INSURTECHEK ÉS INKUMBENSEK: HARC VAGY SZIMBIZÓZIS?

Matteo Carbone

Founder and Director, Connected Insurance Observatory

@mcins_

November 7th 2017

I love insurance

Matteo Carbone

Founder and Director of the Connected Insurance Observatory

+11 years strategic consulting (former Principal with Bain & co.)

Keynote speaker and writer on insurance innovation

Insurtech investor

Global InsurTech Influencer
(*Top 3 InsurTech Influencer by InsurtechNews*,
Top 3 InsurTech Influencer by Right Relevance,
Top 10 Insurtech Infuencer by Onalytica
Top 15 InsTech Influencer by InstechLondon,
Top 25 Disruptors in the Insurance Industry by Vertafore)

**connected
insurance
observatory**

- An international **insurance think tank focused on IoT** aggregating almost 50 international insurance groups, institutions and tech firms
- The initiative delivers three concrete outcomes:
  - the most pragmatic **multiclient research** specialized on the insurance IoT domain
  - **one-to-one workshops** dedicated to each member to discuss the research outcomes
  - **plenary symposiums** with all the members together around the same table

Do you think insurers are not innovative?

A lot of years ago

- The German Post Office experimented with remote insurance sales on 1980s using Bildschirmtext

> Data transmitted through the telephone network and the content displayed on a television set)


Photo courtesy of Stephan Weiss

Few years ago

- UK auto insurance market distribution:

  o 100% face-to-face at 1985

  o in few years almost 80% was sold by phone

  o today >60% is sold on-line

Think again!

Today

- Discovery reinvent health and life insurance paradigm through its Vitality program

- This South African Insurer incentives insureds to exhibit healthy behaviors through a rewards and is leveraging wearables

- Discovery is replicating the approach at international level acting as service provider for other insurers
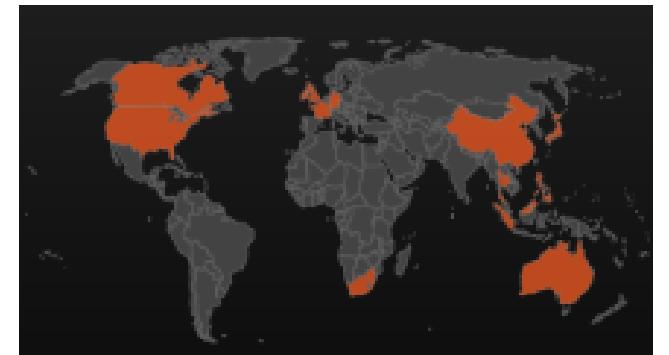
The innovation process is not simple and linear

STATEMENT AS OF JUNE 30, 2017 OF THE Lemona[de]

STATEMENT OF INCO[ME]

UNDERWRITING INCOME

1. Premiums earned:
   1.1 Direct (written $ 1,901,686)
   1.2 Assumed (written $ 0)
   1.3 Ceded (written $ 208,650)
   1.4 Net (written $ 1,693,036)

   DEDUCTIONS:

2. Losses incurred (current accident year $ 192,744):
   2.1 Direct
   2.2 Assumed
   2.3 Ceded
   2.4 Net
3. Loss adjustment expenses incurred
4. Other underwriting expenses incurred
5. Aggregate write-ins for underwriting deductions
6. Total underwriting deductions (Lines 2 through 5)
7. Net income of protected cells
8. Net underwriting gain or (loss) (Line 1 minus Line 6 + Line 7)

STATEMENT AS OF **June 30, 2017** OF THE **Oscar Insurance Corporation**

STATEMENT OF REVENUE AND EXPENSES

		1 Uncovered	2 Total (Current Year To Date)	3 Total (Prior Year To Date)	4 Total (Prior Year Ended December 31)
1.	Member Months	X X X	270,396	371,881	724,618
2.	Net premium income (including $ 0 non-health premium income)	X X X	73,368,592	126,441,022	246,257,012
3.	Change in unearned premium reserves and reserves for rate credits	X X X	1,716,294	3,113,835	
4.	Fee-for-service (net of $ 0 medical expenses)	X X X			
5.	Risk revenue	X X X			
6.	Aggregate write-ins for other health care related revenues	X X X			
7.	Aggregate write-ins for other non-health revenues	X X X			
8.	Total revenues (Lines 2 to 7)	X X X	75,084,886	129,554,857	246,257,012
Hospital and Medical:					
9.	Hospital/medical benefits		48,617,724	117,276,327	246,249,657
10.	Other professional services		8,680,228	7,944,201	17,823,936
11.	Outside referrals				
12.	Emergency room and out-of-area		1,063,632	1,750,954	3,742,425
13.	Prescription drugs		20,716,275	28,699,181	60,933,336
14.	Aggregate write-ins for other hospital and medical				
15.	Incentive pool, withhold adjustments and bonus amounts			(583,412)	(583,412)
16.	Subtotal (Lines 9 to 15)		79,077,859	155,087,251	328,165,942
Less:					
17.	Net reinsurance recoveries		1,077,669	11,409,357	27,971,172
18.	Total hospital and medical (Lines 16 minus 17)		78,000,190	143,677,894	300,194,770
19.	Non-health claims (net)				
20.	Claims adjustment expenses, including $ 6,315,046 cost containment expenses		7,915,989	9,405,317	18,478,959
21.	General administrative expenses		26,574,259	35,040,883	62,034,528
22.	Increase in reserves for life and accident and health contracts (including $ 0 increase in reserves for life only)		(973,948)	(6,329,607)	(10,711,318)
23.	Total underwriting deductions (Lines 18 through 22)		111,516,490	181,794,487	369,996,939
24.	Net underwriting gain or (loss) (Lines 8 minus 23)	X X X	(36,431,604)	(52,239,630)	(123,739,927)

Software is eating the insurance business

InsurTech map (>1200 startups, 20 B$ funding)
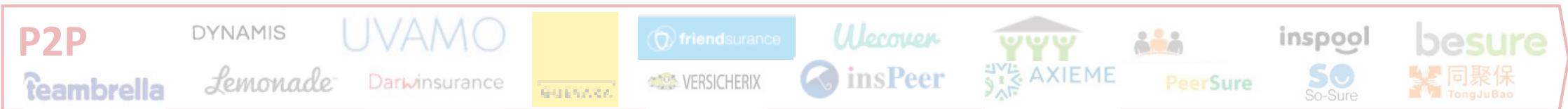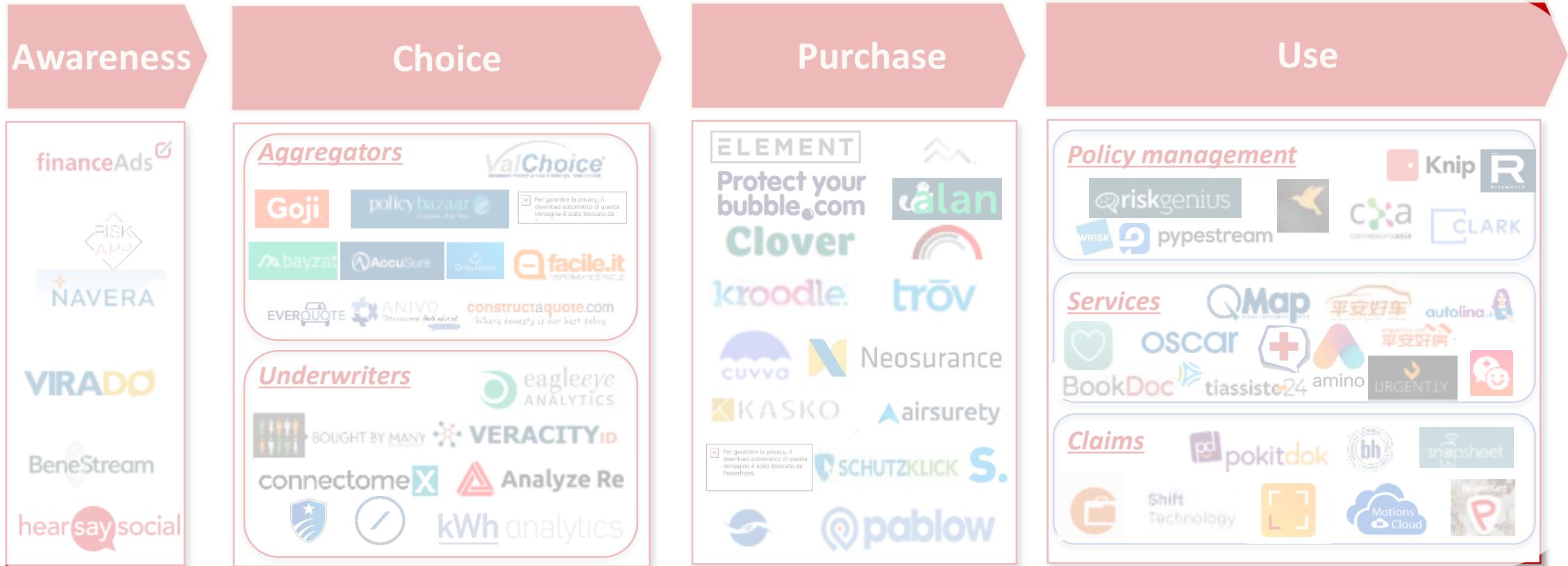
Insurance IoT is about connecting the insurance sector with clients and their risks

Connected Insurance

*Any insurance solution based on **sensors for collecting data** on the state of an insured risk and **telematics for remote transmission** and **management** of the data collected*

Today **more than 1** connected device per person in the world

At 2025 **more than 10** connected devices per person in the world

At 2050 …

The world will be more and more connected, you can not stop that

You can leverage those sensors or ignore them!

Each person will have precise information about his health

Adverse selection will kill the sector if insurers will not use the same information

What is happening on the sector?

What are we hearing?

"shift from claims handling business to a prevention one"

"Prevent bad things from happening"

"Problems stopped before they happen"

"proactive solutions"

"future of insurance is proactive risk prevention"

"turning from a reactive service to a proactive one"

"delivering services that protect, prevent and fix"

The right vision...

What are we seeing?

Fitness riders

Some "quantified yourself" mechanisms based on a wearable paired with an health insurance coverage

...not followed by the facts

To choose a wearable device and to give to the customer a smartphone app is not enough
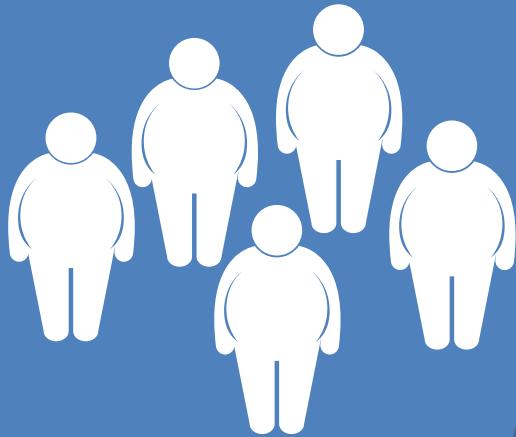

I'm sorry but you need to start from the development of your connected health insurance strategy

How to start from the strategy looks like?

The problem on the current insurance book

Obesity identified as major driver for health claims costs

The new insurance product

The insurance coverages for **your** medical expenses
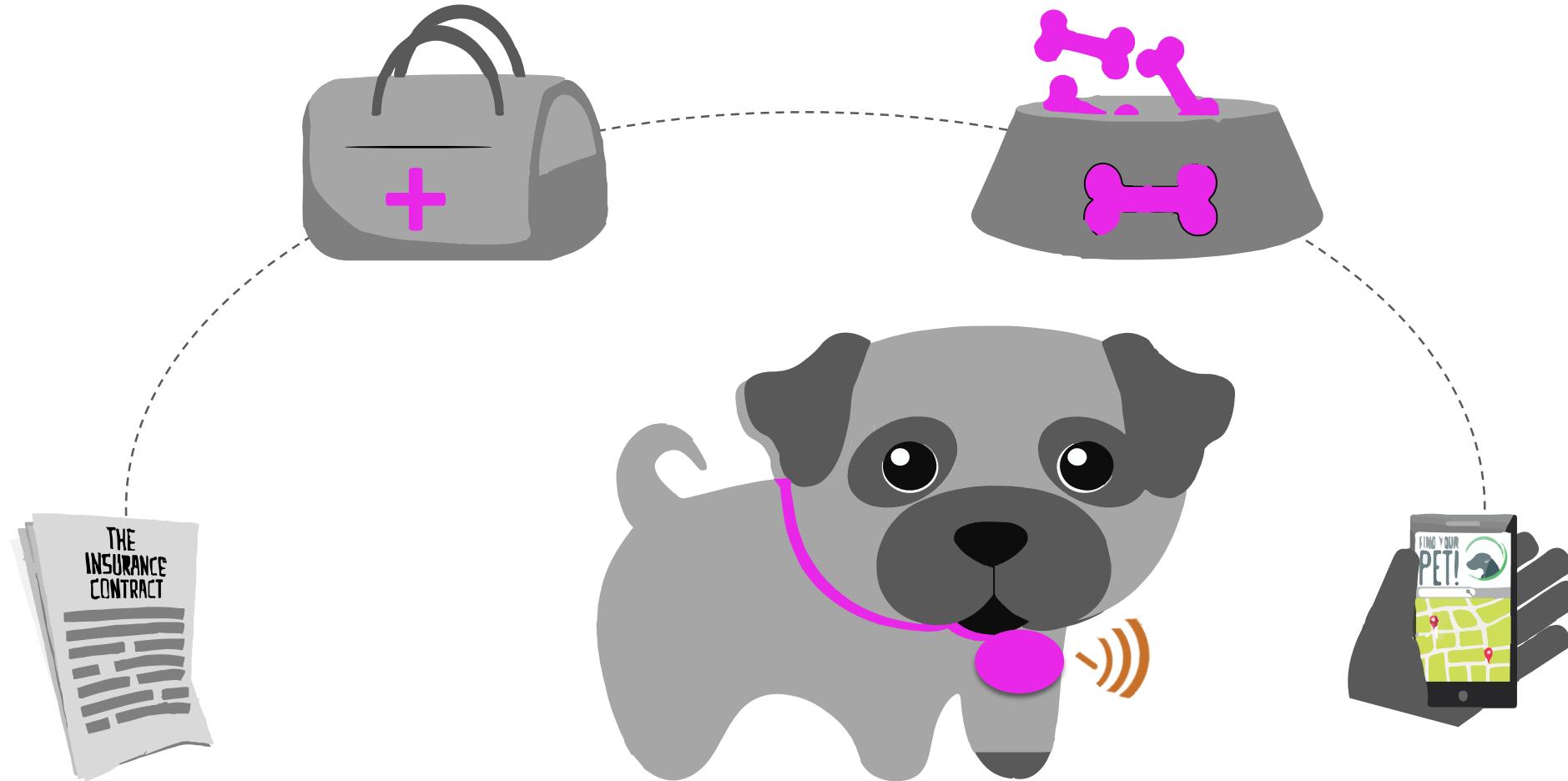
The prevention services **you** need

Your food delivered at home (healthy and in the right quantity)

A wearable and an app to nudge **you on the right** daily physical activity

This is a real story from an Insurance Group with almost 300 years of history…
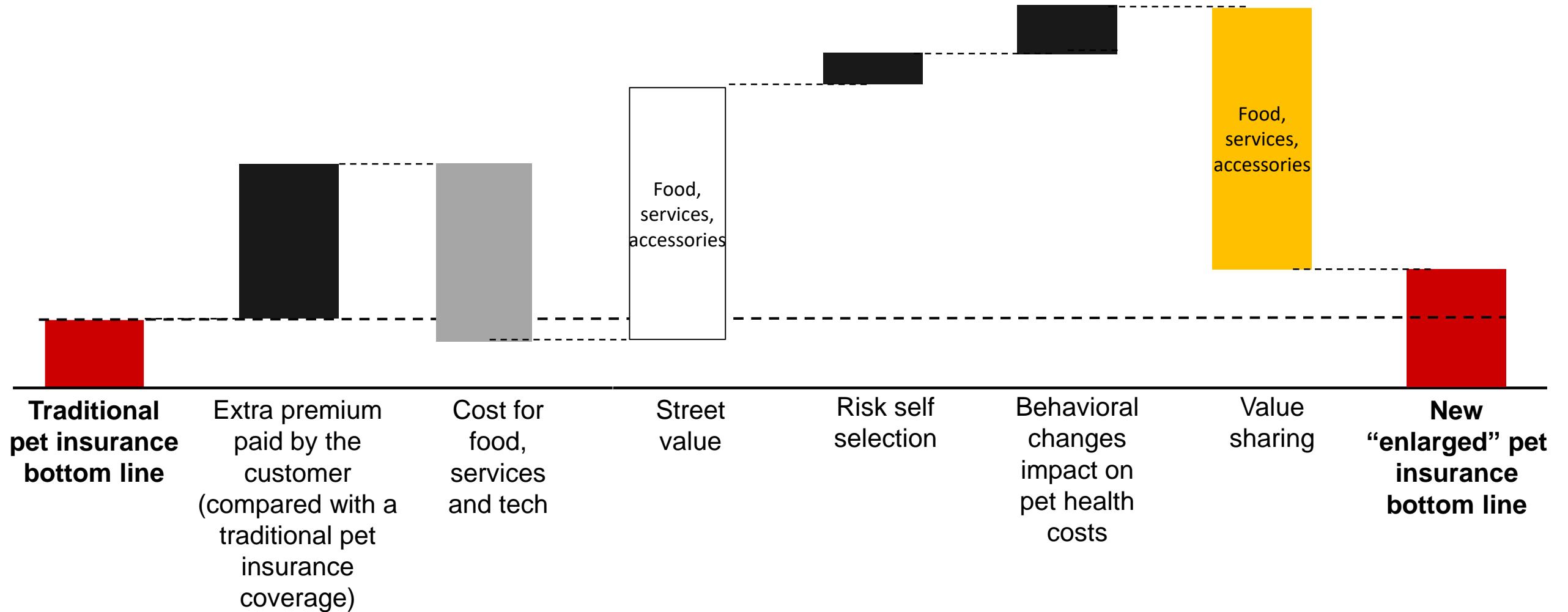
How to start from the strategy looks like?

...the "you" was a dog in this real story

The customer perspective: it is customer centric!

Street price of food, services and accessories delivered

Traditional pet insurance annual premium

New "enlarged" pet insurance annual premium

Traditional pet insurance annual premium

It cost more than a traditional pet insurance coverage, but the client is saving on the total cost of the dog ownership

What about the insurer perspective?

Traditional pet insurance bottom line | Extra premium paid by the customer (compared with a traditional pet insurance coverage) | Cost for food, services and tech | Street value (Food, services, accessories) | Risk self selection | Behavioral changes impact on pet health costs | Value sharing (Food, services, accessories) | New "enlarged" pet insurance bottom line

Product focused on improving the dog health (less claim costs)

The connected insurance paradigm is about using IoT data to create values on the insurance P&L and sharing this value with clients

Data gathering

Value creation

Connected insurance pardigm

Value sharing
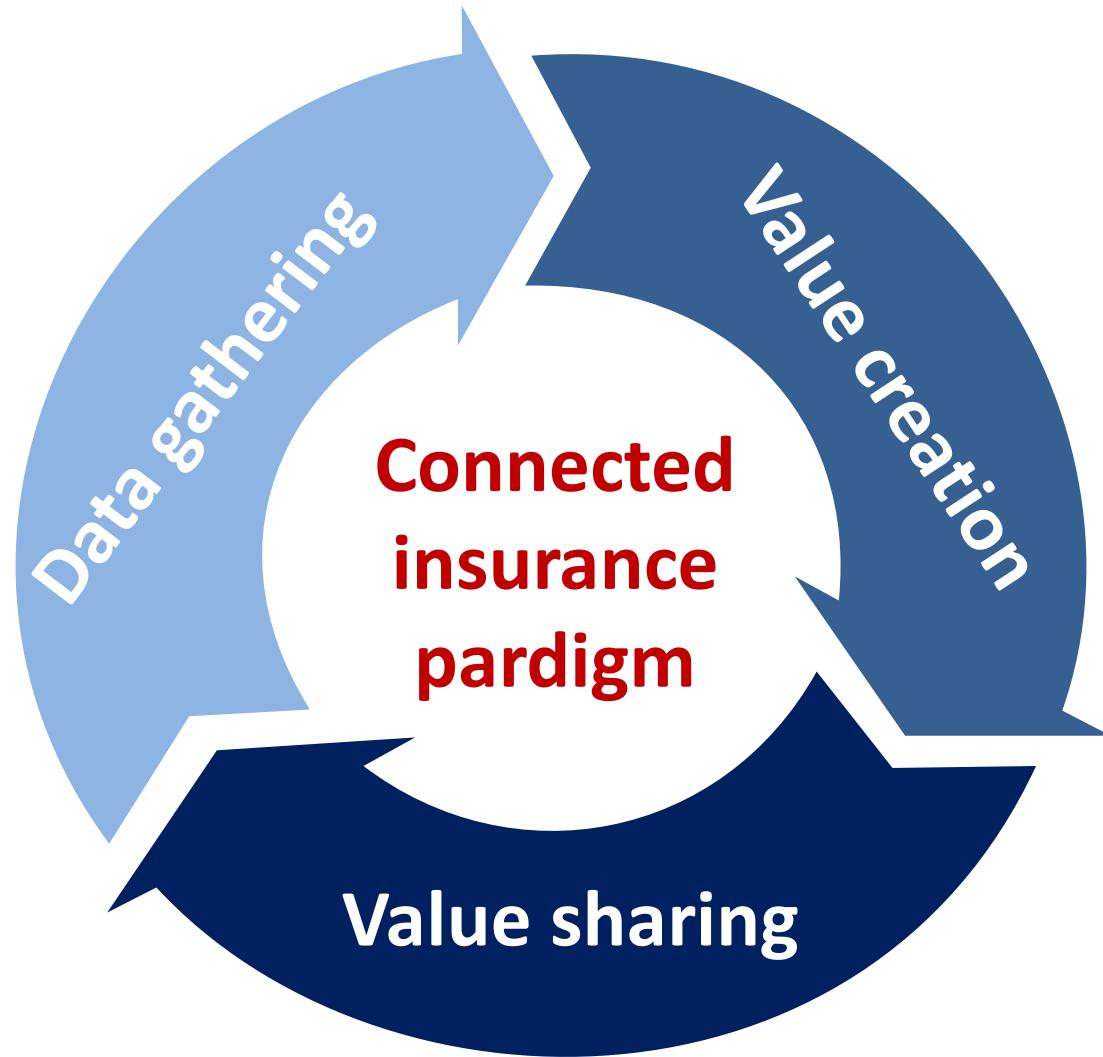
Health and Life

Auto

Home and commercial building

Industrial risks, workers' comp specialty

The data's value must be exploited on all the insurance value chain

LOSS CONTROL

- Usage of the devices' information to **anticipate the claims management** and **improve reimbursement valuation**
- Initiatives acting directly real time on the single situation to:
  - **mitigating the risk** before the damage happens
  - **containing the damage**
- **LAE reduction**

Value
Creation
Levers
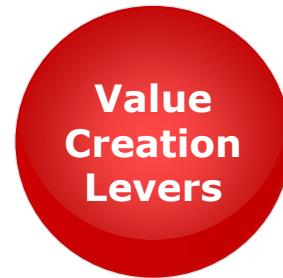
Reduced the claim payed and enlarged the effectiveness and efficiency of the claim process

Water and frizzing damages mitigated or avoided with sensors installed in the home

Claims dynamics investigated using the data from the telematics device

Leave	Incident
Thurs 9.30pm	Thurs 16:00pm

o 0.3 cm crack generates almost 40 litres of water/hr
o It takes almost 2,500 litres to cover 100 sq metres

Traditional home insurance

Connected home insurance

Resolution!

THU / FRI / SAT / SUN / MON

Awareness	Response	Resolution
Mon 16:05pm	Thurs 16:05pm	Thurs 17:00pm

Awareness	Response	Resolution
Mon 16:00pm	Mon 16:01pm	Mon 17:00pm

Resolution!

Result
o Over a long weekend (73.5 hrs) 2,898 litres of water
o Claim paid: **>$2,000**

Result
o Responding within an hour only 40 litres of water
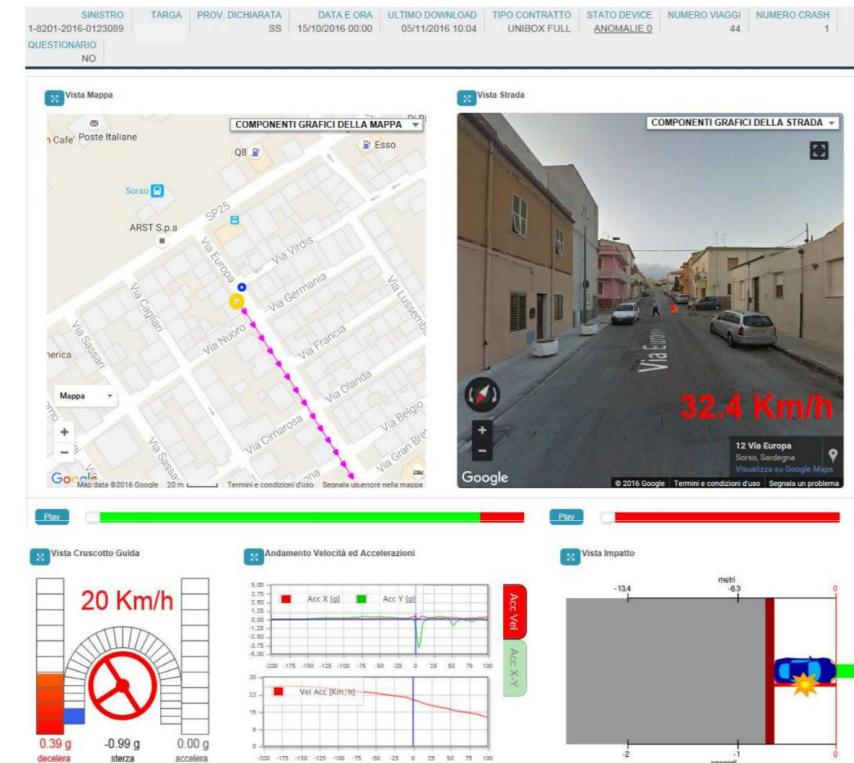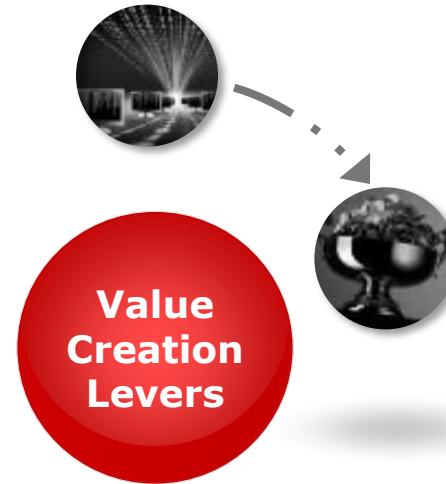o Claim paid: **Immaterial**

32.4 Km/h

20 Km/h

Photo credit: UnipolSai

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Value Creation Levers

LOYALTY AND "BEHAVIOR-STEERING"

- **Indirect impact on the risk level through:**
  - positive behavior reinforcement (including gamification)
  - culture creation
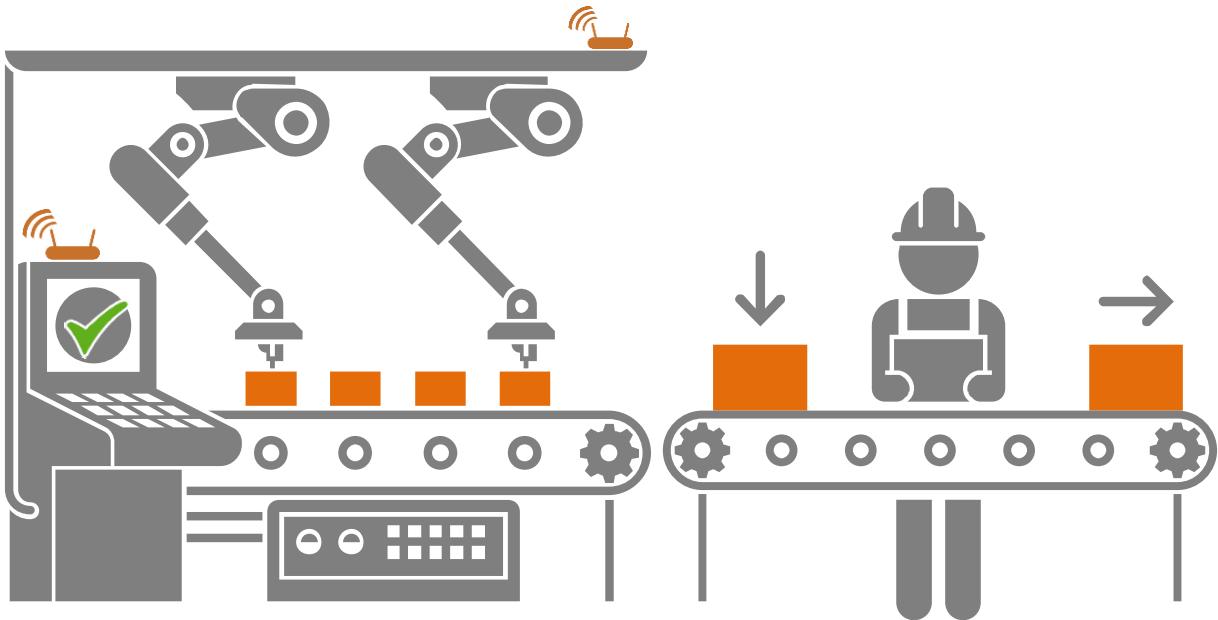- **Loyalty** systems based on **detected behavior**

Nudged your clients to less risky behaviors

Instant reward to life policyholder for healthy behaviors

Equipment breakdown deductible reduced when the maintenance and usage prescriptions are followed

The data's value must be exploited on all the insurance value chain

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Value Creation Levers
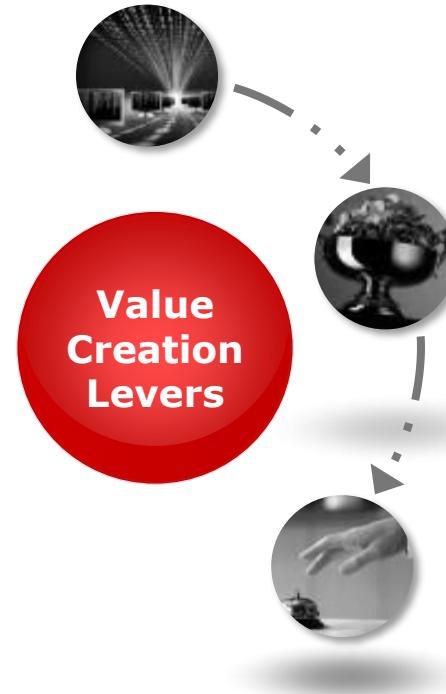
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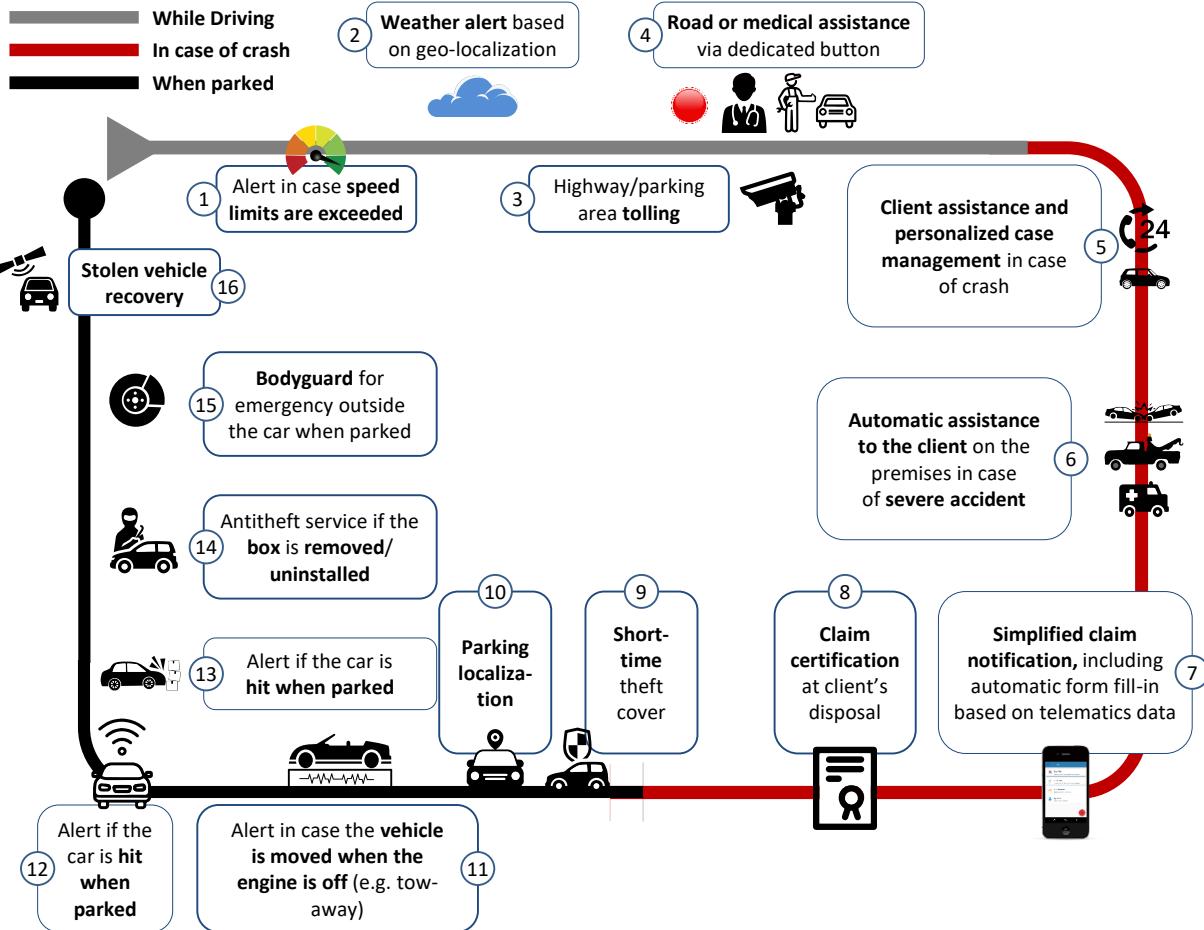 - **Loyalty** systems based on **detected behavior**

SERVICES…

  - …concerning **information** about the insurance coverage and the insured risks
  - …based on sensors' data to deliver that allow the insurer to deliver **enlarged value propositions** to the client

Earned additional service fees

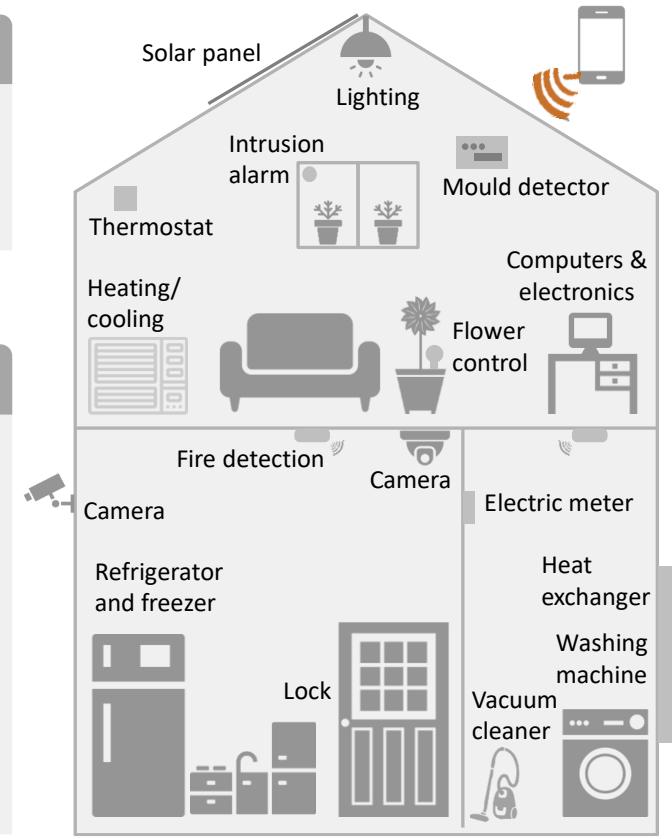## Auto value proposition enlarged with a suite of services telematics based

Home security and safety and a platform of care services a la carte

Legend:
- **While Driving**
- **In case of crash**
- **When parked**

2. **Weather alert** based on geo-localization
4. **Road or medical assistance** via dedicated button

1. Alert in case **speed limits are exceeded**
3. Highway/parking area **tolling**
5. **Client assistance and personalized case management** in case of crash
16. **Stolen vehicle recovery**
15. **Bodyguard** for emergency outside the car when parked
6. **Automatic assistance to the client** on the premises in case of **severe accident**
14. Antitheft service if the **box is removed/uninstalled**
10. **Parking localization**
9. **Short-time** theft cover
8. **Claim certification** at client's disposal
7. **Simplified claim notification,** including automatic form fill-in based on telematics data
13. Alert if the car is **hit when parked**
12. Alert if the car is **hit when parked**
11. Alert in case the **vehicle is moved when the engine is off** (e.g. tow-away)

Security/ Safety
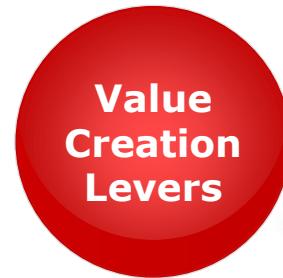o Remote monitoring and emergency services to provide peace-of-mind

Care
o Remote monitoring and assistance focused on specific health and wellbeing needs directly connected to households:
– Chronic patients
– Post surgery patients
– Elders
– Kids
– Pets

Home diagram labels: Solar panel, Lighting, Intrusion alarm, Mould detector, Thermostat, Heating/cooling, Computers & electronics, Flower control, Fire detection, Camera, Electric meter, Camera, Refrigerator and freezer, Heat exchanger, Washing machine, Lock, Vacuum cleaner

The data's value must be exploited on all the insurance value chain

LOSS CONTROL

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Value Creation Levers

RISK-BASED PRICING

- **Usage-Based Insurance: pricing** definition process based on **"quantity"** and **"level" of risk exposure**

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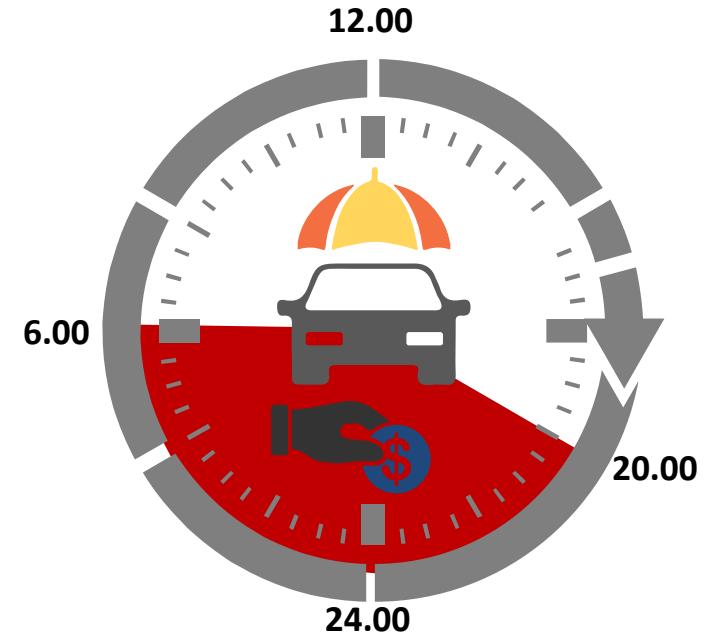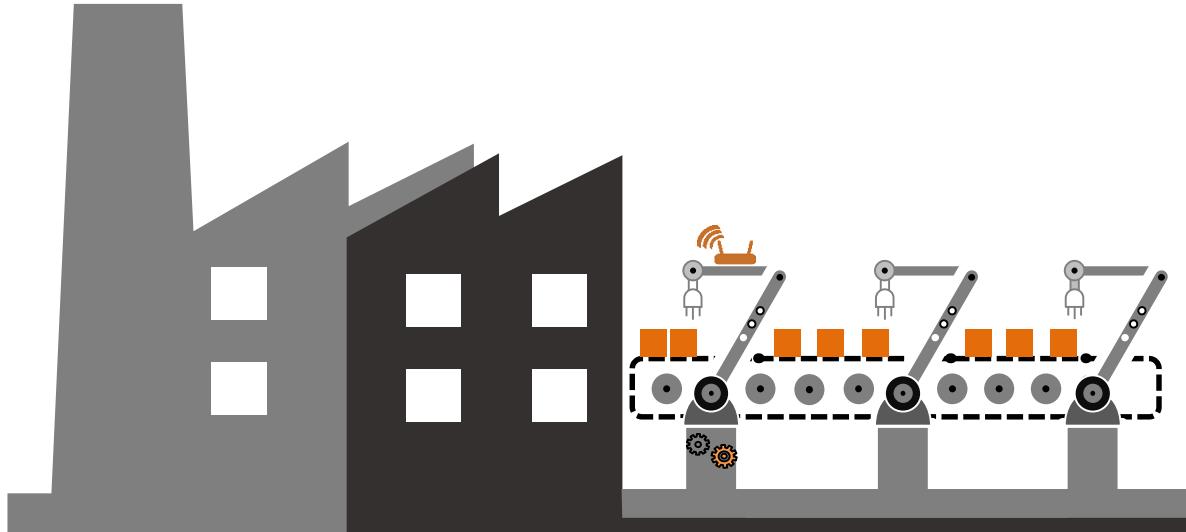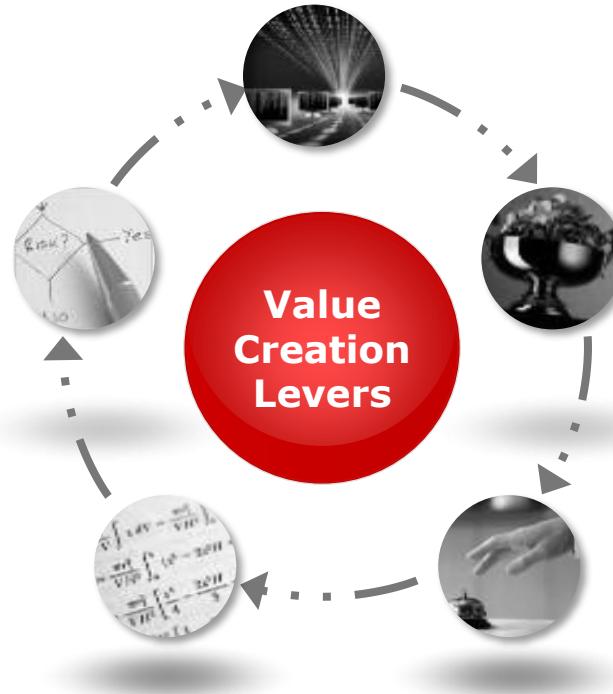
Price defined by the current exposure

Business interruption premium based on the current volume of production measured each month

Cheap telematics auto insurance for teenager, eventual night hours driving charged on top on the credit card by km

12.00

6.00

20.00

24.00

The data's value must be exploited on all the insurance value chain

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RISK SELECTION:

- **Low-risk customers acquisition** due the connected insurance value proposition
- Improved **quality of the underwriting** process based on the sensors' data
- Increased the underwriting process **efficiency**

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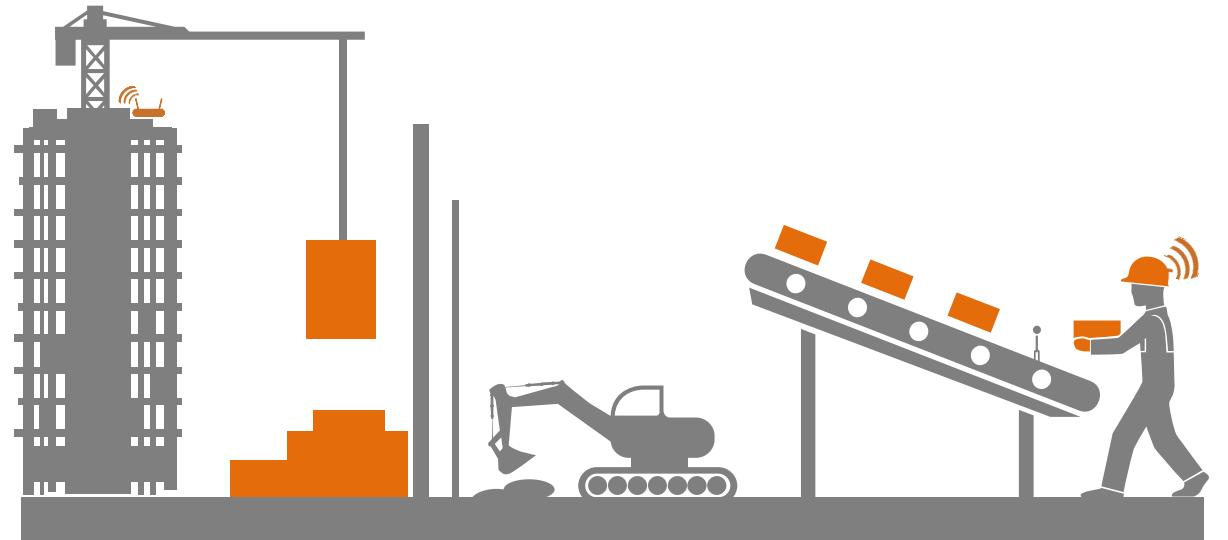
Value Creation Levers

Attracted better risks than the market average due to the story telling of the value proposition

The health insurance products presenting incentive for physical activity are more appeal for the healthiest customer

Business owner adopting a connected workers' comp have nothing to hide to his insurer

Connected insurance reasons way

1 | **Benefits on the insurance bottom line**
Improve insurance profit & loss through the **five value creation levers** usage and share part of this value with the client to increase the adoption

2 | **Frequency of interaction**
Enhance proximity and interaction frequency with the client while creating new customer experience, increasing the retention and expanding members relationship

3 | **Knowledge creation**
Create and consolidate **knowledge about the risks and the client base**: discovering deeper insight into member feedback and preferences that lead to next generation of products and services

4 | **Sustainability**
Perform a new virtuous role for society by providing **positive externalities** for a sustainable society

Each of you can create your own connected insurance value proposition: insurance contract + IoT devices + services

I believe (some) insurers will succeed in the IoT war and they will stay relevant in the life of their clients

Those thoughts come from the Connected Insurance think tank I created to promote this innovation

The most pragmatic **multiclient research** specialized on the insurance IoT domain

One-to-one workshops dedicated to each member to discuss the research outcomes

Plenary symposiums with all the members together around the same table

The think tank membership provides the access to the most relevant insurance IoT knowledge

The 2017 initiative in a nutshell

Think Tanks

One focused on the North America and one dedicated to the European markets

(2)

(>50)

Organizations

Involved hundreds of executives from 40 Insurance and Reinsurance Groups and 10 Tech players and Institutions

Plenary meetings

4 full days of keynote speeches, discussions, roundtable. A terrific networking opportunity

(4)

connected
insurance
observatory

(>250)

Hours of workshop

More than 90 "one to one" workshops (already delivered more tthan2 meeting dedicated to each company joined the Observatory)

(4)

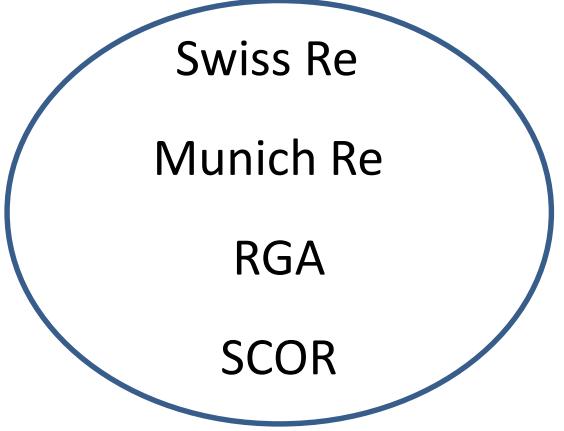**Business insurance areas addressed**

Unique research based on innovation thought leadership and insurance acumen on all the insurance business lines

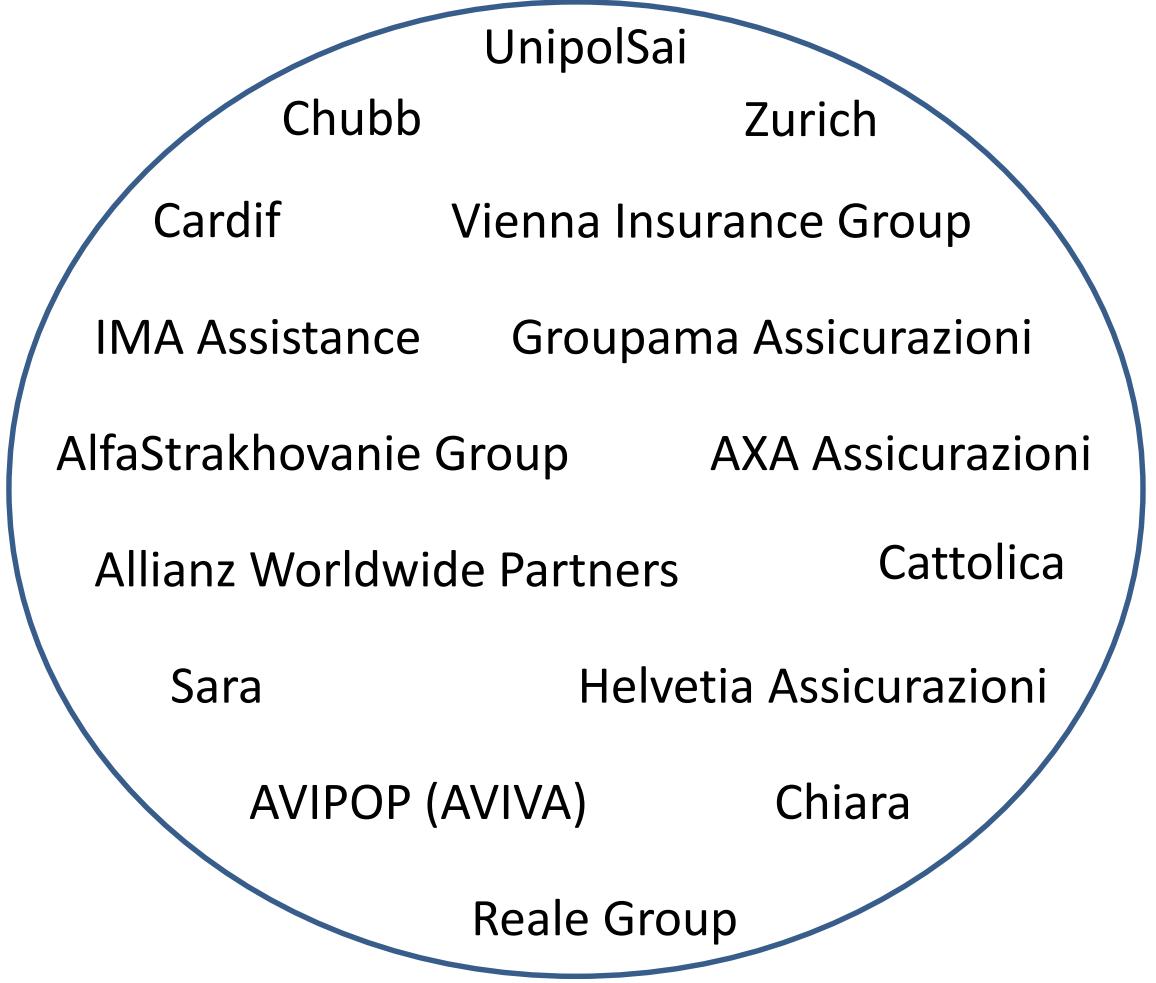# Since March 2017, we started a second Observatory dedicated to the North American Market
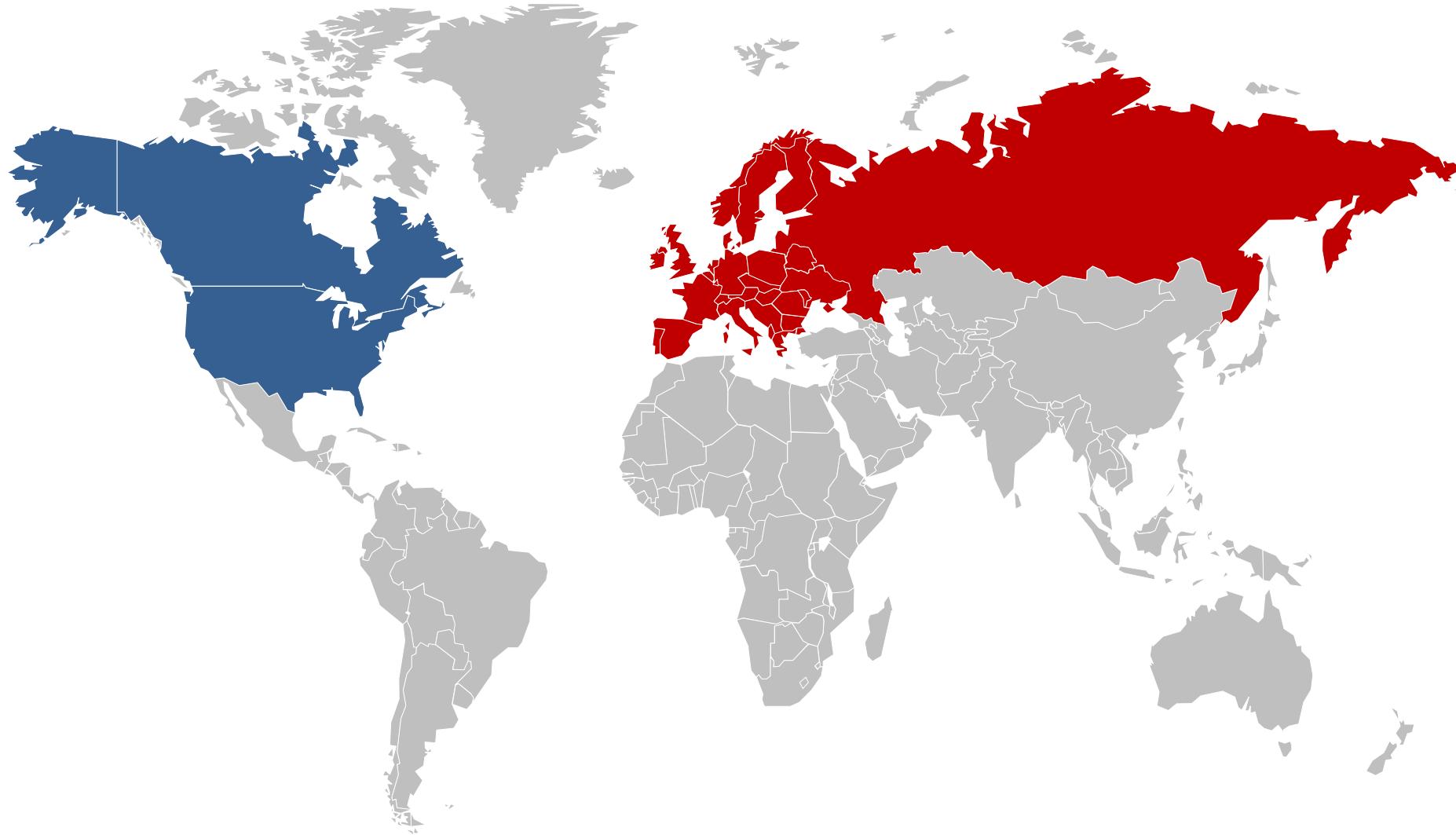
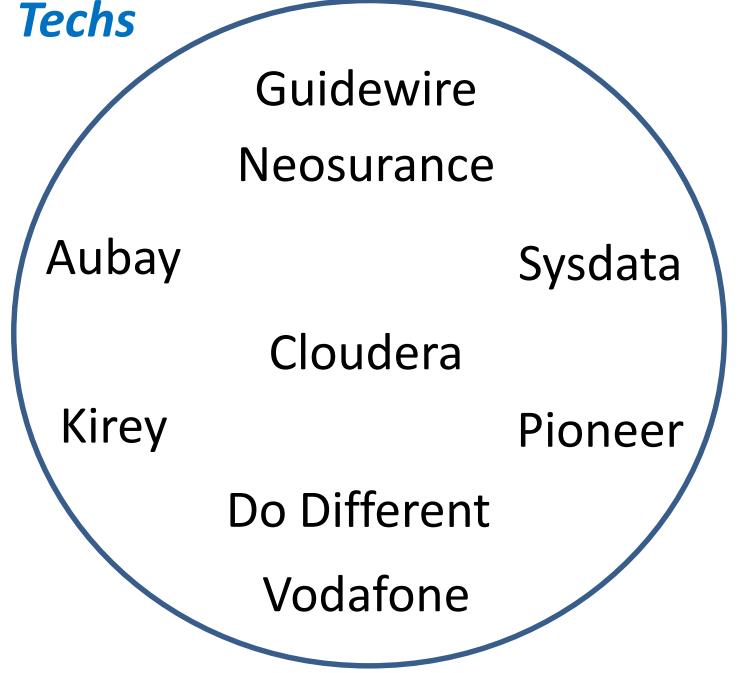# More than 30 organizations participated this year to the European Connected Insurance Observatory edition
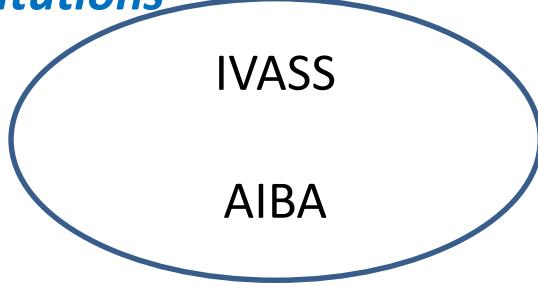
Re-Insurers

- Swiss Re
- Munich Re
- RGA
- SCOR

Insurers

- UnipolSai
- Chubb
- Zurich
- Cardif
- Vienna Insurance Group
- IMA Assistance
- Groupama Assicurazioni
- AlfaStrakhovanie Group
- AXA Assicurazioni
- Allianz Worldwide Partners
- Cattolica
- Sara
- Helvetia Assicurazioni
- AVIPOP (AVIVA)
- Chiara
- Reale Group

Techs

- Guidewire
- Neosurance
- Aubay
- Sysdata
- Cloudera
- Kirey
- Pioneer
- Do Different
- Vodafone

Istitutions

- IVASS
- AIBA

Others

- Portolano
- InsurtechNews
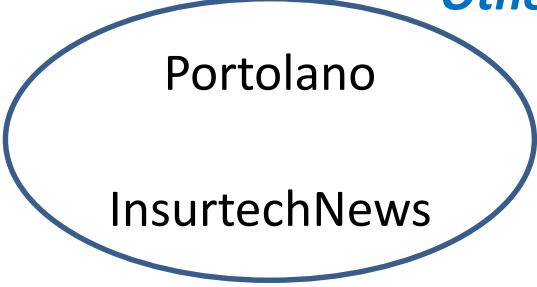
Feel free to **contact me** to join the journey of this think tanks

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