lower score for cross-channel consistency compared to our other regions. In light of what we know more generally about disruption in Europe, a higher level of cross-channel consistency here could be interpreted as European insurers beginning to see some material fruit from omnichannel initiatives already partway towards full implementation. Similarly, we noted that Chief Customer Officer was not a significant recent appointment in Europe and suggested that the issue was not so much with the significance of the role but with its recency, concluding that the first wave of appointments in this field had already passed.

What all this means is that European (re)insurers have had time to take some small steps towards a new normal or to at least adjust psychologically, while their APAC counterparts are at the point of maximum panic. This is reflected ultimately in the divergent 'disruption scores' of the two regions, in which there may well be a substantial psychological component: only a small minority of (re) insurers in Europe (23%) reported losing market share to new entrants, while in Asia-Pacific this figure rose all the way to 47%.

We emphasised in the Europe section that the journey through disruption is not going to be linear, and it is near-certain that the material level of disruption will rise in all our markets. Also, different markets will likely move along different trajectories, so it will be interesting to see whether European (re)insurers retain their early-adopter status given the on-going transformation efforts of their counterparts in APAC.

Towards Slick, Personalised, On-Demand Insurance

If they are to prevail in the face of market disruption, insurers must woo consumers with a fundamentally new kind of customer-centric insurance product: easy-to-use, personalised and on-demand. Let us review the progress currently being made in this direction by insurers in Asia-Pacific.

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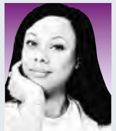
Advanced analytical modelling is seen as the new currency for predicting customer needs and delivering insights to build really innovative insurance products and adapt processes where they are broken... while at the same driving heighted transparency where required.



SABINE VANDERLINDEN

Managing Director at Startupbootcamp

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João Neiva, speaking from his experience as Head of Innovation, IT and Business Change at Zurich Topas Life, gives some background on how his Indonesian team are updating products and services to reflect their understanding of today's customer. To start with, he warns against customer-centricity for its own sake, noting that it is easy to make a vice out of a virtue.

'Sometimes, from the perspective of a customer, we get carried away with providing self-service functionalities because the trends show that everyone now has a mobile phone, or more than one, so let's go crazy and make sure that the customer can go through the whole process pretty much on their own,' says Neiva. *'However, I think sometimes we don't ask the customers and we just assume that they want it.'*

He counsels a healthy degree of pragmatism when trying to understand the customer's most pressing needs – at least as far as personal-lines insurance is concerned. For most people, insurance is simply not top-of-mind, and customers consequently are more likely to value a convenient, simple experience from their insurer than a high-spec, over-engineered one (buying insurance is not like buying a games console).

'Customers want simple documentation. They want plain, understandable wording, visual if necessary, they want real-time quotes and purchase for a product, preferably by mobile,' Neiva points out.

For Neiva, providing clarity to customers regardless of which channel they have come through, for example on the status

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> The Internet of Vehicles (IoV) and Connected Cars is a market that's growing tremendously fast in China. Many analysts have highlighted this trend. Baidu is investing in the Autonomous Car and wants to connect all the customer knowledge it has to exploit this new business model and generate new revenue streams. In my opinion, it's strongly linked to insurance companies' need to generate new, not totally insurance-related revenues. It may mean losing their orthodoxy but ultimately satisfies their customers and CFOs.

MARCO BUCCIGROSSI

Business Development Director, Mapfre

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of their policy, may be more important to them than the absolute speed of issuance:

'On the New Business side, customers want transparency about the next steps, they want a clear view of what to expect. They want to know when their policy will be issued or if they need medical tests. So what does that mean? Does it mean that the policy needs to be issued in one day, instantly, less than 2 hours? Is issuing a policy in 20 minutes really relevant?

I think that, from an operations perspective, sometimes we get carried away with shortening the processes when that may not actually be what customers are wanting.'

New Business is a good example of where process overhaul can make a major difference to customer experience – and one that is genuinely felt and appreciated by the customer. But customer experience is not exclusively about ease of use; another easy win for insurers chasing the customer-centricity grail resides in the product itself, namely by making it more flexible and personal, in line with the multitude of other 'on demand' services that today's consumers are coming to expect as the norm.

We see the same trend towards Usage-Based Insurance (UBI) in Asia-Pacific as we see elsewhere in the world, and this relies (as elsewhere) on making innovative use out of customer data and analytics so that prices reflect individuals' actual behaviour over policy spans of their choice.

'We've got a lot of data, we know a lot about customers, we know about their health, we know about their income, we know about their lifestyle and we do little with that data,' comments Neiva. *'So we're starting with some proofs of concept in those areas as well.'*

Asia-Pacific leads on Analytics as a priority area (along with North America), which reflects the growing importance of this technology class in the region. Also, in line with our global trends, we generally find investment in analytics increasing in Asia-Pacific, and analytics-related services are also highly sought after among the third-party service types we have assessed on. Additionally, a majority of our respondents in the region reported that they were coordinating their analytics strategies across their organisations, and we also found a reasonable incidence of formal data-governance strategies.

In our Analytics section we noted a potential lag in external data usage in APAC, and our broader research tells us that the culture of third-party data aggregators is less well-established here than in the West, with (re)insurers basing their models primarily on data they have collected themselves, or on publicly available data.

The Internet of Things (IoT) is a core component of any long-term UBI strategy. Half of respondents in Asia-Pacific report having an IoT strategy, in line with our other key regions, and this was a priority area on which the region led (see Insurer Priorities).

Smartphone penetration in many parts of Asia-Pacific is excellent, with eMarketer recently estimating, as an example of this, that 70% of people in Hong Kong are smartphone users[2]. This is already acting – and will continue to act – as a major enabler of IoT solutions, especially in health, where the smartphone acts as a hub for one or more m-health devices, and which was, as we recall from our section on Product Development, the insurance line driving the greatest level of product innovation in Asia-Pacific.

Even though Internet of Things was a priority on which Asia-Pacific led (compared to our other regions), and even

[2] emarketer.com/Article/Nearly-Seven-10-Hong-Kong-Residents-Use-Smartphones/1014941

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"Insurance firms hold a lot of data today which can be referred to as a coal mine. But very few insurers have been successful in mining and turning this data into a gold mine. My view is insurers are in a learning process today, but the culture of 'fail fast' needs further adoption.

ASH SHAH

Regional CIO and Chief of Staff Property and Casualty at AXA Asia

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though IoT-related services were a sought-after category of third-party services in the region, it is Europe that our stats on implementation currently put ahead of the curve (see the Internet of Things section). However, our key regions are set to be very much aligned within 12-24 months.

There are certainly some infrastructure issues when we consider Asia-Pacific as a whole; Neiva for one notes the continuing importance of offline data-gathering in wide areas of Indonesia. For certain IoT use cases as well, the cost of connected devices may be prohibitive. A modest majority of respondents in Asia-Pacific believed that IoT will impact claims departments, in which there exists a strong focus on claims loss mitigation.

The second phase for insurers who have created more personalised, flexible products – after gathering sufficient customer data – is to move on to recommendations and bundling. This way, the investment in personalising for an individual customer, which is of course more expensive than having one-size-fits-all policies, can pay off handsomely in upsell opportunities.

In our section on Product Development, we found that around half of APAC insurers are indeed bundling products based on customer-lifestyle analytics, in line with our other key regions. This goes to show that even if your primary focus is on breaking into new markets and segments, there is no reason not to maximise the lifetime value of each new customer in the process.

The more intimate insurer-insured relationship that we see emerging is not just positive in the sense that policyholders can receive some form of rebate or benefit-in-kind for their good behaviour. As an extension of this, insurers can actively incentivise customers towards lower-risk actions. We see this particularly in Health and Auto insurance (which are the two insurance lines driving the most innovation at present in Asia-Pacific).

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Forward-thinking regulators can have an enormous positive impact on market development. Take the Monetary Authority of Singapore (MAS) for example, which launched a Regulatory Fintech Sandbox back in June 2016 – this is a great way to encourage Financial Institutions (FIs) and Fintechs alike to openly pursue innovation without being put off by the fear of regulatory non-compliance.

MARSHA IRVING

Head of Innovation / Commercial Director at Insurance Nexus

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As the information exchange between the insurer and the insured improves and becomes more regular, in a virtuous circle of trust rewarded, insurers are coming into possession of more and more customer data. Holding all of this, however, comes with a number of unwelcome consequences.

The first that springs to mind is the impact of regulation, with customer-privacy laws causing insurers a considerable headache. While the emergence of Regtech should take some of the sting – and the cost – out of complying with regulation, customer privacy is not the only aspect on which insurers need to be careful: they also need to secure all their data against the spectre of cyber-attack, especially with the proliferation of attack vectors brought about by IoT.

Compromised data means compromised insurance models – regardless of the sophistication of the modelling – and this has the potential, like an algal bloom, to irrevocably contaminate the early-stage data lakes being created in the region. HK-based David Piesse, Chairman of IIS Ambassadors and Ambassador Asia Pacific at the International Insurance Society (IIS), is keen to impress how data breaches should be every bit as high up on insurers' priority lists as issues around customer privacy.

'Asia Pacific is only starting to look at regulations for data breach as opposed to data privacy laws, which have been around for some time,' he expands. *'Digitisation is leapfrogging in Asia and so are industrial parks with smart devices and machine learning running the processing. Because of global supply-chain issues, this makes the need to mitigate and protect data integrity an urgency even without regulation where best-practice risk management must be implemented.'*

One issue (as with the similar problem of fraud) is the time it takes for breaches and compromise to be discovered and addressed:

'The time from compromise to discovery in Asia is now on average 580 days according to statistics,' says Piesse. *'Therefore, we must assume compromise of data across time, as there have been no notification laws and hence no catalyst to mitigate. This is why there is concern in Asia-Pacific.'*

Let us return briefly to the question of regulation, as it is often the regulator that stipulates what constitutes a legitimate use of customer data, as well as how that data is to be secured.

Asia-Pacific comprises a host of different regulatory regimes across all its constituent markets (there is no such thing as an APAC regulator), so it is difficult to talk in general terms about regulation in the region. Suffice to say, we can regard as exemplary the regulatory environments in Singapore and Hong Kong, which are proactively driving Insurtech and Fintech innovation forwards, for example through the creation of regulatory sandboxes[3].

In Asia-Pacific, we found a marginally lower level of historical impediment through regulation than in our other key regions, although all our regions were aligned in their belief that regulation was greater cause for concern this year than last. The smaller regulatory impediment compared to North America and Europe is perhaps a consequence of APAC being made up (in the main) of large national markets, with neither the centralisation of the EU nor the federalisation of the 50-State USA.

Getting Smart About Distribution

In the previous sub-sections, we have given due attention to the customer-centric battle cry echoing across the APAC

[3] mas.gov.sg/Singapore-Financial-Centre/Smart-Financial-Centre/FinTech-Regulatory-Sandbox.aspx

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> We know already what you want, we can deliver unbiased search. It all comes down to predictive analytics. If, for example, the customer has an iPhone 7, comes to GoBear through a certain channel and travels regularly to Hong Kong, we know based on your profile that there are only going to be three insurance companies you are interested in.

ANDRE HESSELINK

CEO at GoBear

#insurancemap

insurance landscape. However, understanding the modern consumer and creating products and services to meet their needs is only half the problem.

Customers want on-demand; customers want personalisation; customers want to receive products and services via the channel(s) of their choice – but not at any additional cost, as insurers' brethren in the retail and logistics industry have already found out to their dismay.

This makes it imperative for insurers to reduce unit cost however they can, and this has multiple aspects to it. On the one hand, insurers can control the cost of the back-end systems and the processes supporting the new customer covenant, and this certainly forces them to prioritise what is really required. On the other, they can seek to reduce front-end costs, namely distribution. All of this reduces the amount that needs to be added back onto customer premiums and allows insurers to offer more competitive pricing.

Operating these two prongs in unison – back-end and front-end efficiencies – will ensure that insurers' products are competitive in their middle-class markets, where new entrants are constantly trying their charms upon a fickle audience, as well as opening up the myriad uninsured for business and thereby enabling vast scale to be reached. We will look at what insurers in Asia-Pacific are doing from a systems-and-processes point of view in the next sub-section; here, we focus on what they are doing to reduce the cost of distribution.

Firstly, let's take stock of the distribution situation in the region. Anecdotally, we know the market to be highly intermediated, with agencies and banks playing particularly significant roles. However, our stats showed the direct-to-customer channel to be highly available (with over three quarters of insurer respondents affirming its existence).

This is totally in keeping with our characterisation of Asia-Pacific as a highly disrupted market. Our position throughout this report has been that customer disruption (which we have already discussed) ultimately stems from distribution disruption, in the sense that it is new (digital) channels that have expanded consumers' horizons to the new world of products, services and customer service that they now demand as the bare minimum. With consumers moving over to digital, insurers have no alternative but to make themselves available via this channel as well.

Availability is not of course the same as volume, and wider evidence on the APAC market indeed points to this still being a relatively insignificant channel volume-wise, compared for example to bancassurance and other face-to-face channels. Recent research from Swiss Re and LIMRA indicated that the direct channel does not exceed 10% of

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"It's hard for intermediaries. This middle man is only useful if they can provide a great customer experience. Lots of companies are trying to build those platforms but often only replicating the online model they have offline instead of rethinking it. Additionally, the big risk is that the market and the customer are going faster and faster and companies are left behind.

MARCO BUCCIGROSSI

Business Development Director, Mapfre

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total business in any Asia-Pacific national market apart from China[4], for which we have already drawn attention to the meteoric rise of the online player Zhong An. The lesser volume of the direct channel within the region as a whole is reflected in the relatively low aggregator impact we measured for Asia-Pacific in our Distribution section (compared to our other key regions), bearing in mind that aggregators predominantly operate through digital channels.

As increased availability of digital channels reflects changing consumer behaviour patterns more generally, we expect these to bulk out over the coming years. For the time being though, the lion's share of insurance business in the region still happens via traditional brokered channels.

These broker channels are highly fragmented, incorporating agencies and banks of all shapes and sizes, each one with a different working culture, a different sales ethos and often different technological constraints. This does not just make it more difficult to offer prospective customers a consistent experience across multiple channels, it is also far from being conducive to the rapid scale that insurers want to achieve with their new-age policies.

Indonesia is a case in point, with in excess of a quarter of a billion people spread over nearly 1,000 permanently inhabited islands. Neiva, working out of Jakarta, depicts the situation in the following terms:

'We've got 6,000 distributors spread all over the place. Indonesia is not known for its technology or its network infrastructure, so there's a big challenge there in terms of connectivity. So whenever we bring digital solutions, the challenge is that it needs to be online and offline.'

It's clear that insurers in Asia-Pacific are trying to break the shackles of this legacy distribution landscape; indeed, Distribution Diversification was a priority area that Asia-Pacific led on by comparison with our other regions. Given the high mobile penetration in the region as a whole, the direct-to-customer channel certainly makes a lot of sense in that it allows people to access insurance via a device they already possess. As this is not just widely available but also effectively free of charge, we expect it to be particularly useful for the distribution of microinsurance products in the region.

While the direct-to-customer channel will certainly become more significant as time goes on, it is not the only answer to insurers looking to access the huge new market segments on offer in Asia-Pacific as well as to keep the trust of fickle existing customers.

Affinity partnerships, whereby insurers piggyback on other brands already established in consumers' lives, are a path insurers continue to explore. This is a trend the world over (we explore it also in our sections on LatAm and Africa) but we have reason to believe that it will be particularly pronounced in Asia-Pacific.

'We're looking into partnerships with companies from different sectors: how we can plug in, bringing the insurance dimension and being the insurance carrier while the partner does all the front-end customer-facing stuff,' explains Neiva. *'And as I like to call it, we're just a third-party API.'*

He goes on to give an example of what this 'API culture' might mean for insurers.

'If we want to tap into Uber customers, we'll be another API into the Uber app,' elaborates Neiva. *'We're not the front end, we're not the market-facing bit. And the second thing is: we*

[4] swissre.com/reinsurance/insurers/life_health/Distribution_in_Asia_life_and_health_insurance_channel_and_product_preferences.html

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It is important to be nimble to the extent possible, in terms staffing and financing. Procedures must be on the shelf so that you can move fast when the opportunity presents itself. There also should be the culture for trying things but 'failing fast' and not on a large scale when it does occur.

DAMON LEVINE

CFA, CRCMP, ERM Practitioner, Writer & Industry Speaker

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can be the market-facing bit but live with 3rd-party APIs from other companies. That's how I see it's going to move: more from these partnerships between insurance companies and others, not only banks but other companies too, that will add to the customer base.'

It goes without saying that the affiliate channel can also exist without APIs. It can be of enormous help to an insurer to use the scale of a large retailer or telco in the same way as they have used, and continue to use, their traditional banks and brokers. As an example of this, we last year saw BIMA, a leading provider of mobile microinsurance (MMI), partner with mobile network operator Digicel in order to access their subscribers in Papua New Guinea[5] and Fiji[6].

Fast-Tracking Digital Transformation

Now we turn to what APAC insurers are doing with their back office to facilitate their new customer-centric insurance model — at a commercially viable cost. There is no point coming up with a winning concept and getting it in front of millions of customers only to see your engine room break down or to rack up such a high bill that you can't make any money.

Admittedly, it is hard to completely separate the problem of back-office transformation from the broader questions relating to distribution and the customer relationship. If you are able to achieve gargantuan scale with your products, then you can naturally afford more upfront investment in the back office. Similarly, if you reckon on being able to convert bad risk into good risk via incentives (especially in Health and Auto insurance), and just as importantly you can convince prospective customers of this, then you can go after low-end demographics at initial policy prices that don't – on paper – make business sense.

These above factors are all very much unknown quantities,

and if, having made your infrastructure investment, you are unable to achieve the scale for your products that you reckoned with, then you may even end up going bankrupt – so the question of digital transformation is certainly a loaded one, and insurers will generally prefer to make their quantum leap in manageable, auditable stages, rather than going for broke and hoping scale pays the bills.

It is in these terms that Neiva frames the digital-transformation efforts within his team in Jakarta:

'For the next 12 months, our challenge is: how do we make sure we drive efficiencies by digitising a lot of the back end to then drive the unit cost down,' he muses.

This need for a strict balance between investments and deliverables harks back to an important principle we identified in our earlier sub-section looking at customer-

[5] microinsurancenetwork.org/groups/bima-partners-digicel-papua-new-guinea

[6] microfinance-pasifika.org/bima-launches-new-microinsurance-programs-in-the-pacific-islands/

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"One of the first steps is to digitise services and sales platforms, the second is to modernise and simplify core policy administration systems, and the third is to move to a modular solution on pricing, underwriting and servicing to ensure flexibility to better serve customers.

ASH SHAH

Regional CIO and Chief of Staff Property and Casualty at AXA Asia

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centric products, namely that it is better to achieve more straightforward objectives with flying colours than to promise things that aren't really essential and then underdeliver.

Personal experience teaches that our satisfaction with a product or service often has more to do with what we have been led to believe about it than with the objective quality of the final thing; in this way, a tin of beans that 'does what it says on the tin' can procure a more positive customer experience than second-rate caviar.

Neiva's principles of clarity and transparency, which we touched on earlier, operate very much along these lines. The primary goal of insurers needs to be *to not disappoint* the customer. Once this condition is met – and only when this condition is met – should insurers start pursuing more high-flown goals, such as one-hour turnaround for claims resolution.

'Digitalisation's first stage is pretty much front-end: we try to make things nice for our customers and distributors,' Neiva comments. *'But then the back end is still very manual. We're no exception, so we still have that challenge.'*

He cites underwriting as an example of where this mismatch between front-end promises and back-end systems can cause problems:

'When we talk about underwriting, we can bring a fancy front end but, if you still have an old-fashioned way of looking at underwriting at the back end, you will still have a lot of stuff going through manual or case underwriting rather than going into a straight-through process.'

We can see from this that there is an obvious trap insurers can fall into, and this applies equally to all digitally disrupted industries: chasing the game at the front but neglecting the more mundane-seeming stuff at the back, which, unexciting as it may seem, is as necessary today (and tomorrow) as it was yesterday.

Even if insurers do have the budget to match their front-end ambitions with back-end investments, this is not always wise. Digitisation initiatives have enormous financial implications, and the cost of failure is therefore substantial. One approach that recommends itself is to spread risk and guarantee a base level of return by focusing not just on the big one-off system replacements but also on incremental improvements to the surrounding processes, workflows and even mentalities.

Two areas that Neiva believes all organisations should focus on are new methodologies and new ways of delivering things, such as fast-prototyping, design-thinking and Agile. These can benefit the entire organisation and yield positive results both operationally and in product development.

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> It is increasingly important to find ways to renew the business model, and data and innovation capabilities are an important prerequisite. New roles and organisational set-ups might help to achieve this goal. Big Data, and the ability to collect the right data and act upon it, is one of the key skills needed by the industry in the future.

MONIKA SCHULZE

Global Head of Marketing at Zurich Insurance

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On the workflow side, there is plentiful interest in robotics and process automation – for instance, nearly half of (re) insurers in Asia-Pacific have automated claims-handling – but we often encounter the fetish of the turn-key solution. While methods for automating underwriting and claims-processing are improving, we are not talking about achieving 100% straight-through processing.

In reality, the systems in question are akin to giant traffic wardens and while, to use underwriting as an example, they can take a lot of straightforward policy creation off the road, anything non-routine will remain to be dealt with. Unless the manual processes – and employees themselves – are suitably informed and keyed in when these non-routine cases come along, we will still end up with congestion in the back office, and in some cases worse congestion than what existed before.

Back-office digitisation is not therefore synonymous with automation. It also involves, in addition to the systems aspect, a redesign of general organisational workflows and a sea-change in staff mindsets.

This sea-change cannot be limited to carriers but, especially in a market such as Asia-Pacific, must embrace agents and brokers as well. While the proportion of business coming through direct lines is likely to increase, the indirect channels can still play a positive, facilitating role as part of the omnichannel mix.

Much of this comes down to instilling agents with the same ethos as one's own staff (or a least with a compatible ethos that takes on board the changes that are occurring in the insurer-customer relationship). On a more prosaic level, it involves aligning agency processes and incentives with

The new way of dealing with insurance data could dramatically improve the efficiency of agents and customer interactions, as well as improving cost structure with a decrease of human resources involved, thanks to automation. It will increase insurers' competitiveness in the long term.

MINH Q TRAN

General Partner at AXA Strategic Ventures

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those of the insurer, and it may even entail equipping agency salesforces with more up-to-date tools (such as tablets) and analytics. This latter point is particularly pertinent in the case of bancassurance, where numerous possibilities exist for cross-selling and for complementing insurers' data with that of the banks as regards their shared customers.

This channel warrants a separate mention, on account of its growing significance in Asia-Pacific. According to stats from TechNavio, annual bancassurance market revenue in APAC currently stands at 173 billion USD and is growing at a compound annual rate in excess of 8%[7].

Local Trends: Asia-Pacific

In this final sub-section, we look at how some of the trends we have outlined above vary on a local level. As is already apparent enough, we are dealing in APAC with a heterogenous area that resists categorisation. We have some super-connected hubs, like Singapore and Hong Kong, which syndicate regional Insurtech innovation and in many ways lead the world; equally though, there are vast swathes of terrain where the only viable form of insurance is microinsurance.

We have undertaken a regional segregation into two main groups of nations, with the intention of capturing the two opposite poles (in terms of market dynamics) that the region comprises. We concede that this is still very much inadequate, so the following is intended only to outline the broadest tendencies.

GROUP ONE contains those countries that have historically led on development: Singapore, Hong Kong, Australia, New Zealand, South Korea and Japan. These markets are, speaking in the most general terms, middle-class and relatively saturated, and distribution is less of a problem.

Our GROUP TWO countries represent the underpenetrated mass of the region, in which the potential for growth is huge but where scale and distribution pose considerable challenges. Key contributors to our stats were: China, India, Malaysia, Philippines, Indonesia, Sri Lanka, Thailand and Vietnam. Some of the countries within this group are in an intermediate position (particularly places like China, India and Malaysia) in the sense that they encompass major middle-class centres as well as vast areas of underdevelopment. As we are unable at this time to segregate further, we have left these countries in the second group, but draw attention to the above as a caveat.

[7] imaa-institute.org/power-alliances-partnering-growth-insurance-sector/

"The big picture – technological change and low interest rates – is the same across the region. Developing markets appear subject to greater customer disruption and are grappling with new digital channels for reaching consumers. Insurers in our more mature markets may exhibit greater digital readiness – but so do their competitors, hence the higher levels of competition they face.

MARIANA DUMONT

Head of New Projects at Insurance Nexus

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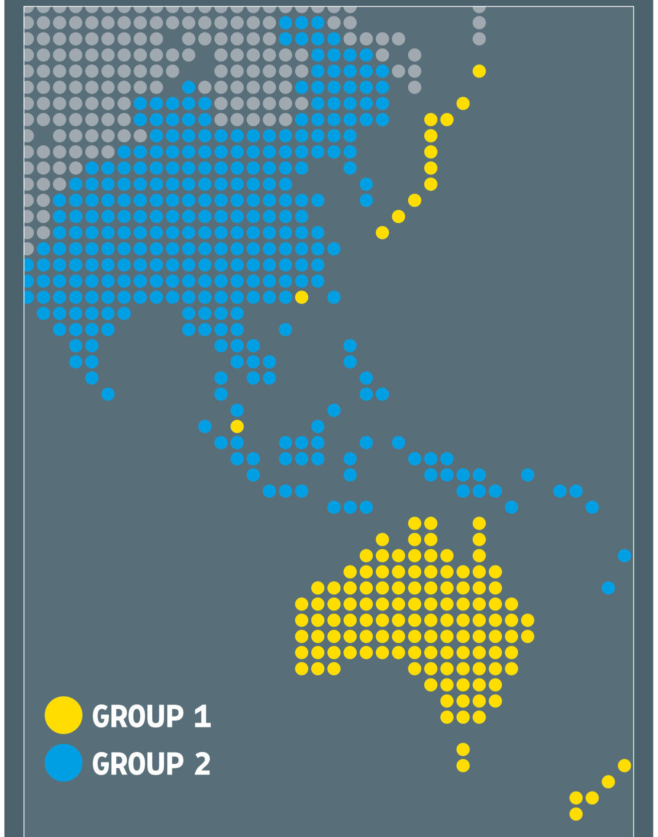
LOCAL TRENDS: ASIA-PACIFIC



External Challenges: Local Variations
'Technological advancement' tops the challenges table for both groups, while 'Absence of a clear strategy' and 'Lack of company investment' are bottom for both. 'New emerging risks' and 'Changing economic conditions' are relatively high-scoring in both regions.

'Increased competition' is a massive issue for GROUP ONE – coming in second place behind only 'Technological advancement' – but only a mid-ranking issue for GROUP TWO.

Similarly, 'New entrants to the market' makes it into the middle of the challenges table for GROUP ONE, whereas for GROUP TWO it is close to the bottom of the table.

'Changing customer expectations' is of middling importance in GROUP ONE but is the second biggest challenge – behind only 'Technological advancement' – for GROUP TWO.

'Catastrophe risk' and 'Climate change' are fairly low-ranked in GROUP ONE but climb towards the mid-table in GROUP TWO.

'Increased regulation' is low-ranked in GROUP ONE but a mid-ranking challenge in GROUP TWO.

'Digital channel capabilities' is a mid-ranking issue for GROUP ONE but a high-ranking issue in GROUP TWO.

Internal Challenges: Local Variations
Internal challenges facing the industry are well aligned across both groups, except for 'Finding and hiring talent', which appears to be a substantially bigger issue in GROUP TWO.

Insurer Priorities: Local Variations
The insurer priorities overleaf are in the same rank order as in our Insurer Priorities section (as voted by APAC insurers). In each case, we indicate any local variation we noticed across our markets in GROUP ONE and GROUP TWO.

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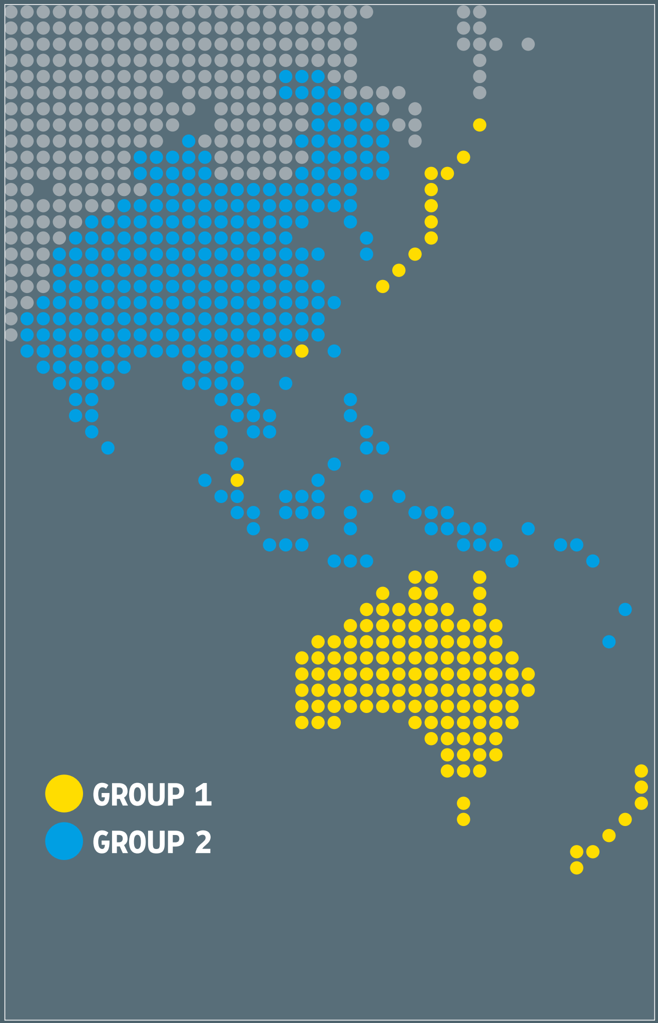
LOCAL TRENDS: ASIA-PACIFIC



DIGITAL INNOVATION	are well aligned, constituting the top 3 priorities for insurers in both groups
CUSTOMER CENTRICITY	
ANALYTICS	
DISTRIBUTION DIVERSIFICATION	is a mid-to-high-ranking priority for both groups, slightly higher in GROUP TWO
CLAIMS	is a mid-ranking priority for both groups, edging into the top part of the table in GROUP ONE
PRODUCT DEVELOPMENT	are aligned across both groups
PRICING	
UNDERWRITING	is a mid-ranking priority for both groups, coming out slightly higher in GROUP TWO
REGULATION	are aligned across both groups
INTERNET OF THINGS	
MOBILE	
FRAUD	is a low priority for GROUP ONE but a moderate priority for GROUP TWO
RISK MANAGEMENT	is aligned across both groups
CYBERSECURITY	is a higher-ranking priority in GROUP ONE but still towards the bottom of the list
INVESTMENT MANAGEMENT	is lowest-ranked for both groups

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- Insurtech Perspectives
- Insurer Priorities
- Services, Investments and Job Roles

SECTION 2: KEY THEMES

• Analytics • Digital Innovation • Internet of Things • Fraud • Marketing and Customer-Centricity • Distribution • Cybersecurity • Investment • Management Regulation • Product Development

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LatAm

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Middle East

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Africa

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Central Asia

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SCORE		EXPLANATION
MARKET CONDITIONS	**Legacy Burden**	% of respondents for whom legacy systems are 'very much' a problem
	Regulatory Burden	% of respondents answering that regulation has impeded progress within their organisation 'somewhat' or 'a lot'
	Disruption Score	% of respondents answering that they are losing market share to new entrants
STRATEGY	**Digital Strategy**	% of respondents reporting that their organisation has a digital strategy
	Mobile Strategy	% of respondents reporting that their organisation has a mobile strategy
	Cross-Platform Strategy	% of respondents reporting that their organisation has a cross-platform strategy
	Omnichannel Strategy	% of respondents reporting that their organisation has an omnichannel strategy
CUSTOMER	**Aggregator Impact**	% of respondents who reported that aggregators had had a medium or large impact on their organisation
	Customer-Centricity Appraisal	% of respondents who believe their organisation is truly customer-centric
	Customer Engagement	% of respondents who are happy with the level of customer engagement they currently achieve
	Consistent Customer Experience	% of respondents who believe that they offer a consistent customer experience across channels
	Direct-to-Customer	% of respondents who currently sell direct-to-customer
	UBI Strategy	% of respondents who currently have a UBI strategy
CLAIMS	**Before-the-Claim Fraud Strategy**	% of respondents who operate a before-the-claim fraud strategy
	Automated Claims Handling Process	% of respondents with automated claims handling
	Claims Loss Mitigation	% of respondents who reported that their organisation has 'a lot' of focus on claims loss mitiga-tion
TECHNOLOGIES	**IoT**	% of respondents reporting that their organisation has an IoT strategy
	Analytics	% of respondents reporting that their analytics strategy is coordinated across their organisation
	AI/Machine Learning	% of analytics respondents using machine learning and AI
DATA	**Data Governance**	% of respondents reporting that their organisation has a formal data-governance strategy
	External Data Usage	% of respondents making use of external data sources
	Customer Privacy and Data Security	% of respondents who believe their organisation is adequately protecting their customers' privacy and data security
	Cyber Resilience	% of respondents who answered that their organisation has a plan for if there is a security breach

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Section 4: A Note on Method

This document is intended first and foremost to give an account of the global state of insurance and to surface general industry tendencies. It does not provide the basis for any form of investment activity but should rather be a rich source of information and discussion, bringing to the table a wide range of perspectives, qualitative as much as quantitative. We look forward to updating and developing the format over the years to come in order to provide maximum value.

Our outreach to respondents was conducted via a wide range of channels, including email, LinkedIn and Twitter. Not all graphs included here imply a rank order, and many show the similarities (as opposed to the differences) existing between their elements. Where we believe a trend exists, we have drawn attention to this in our accompanying analysis, and we sometimes do this also in relation to figures that are not explicitly stated in the document (so as to avoid clutter). As far as statistical significance is concerned, the comparisons we draw generally operate at 90% confidence and above; most measures we comment on (and any from which we draw inferences) are valid also at 95%.

Alongside comparisons of particular segments, our report also comprises many standalone statistics on a wide range of topics (which you can of course share using the inbuilt widgets). For our more general stats, we are operating at 95% confidence (+/- 5%); for our more specific measures (for example, looking at Insurers & Reinsurers on topics within our Key Themes section), we operate in the main at 95% (+/- 10%) or better. As the purpose of this report is to indicate the general direction in which the industry is moving, we have sometimes tolerated stats with lower confidence / higher margins of error, if the overall tendency they show is clear.

What regional trends we did observe across our assorted stats (and many measures were inconclusive) formed the basis of our much broader qualitative inquiry into our three key regions (North America, Europe and Asia-Pacific), in which we sought to validate, qualify and expand on our initial impressions through discussions with respected regional commentators. On this basis, we believe we are justified in making the broad-brush market characterisations that form the backbone of our Regional Profiles.

All inquiries concerning the methods used, and/or insights presented, in this report should be directed to alexander.cherry@insurancenexus.com

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INSURANCENEXUS

JAMES VINCENT
General Manager
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With over 20 years of community building, helping various industry sectors address change, I head up overall strategy, partnerships and overseeing the development and direction of the business.

Since its inception, Insurance Nexus has focussed on serving the needs of Insurers and equipping them to meet the challenges, both internal and external, that are being driven by technology, regulation & profitability. I'm particularly interested in looking further ahead to identify the disruptive trends that Insurance will need to meet in the medium term.

When I'm not at work I spend my free time running around after my children, cycling over mountains, boxing badly and playing records.

If you'd like to discuss these, partner with Insurance Nexus or have any ideas and feedback, please feel free to contact me.

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ALEXANDER CHERRY
Head of Research
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Alex leads the research behind Insurance Nexus' new business ventures, encompassing summits, surveys and industry reports. He is particularly focused on new markets and topics, and strives to render market information into a digestible format that bridges the gap between quantitative and qualitative. Prior to his work in insurance, Alex researched into an eclectic range of industries, including energy, advertising, telecoms and supply chain, across every global region. He stays on top of the latest industry and technology trends through a mixture of phone-based and face-to-face engagement with insurance and Insurtech industry leaders around the world.

Alex graduated with a Modern Languages degree from the University of Cambridge and maintains a keen interest in foreign culture. Outside of work he enjoys travelling around Europe, literary translation, fell-walking and table tennis; previous employers include a software house and a donkey sanctuary. To discuss any aspect of Insurance Nexus content – in particular the Global Trend Map and the Connected Insurance Report 2017 – please get in touch.

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HELEN RAFF
Head of Content
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Helen has a pivotal role in team planning, extending marketing capabilities and stimulating collaboration. She spends her day at the coal-face, finding out what's new in insurance and testing ideas with our community. She knits together our strategy and ensures that we're providing top-notch content to the insurance world. Most recently, Helen has been spearheading the creation of the Insurance Nexus Content Vault, which has quickly become a valuable source of content for the highest echelons of the industry. In addition, Helen led the revamp of our analytics event, transforming it into Europe's first AI conference, specifically for insurance. When she's not at work Helen likes planning holidays and feeding the ducks in the park with her 2-year-old daughter.

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MARSHA IRVING
Head of Innovation / Commercial Director
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Marsha strives to be a trusted advisor to the insurance community by keeping up-to-date on the many changes affecting the industry. Having worked at Insurance Nexus since its grassroots phase, Marsha has helped to build the business in to a formidable force, serving the industry through in-depth content and events. Marsha is currently focussed on the commercial strategy for the business and is looking at how service providers are evolving their offerings to meet the newly formed insurance community. She continues to develop new delivery initiatives to keep the community informed and engaged. Being Canadian, Marsha loves the great outdoors and going hiking (aka rambling in the UK). She's travelled to over 40 countries and makes a killer watermelon daiquiri.

Get in touch with Marsha if you are interested in learning more about becoming a sponsor or exhibitor at our upcoming events or if you would like to look at involvement in our content outreach!

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EMMA SHEARD
Head of Strategy
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Emma creates and runs our North American flagships, working across IoT, claims and analytics in the US and Canada. A psych major, she is passionate about understanding the minds, challenges and priorities of insurance executives, and relishes creating content and events that inspire, educate and enable industry change. Emma is particularly interested in the customer-centric revolution within insurance, and how customer experience is influencing the transformation occurring across organisations. Having researched the insurance industry in her native Australia, APAC, Europe and now North America, Emma is often struck not just by the differences but the similarities in different regions. Recognised within the team for the cheesiest copywriting, Emma is fascinated by ancient civilisations and, as an avid scuba diver, once went diving with bull sharks (no cage!).

Get in touch with Emma about our upcoming Insurance IoT USA Summit 2017, Connected Claims USA 2018, Insurance Nexus operations within North America - or just to have a chat!

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MARIANA DUMONT
Head of New Projects
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Mariana is passionate about innovation and digital transformation. Having worked in e-commerce and retail bank, two industries heavily affected by technology, she is constantly looking for the next sign of disruption. Responsible for delivering tangible use cases for emerging technologies, with a strong focus on customer centric solutions.

Mariana is currently leading Connected Claims Europe (October 24th & 25th, London), a high-level summit bringing together over 250 claims executives to discuss automated and customer-centric claims: http://events.insurancenexus.com/connectedclaimseurope/.

Later this year, Mariana will also be leading Insurance2Customer (November 30th – December 1st, Chicago), the only summit bringing different parts of the business to discuss the customer journey in the insurance and the use of innovative technologies to increase market share and customer retention: http://events.insurancenexus.com/customerengagement/.

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GUY KYNASTON
Commercial Director
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Guy studied history at university and then moved on to spend the first part of his career within the financial services sector. He has now been part of our Insurance Nexus commercial team for the last two years and has been at the heart of developing our commercial outreach. In the office Guy is dedicated to building out our Insurance Nexus division from a business-development perspective. He is currently focused on the impact of IoT, Analytics and the Connected Claims space on the insurance community. Guy is driven by understanding this vast vendor ecosystem and trying to get its unique offerings in front of the top-tier insurers.

For opportunities at Insurance AI & Analytics EU (9th – 10th October 2017) and Connected Claims EU (24th – 25th October 2017), please don't hesitate to get in touch.

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RACHAEL GORE
Head of Engagement

With a background in ethnographic research, Rachael is keen to understand the everyday impacts of emerging technologies in the insurance market. Passionate about music and politics, Rachael has produced radio for community stations in both London and Manchester. At the weekend, you can find her dancing in her kitchen and cooking up a storm for family and friends.

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ZSÓFIA KULCSAR
Head of Marketing
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Zsófi studied psychology at university and is currently studying at the Chartered Institute of Marketing. She has headed up the marketing department at Insurance Nexus for the last two years and has been at the heart of understanding our customers' needs and developing and testing new marketing ideas. Zsófi works across all events, content and reports, and is dedicated to building a customer-centric, marketing-driven organisation which serves and helps Insurance Nexus customers. Zsófi is driven by understanding the insurance and technology ecosystem and ensuring that our conferences, content and reports deliver top-quality learnings.

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SAM JONES
Marketing Manager

As a Geography undergraduate, Sam moved into marketing by completing a Master's in Business Management and Marketing. He has now been part of Insurance Nexus for the past two years, running our outbound marketing, with a focus on finding the best routes and building partnerships.

If you wish to discuss a marketing partnership, or are part of the press, please reach out to Sam!

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