



Insurance of the Future

What will it look like in 2025?

March 2019

Executive Summary

The upcoming open banking ecosystem will require banks to make clear choices

- For the last few years, Deloitte has extensively helped the Insurance sector, globally, to adapt to its new reality: this is why we are taking the "Insurance of the Future" initiative, in Europe and in Belgium, and why we share our views with CEO's of premier Insurance players and other closely related sectors (mobility, health, real estate)
- The Belgian market is mature with a limited organic growth potential in core insurance. Scale, growth and differentiation are on everyone's agenda
- Everyone agrees that Digital will have a fundamental impact on the insurance sector, yet the depth of the impact, the level of disruption and the timing remain unclear
- While traditional strategic imperatives (customer segments, risk appetite, product & services, ...) remain very valid, 2 new strategic dimensions will shape the future:
 - The positioning on the value chain, and the level of openness & connectivity to other sectors,
 - The ability to offer an end to end frictionless customer experience to the market
- By 2025 we see three business models leading the market:
 - Core insurer: Companies focusing on core insurance products and skills ensuring a perfect customer experience
 - Beyond insurer: Companies with additional services providing added-value for the customer
 - Exponential insurer: Companies leveraging external partnerships to grow in new market and being part of winning ecosystems
- Whatever the positioning the insurance company will take, the following capabilities will need to be further developed:
 - Customer centricity
 - Technology and open architecture
 - Data analytics
 - Innovation
 - Talent
 - Partnership & ecosystems management
- **Challenging & exciting times ahead!**

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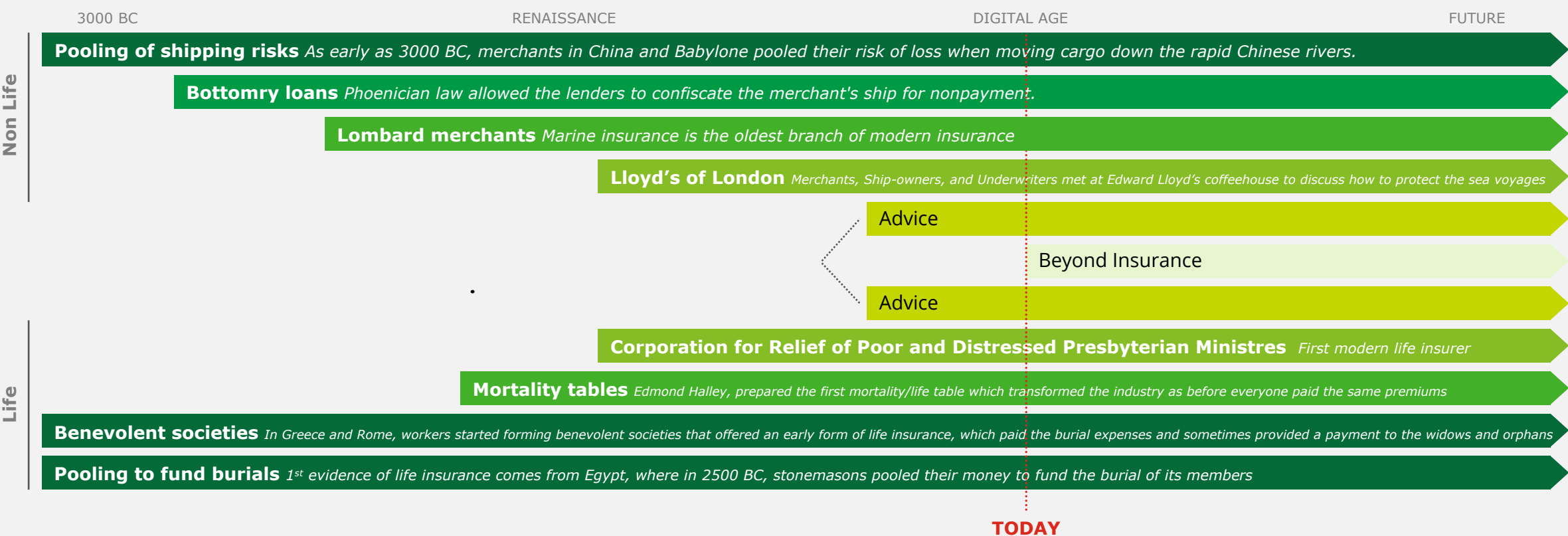
1. The context

Historic perspectives

For centuries, insurers have extended their products & services, yet primarily within their core business

The products and services offered by insurers started with safekeeping valuables & guaranteeing retirements/burials

- While insurers extended their offerings around the core services, the **core business did not evolve significantly**
- We believe the **insurance industry is now on the verge of the next major evolution**

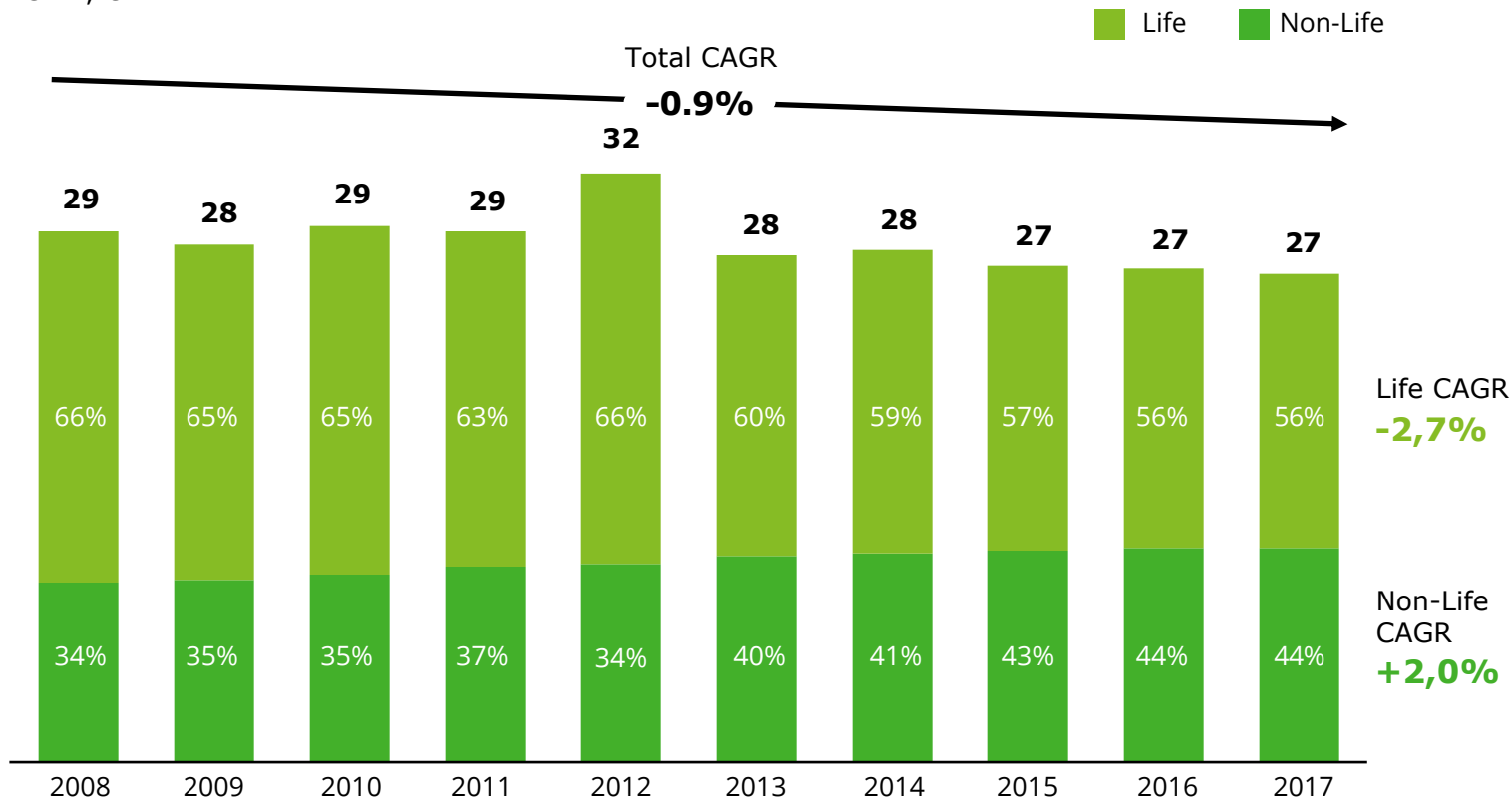


1. The context

Belgian Insurance – A slightly declining market

For the last ten years, P&C has grown with a CAGR of 2%. Life Insurance is declining on average by 2.7% a year.

Evolution of the Belgian insurance market
GWP, €B



Key Messages

- The Non-Life segment has been growing in line with GDP
- The Life segment, which has traditionally been a very large segment in Belgium, has struggled due to macroeconomic factors:
 - The increase of the entry tax on Branch 21 and 23 premiums to 2% in 2012, resulted in a reduction of 14% in the following year
 - Low interest rates have led to a shift from Branch 21 (guaranteed interest rate) to Branch 23 (unit-linked interest rate) product

Source: Assuralia (2018), Deloitte analysis (2018).

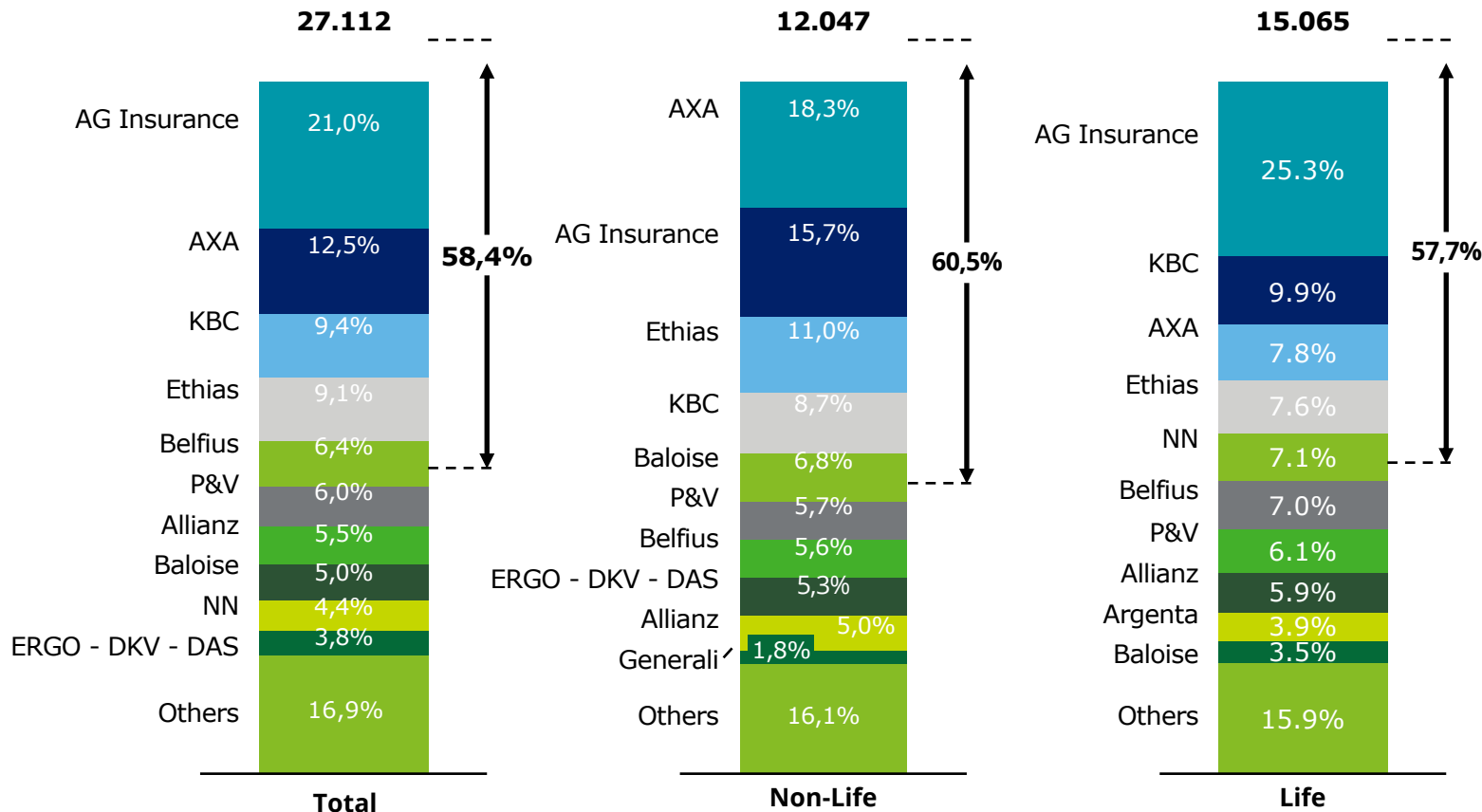
1. The context

Belgian Insurance Market - Players

The top 5 Belgian insurers own close to 60% of the market in both Life and Non Life insurance

Top 10 Belgian Insurers by Market Share

2017, Millions of EURs, %



Key Messages

- The Belgian insurance market is still a fairly fragmented market, with the top 5 players sharing 58% of the market
- The Belgian insurance market is undergoing a consolidation trend, especially in the declining Life insurance market
 - Generali bought by Athora Holding
 - Fidea officially for sale
 - Ergo stopped its life insurance activities
 - BDM-ASCO was sold

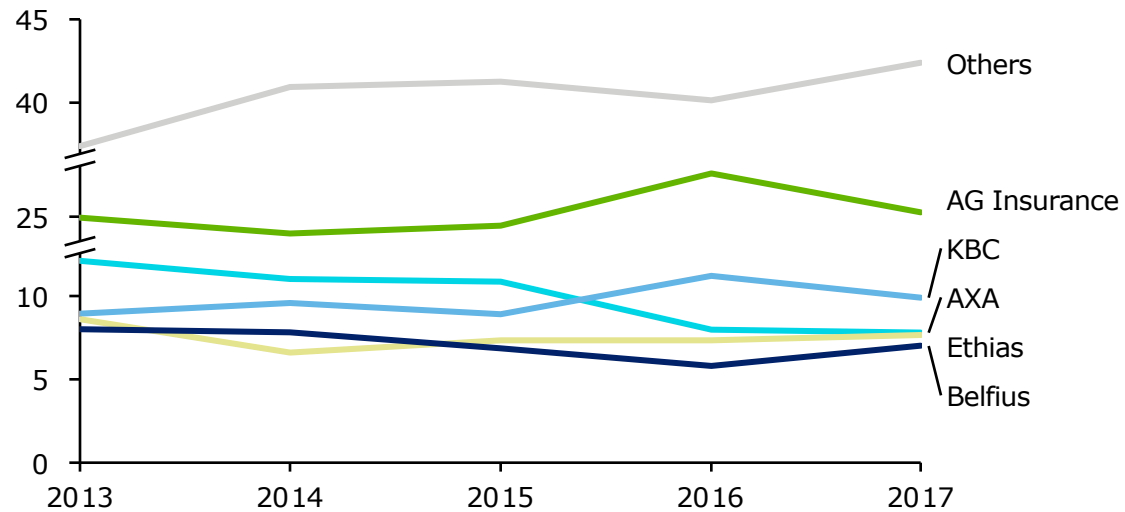
1. The context

Belgian Insurance Market - Players

The market share of the top 5 players has been fairly stable for the last couple of years, in line with the market evolution

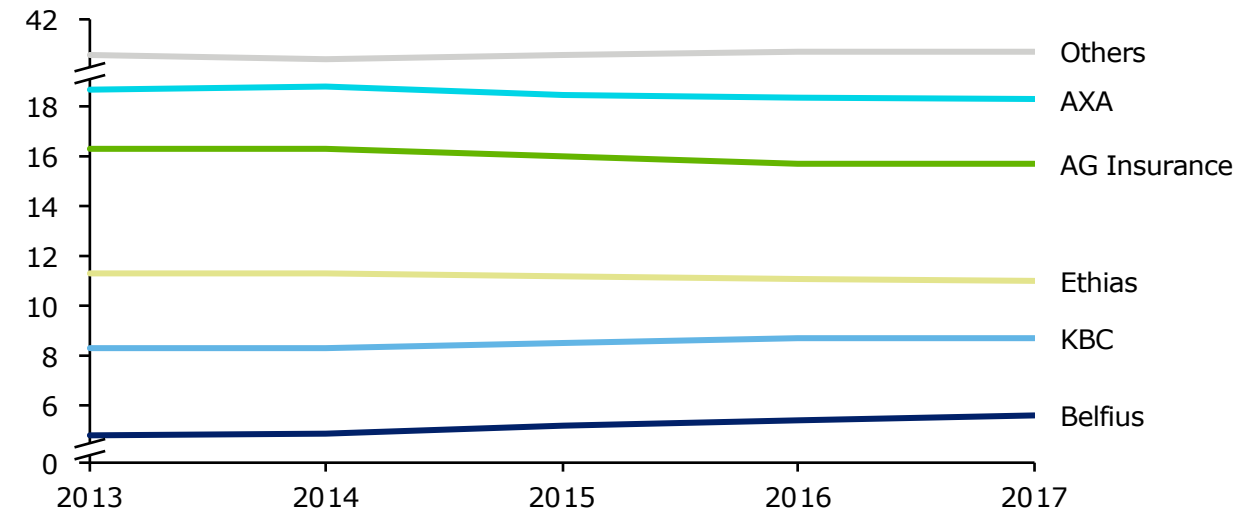
Market Share Evolution of Top 5 Belgian Insurers in Life Insurance

2017, % of Total Market GWP



Market Share Evolution of Top 5 Belgian Insurers in non Life Insurance

2017, % of Total Market GWP



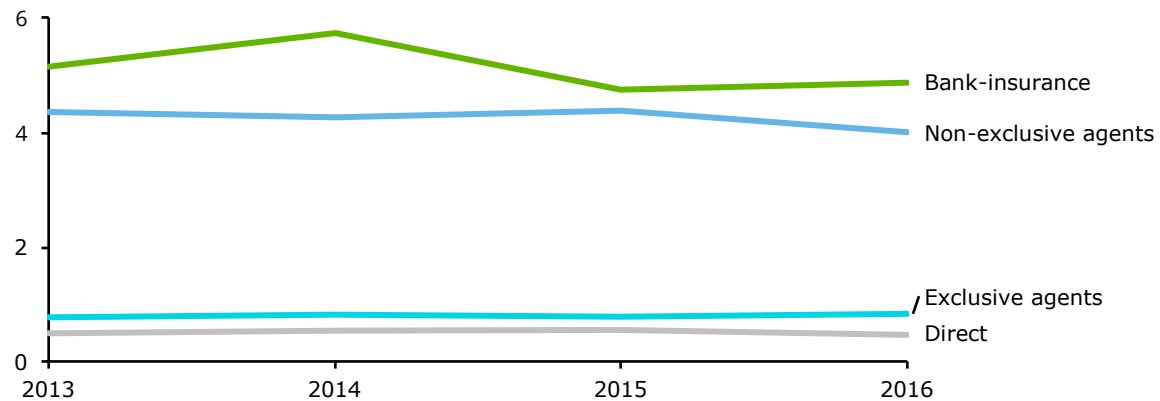
1. The context

Belgian Insurance Market - Distribution

Bank-insurance is the largest distribution channel for Life insurance products while it remains the brokers for Non-Life insurance products

Individual Life insurance distribution channels

GWP, €B

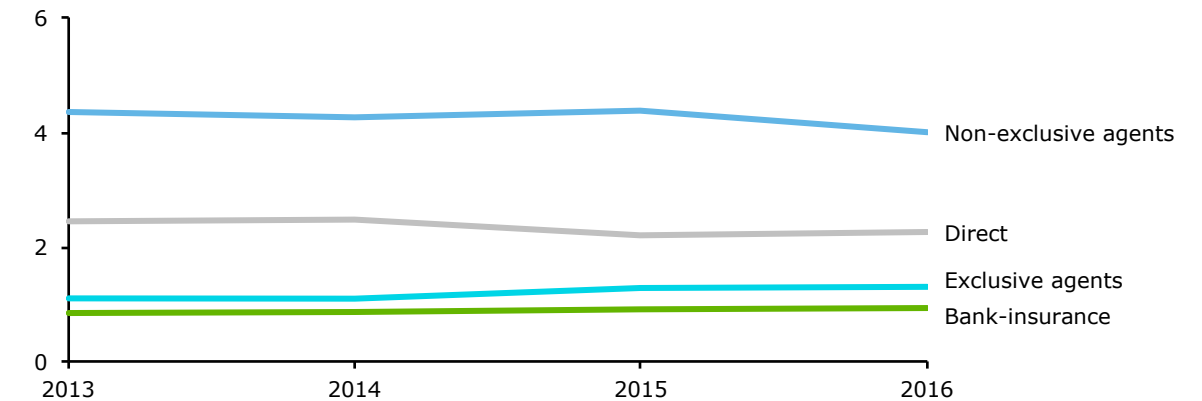


Key Messages

- The bank-insurance channel has recorded a slight decline, yet performed better than the non-exclusive agent performance (-1,8% vs. -2,7%)
- Direct channel is not growing significantly, instead all channel are becoming more digital

Non-Life insurance distribution channels

GWP, €B



Key Messages

- Non-exclusive agents remain the primary channel for Non-Life insurance products. This confirms customers' wish to compare offers from different players to find the best offering
- In the Professional segment, the preference for such independent intermediary is even stronger than for Retail customers with 72% versus 54% of market share in those segments respectively

The context

The current market environment pushes the players to rethink their strategies and operations

	OBSERVATIONS	IMPLICATONS
Market Size	<ul style="list-style-type: none">• Total insurance GWP stable at 27bn €• Limited organic growth• Shift from Life to P&C: Life insurance representing only 56% in 2017 vs 66% in 2008	Need to look at new horizon
Market Players	<ul style="list-style-type: none">• Top 5(together) loosing market share in life, stable in P&C• Among the top 5, market share is unchanged• No significant breakthrough from fintech/insurtech• Generali withdrew from the Belgian market, some others for sales	Increasing competition
Distribution	<ul style="list-style-type: none">• All channels are becoming more digital• No significant increase of the Direct Channel	All channels remain valuable: The battlefield is open

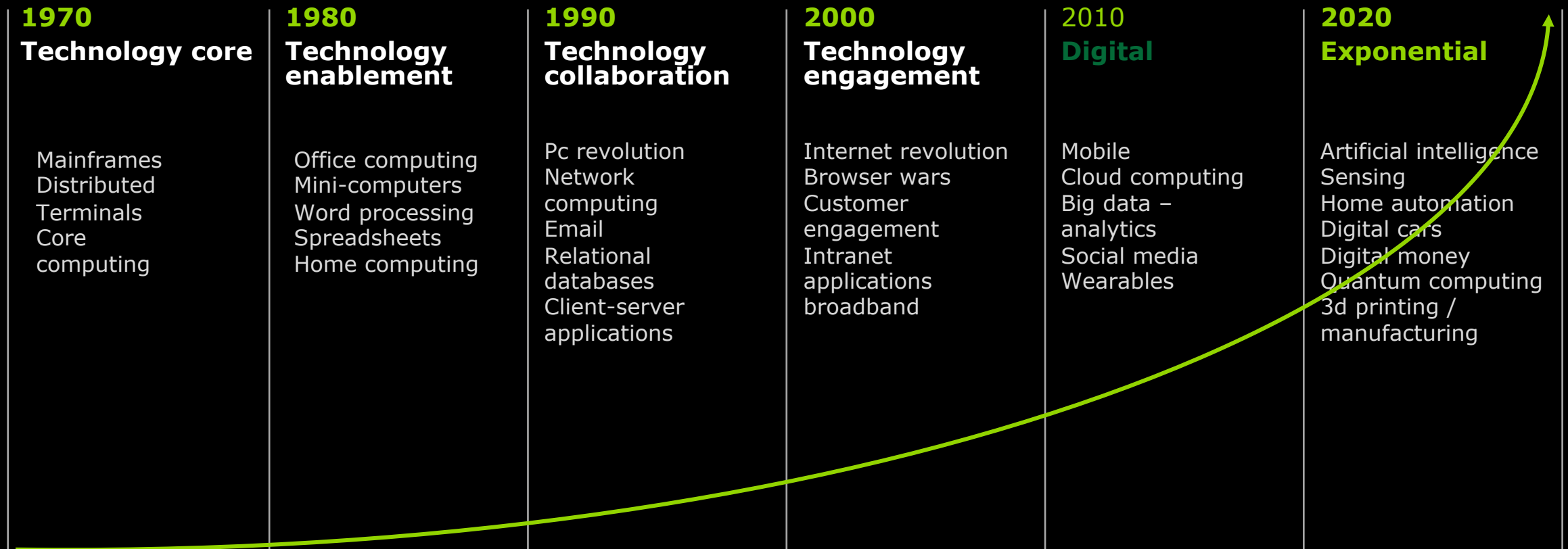
2. The future is now

Up to now, banking business models were designed around eight generally accepted strategic themes

1 Customer segments	Which customer segments does the bank want to address? Will the bank serve all segments within the same model?	2 Business lines	Which business lines does the bank want to serve: private, retail, commercial, merchant banking?
3 Capabilities	Does the bank own the entire value chain or does it collaborate with third-parties for part of it?	4 Distribution model	How will the bank distribute its products and services? Digital-only channels, agent or branch network?
5 Products & services	Which banking (and insurance) products does the bank focus on?	6 Geography	Which geographies does the bank serve? Will all geographies be served within the same model?
7 Risk appetite	How ready is the bank to take risks with regards to new markets, new products, new collaboration models?	8 Share-holdership	What is the optimal ownership based on the selected model: family, private, customer-owned, listed?

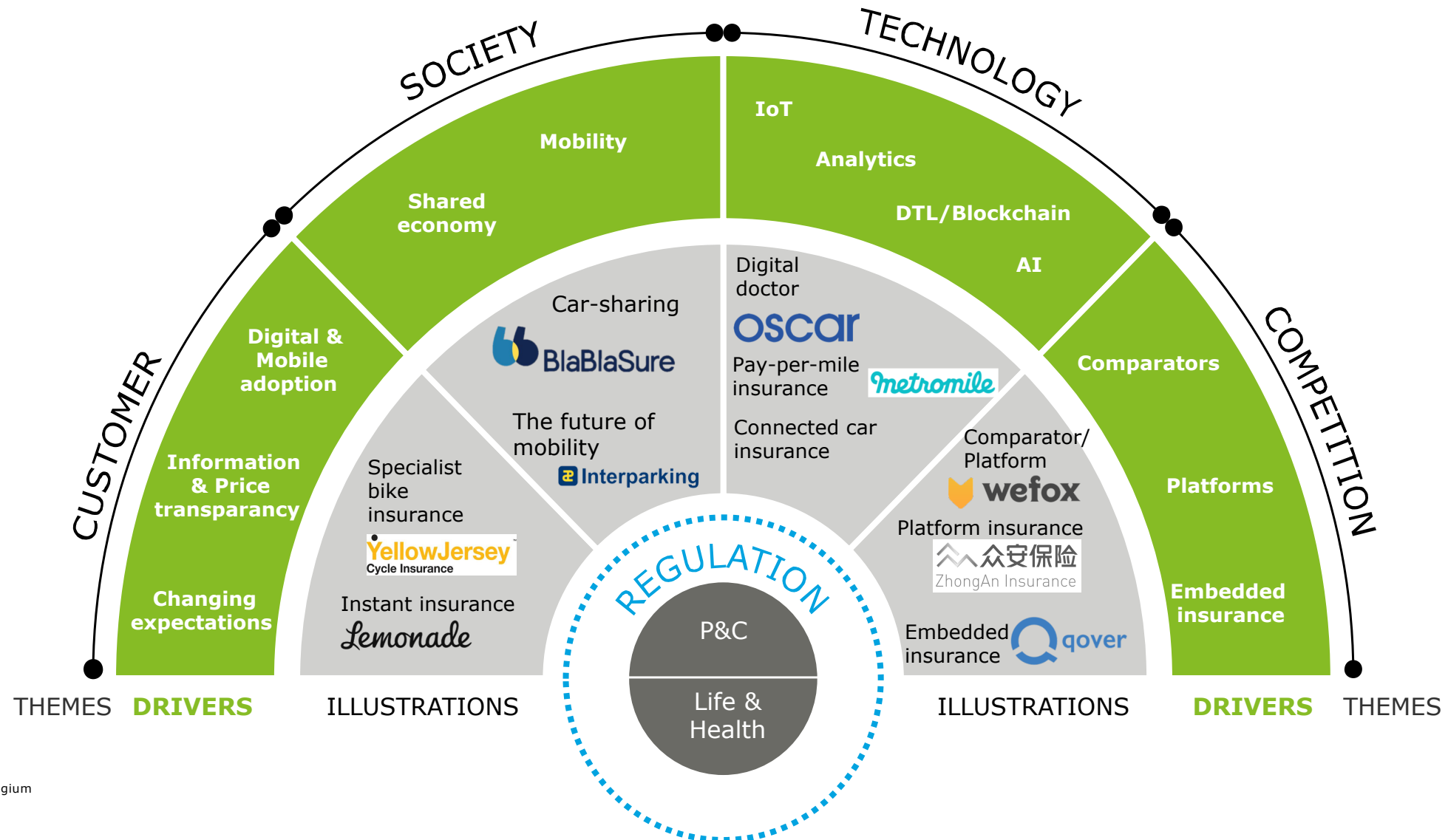
2. The future is now

Digital is at the center of the transformation: it is exponentially impacting all businesses, amongst others by creating new business models, enabled by new technologies. For insurance, the question is the level of disruption, the speed of change and eventually the future of insurance



2. The future is now

A number of drivers are reshaping the market dynamics of the insurance sector, and this is just the start



2. The future is now

We see 2 new key strategic questions for insurers:

A

The positioning on the value chain

Players will have to choose between an integrated (internal) value chain and an open architecture (potentially, equally on distribution and beyond insurance products and services)

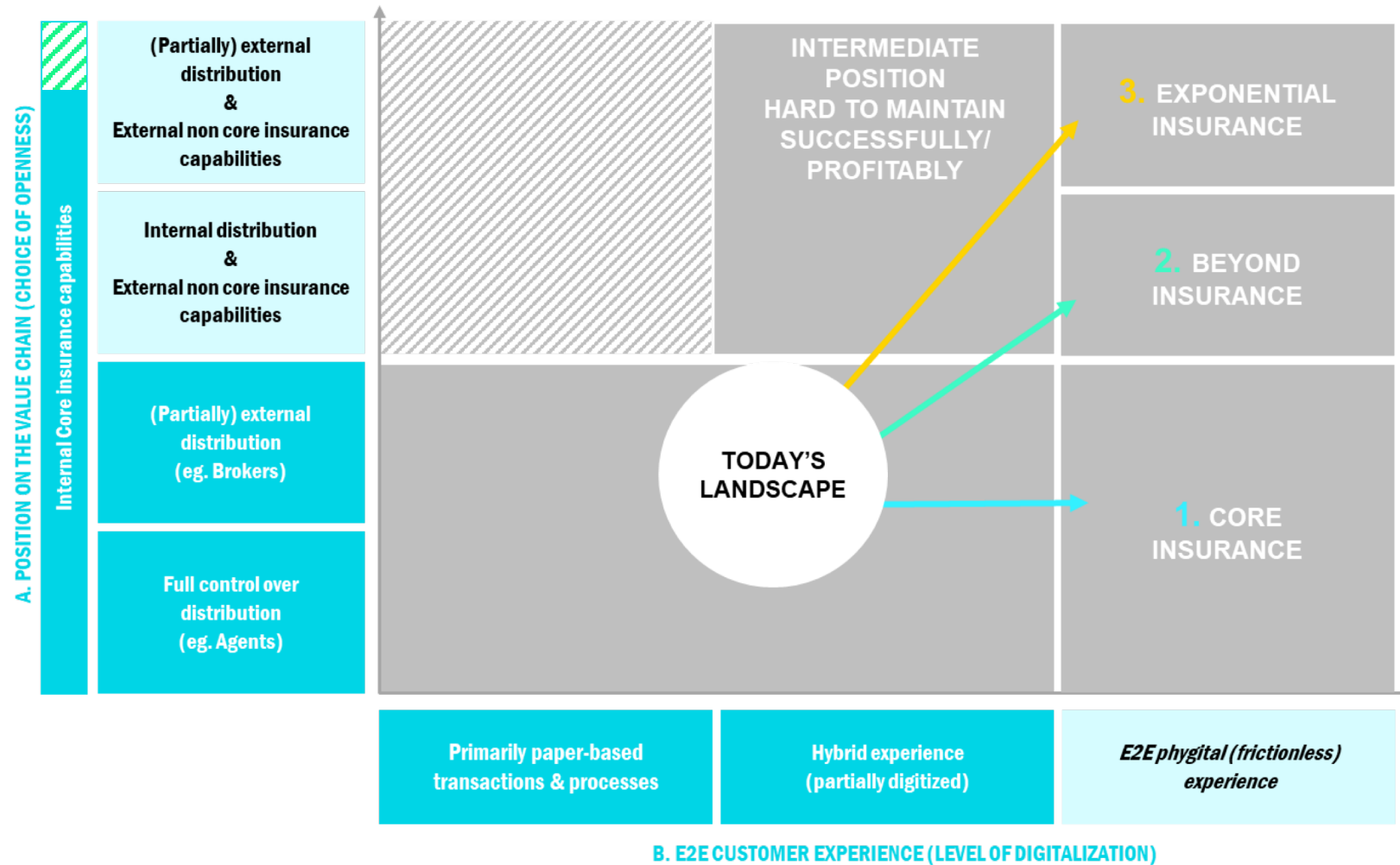
B

The ability to offer a E2E frictionless customer experience

E2E frictionless experience will be the new normal, which is implying a digitalization of the entire processes and product offering













2. The future is now

The three potential strategies in the future



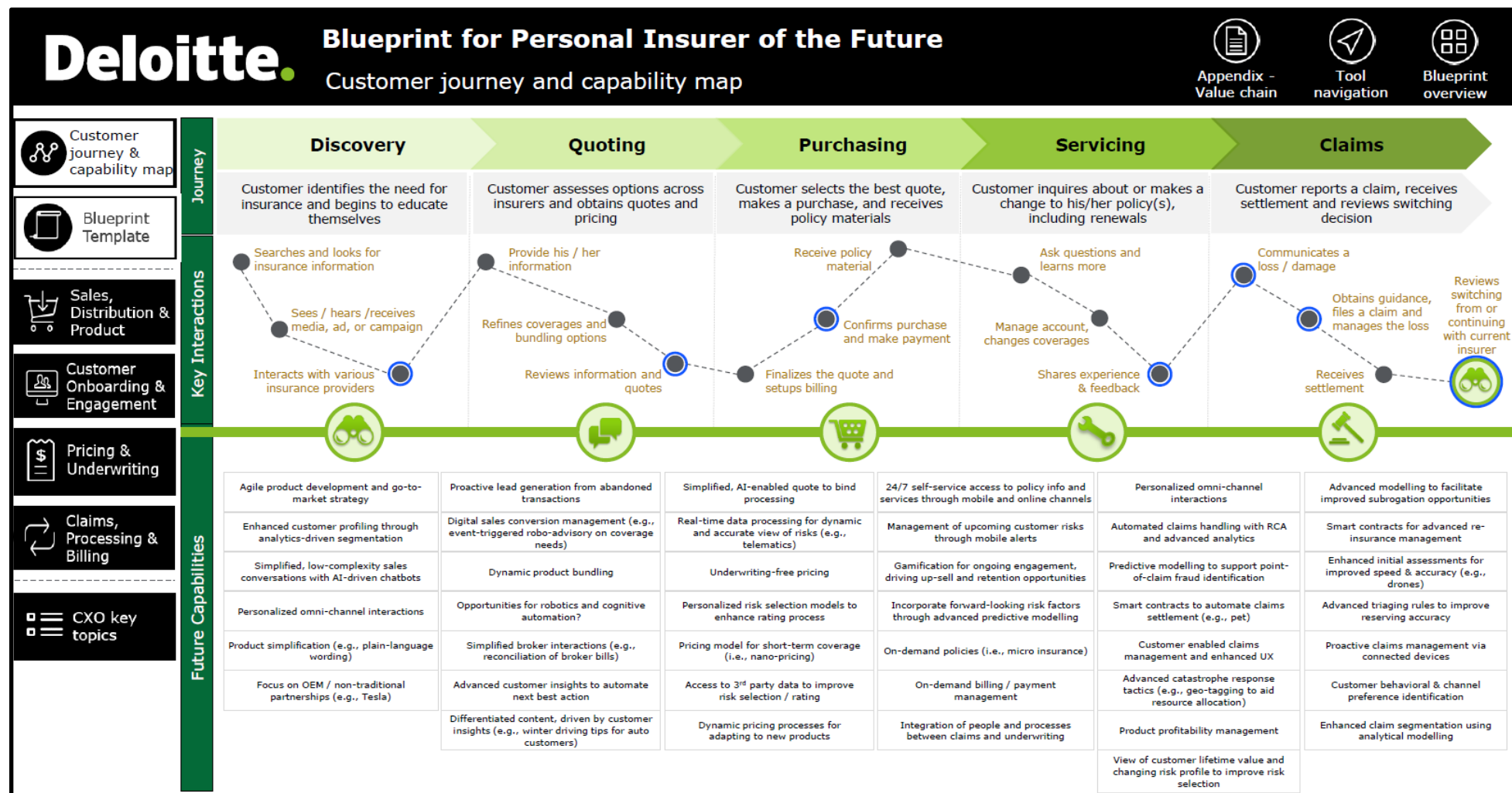
2. The future is now

The three strategies: positioning of current vs new players

	1. Core insurance	2. Beyond insurance	3. Exponential insurance
 Description	<p>The company is focusing on core insurance products and skills. Rely on customer relationship through frictionless experience and claims management efficiency is at the core of the strategy.</p> <p>>90% revenue driven by core insurance product</p>	<p>Beyond insurers focus on extending the ranges of services to offer E2E solutions to customer.</p> <p>>20% revenue driven by non core insurance products and services</p>	<p>Exponential insurers conquer new markets via efficient external partnerships. Ecosystem with potential high volume and low premiums as e-commerce and mobility will be the first targeted.</p> <p>>20% revenue generated via beyond insurance's ecosystem partnership</p>
 Incumbent	<p>Most Belgian Insurers</p>	<p> Quality traders platform Jaimy is a platform that helps people find trustworthy helpers such as a plumber. Belfius gets a fee for each contract and is able to make new commercial contacts (cross-selling)</p> <p>  </p> <p>B2B mobility services platform Olympus is a B2B platform, bringing together supply and demand of mobility services, thus enabling mobility packages being assembled effortlessly</p>	<p> Car sharing AXA's partnership with BlaBlaCar to sell insurance products in the car-sharing ecosystem.</p> <p> Marketplace insurances The French insurer Euler Hermes allows Marketplaces to offer suppliers, for each transaction, a hedge against the risk of non-payment of their debts.</p>
 Insurtech	<p> Core insurance start-ups Luko (France) and Lemonade (US) improve the traditional core insurance experience: Highly digital customer journey, transparency regarding profits and claims settlement efficiency.</p>	<p> More than just health insurance Oscar is a technology-focused health insurance The app tracks the customer's step, allows to contact a concierge for questions and call a doctor for free in 15 minutes (24/7).</p>	<p> Second hand car market with insurance services The Chinese insurance firm Ping An gives second hand buyers the opportunity to buy an insurance product together with the car.</p>

2. The future is now

Whatever the chosen strategy, insurers will have to make all their processes digital enabled



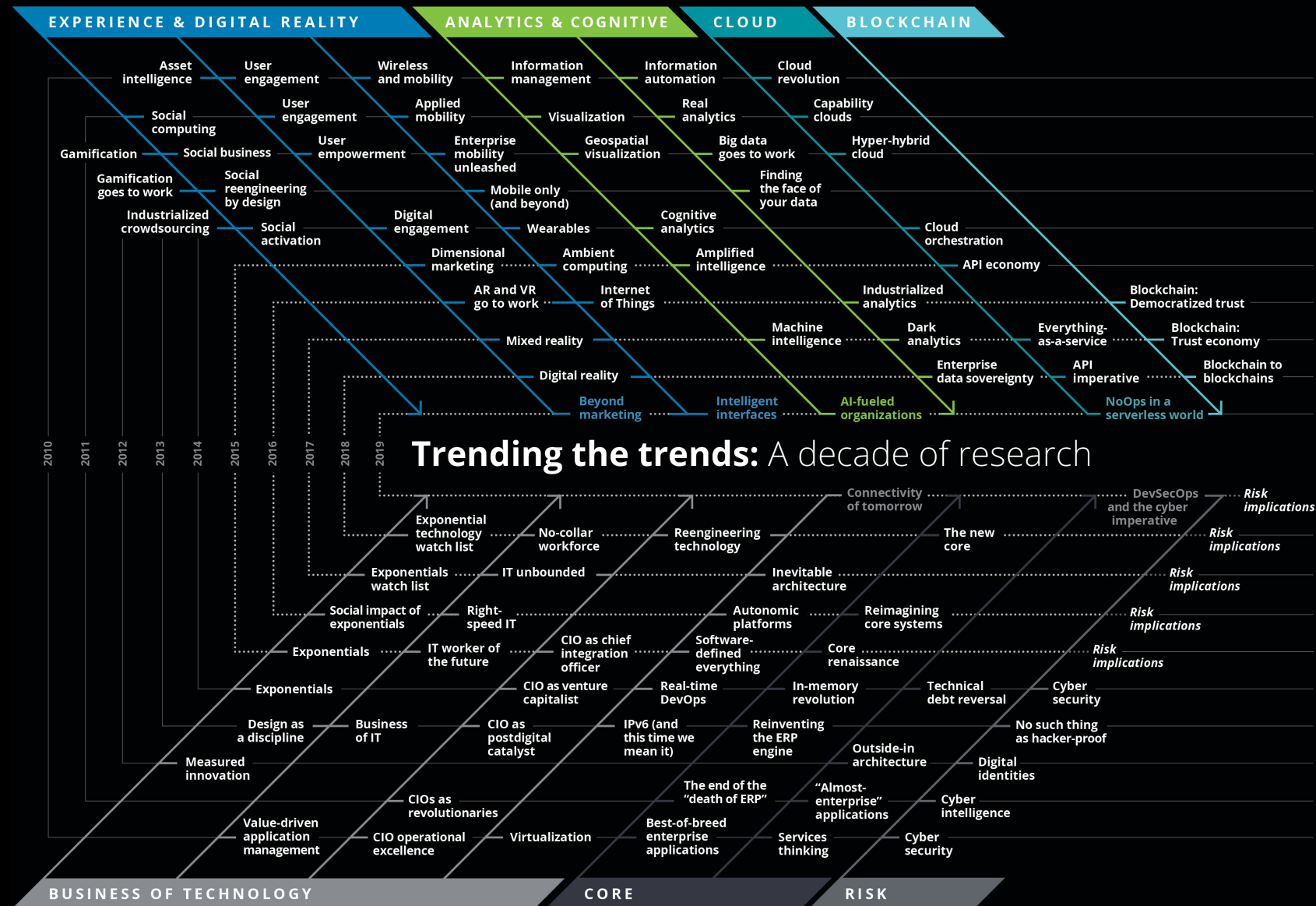
2. The future is now

All three strategies rely on six key capabilities, yet in a different way

Description	1. Core insurance	2. Beyond insurance	3. Exponential insurance
	<p>The company is focusing on core insurance products and skills. Rely on customer relationship through frictionless experience and claims management efficiency is at the core of the strategy.</p> <p>>90% revenue driven by core insurance product</p>	<p>Beyond insurers focus on extending the ranges of services to offer E2E solutions to customer.</p> <p>>20% revenue driven by non core insurance products and services</p>	<p>Exponential insurers conquer new markets via efficient external partnerships. Ecosystem with potential high volume and low premiums as e-commerce and mobility will be the first targeted.</p> <p>>20% revenue generated via beyond insurance's ecosystem partnership</p>
Capabilities that primarily matter	Data	Customer centricity	Technology
	<p>Tighter risk selection & Individual pricing</p> <ul style="list-style-type: none"> • Cloud • Data analytics • Security • KYC • Enabler: back-end legacy systems 	<p>Robust customer relationships</p> <ul style="list-style-type: none"> • Apps • SME targeting • Intermediaries • Information and price transparency • Enabler: multi-channel customer journey 	<p>Value chain optimization</p> <ul style="list-style-type: none"> • AI • Payment solutions • Digitised products • InsurTech • Enabler: agile way of working
	Innovation	Talent	Partnerships
	<p>Willingness to change mindset</p> <ul style="list-style-type: none"> • Internal innovation lab • Voice • Blockchain • InsurTech • Enabler: creative environment 	<p>Human capital augmentation</p> <ul style="list-style-type: none"> • Balance technical and soft skills • Cultivate diversity • Data scientists • Programmers • Enabler: culture as talent magnet 	<p>Tap into external environment</p> <ul style="list-style-type: none"> • Platform selection or creation • Domain selection • Harmonized processes for integration • Sector player integration • Enabler: multi-channel collaboration

2. The future is now

Obviously Technology will play a fundamental role on the future of insurance



3. About ecosystems

A least 3 ecosystems are emerging in Belgium, representing equally opportunities and threats for the insurance sector.

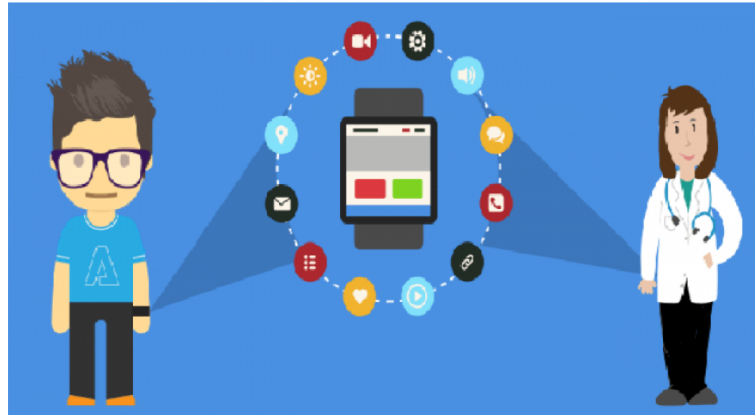
Mobility

Driven by technology evolutions, traffic congestion and sharing economy, Belgian people are switching to multi-modal mobility solutions. Yet, very few multi-modal insurance solutions are already available.



Health

While healthcare spending is expected to grow, data available about people health surge with IoT adoption and are a solution to limit this spending increase. But insurer will need customer consent to retrieve those data.



Smart home

Smart home, smart buildings, smart cities. The IOT will change our way to live, work and interact with our environment.

It creates new customer expectations as well as new insurance needs and opportunities



3. About ecosystems

Mobility

Technological and societal trends tranform our mobility

Mobility

The evolutions in technology like assisted driving and autonomous vehicles, are increasing the safety on the road and reducing the number of accidents

-  Legal AV **testing framework** already exists in Belgium
-  Several players in the ecosystem are **working towards full automation**

Significant personal and societal benefits would already exist at low AV adoption

Current personal benefits per AV (L4+)

Societal benefits at low AV adoption (L4+)



Fewer accidents



Increase in energy efficiency per AV



Decrease in sharp brakes on the highway

Health

Congestion in Flanders drives a search for alternative modes of transport

“New record: traffic jams in Flanders were never as heavy as in 2017”(2)

[Congested hours; 2011-2017]

2011
854 hrs.



2017
1400 hrs.



>1 working week lost in traffic jams per year¹



€4-8 Billion annual loss caused by congestion¹

Smart home

The shared ecosystem in Belgium is deepening and widening following a shifting consumer behavior



Generation Y opts for **convenience and value**



Millennials start to **question the need** to own a car and are **40% more inclined** to abandon it



Cars are **parked 95%** of the time

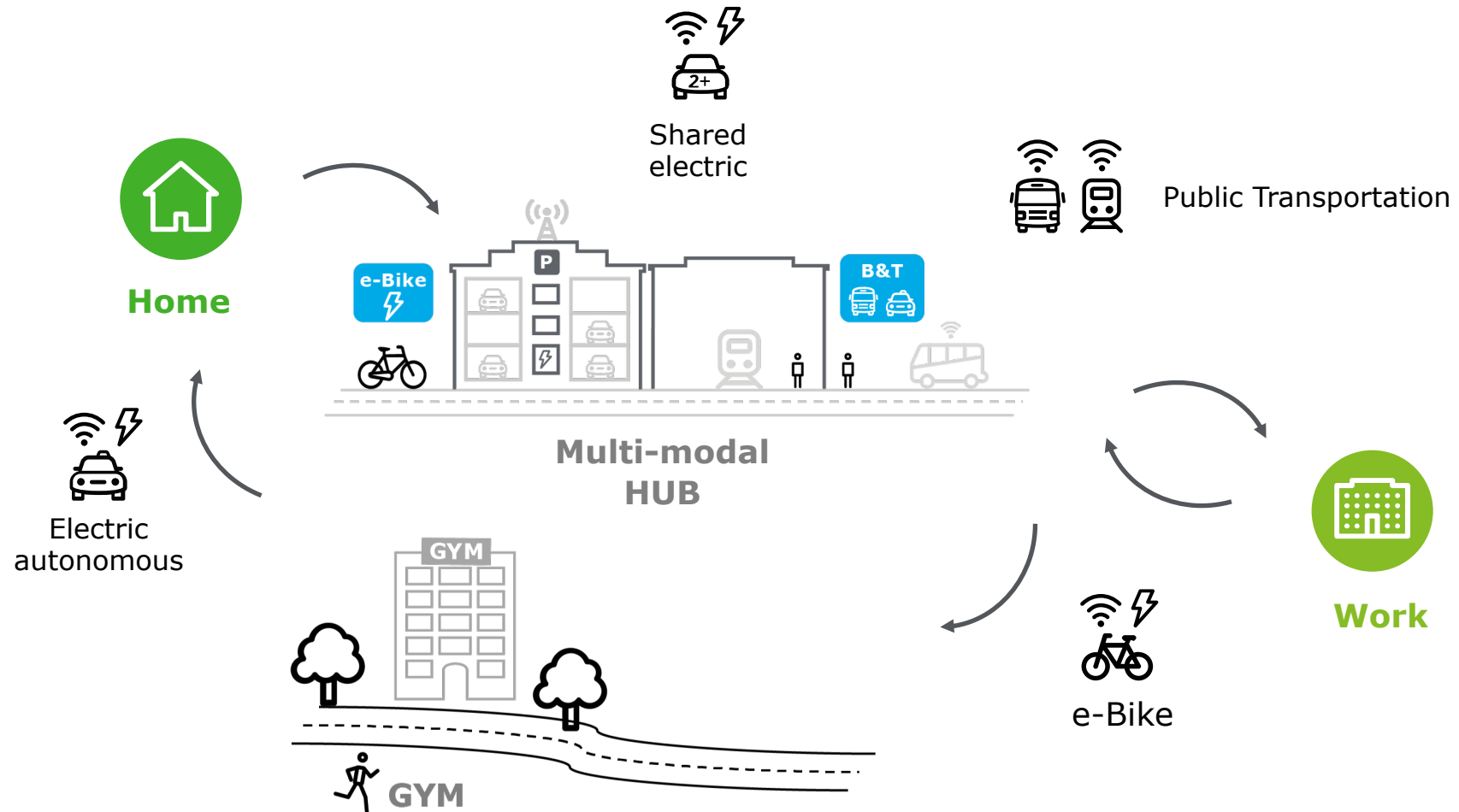


Extra access to transportation for certain **societal segments** and **overlooked areas**

3. About ecosystems

Mobility

These factors are driving the creation of a broad range of connected mobility (ecosystem)



3. About ecosystems

Mobility

This move towards 'mobility as a service' will have major impacts for the insurers, on revenues, costs, and on the expected service level



POSITIONING

- Does an insurance company want to be part of an emerging ecosystem or does he want to create one?



PREMIUM

- Move towards other modes of transport and vehicle sharing will put **pressure on the number of insurance contracts**
- **New sources of revenue** following new coverables
- The shift of a premium linked to the car to a **premium linked to the driver**
- The introduction of **per-use policies** (pay as/how/when/what you drive)



CLAIMS

- **Reduced** frequency of **car claims** linked to the newest safety and technology features
- More complex claims given technology in the cars



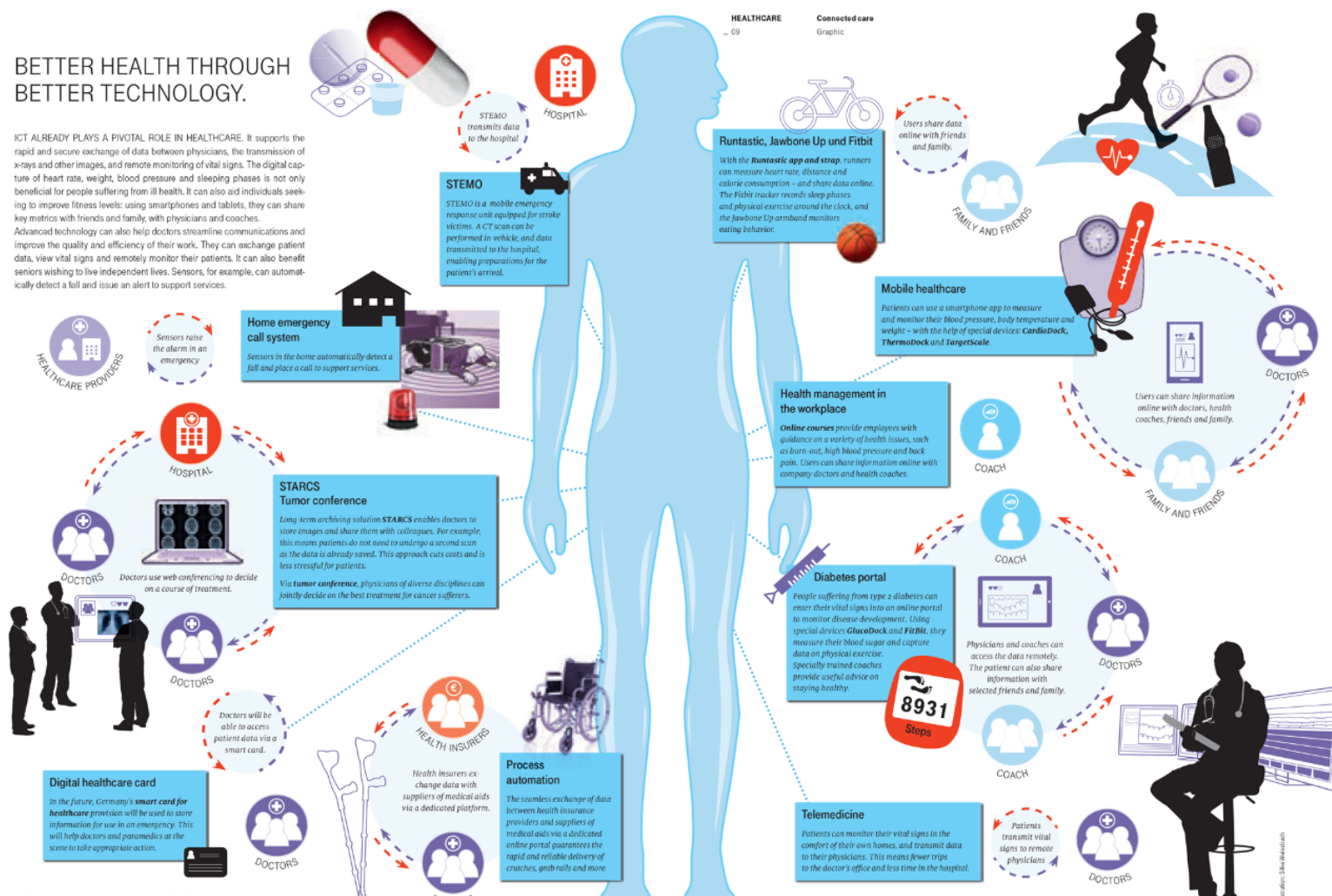
SERVICES

- Importance of a comprehensive **assistance and servicing network**
- Increased importance of **continuous touch-points** with end users

3. About ecosystems

Connected health

We are observing an exponential growth of connectivity between patients, service providers and insurers/mutualities



3. About ecosystems

Connected health

A virtuous circle gives advantages to the first insurers stepping into connected health insurance



Customer relationship – Model shift

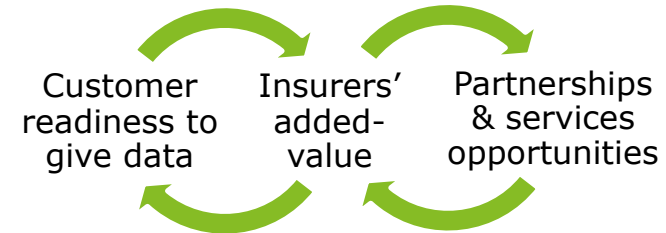
- New services beyond insurance with daily contacts
- Switch from payer to partner: Efficient customer relationships enable continuous prevention actions. insurers will fight the risk, instead of assessing the risk.

New potential partnerships – Digitalization of the entire value chain

- Data gathering with activity trackers like fitbit, Garmin Vivofit, ...
- Pharmaceutical companies

Regulation

- Mutualities and governments will need to provide the framework for the connected health of tomorrow
- With new GDPR framework, customers' consent is the key to get health information. It creates a virtuous circle



Early adopters

John Hancock

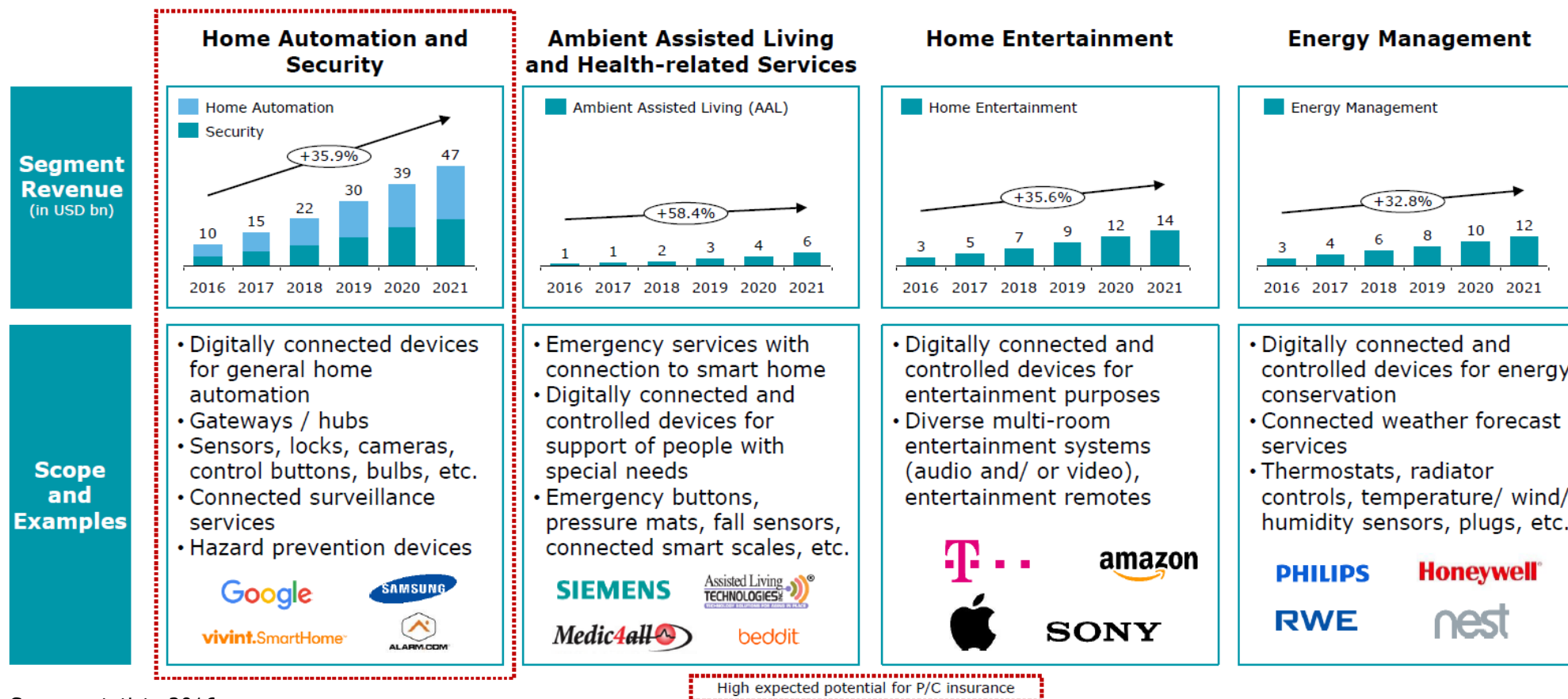
LIFE INSURANCE

(Reuters) – “John Hancock, one of the oldest and largest North American life insurers, will stop underwriting traditional life insurance and instead sell only interactive policies that track fitness and health data through wearable devices and smartphones, the company said last September (2018).”

3. About ecosystems

Smart Home/ Buildings

Global Smart Home market is growing, the largest opportunity for insurers is within Automation & Security



High expected potential for P/C insurance

Source: statista 2016

3. About ecosystems

Smart Home / Buildings

Global Smart Home market is growing, the largest opportunity for insurers is within Automation & Security

Traditional reactive model - Claims based

Designed to provide financial compensation for the consequence of an undesired event (a loss)

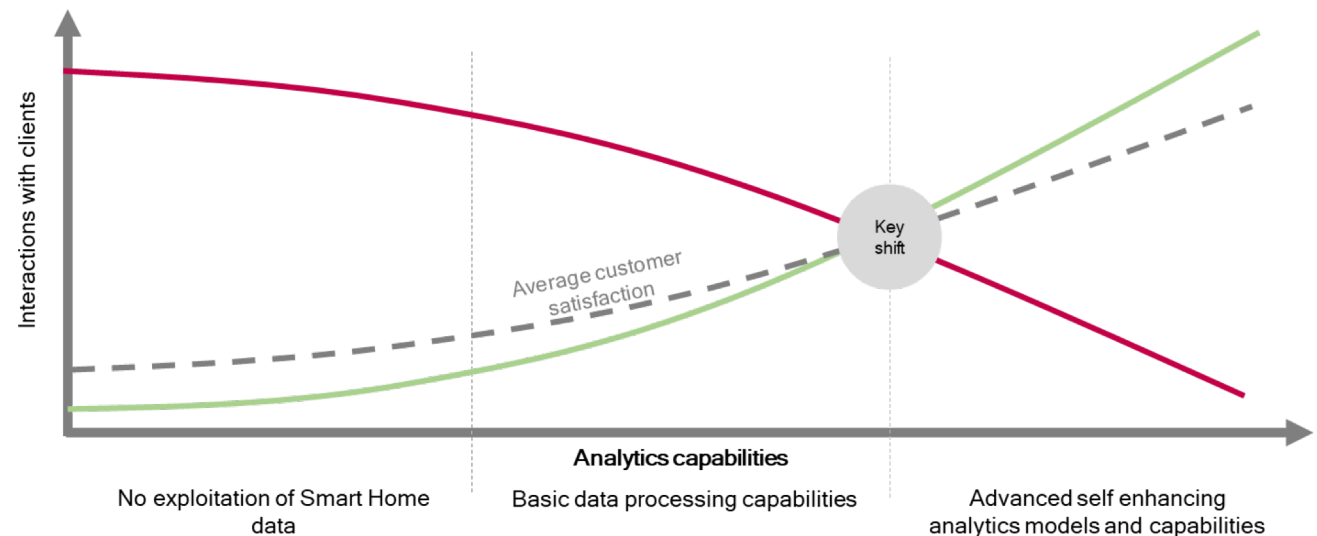
INSURANCE DOESN'T REMOVE THE RISK, IT ONLY COMPENSATES IT

New emerging model - Prevention based

New Insurance model emerging enable insurers to provide accurate, real time and personalized information, advice and alerts to prevent the materialization of a loss based on unique capacity to process a huge amount of data, extract relevant insights and trigger appropriate actions

In this new model **INSURANCE ARE EFFECTIVELY ABLE TO HELP REMOVE RISKS**

Model
shift



4. Conclusion

The smart approach in a complex paradigm



Do not hesitate to reach out!



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