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Results of 2015
Trends for 2016



FLAVOURS OF FINTECH IN INSURANCE

by Roger Peverelli and Reggy de Feniks



Roger and Reggy are the authors of the worldwide bestseller 'Reinventing Financial Services' and the founders of Digital Insurance Agenda and DIA Barcelona, the first global community and conference connecting change agents at insurance firms with fintech leaders.

VC investments in insurance fintech firms quadrupled compared to 2014. NYC health insurance start-up Oscar became the posterchild for customer engagement, the proof that insurance could be made sexy. AXA launched **AXA Strategic Ventures**, a 200 mio euro corporate venture arm for emerging strategic innovations relevant to insurance. And so did among others **Allianz**, **MetLife** and **PingAn**. Aviva started hiring staff from Google and Amazon to update its technology, Startupbootcamp announced its first insurance accelerator program in London, backed by **Allianz**, **Admiral** and **Lloyds**.

In our view, 2015 was just the start. We expect 'insurtech' to really take off in 2016. We see four drivers: weak spots of insurance incumbents. Each weak spot drives sense of urgency at insurance firms to accelerate digital transformation. And each weak spot also invites new entrants to move into the insurance space.

1. Current cost levels are much too high

An insurance, the transfer of risk from a consumer to an insurer, is expensive. Insurers spend between 20 and 40 cents of each euro of premium on costs of operations and customer acquisition costs, marketing and distribution; not on what the insurance

is actually for. Insurers are looking for ways to operate more efficiently in every major part of the costs column: in claims expenses, costs of operations and customer acquisition costs. Short term challenges therefore include sophisticated underwriting, risk reduction, improved claims management and cost efficient service. Technology purchases and investments by insurance carriers will further explode. And so will the number of fintech solution providers that want to cater to that need.



2. Customer engagement leaves much to be desired

Most insurers have low Net Promoter Score ratings. Customers experience a lot of frictions throughout the customer journey. Insurance is still about averages, products, one size fits all, paper, brokers. Insurance firms are turning to digital technologies and what fintechs can offer to improve way they engage with their customers.

But all these frictions also stimulate new entrants to introduce more relevant concepts. Think of Oscar's quote: "We didn't start this company because we love health insurance. Quite the opposite in fact."

Let's not forget that insurance is an extremely attractive market. The global insurance industry alone is a **4 trillion dollar** market (12 zeros) according to McKinsey. A market that size, with so many imperfections and latent and manifest needs obviously attracts investors, entrepreneurs as well as blue chips outside the insurance industry.

3. Internet of things just entered the radar screen

Connected cars, connected homes and e-health are about to become mainstream. All these connected devices generate an avalanche of data that can be used to improve risk assessment, to offer new products and services and to create new revenue streams and growth opportunities.

as a focal point in their strategy. Car manufacturers who are looking for new revenue streams have also woken up to and are increasingly moving into the insurance space—becoming more active in sales, distribution, and claims—just like they have become key players in financing new-vehicle sales over the past decades.

4. Speed of innovation has been limited so far

The appetite for innovation in the insurance industry has always been limited compared to other consumer industries. This is remarkable in view of the impact of Google Search and insurance comparison engines such as Moneysupermarket.com, Comparisch and independer.nl that fundamentally changed market dynamics. Past profitability resulted in lack of sense of urgency. Obsolete conventions and vested interests (broker sales) killed any innovative ideas.

Insurance carriers are now making the leap into the 21st century. They have little choice. If they fail to deliver against the ever increasing demands and expectations of customers they will lose share to traditional rivals that do succeed in striking the right chord. And to new entrants that have the advantage of digital DNA to leverage technology to provide lower costs and better service.

SO WHAT DO WE EXPECT FOR 2016?

Which insurtechs will be successful? We distinguish seven different flavours of winners in fintech insurance. Winners because they bring specific flavours of added value to insurance companies and to customers. Let's take a closer look.

1. Dramatic cost savings

What drives insurers most is the need to cut costs. This means ample opportunities for fintechs that provide

innovative solutions that impact the key cost drivers. Think of solutions for improved claims management, fraud detection, more cost effective customer acquisition and cost efficient service.



OutShared recently launched the CynoSure digital insurance platform, a complete head to tail digital insurer in-the-box. CynoSure is a SaaS solution that covers the back-office system-of-record to all front-end web and app interfaces. For instance, with Cyno-Claim (one of CynoSure's key modules) more than 60 percent of all claims can be managed automatically, resulting in lower costs as well as increased customer satisfaction. The platform can be used for both new market offerings and the renovation of established operations migrated to the platform. Results of the first implementations are promising: up to 50 percent decrease in costs, 40 percent increase in customer satisfaction. CynoSure takes 6 to 9 months to implement, whether it is new or a migration – quite spectacular in the insurance industry as well.

Eris Industries develops software that allows anyone to build secure, low-cost data infrastructure using blockchain and smart contract technology. Eris is the first platform that allows the full potential of blockchain-based technologies to be realised in enterprise. By combining blockchains and systems of smart contracts, businesses can take any data-driven human relationship and reduce it to code – guaranteeing accurate and consistent execution of functions which hitherto required human discretion to manage.



Everledger is using the technology behind bitcoin to tackle the diamond



However, a recent **Ro-land Berger** / EFMA survey among 23 European insurers shows a hesitant attitude. About 60 percent of the participating insurers have started initiatives in connected cars, but mostly limited to using telematics data for more sophisticated underwriting and claims management and hardly ever exploring the development of entirely new products and revenue streams from all the contextual information that becomes available. And in connected home and connected health there is even less activity. This has invited all sorts of new entrants that see the commercial potential of data produced by drivers, homeowners and health device users. Numerous tech start-ups that are devoted to creating innovative products and services based on the internet of things. But also big names in consumer technology such as Amazon, Apple, Google, Microsoft, Philips, Samsung and Siemens have designated the internet of things

industry's expensive fraud and theft problem. The company provides an immutable ledger for diamond ownership and related transaction history verification for insurance companies, and use blockchain technology to continuously track objects. To achieve this Everledger has partnered with different institutions across the diamond value chain, including insurers, law enforcement agencies and diamond certification houses across the world. Through Everledger's API, each of them can access and supply data around the status of a stone, including police reports and insurance claims.

2. Sophisticated underwriting and risk reduction

The core competence of insurance is ready for a makeover thanks to all sorts of new technologies; machine learning and cloud computing.



Earnix Insurance provides an integrated software platform for customer analytics and pricing. Industry-leading statistical tools allow insurance actuaries and analysts to generate the most accurate and robust risk pricing models. Built-in visualization capabilities make it easy to analyze these models for selection of the best pricing strategy. By enabling insurers to quantify the impact of pricing decisions on customer behavior and define pricing strategies that best reflect market dynamics Earnix introduces a level of precision and scale that was previously unattainable in the pricing process.

AdviceRobo solutions make use of a machine learning platform that combines data from structured and unstructured sources to score and predict

risk behaviour of consumers. AdviceRobo for instance provides insurers with preventive solutions applying big behavioural data and machine learning to generate the best predictions on default, bad debt, prepayments and customer churn. Predictions are actionable because they are on an individual level.

3. Superb customer engagement

This flavour of insurance fintechs is about solutions that help insurers to make a leap in customer engagement, to become much more effective in every step of the customer journey. It is also about new entrants that are attacking specific frictions, complex processes and product and pricing imperfections customers have to deal with when working with insurance companies.

The mission of **BigML** is to democratize data science tools and put the average business analyst (almost) on par with the data expert. BigML offers a SaaS-based machine learning platform that allows everyday business users to create actionable predictive models within minutes. For instance to analyse clickstream data on the website, how well an email list is performing, or, based on sales results, which segments of your email list to target. After creating a model, users can share and/or sell it in BigML's public gallery.

Bauby enables consumers to file their claims just by taking a photo of the invoice. No more queuing on the phone to talk with insurance company call agents, asking when the money will be reimbursed, and getting frustrated in the process. Bauby submits the claim on the consumer's behalf.

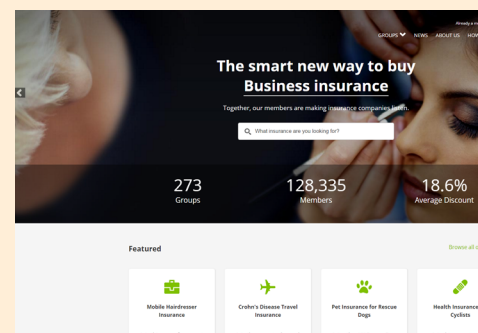
Cuvva introduced a mobile app that enables the user to sign up, get a quote and buy cover in less than 10 minutes. Basically, a completely digital experience run from a smartphone. What



is also new is that it gets customers covered for only as long as they need it; from a single hour to a whole day.

4. Disruptive business models

Also in 2016 we will continue to see the emergence of new digital first carriers. Not all new entrants will survive; but they will definitely set new standards. Despite the fact that they differ quite a lot in nature, they have one thing in common. They attack with a new business model that is clear about how it creates value for its customers. We already mentioned Oscar. Some other favourites:



Bought By Many is a free, members-only service that helps users to find insurance for the things in life that are out of the ordinary. The company aggregates demand and negotiates discounts directly with insurers for the clients' unique situations. Members save an average of 18.6%.

Trov creates customization of the home insurance by allowing coverage of individual key items rather than a coverage set with average amounts.

An app-based platform allows customers to discover and track the real-time value of their belonging. They simply upload the items they own to a digital locker, either by scanning a product UPC code, entering an auto VIN number or a home address, or looking up individual items in an in-app database. The value of these items is then tracked over time. Trov (backed by Anthemis) has partnered with a wide variety of proprietary

data sources like Zillow (US real estate), Blackbook (US autos) and Symantics3 (global consumer products).

Another imperfection, at least in the eyes of customers, is deductibles. **insPeer** allows users to share insurance deductibles with their friends and family members.

Collision damage waiver and loss damage waiver on rental vehicles are also always expensive. **Insuremyrentalcar** provides the solution with a package that starts from \$5 a day to \$93.99 per year.

Guevara introduces a whole new way to think about car insurance. With Guevara customers pool premiums online to save money. Unlike traditional insurance, any money left in the pool at the end of the year stays with the group and lowers everyone's price next year. Users that keep claims low can save up to 80%.

5. New roles in the value chain

Traditional agents and brokers are becoming an endangered species in many mature markets because of lack of added value in view of excessive commissions and online alternatives. A whole new breed of intermediaries now enters the insurance arena.

Knip is an innovative digital insurance manager that bundles customers' insurance products in one app and offers an easy-to-understand overview and analysis of existing insurance policies, tariffs and services. The app automatically detects individual insurance gaps and recommends how to improve the insurance protection. If desired, Knip experts consult on insurance policies. Since they do not receive a commission, customers can expect independent and honest advice.

With the app, customers can easily change their tariffs, conclude new insurance contracts and cancel old policies.

PolicyGenius offers highly tailored

insurance check-up platform, where users can discover their coverage gaps and review solutions for their exact needs. PolicyGenius provides the only online store for life, long-term disability, renters and pet insurance. Highly accurate quoting engines offer side-by-side comparisons of tailored policies.

6. Innovation acceleration enablers

The systems of most insurance carriers are older than the customers they serve. Obviously, this is a major hurdle to innovation. Yet, many insurers are reluctant to do an overhaul. Several fintechs are offering powerful solutions. What they have in common is that they modernize insurance business processes and enable insurance carriers to adapt quickly to change. Basically, offering modular solutions that align IT with the business demands for speed, flexibility, agility and cost efficiency.

Backbase has an extensive track record in banking and is now also moving into the insurance industry. With Backbase there's no need to replace or rebuild the core systems from scratch. Backbase allows insurers to repurpose them by incorporating their content,

that is completely customer-centric for any and all users, whether they are end-customers, employees or third parties. It couples an intuitive user interface with extensive functionality. Proactive business intelligence allows for true business insight and customer care. The Roundcube Suite is platform independent and can be added on top of any currently implemented core insurance system

The so-called Guided Interaction Platform of **Vlocity** is a powerful suite of task-based components; all 100% native on Salesforce. Vlocity transforms CRM systems with deep industry-specific transactional capabilities. With easy to use guided flows, insurers are able to consolidate applications, speed new users to productivity, and reduce overall cost to serve in half the time and cost of custom solutions.

7. Contextual data propositions

Connected objects will generate loads of new information, not only directly related to the insurance but also about the context. Think of information on daily movements at home, at work and while traveling; on how people interact with for instance their car and home; on mood, sleep, life-



data, and functionality into a new digital customer experience layer, optimized for easy integration with existing business applications and a delivery of a unified and seamless customer experience across any device.

The **Roundcube** Suite is a cloud-based modular insurance solution

style choices and habits. If insurers are willing to make the effort, it will spawn much deeper customer insights. In turn these should lead to fascinating new directions for product and service innovation.

The use of these devices, and the data that come with it, is fundamentally

changing the customer relationship. The added value of an insurer is shifting from the product, covering risks and claims settlement, to being part of the customer's everyday life and rendering services as a substantial part of the offering. The nature of services will shift from reactive to proactive and preventive. Customer relationships will evolve towards a more collaborative model. And the use of connected devices, and in particular the data results in a shift in information asymmetry that further empowers customers.

Connected cars can inform the owner pro-actively about the condition of the vehicle so they can maintain their car better than before. Consequently, the relationship between repair shops and customers will change dramatically. Data will make the conversation between repair shop and customer objective and transparent, which is quite a leap from the suspicions many customers still have about the necessity of certain repairs, and what is charged for them. In addition, data can lead to a good prediction of the costs of the next repair, and give customers the opportunity to ask for quotations from different repair shops, and compare them objectively.

tance and the analysis of car accidents liabilities, to personal insurance models, such as 'pay-per-use' and 'pay-per-risk', to vehicle telediagnostics, real time traffic information, road charging, fleet management, and eco driving management. Octo telematics also provides marketing services; motor insurance risk analysis; and business intelligence and advanced analytics, such as driving behaviour models, geospatial analysis, and traffic forecasting systems.

Traditionally healthcare delivery is all about face to face interactions, resulting in high costs. Connected health devices allow healthcare providers as well as health insurers to extend their reach and interactions with patients. Sharing data among all stakeholders, optimal use of this data and remote patient monitoring have the potential to change the business model entirely, keeping healthcare efficient, affordable and accessible – in particular when dealing with chronic conditions. Because of connected devices health providers and insurers for instance will be able to offer personalised services at home, at work or when travelling meeting the lifestyle needs of customers. For instance providing flexible opportunities to engage with care providers



ticular for people with chronic diseases such as Diabetes, Cancer and Alzheimer's. The impact is huge since chronic diseases account for the majority of healthcare costs. VitalHealth Software features include care providers participating and collaborating in health networks gained web-based access to shared, protocol-driven disease management support based on established clinical guidelines, seamlessly integrated to and accessed from within existing EHRs. At the end of the day, VitalHealth Software aims to have a positive impact on the lives of patients.

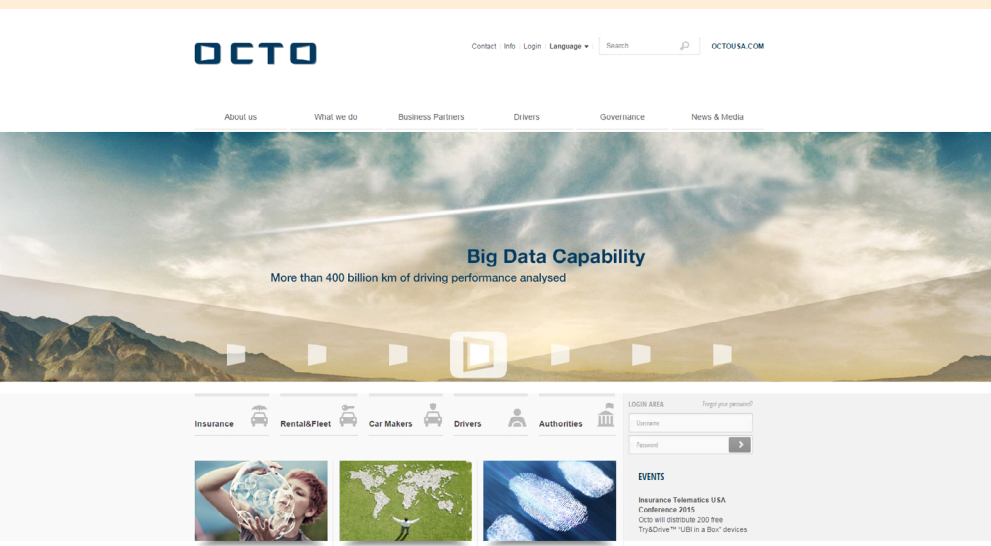
THE DIGITAL INSURANCE AGENDA

The insurance industry in 2020 will look very different than it does today. New technologies and rising customer expectations are changing the way insurers need to operate. Digital transformation is top of the agenda at any insurance firm that takes itself seriously. The winning insurance firms of the future will be those that innovate and transform. Insurance firms that leverage the most innovative fintech solutions to accelerate their digital strategy.

However, in our discussions with insurance executives across the globe we have learned there is a great need to connect insurers to fintech leaders in a comprehensive, efficient and effective way to speed up their innovation efforts. And to discuss how insurers and fintechs should work together.

This is exactly why we created DIA, the first global community and conference connecting change agents at insurance firms with fintech leaders. DIA sets the Digital Insurance Agenda.

We invite you to join the conversation at www.diabarcelona.com, come to the first edition of DIA Barcelona on 20 and 21 April 2016 and meet some of the winning fintechs we featured in this article – to accelerate innovation in insurance.



Octo Telematics provides telematics solutions for insurance companies, car rental and fleet management companies, motor manufacturers, and governmental authorities. It develops and manages a range of vehicle telematics solutions ranging from automatic crash alerts and 'on call' assis-

and home care solutions for elderly and individuals that live independently.

Business models in health are shifting from a transactional to a relational model, assisting a customer to manage his or her health over time.

VitalHealth Software develops cloud-based eHealth solutions in par-