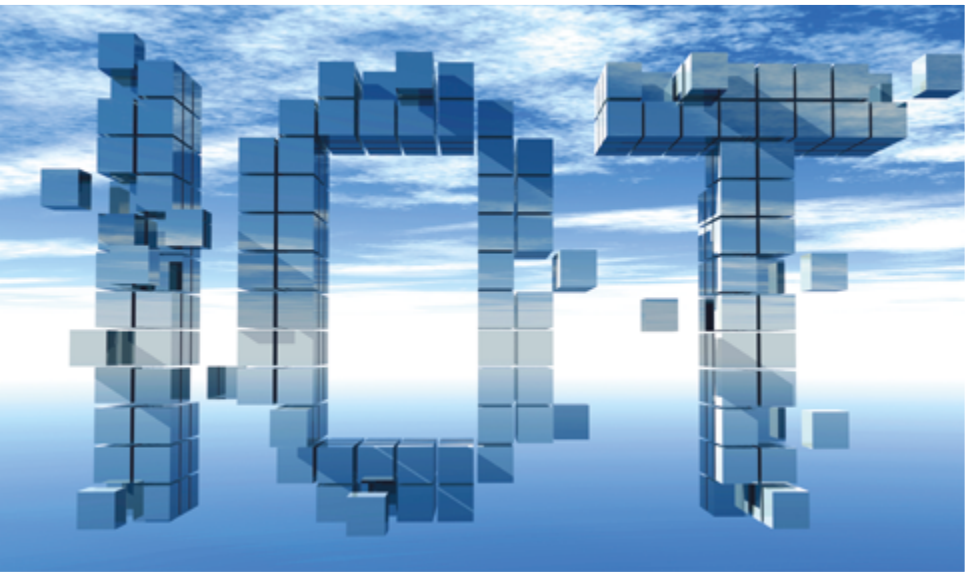
EfmaDigest

The internet of things:
disrupting insurance models



A compilation of the latest findings from global thought leaders

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Foreword

THE RAPID GROWTH OF the internet of things (IoT) is impossible to ignore. Already delivering clear benefits to areas such as energy, healthcare, agriculture, transport and buildings, this phenomenon – which is dubbed 'the second digital revolution' – is expected to touch every aspect of our lives in the years to come.

For insurers, the steady advance of the IoT presents a huge number of opportunities. We're already experiencing a rise in connected homes, connected cars and huge uptake in the use of health and fitness tracking technology – all of which change the nature of insurable risk. With this in mind, insurers have the chance to create a new, more profitable business model that leverages data to create a more personalised offering and, in turn, facilitates better customer relationships.

But success won't come easy. It's likely that premiums will reduce quite significantly and there are significant implications in terms of data management, privacy and security. What's more, insurers will have to act fast in order to avoid the very real danger of being disintermediated.

In the following pages we bring together some of the latest research and analysis in a bid to help organisations of all shapes and sizes operating in the field to understand the implications of the rise of IoT in the industry.

We find out the status of uptake so far and get to grips with the many opportunities that IoT presents. We also provide an overview of the biggest challenges facing insurers looking to leverage IoT and, perhaps most importantly, summarise a number of strategies for moving forward and ensuring success.

I hope you find this digest a useful resource.

Vincent Bastid
Efma CEO

Introduction: the growth of IoT

The unprecedented growth of the internet of things (IoT) – where technology connects objects and people to the internet in order to provide access to information about that object's condition, position, or movement – has implications for businesses operating in every sector.

Analyst firm Gartner predicts that 20.8 billion 'things' will be connected to the internet by 2020. According to a recent report by Munich Re titled *'The Internet of Things and Life/Living Benefits Insurance'*, this equates to approximately six devices for every person on the globe.

This speed of growth has no signs of waning anytime soon. By 2035, it is expected that there will be one trillion connected things, with 100 million supporting apps, according to *'The Insurance Implications of the Internet of Things'* by the Professional Liability Underwriting Society (PLUS).

Leading the way

With this in mind, it's understandable why many leading companies are turning to IoT as a potential new profit stream, investing billions of pounds in developing new systems. "IoT is opening up a whole new avenue of revenue," said Dominik Wee, a Munich-based leader of consulting firm McKinsey, in an interview with *Compass* magazine. "Networking physical objects through embedded sensors, actuators and other devices that can collect or transmit information about the objects generates a huge amount of effective data. A number of leading-edge companies are leveraging this opportunity."

Companies as diverse as GE, IBM, Cisco, Samsung and Monsanto are currently leading the way. In fact, Samsung is moving towards having its entire product line IoT-ready in the next five years. And GE has invested US$1 billion in putting sensors and developing software systems on its power turbines, jet engines, locomotives, medical equipment and other machines; connecting them to the cloud; and analysing the resulting flow of data to improve machine productivity and reliability. "One billion dollars represents a big swing for GE," said Matthias Heilmann, chief digital officer of GE Oil & Gas Digital Solutions, in an MIT Sloan Management Review article titled *'GE's Big Bet on Data and Analytics'*. "It signals this is real, this is our future."

Inspiring insurers

These pioneers are providing an enviable example to those operating in the insurance industry, who are just beginning to recognise the huge potential that this phenomenon presents to them. A recent Deloitte report called *'The Derivative Effect: How Financial Services Can Make IoT Technology Pay Off,'* says that the IoT may be as broadly transformational to the financial services industry as the internet itself, pointing towards research that suggests that the added economic value of IoT could be anywhere from US$300 billion to US$15 trillion by this decade's end.

According to Efma and Capgemini's 2016 *'World Insurance Report'*, IoT technologies will redefine the very notion of insurable risk. Indeed, as the world becomes safer and more connected, the fundamentals of assessing and underwriting risk may see a complete transformation.

But it won't be without challenge. Laden down with traditional processes and archaic systems, traditional insurers will have to think outside of the box in order to avoid being disintermediated or attacked in their market by newcomers or incumbent players who manage to capitalise on the potential of IoT first.

A recent report by A.T. Kearney titled *'The Internet of Things: Opportunity for Insurers'* warns that if insurers act on future challenges like IoT with strategies linked to the past, then disaster will follow. It says that IoT will fundamentally change what customers know and how they interact, both among themselves and with insurers. The change will impact the core P&C business model. According to the report, OEMs, large telcos and tech companies alike are already moving in and could be a threat, potentially relegating insurers to white-label providers or disintermediating them from the customer entirely. To remain relevant and benefit from IoT, insurers will have to prepare and act now.

Where do we stand? The current state of play

According to Accenture, connected insurance is one of the fastest growing sectors of the personal lines business. The connected automotive, home, health and fitness markets are all expanding rapidly.

In a recent blog post titled '*Connected insurance offers carriers big opportunities to improve their distribution and broaden their products'*, Jean-François Gasc, managing director of Accenture's strategy for insurance in Europe, Africa and Latin America, highlighted that over the past 12 months, insurers throughout the world have launched a multitude of connected products and services that are interlinked via IoT.

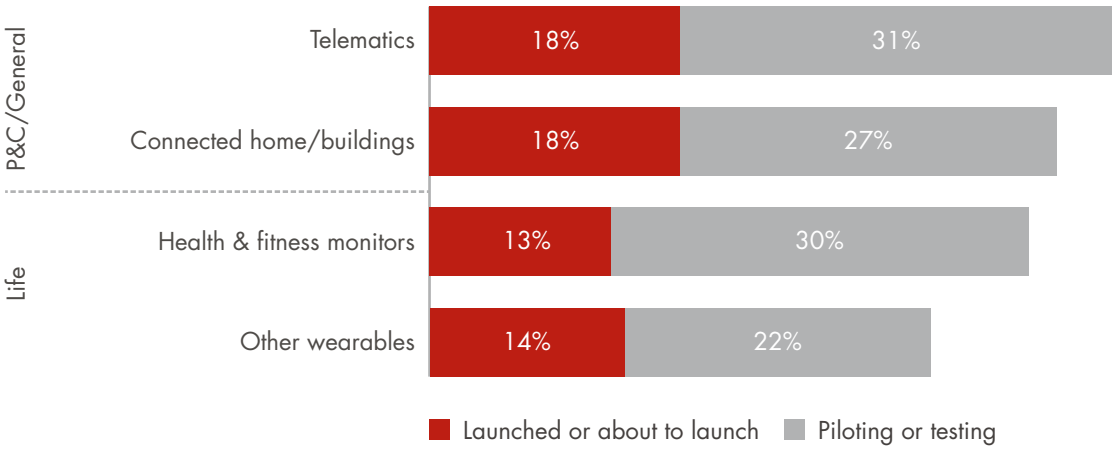
A new source of revenue

"Our research shows that 45% of insurers believe this trend will be a major driver of revenue in the next three years," Gasc says. "Nearly half of the more than 300 property and casualty, as well as multiline, insurers we canvassed already have connected telematics solutions on the market or in development. Over a third of the more than 100 life insurers we interviewed offer their customers connected solutions using wearables, or plan to do so."

The internet of things is being targeted as an unprecedented opportunity for growth

Q: How far, if at all, has your company progressed with these IOT-related connected insurance initiatives?

- The IoT is expanding insurance beyond idemnification to real-time protection
- It offers huge potential for new personalised products and risk management services
- Enables insurers to establish deeper, more intimate relationships with customers



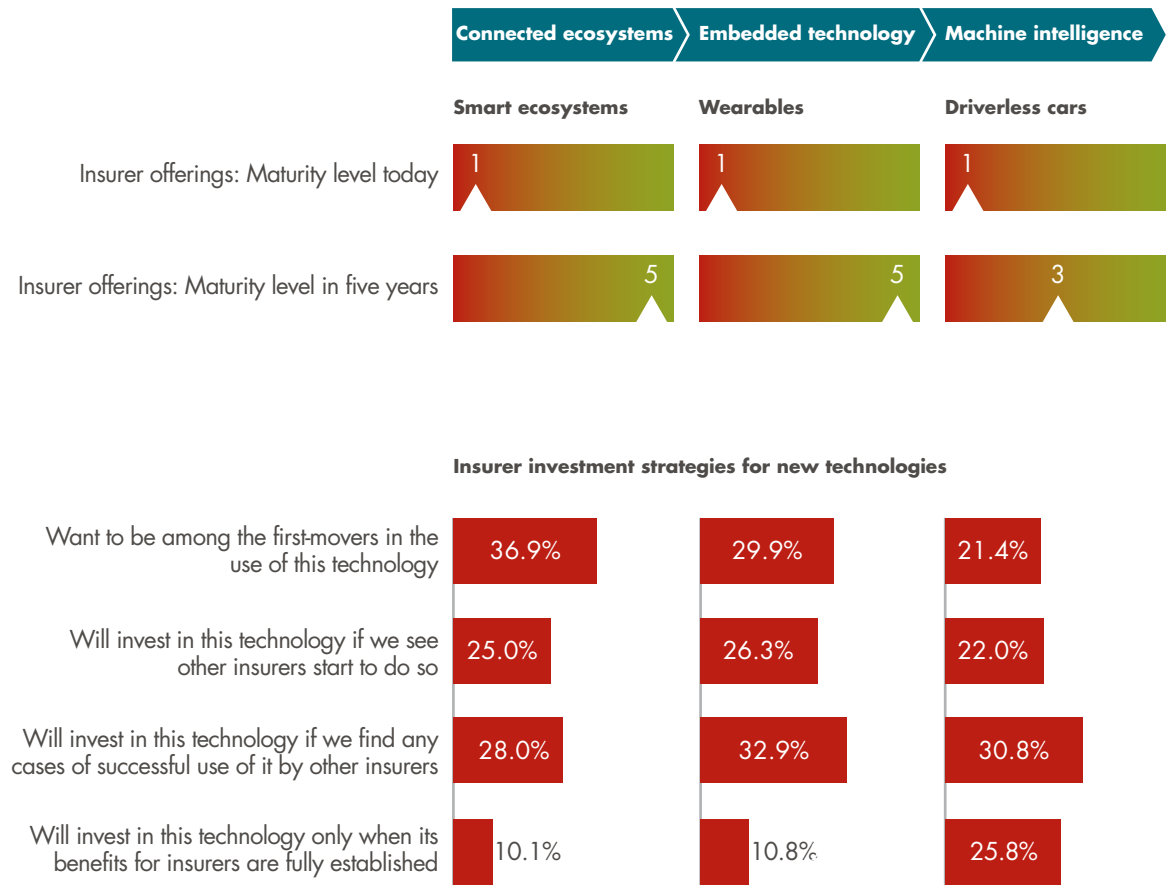
Source: 2016, Accenture

Instigating change

As with any new innovation, how quickly consumers adopt connected technologies will affect the speed at which insurers will make investments and develop strategies to respond. Insurers have exhibited the greatest interest in exploring smart ecosystems. More than one-third (36.9%) said they want to be among the first to make investments. Insurers are also keen to explore offerings around wearables, but are planning a more cautious approach when it comes to investments related to driverless cars.

There is a slight disconnect between customer and insurer expectations, with customers anticipating they will adopt driverless cars in greater numbers than insurers expect. The difference is stark in the case of driverless cars, with 23.1% of customers saying they will adopt them, compared to only 16.3% of insurers that think so. On the other hand, insurers are much more optimistic about the propensity of customers to adopt wearable technology, with 48.9% of insurers saying customers will do so, outstripping the 30.1% of customers who think so.

Insurer's current and future maturity for offerings linked to new technologies



Source: Capgemini *World Insurance Report 2016*

Efma

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I³ – Innovation in Insurance

www.efma.com/innovationininsurance

The Efma–Accenture I3 programme aims at identifying and awarding the best innovations in the insurance sector at a global level.

1 IDEA COLLECTION

All insurance companies are encouraged to identify their most innovative projects and post them on the I3 portal to enter the 2017 competition. 148 major institutions from 37 countries submitted 224 innovations for the 1st edition in 2016. Among the submitters:

AXA, Bradesco Seguros, GENERALI, USAA, MAPFRE, ZURICH, Allianz

And many more on the portal!

2 AWARDS CEREMONY

Efma members and 20 Jury members identified and awarded in June 2016 the most innovative projects in 4 categories:

- Best Disruptive Product/ Service: **Europ Assistance Group**
- Claims Management: **Allianz**
- CX & Engagement: **MS&AD**
- Digital & Omnichannel Distribution: **USAA**

One additional award was assigned to **AXA** as Global Innovator

Watch the 2016 Awards Best of

Analyse and choose the best innovations

Take your chance to win an award and submit!

Don't miss the big show the 26th APRIL 2017

Submit – Vote – Attend

GET READY FOR THE 2017 I3 AWARDS!

Enter the 2017 contest!

2016 CEREMONY WAS AWESOME, GET PREPARED FOR 2017, IT PROMISES TO BE EVEN BETTER!

A TOTAL OF: **224 INNOVATIONS**

FROM: **148 INSTITUTIONS**

IN: **37 COUNTRIES**

IN: **2016**

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A global non-profit organisation, established in 1971 by banks and insurance companies, Efma facilitates networking between decision-makers. It provides quality insights to help banks and insurance companies make the right decisions to foster innovation and drive their transformation. Over 3,300 brands in 130 countries are Efma members.

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