



NextWave Insurance:  
personal lines and  
small commercial

How insurers must change  
in a fast-moving world

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. To the right of the letters is a yellow chevron shape pointing upwards and to the right.

Building a better  
working world

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# NextWave Insurance: personal lines and small commercial

## ■ A message from the EY Insurance leadership team

The most serious threats - societal megatrends, disruptive technology advancements, and intensifying competition from new and traditional players - also hold the greatest potential for growth and transformation. Insurers that can demonstrate new and differentiated value to individuals, businesses, and communities around the world will seize that potential and prepare themselves for success on the industry's next frontier.

**The industry  
faces a great  
paradox of risk  
and opportunity.**

Insurance leaders must maintain their resilience in navigating a complex and turbulent future. As the strategic evolution of the industry accelerates, the most effective response for insurers is to harness the power of change and thoughtfully design their futures. They must develop their vision for the future and adjust their strategic and tactical plans to realize that vision.

Tomorrow's leaders will be purpose-led in their strategies, more agile and nimble with their resources, and dramatically more customer-centric. They will engineer their operations for efficiency and incorporate analytics in all aspects of the business. Across the organization, human talent will focus on higher-value tasks and work with technology in entirely new ways. Top performers will opportunistically launch innovative new products and tailored service experiences to capture customer loyalty and market share.

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We welcome the opportunity to discuss your perspective on these issues, as well as your company's particular transformation journey into the next wave of insurance.



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## About EY NextWave

The EY NextWave vision represents the EY perspective on the most powerful trends and forces shaping the industry's future. The process brings together strategic EY thought leaders, industry and functional professionals and technologists, as well as outside experts and academics. In collaborative ideation workshops, these groups help clients envision a brighter future and map out the road ahead.

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# Executive summary

Our world has never been more in need of a high-functioning and innovative insurance industry. With unsurpassed ability to understand and model risk, insurers have a critical role to play in helping society prepare for and protect against the threats presented by climate change, cyber crime, disruptive technologies, demographic shifts, and social unrest.



These profound changes, as well as industry-specific trends, present unique opportunities for insurers with a clear plan for the future.

The industry has many strengths to leverage, including strong capital positions, decades of risk and claims data, many well-known brands, and a profitable customer base with relatively low propensity to switch.

Still, the challenges and need for change should not be underestimated. Consumer trust has been slipping and could further erode. Growth is a challenge for most carriers, and maintaining recently improved results will be increasingly difficult. New alliances and partnerships will be necessary to expand capabilities and foster innovation. Legacy technology needs significant updating, and the workforce requires new skills and higher levels of engagement.

Looking further out, the lost revenue from inevitable and potentially substantial reductions in personal and commercial auto risk will need to be replaced. Regulatory and liability issues will only grow more complex. Tricky ethical questions regarding consumer privacy and the use of data and artificial intelligence (AI) are sure to emerge, including those related to the replacement of human workers. Large-scale, direct-to-consumer players will continue their relentless capture of market share. New competitors will force insurers to rethink their services and offerings. Cyber catastrophes and natural disasters may pose existential threats for some insurers. All the while, managing channel conflict and cannibalization of existing lines of businesses will require delicate balancing acts.

While many of these forces have long been on the radars of senior insurance executives, the urgency for action has increased. An observation often attributed to Bill Gates applies: “We always overestimate the change that will occur in the next one or two years and underestimate the change that will occur in the next five or ten years.”

The fundamental question for insurers is: will growth opportunities outweigh the threats in the next wave of insurance? The possible developments and outcomes presented here examine how leaders will seize the potential upside, as well as the worst-case scenarios laggards will likely face.

“

We always overestimate the change that will occur in the next one or two years and underestimate the change that will occur in the next five or ten years.

Bill Gates

## If insurance is changing, how should personal and small commercial insurers change?

We believe tomorrow's winners will drive transformation through:

- ▶ A clear purpose and inspiring mission that resonate with employees and consumers, while strengthening trust
- ▶ Ubiquitous use of digitization, automation, and AI that drives vastly improved expense ratios and leaner, more flexible cost structures
- ▶ Customer experiences as good as or better than those offered by digital leaders in other industries
- ▶ A data and analytics environment that provides continuous and actionable insight, with a clear focus on target outcomes
- ▶ A commitment to designing, launching, and servicing innovative new products and experiences more quickly and at a fraction of today's costs
- ▶ Highly agile organizations, cultures, and work environments that foster innovation, provide meaningful work, and support personal and professional growth for a diverse workforce
- ▶ Win-win collaborations with InsurTechs, non-insurers, and nontraditional competitors
- ▶ New approaches to distribution and supply chain, featuring product specialists, third-party platforms, and the right mix of digital innovation and the human touch

Carriers that can envision the future and have the courage to invest in thoughtful, customer-focused transformation will overcome today's threats and seize the next wave of opportunities.

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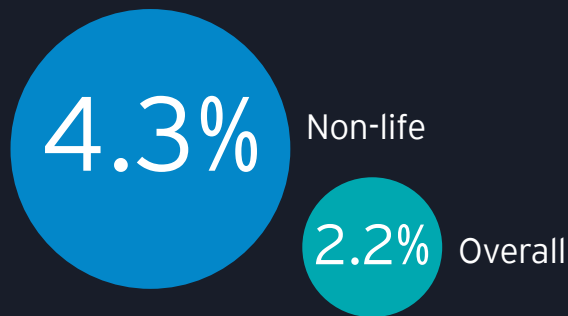
# Framing the next wave

Trends and forces that explain where we are today and where we're heading

# The numbers must get better

Today's marketplace is hyper-competitive with extremely tight margins, slow (if any) growth, and high operating costs. The industry's current economics are unsustainable:

Compound annual growth rate (CAGR) in gross written premium (in US\$), non-life, global



Source: SwissRe

Distribution and transactional costs, as a percentage of premiums collected

# 30-40%

Source: Geneva Association

Combined ratios, US insurers, 2018



Source: EY analysis, SNL

Operating ratios, top 20 European insurers



Source: EY analysis, SNL

Average expense ratios, top three Asia-Pacific markets



Source: SwissRe



# Trust suits the brand

The insurance industry is built on a foundation of trust between the carrier and its customers. This fundamental promise of protection and reliability cannot be compromised.

With new risk threats emerging and privacy concerns paramount, maintaining trust is more critical than ever. What takes years or generations to build can be lost in an instant. The worldwide protection gap is a good place to start in strengthening trust.



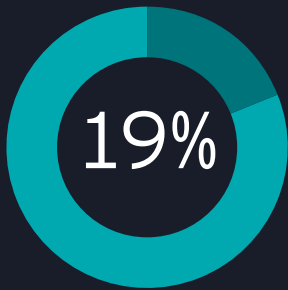
# Consumers expect something different

Consumers are embracing new technology to buy products and services. Consumer trends in retail, transportation, and other industries will soon come to insurance: carriers with strong technology, intuitive experiences, and clear value propositions will have a huge head start in winning market share.

# 51%

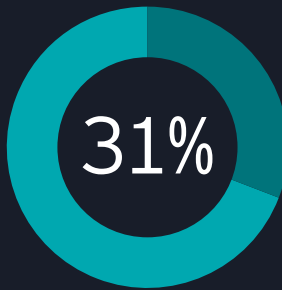
US consumers aged 35-49 interested in subscription models, with higher interest relative to marriage, having children, and other life events

Source: EY NextWave Consumer Financial Services



European consumers interested in buying insurance from nontraditional competitors, including tech giants

Source: Fujitsu



European consumers who would consider buying nontraditional services (e.g., broadband, energy or data storage) from their bank or insurer

# Revenue threats and opportunities are everywhere

Megatrends and disruptions driving uncertainty today will have definitive impacts in the near to middle term, potentially diminishing traditional lines of business and revenue sources. At the same time, innovators — including non-insurers — may view crises as opportunities to enter the business, either directly or through partnerships with incumbents.

## Climate change

**\$219 billion**

combined global insurance losses from natural disasters, 2017-2018 *Source: Swiss Re*

**90%**

natural disaster costs that can be attributed to weather-related events in an average year *Source: Munich Re*

**5x**

total economic losses caused by hurricanes in 2017 relative to average of the prior 16 years *Source: Aon Benfield 2018*

**30%**

average percentage of catastrophic losses covered by insurance, 2009-2018 *Source: The Economist*

**\$180 billion**

global protection gap for weather-related risks *Source: Swiss Re*



# Driverless cars

**23 million**

number of level-4 autonomous vehicles on the road by 2025 *Source: Stevens Institute of Technology*

**21%**

compound annual growth rate of collision-avoidance technology market 2018-2025 *Source: Grandview Research*

**\$96 billion**

usage-based auto insurance market, 2025, 4x growth from 2018 *Source: Markets and Markets*



# Cyber crime

**7.1 billion**

number of identities exposed in data breaches 2010-2017 *Source: Symantec*

**\$23 billion**

global cybersecurity insurance market by 2025 *Source: Adroit Market Research*

**38%**

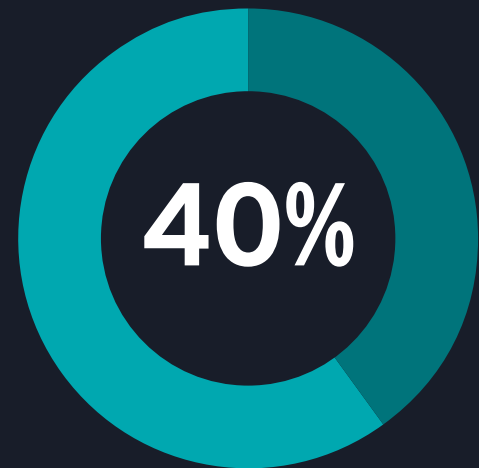
global organizations reporting that they are prepared to handle a sophisticated cyber attack *Source: ISACA*



# The upside of underinsurance

Insurers are well-positioned to help protect the many underinsured consumers and businesses around the world. They must find ways to engage younger consumers – the so-called “generation rent” – sooner.

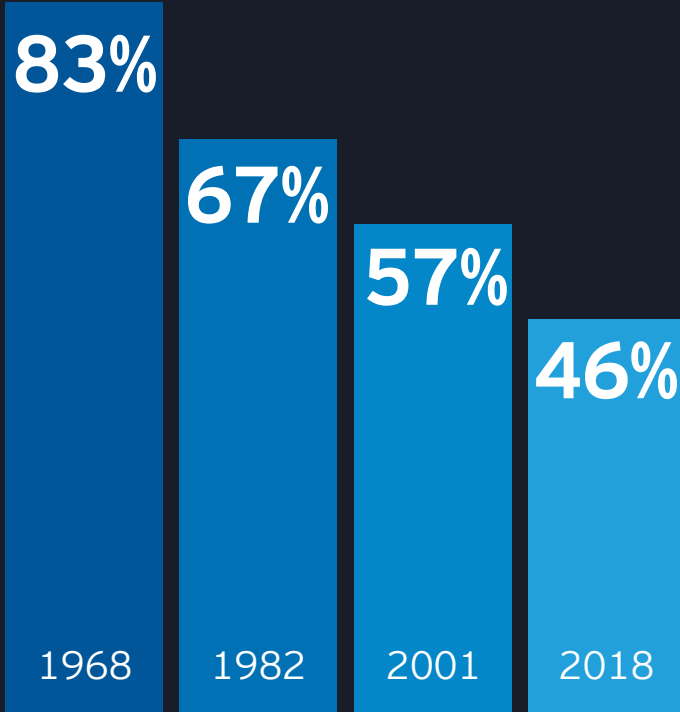
As these consumers wait longer to purchase vehicles (which they may never do), buy homes, get married or have children, their first interactions with insurers happen later in life. Insurers must innovate with technology to engage and support underserved markets. Insurers in emerging markets exhibited great creativity in using mobile phones to provide micro-insurance, asset-based coverages, and embedded insurance purchases in their efforts to connect to the underinsured.



US consumers who can't meet a \$400 short-term emergency

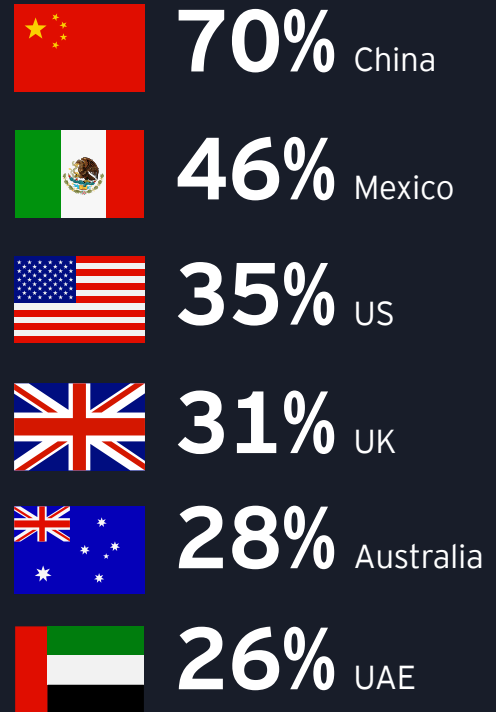
*Source: US Federal Reserve*

Percentage of US consumers aged 25-37 who are married



Source: Pew Research Center

Home ownership among millennials



Source: HSBC

# 8-20 years

Average number of years by which retirees in six major global economies will outlive their retirement savings

Source: World Economic Forum



# Envisioning the next wave: eight market scenarios

The following scenarios reflect our thinking about likely developments in the next five to ten years. Many of the issues are already influencing C-suite and board-level decisions. Soon they will become operational realities, the new normal, across the industry.

1

Real-time risk visibility and responsiveness become reality.

2

Direct, digital, and embedded sales become dominant channels for growth.

3

Weaponizing data and competing on experience, tech giants reinvent the insurance model.

4

The auto insurance market dramatically contracts as driverless vehicles and ride-sharing eliminate risk.

5

Cyber risks present a hundred-billion-dollar opportunity and trillion-dollar threat.

6

The ecosystem expands: cloud models and new connections enable radical innovation.

7

The subscription revolution arrives: insurance becomes deeply woven into consumers' everyday lives.

8

AI adoption accelerates in claims: the last processor turns out the lights.

# 01 Real-time risk visibility and responsiveness become reality.

**Leaders** act on the insights boldly and swiftly. **Laggards** can't keep up with all the data.

Leading insurers are data-driven and insight-enabled in everything they do, from straight-through processing in both back-office and customer-facing functions, to sophisticated pricing and underwriting algorithms, to thoughtfully segmented digital marketing programs. The next major innovation opportunity with data and analytics involves rapidly identifying and precisely measuring risk, and then using that insight to proactively meet customer needs.

Consumers have become accustomed to tailored notifications and prompts through activity trackers, wearable tech, and mobile apps. Consumers and business owners who like personalized guidance for traffic, weather, and fitness will likely accept similar services for risk exposures (particularly if it helps them save money).

Leaders will be those firms that buy, build or partner for the infrastructure and tools they need to capture, manage, and analyze real-time risk performance data effectively. They will continuously operationalize and monetize their information assets by adjusting pricing and providing immediate performance feedback to customers.

Even if laggards collect the data - 90% of which didn't exist two years ago and which will only expand exponentially with the advent of 5G - they will be overwhelmed with its volume, variety, and velocity, and struggle to produce meaningful or valuable insights.

## How this changes insurance in the next wave:

Insurers will capture streams of data from apps, mobile devices, wearable tech, connected vehicles, smart homes and workplaces, as well as alliance partners and the billions of devices connected to the Internet of Things (IoT). By applying AI, machine learning, and other advanced analytics techniques, they can measure risk and price premiums in real time, leading to discounts, tailored prevention services, and usage-based products.

Through mobile apps and personalized portals, insurers can promote risk awareness and prevention by sharing proactive tips and alerts. These capabilities have been extensively piloted by many insurers. The next step is to drive widespread customer adoption.

Customers can also lower their premiums in real time by adopting low-risk behavior (e.g., driving

at different times or on different roads, conducting safety training for workers). Satellite imagery and predictive analytics will enable insurers to provide real-time feedback to insureds on wildfires, storms, and other weather-related exposures.

However, as insurers become more savvy and sophisticated in risk-based underwriting and pricing, higher-risk individuals and companies may be priced out of the insurance market, furthering an already serious insurance gap.

Real-time risk visibility is clearly a win-win. For small businesses, better risk management promotes bigger profits. For individuals, it's about safer and better lifestyles. At the same time, insurers benefit from closer long-term relationships based on more frequent interactions and opportunities to add value.

# 27%

proportion of corporate data that is used for analytics

Source: Forrester

## Impact and value for customers:

- ▶ A safer and lower-risk lifestyle and workplace
- ▶ Potential cost savings through lower premiums
- ▶ Higher prices for higher-risk individuals and companies, including those that can't or won't take corrective action to reduce their risk profiles
- ▶ Increased profitability for small businesses based on better risk management

## Implications and possibilities for insurers:

- ▶ More accurate risk measurement for more informed decision-making
- ▶ More precise and profitable pricing through real-time premium optimization
- ▶ Algorithmic underwriting and continuous rules refinement
- ▶ Increased customer engagement and trust



# Direct, digital, and embedded sales become dominant channels for growth.

**Leaders** seize the cost savings and master the omni-channel approach.

**Laggards** have trouble moving beyond their historical channels and never catch up to early adopters.

The long, slow decline of the traditional agency model will continue and even accelerate in mature markets. Agencies will aggressively fight and take defensive steps (e.g., consolidation and enhanced services) to protect their position. They will enhance digital capabilities to meet consumer demand and complement – rather than replicate – the capabilities of large insurers. Several large carriers will remain committed to agency models. The human touch will be less frequent and focused on higher-value moments.

In the future, agents will emphasize advisory services for consumers and businesses with more complex risk profiles. They will embrace contextual information,

complete customer data, next-best-action analytics, and once-and-done processing. They will deploy mobile technologies, such as texting and apps, to enhance sales and service experiences. As agents go upmarket, insurers will benefit from lifetime premiums generated and durable customer relationships built on financial well-being.

However, direct and digital channels will come to dominate the mass market because consumers prefer the simplicity and control. Embedded sales will grow as more companies selling products and services seamlessly offer insurance at an attractive price, which will generate additional revenue.

The transition to direct, digital, and embedded will occur at different rates in different regions. China, already among the most digitally advanced markets, will see rapid innovation and sophisticated hybrid strategies. Ping An will lead the way with its pervasive use of AI-driven distribution. In other Asian markets, the agency model will remain viable, with agencies consolidating to control market share. In Europe and Middle Eastern markets, the continuing growth of the aggregator model will influence the fate of the agency base.

Direct and digital leaders will be those companies that use data and analytics to target profitable customers, while minimizing acquisition and service unit costs. These firms will use affinity

channels and digital engagement strategies to boost retention and loyalty. They might use automated pricing reviews to automatically renew policies at the most competitive market price. The most effective insurers will target and cross-sell more effectively and build out robust self-service capabilities. They will enable digital agents with AI and machine learning to engage with customers using text, video, and voice recognition technologies.

For laggards, channel conflict and cannibalization will prove exceedingly difficult to manage. Investing in multiple channels will be too great a cost. Some may remain committed to the potentially profitable, but slowly fading, revenues of their old-line distribution networks.

## How this changes insurance in the next wave:

Millennials and Generation Z will drive the evolution of distribution models in the most mature markets. They will have extremely high expectations for seamless digital experiences (whether from insurers or agents), but also expect easy access to personalized support.

The most successful agents in personal and small commercial lines will function more like risk advisors, providing business and financial advice, especially as the line blurs between business and personal assets and activities.

# 8 billion

number of embedded, or point-of-sale, policies sold in China in the first five years of a joint venture between a leading insurer, media company and ecommerce player

Source: Reuters

# 1.5 million

number of agents affiliated with the joint venture, many of them recruited and trained via AI

Source: The Economist

## Impact and value for customers:

- ▶ Flexibility to shop, buy, and transact in channels they prefer
- ▶ Access to personalized advice and guidance when needed
- ▶ Insurance becomes an integrated component of everyday purchases
- ▶ Transparent and tailored relationships with insurers across a complex spectrum of risk

## Implications and possibilities for insurers:

- ▶ Dramatically lower transactional costs
- ▶ Higher demand for highly sophisticated digital marketing and acquisition analytical models
- ▶ Bifurcation of channels – high-value advisory and high-efficiency digital
- ▶ Increased risk of channel conflict and cannibalization of existing business
- ▶ Risk of disintermediation by digital agencies with clearer value propositions and superior experiences
- ▶ Preparation for subscription models based on increased digital engagement



# OCBS

## Weaponizing data and competing on experience, tech giants reinvent the insurance model.

**Leaders** both compete and collaborate.

**Laggards** negotiate and lose share.

For years, it's been predicted that the world's largest and most successful technology brands and platforms would enter the insurance market. The complex regulatory environment and the high turnover and low profitability of new business remain a high barrier to entry for nontraditional competitors (including both InsurTechs and established tech firms). Thus, they will likely engage insurers with regulatory experience, seasoned books, years of data, and nationwide claim networks. Some are already experimenting with alliances, such as Amazon and a leading insurer.

But the tech giants' substantial advantages remain. They have more consumer data and are much better at monetizing insights and personalizing interactions. They enjoy significantly higher levels of consumer trust (even after recent data privacy controversies) than insurers and stronger customer relationships. These platforms enjoy high engagement levels where insurance purchases could be easily added as a feature within existing shopping experiences.



The market entry of tech giants seems inevitable. The main questions are what form it will take and when it will happen. We see ample reason to believe that soon – in one to three years – one or more tech giants will place big bets, including substantial partnerships with top national insurance brands. Insurance leaders are more likely to collaborate than compete directly. That's because the ability of tech giants to generate high volumes of customer traffic and create superior customer experiences will be extremely difficult (if not impossible) for incumbents to match. Some large

insurers may be able to market their branded products, while smaller insurers may need to white-label certain products to be sold through embedded channels. Other carriers may provide advanced skills (such as specialized underwriting) or a claims network that tech giants don't have or can't easily develop.

Laggards, regional carriers, and weak brands won't be very attractive to tech giants, who will expect their partners to be nimble and have niche process expertise, national reach, brand recognition, and specialized technology.

## How this changes insurance in the next wave:

Big tech's broad data sets, based on billions of business-to-consumer and business-to-business interactions, provide a strong foundation for acquisition, underwriting, product creation, cross-selling, and claims settlement. Indeed, tech firms may use AI to redefine underwriting. Rather than, for example, providing a workers' compensation rating based on number of employees and class codes, AI-driven models could correlate multiple metrics to determine employee activity and risk levels.

Frequent interactions provide natural sales opportunities for insurance purchases. Because of their ability to use AI within the context of existing platforms, tech giants can launch and scale insurance-as-a-service models and subscription-based products offering clear price transparency and high degrees of personalization. For instance, they can easily launch small business portals and apps to meet multiple needs, from legal and security services to business travel to insurance.

# 3%

European consumers who would switch their insurer if it didn't offer up-to-date technology

Source: Fujitsu

## Impact and value for customers:

- ▶ Personalized and intuitive experiences from brands they trust
- ▶ Simplified business relationships with clear and personalized value for different segments
- ▶ Increased price transparency
- ▶ Increased customization and flexibility to scale coverages up or down as necessary

## Implications and possibilities for insurers:

- ▶ New business-model options – ecosystem collaborations, white-labeling, specialty services
- ▶ Rising importance of national and global reach and brand recognition
- ▶ Increased engagement through more frequent interactions
- ▶ Insurance embedded into other transactions and broader relationships with tech firms



# 04 Auto insurance market dramatically contracts as driverless vehicles and ride-sharing eliminate risk.

**Leaders** embrace the future and diversify their offerings.

**Laggards** dismiss the technologies as immature and put their long-term survival in jeopardy.

The enormous potential negative impact on future P&C revenue streams from ride-sharing and driverless autos has largely been viewed as a problem for the next generation of insurance executives. The best time to make contingency plans for this potential revenue change is now.

Yes, the hype cycle may overstate how soon and how much of the revenue will disappear. However, there is little room to doubt the long-term impact. Whether it takes 10 or 15 years for 25% or 75% of auto premiums to vanish, the bottom line is clear: a huge chunk of revenue is going away, and insurers need a plan to replace it – soon.

Contingency plans may include new types of insurance products that cover autonomous vehicles, ride-sharing services, and ride-sharing passengers. Insurers should also account for the period when driver-assisted and driverless vehicles share the roads. For instance, policyholders with fleet-based insurance may have more data to prove that accident liability lies with drivers of traditional autos, which could lead to more claims payouts for legacy insurers.



Insurers' product innovation capabilities will be severely tested. They will need to rapidly adjust premiums based on vehicle safety features, fewer claims arising from distracted driving, hybrid products that cover a mix of vehicles for a household or business, and coverage for both ride-sharing drivers and passengers. Many insurers have already begun to shift their focus to homeowners and renters products. In the future, these products may serve as the primary risk coverage with a multitude of endorsements that cover a broader range of risks and potential services.

Leaders will engage with autonomous vehicle manufacturers and ride-sharing platforms to provide real-time risk insights that direct cars and trucks where riders need them and along the most efficient and safest routes. The upside is particularly high for commercial insurers that can provide fleet management and tracking, proactive maintenance, and other supplementary services. Laggards will ride the trend downward, insuring the ever-diminishing number of vehicles driven by humans.

## How this changes insurance in the next wave:

While the frequency of auto claims will plummet, it is likely that the severity and complexity of claims will increase. Over time, with more usage data and precise analytics, the assignment of claims liability will be simplified. Some carriers will exit the auto business and seek to shore up premiums through additional products and services.

Car ownership goes the way of horse-drawn carriage ownership and becomes a historical curiosity before the end of the 21st century, though much litigation and legislation will occur before liability standards are defined.

# 12.5%

loss of US auto insurance premiums by 2035

Source: Stevens Institute of Technology

# 30-83 billion

number of person trips provided by ride-hailing services by 2030

Source: Goldman Sachs, Princeton University

## Impact and value for customers:

- ▶ Convenient, safe, and on-demand transportation
- ▶ Freedom from the costs of vehicle ownership, including insurance premiums
- ▶ New needs for non-owner personal injury protection and commercial coverage for ride-share providers

## Implications and possibilities for insurers:

- ▶ Emergence of usage-based insurance as the norm, with policies tailored to distances, routes, and driving behavior
- ▶ Gradual, then dramatic, reductions in traditional automotive policies and claims
- ▶ Significant growth in commercial fleet-based policies
- ▶ High likelihood of consolidation, radical downsizing or reinvention of product portfolios for carriers losing up to 50% of their revenues



# 5 Cyber risks present a hundred-billion-dollar opportunity and a trillion-dollar threat.

**Leaders** take a proactive approach to personal and commercial cyber risk protection.

**Laggards** play a limited, reactive role after their customers suffer losses.

The industry's historical strength in understanding and quantifying risk is being severely tested as the annual number of adversely affected consumers reaches into the hundreds of millions and the amount of damages adds up to billions of dollars.

Of course, optimists see billions of dollars in premium growth and ask whether revenue from cyber policies can replace the loss of premiums in traditional lines. A related question: how can insurers grow their top lines by helping consumers and small businesses with privacy and security services as more personal and commercial activities are conducted in the digital universe? To seize the upside, insurers have a great deal of

work to do in framing the risk, quantifying the potential losses, and designing products with sufficient protections.

Citizens, businesses, and communities around the world are woefully under-protected from cyber risks. The stakes will only rise as hackers take aim at everything from connected vehicles and smart homes to nuclear power plants and defense systems. Insurers must lead the way forward by developing the most effective techniques – from proactive monitoring to incident response – to fight cyber threats. In protecting their own assets and systems, insurers can build trust and confidence with consumers.

Leaders adopt the strongest possible defenses to protect themselves and gain full visibility into their risk concentration. They also expand offerings by patrolling the dark web for policyholder data and conducting personal security audits. In commercial lines, leaders help businesses protect themselves against reputational risk and negligence claims.

Laggards never develop the expertise to understand and price cyber risks and protective services at scale. They even fall short in patching vulnerabilities in their own systems. In the worst-case scenario, a catastrophic cyber incident could bankrupt an insurance company.

## How this changes insurance in the next wave:

Many in the industry believe a cyber catastrophe is inevitable. Consider a simultaneous hack of all driverless vehicles, the shutdown of a crucial financial institution, or the broad infiltration of a technology platform. In such an event, the damages will be incalculable and one or more insurers could become insolvent almost overnight.

Lack of visibility into cyber risk concentrations is a nearer-term threat. With cyber coverages present in many existing policies (e.g., business interruption), some insurers may be more vulnerable to litigation and claims payouts

than they realize. Emerging privacy regulations could be a trial lawyer's dream and require massive remediation of legacy systems similar to Y2K.

Insurers must also redefine coverages and reset premium levels in line with actual risks (rather than simply to capture revenue). Small businesses will be challenged to afford properly priced cyber insurance. Insurers must be bold and think beyond traditional boundaries as they expand their purpose to include cyber loss prevention.

**\$8-9 billion**  
estimated cyber crime premiums by 2020

Source: Munich Re

**\$6 trillion**  
economic impact of cyber crime by 2021

Source: Cybersecurity Ventures

## Impact and value for customers:

- ▶ Assistance in protecting against common hacking, identity theft, and data breaches
- ▶ Stronger protections against reputational risk, data loss, and financial hits
- ▶ Clearer products and coverages through dedicated cyber policies
- ▶ Reduced threat of litigation and claims of negligence
- ▶ Greatly improved control of personal data and privacy

## Implications and possibilities for insurers:

- ▶ Demonstrated leadership in establishing best practices for cybersecurity, starting with their own systems
- ▶ Clear visibility into cyber risk concentration – including potential for catastrophic events
- ▶ Higher revenues through new offerings for threat awareness, prevention, and customer self-protection
- ▶ Clearer lines of responsibilities defined for commercial lines



# The ecosystem effect: cloud models and new connections enable radical innovation.

**Leaders** optimize their value chain with creative alliances, new capabilities, and smart bundles.

**Laggards** move slowly into the cloud ecosystem and offer underwhelming customer experiences.

As carriers move to cloud-based platforms, open application program interfaces (APIs), and InsurTech integration, their traditional proprietary processes are open for reconsideration. Add in the pressure for profitable growth and the evolving nature of risk, and you have an environment where insurers must find new and more visible ways to deliver value. Ecosystems – which entail multiple companies partnering to offer specialized but complementary services in mutually beneficial ways – are one way for them to expand the value of their offerings.

Our dialogue with industry stakeholders and analysis of the financial performance of various insurers leads us to conclude that one or two small commercial carriers could capture a large, even dominant, market share – up to 30%, compared to 5%-6% today. They will do so by bringing economies of scale, pricing sophistication, and marketing analytics to personal lines and combining these with a seamless and intuitive customer experience that is enabled by their ecosystem relationships. The small commercial business environment offers a plethora of innovation opportunities that combine broader business services with the protection of insurance products and services.



Leaders capture market share by defining their role in the ecosystem relative to other types of entities (e.g., sharing platforms, social media, InsurTechs, data providers, customer associations, business services). By connecting with InsurTechs, leaders can rapidly add innovative technologies and enhance business processes and customer experiences. They have the advantage of being able to lead the way through the industry's regulatory complexity.

Laggards will be those firms that can't find a niche, don't open themselves up to the broader capabilities of the ecosystem, or miss out on the right alliances. They cling to the thinking that they can (or should) do everything themselves or that the cloud is too risky a place to do business.

## How this changes insurance in the next wave:

Insurers move their infrastructure to the cloud and open their core process APIs. In addition to InsurTechs, insurers engage with home builders, office supply stores, automotive and appliance manufacturers, credit card companies, travel agencies, and other consumer-facing companies to leverage data and provide offerings that complement their traditional strengths. The ecosystems take many forms – strategic partnerships, alliances, mergers and acquisitions (M&A), joint ventures.

Incumbents increasingly seek niches, following the lead of InsurTechs in specializing in functions (e.g., underwriting, distribution, claims) or micro-segments (e.g., dental practices, first-time millennial homeowners). Every link in the value chain is constantly evaluated, with executives asking whether it's better to buy or build, and what services can be sold into the marketplace.

# 76%

global insurance executives who view partnerships and ecosystems as determinants of competitive advantage

Source: Swiss Re

# 52%

incumbent insurers that view InsurTechs as potential partners

Source: Majesco

## Impact and value for customers:

- ▶ Innovative and satisfying end-to-end experiences
- ▶ Highly tailored insurance products and services embedded in everyday activities
- ▶ Simplified, concierge-like business relationships for related services
- ▶ Increased ability to connect with trusted companies that anticipate their unique needs

## Implications and possibilities for insurers:

- ▶ Expanding and disaggregating value chain focused on customers' needs
- ▶ Broader systemic risk and complexity as insurers contract with a greater number of vendors
- ▶ Increased stress on technology and risk management capabilities, especially for small and mid-sized insurers
- ▶ Increased market share and retention through partnerships and add-on and wraparound services

# 7 The subscription revolution arrives: insurance becomes deeply woven into consumers' everyday lives.

**Leaders** drive growth with insurance on-demand and convenience at scale.

**Laggards** fail to anticipate consumer needs related to life events and lifestyles.

As the subscription revolution comes to insurance and other financial services sectors, senior leaders should consider the large potential opportunity. Indeed, compared to other financial services firms, which generate fees largely based on transactions, insurers already operate somewhat like a subscription, with regular payments and auto-renewals; insurers just need to engage consumers more frequently and creatively.

Recent EY research confirms that insurance subscriptions are attractive to many consumers and businesses because of their easy and convenient bundling of holistic services, many of which will be provided by ecosystem partners.

Even better news: our research indicates that consumers will pay a fee for subscriptions.

The secret sauce for subscriptions in insurance is linking services and engaging customers around key life events (e.g., starting a new household or downsizing for retirement) or emerging lifestyles (e.g., urban gig workers, recreational farmers, world travelers) and complex financial decisions (e.g., launching or expanding a business). As such, subscription models are largely about customer centricity – that is, offering products and services that reflect the way people really live and businesses actually operate.

Leaders will reorient the fundamental value proposition – and all offerings – for direct alignment to customer lifestyle

## How this changes insurance in the next wave:

Based on a consumer's lifestyle, subscriptions are clearly and transparently priced, with a fixed fee linked to specific products and services. More personalized offerings and additional features are available based on the data consumers share and the insights insurers produce with AI.

Insurers will serve as concierges in connecting consumers to complementary service providers (e.g., accountants, mortgage lenders, travel agencies) aligned

needs. The top performers may develop “financial operating system” platforms that serve as a single hub for all critical information and tools. They will make it as easy to adjust policies (e.g., adding or removing family members from policies or additional locations to commercial policies) as it is to add features on streaming services on leading apps.

Meanwhile, laggards will remain product-centric in their thinking and approach. They will be most vulnerable to losing customers to the financial offerings of tech giants or InsurTechs, which are poised to lead the charge in the subscription revolution.

to key life events or lifestyles. Consumers will gain access to personalized robo-advisor portals and apps that help them make better financial decisions, find answers to their questions and access appropriate coverage and guidance (including from human advisors) as their needs change. Insurers will be more proactive in customer outreach and emphasize value-adding services (e.g., planning) as subscriptions become their primary customer acquisition strategy.

# 5%

increase in consumer demand from the offer of subscription models, even accounting for fees

Source: EY NextWave Consumer Financial Services

## Impact and value for customers:

- ▶ Increased sense of control and financial wellness
- ▶ Easier access to the protection they need – when, where, and how they need it
- ▶ Guidance and support for all types of customers in the channels they prefer to use
- ▶ Increased convenience of concierge services and bundles
- ▶ Increased brand loyalty and confidence that companies are focused on their interests

## Implications and possibilities for insurers:

- ▶ Stronger relationships by focusing on what really matters to consumers
- ▶ Increased relevance and engagement through expanded service offerings and richer value propositions aligned to key life events
- ▶ Superior competitive positioning based on deeper and more data-driven customer relationships
- ▶ Emphasis on enhanced services rather than basic transactions
- ▶ Improved margins driven by appropriate and simple consumer access



# AI adoption accelerates in claims: the last claims processor turns out the lights.

**Leaders** aggressively automate to cut costs, minimize indemnity, and enhance service.

**Laggards** can't make the leap and suffer a competitive disadvantage.

As long as there are insurance companies, there will be claims to process. But in the future, the number of claims will fall to a fraction of what it is today. The role of the function will shift, shrink, and specialize in the years to come, becoming almost unrecognizable when compared to traditional models. The historical goal has been to lower the cost of adjusting without adversely impacting indemnity. Soon, insurers will no longer have to choose between these objectives, as emerging technologies are now available that help them achieve both at once. And they'll be able to enhance service at the same time.

Vehicle owners submit photos or video of accident damage immediately through mobile apps. Aerial drones inspect damage to homes and commercial buildings after storms. Loss estimates are calculated via machine learning models. Chat bots manage customer interactions and alerts. Lawyers are replaced by AI arbitration services. Predictive models identify fraud. Payments are electronic and instantaneous. Early adopters are just scratching the surface now.

Leaders will deploy technology to capture the right data at every step of the claims process – from entry to adjustment to settlement. Their claims teams will add value by reducing fraud, providing personalized service to important customers, and efficiently handling the few, but severe, claims that remain. The end result will be

a pleasant claims experience that reimburses losses faster than ever, increases loyalty, and strengthens trust.

Laggards can't or won't make the necessary technology investments or alliances. They will be stuck with inefficient manual processes better handled by intelligent automation.

## How this changes insurance in the next wave:

Automation lays the groundwork for true claims transformation. The definition of high-quality service will no longer just be emphatic care, but also speed and accuracy in paying claims. The number of people involved in claims falls dramatically. Those who remain will be skilled analysts and investigators, whose judgment is enhanced – rather than replaced – by advanced tools.

Tomorrow's claims teams will feature more data scientists and software engineers, experience managers and service concierges, loss avoidance and risk mitigation specialists, security and privacy experts, and performance coaches. Claims experiences were once a huge driver of customer satisfaction, with negative experiences undercutting loyalty. With higher degrees of automation come fewer customer defections due to poor claims experiences.

# 50%

claims cost savings based on automation

Source: LexisNexis

# 87%

consumers who believe claims experience impacts decision to stay with insurer

Source: EY Global Consumer Insurance Survey

## Impact and value for customers:

- ▶ A seamless, satisfying, and even delightful claims experience, thanks to more convenient claims submission and faster payment, plus personalized service when necessary
- ▶ Clearer visibility into claims status through automated alerts
- ▶ Elimination of costly, paper-based processes and the need to play "phone tag" with claimants
- ▶ Less time-consuming claims process (e.g., no in-person visits from adjusters)

## Implications and possibilities for insurers:

- ▶ Fulfillment of the promise to be there for customers in need
- ▶ Increased customer satisfaction, trust, and loyalty
- ▶ Lower claims processing costs from fewer personnel and reduced risk of human error
- ▶ Reduced legal expenses and attorney representation rates
- ▶ Reduced claim deterioration and fraud



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# How to lead the next wave

From purpose and business model  
to offerings and capabilities

What is our mission and purpose?  
How are we different? What is  
our optimal business model? How  
do our products and experiences  
align? What capabilities will we  
need to be successful?

In the industry's next wave, insurers must raise fundamental questions and challenge long-held assumptions. Traditional competitive strategies won't be the answer. Incremental annual improvements will no longer be enough. Because the pace of change continues to accelerate the pressure to transform will never abate; continuously "working on the business" will be as important as "working in the business." The following five steps outline a path forward for insurers seeking to thrive in the years and decades to come.

# Define your purpose. Clarify your value proposition. Differentiate your brand.

Purpose is critical in setting a clear strategic direction. On a practical level, purpose provides differentiation in the minds of customers and employees who are eager to engage with companies that share their values. Younger generations claim to care about purpose as much as – if not more than – monetary compensation. Consider how companies might engage consumers by maintaining carbon-neutral operations. Others may promise to donate a percentage of premiums and profits to community service organizations or charitable causes. Being bigger than the bottom line can be both a compelling purpose and an effective positioning tactic.

**Purpose provides differentiation in the minds of your customers and employees.**

## The key questions that senior leaders must address are:

- ▶ What is our purpose?
- ▶ What customer problems are we trying to solve, and which segments are we targeting?
- ▶ Should we focus on higher-order consumer needs (e.g., comprehensive risk management) or functional benefits (e.g., low price, convenience)?
- ▶ Should we aim to be proactive business partners (like other financial services organizations) or highly efficient first responders during and after emergencies?
- ▶ What can we do better than, and differently from, the competition?
- ▶ How do we communicate our value and capture appropriate profit margins?

These difficult questions require significant executive dialogue, meaningful analysis, and bold leadership. Finding the right answers is critical to defining and designing the right business models for the future.



# Identify and create the offerings.

An insurer's purpose and differentiation, as well as its commitment to customer centricity, must guide the design of products and services. The journey from a product-centric legacy to a customer-centric future is a long one. If "location, location, location" is the mantra in real estate, it must be "customer, customer, customer" as the insurance industry rethinks what it offers people and businesses.

Carriers must come to view the entire customer experience as the ultimate product. Most insurers already have baseline skills in customer segmentation, journey mapping, and product design. They also know how to cater to specific segments.

**Products and services should be keyed to the moments that matter in policyholders' lives.**

## Moving forward, they must:

- ▶ Dig deeper in their data sets and apply market intelligence to understand what's next for their customers
- ▶ Think beyond traditional insurance products and services to get ahead of shifting risk exposures and emerging consumer needs
- ▶ Test new offerings tangential to their core to redefine relationships with customers and traditional distribution partners

Tailoring products and services to the moments that matter in policyholders' lives is essential to enhancing consumer perceptions of the value offered by individual insurers and strengthening trust in specific brands. Those two factors provide the foundation of sustainable and mutually beneficial relationships. With the current pattern of limited engagement – with interactions primarily occurring when premiums are due or claims are submitted – insurers must embrace the challenge of engaging customers in strong and active relationships.

Beyond identifying the right portfolio of products and service offerings, insurers must move quickly in designing, developing, testing, launching, and tailoring new products and services. The entire process should be measured in weeks or months, rather than years. "Better products faster" is another suitable mantra for the insurance industry.

# Design the right business and operating models.

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How insurers organize and design their capabilities and market and deliver their offerings is in need of major renovation. From algorithmic underwriting to no-touch claims processing to omni-channel sales and service, every link in the value chain must be purposefully reconsidered and redesigned.

## Insurers face big decisions as they seek sustainable growth and profitability:

- ▶ What are the most critical capabilities required to achieve our purpose?
- ▶ Where should we be best-in-class and where should we be best-in-cost?
- ▶ Should we build, buy, partner or even sell our capabilities in the growing risk management ecosystem?

Insurers will need to make difficult trade-offs. For instance, will they invest more heavily in transforming existing operations or launching greenfield offerings and value propositions? Will they prioritize defending existing lines of business or capitalizing on new products and underserved market niches? Will they invest in new brands and channels or build on the existing customer base and distribution networks?

No insurer can afford to be all things to all consumers; focus is necessary for future success. For instance, one insurer might own the entire customer experience and relationship, while sourcing many products and services from other partners. Another might prioritize its efforts on product design and manufacturing, while relying on a variety of distribution methods and partners. Some carriers may decide to sell leading capabilities into the insurance marketplace.

No matter the business model decisions, all carriers will need to move from closed, proprietary, often analog business models to open, cloud-based models that leverage the power of digital ecosystems.

Alliances and partnerships will become more prominent in operating models across the industry and serve as the driving forces behind broader ecosystems. These ecosystems can improve speed-to-market through access to wider capabilities, talent pools, and cutting-edge technology solutions. Insurers must think expansively as they consider potential partners. However, there will be an increased need to understand and manage both vendor and systemic risk, as responsibility for bad actors or careless participants will fall directly on the carriers who manage their ecosystem.

While several well-defined business models look likely to gain traction in insurance and financial services (see *next page*), individual insurers must consider their own evolutionary paths. Typically, that will involve finding the right spot along a number of strategic and tactical continuums, hence, the need to rethink – and likely redesign – the business and operating models.

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## Focus is necessary for future success.

In ongoing dialogue with industry leaders and stakeholders, EY has identified a number of business model templates that will guide insurers as they seek the optimal business model for their markets and objectives. These are not mutually exclusive, and insurers will combine and merge elements in line with their strategies and objectives.





# Build the enabling capabilities.

It's not enough to create an aspirational purpose, conceive of new offerings or design an innovative business model. Insurers must also get better at execution. Tomorrow's leaders will be notable for a few high-impact enterprise capabilities and cultural attributes, including:

- ▶ **Extreme agility**, especially in product design and development, through the use of minimally viable products, agile product management techniques, and rapid A/B testing
- ▶ **Innovative thinking**, with business leaders stepping forward to drive innovation through cultural change and organizational models that more broadly distribute decision-making and risk-taking
- ▶ **Full digitization and mass automation**, from the modernization of core systems for straight-through processing, to the use of AI and drones for claims processing, to engaging customers wherever they may be in social, mobile, and other channels
- ▶ **Data and analytics in everything**, with the ability to rapidly assimilate internal and external data and make it broadly available for data scientists and business analysts; top performers will have hundreds of predictive models to optimize everything from pricing to claims to customer acquisition
- ▶ **Trust by design**, employing sophisticated technologies and strong cultures to secure company assets and to protect and respect privacy in a manner that exceeds the baseline requirements of emerging regulations

A virtuous circle applies here; for instance, automating processes and upgrading technology can remove friction and reduce costs across functions, which can free up resources for further investments in new channels, new products, and new talent. Conversely, breakdowns in cybersecurity may cause insurers to instantly lose trust that has taken years to build up. These capabilities are fundamental to increasing performance across the business and helping insurers implement faster, pivot more nimbly, and embrace digital in everything they do.

**Insurers must get better at execution.**

# Manage the transformation.

Looking ahead, in light of all the powerful forces reshaping the industry, the ability to drive organizational change may in the end be the most important capability for insurers. Insurers have a variety of tools they can use to shift the organization, including:

## ▶ Strong leadership:

Change at this scale and pace must be sponsored from the top. Highly visible, authentic, and even passionate advocacy for change is critical. Culture needs to be actively defined, managed, and measured.

## ▶ Talent and workforce:

There is no doubt tomorrow's top insurers will have radically different skill sets (e.g., many more data scientists, vastly fewer claims adjusters). Employees must be empowered and granted the authority to make strategic and operational decisions. To compete in the war for talent, insurers must provide an attractive work environment, appealing compensation, clear growth opportunities, and the ability to contribute to a larger purpose.

## ▶ Proper governance:

Formal enterprise governance processes with new methods for investment allocation, performance measurement, resource management, and business and technical architecture are among the capabilities that insurers must cultivate.

## ▶ Agile collaborations and partnerships:

Agile cross-functional collaboration led by product owners is critical to driving more integrated, customer-centric operations; partnerships and alliances with the right external firms will drive out "not invented here" thinking and other outmoded mental models.

**While embarking on a transformation journey is exciting, insurers must take the time to define the proper management frameworks or risk suboptimal results or even failure.**

# The bottom line: it's time for change

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The insurance industry intertwines with every industry and is uniquely positioned to mitigate a wide range of risks, while making the world a better place. It has an awesome responsibility in protecting what matters most to individuals, families, and businesses around the world.

In assuming this responsibility, senior industry leaders also recognize the vulnerability of the traditional insurance business. Forces ranging from climate change and cyber crime, to the explosion of data and interconnected technology, to globalization and demographic shifts each have the potential to reorder – even overturn – the industry.

At the same time, new business models, new value propositions, and new product offerings promise to transform the industry. It's this paradoxical situation – existential threats and unprecedented opportunity – that has the entire EY insurance services team excited about and ready for the next wave of insurance.



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