



Trends in Insurance

SAP Financial Services Forum

Wieger Wagenaar
London, September 9th, 2014

CONFIDENTIAL

Introduction to Wieger Wagenaar



- **Current** **Owner of BEWONE** (Inspiration & Management)
- **2011-2014** **CFO** of Eureko Sigorta (part of Achmea), Turkey
- **2008-2011** **Group Director** at Achmea Holding, Netherlands
- **2002-2008** **CFO** of division Occupational Health at Achmea, Netherlands
- **1993-2002** **Manager** Control & IT, division Pensions at Achmea, Netherlands
- **1985-1993** **Auditor** at Ernst&Young and Van der Veen & Kromhout, Netherlands
- **1985** MSc in Business Economics at Groningen University



Trust

Growth and culture

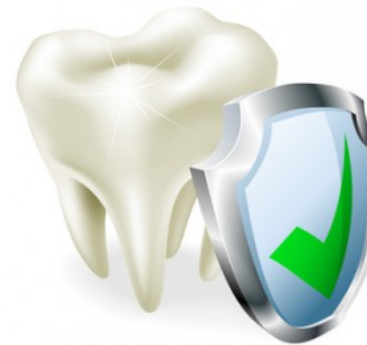
Online

Dynamic Pricing

Telematics

Wrap-up

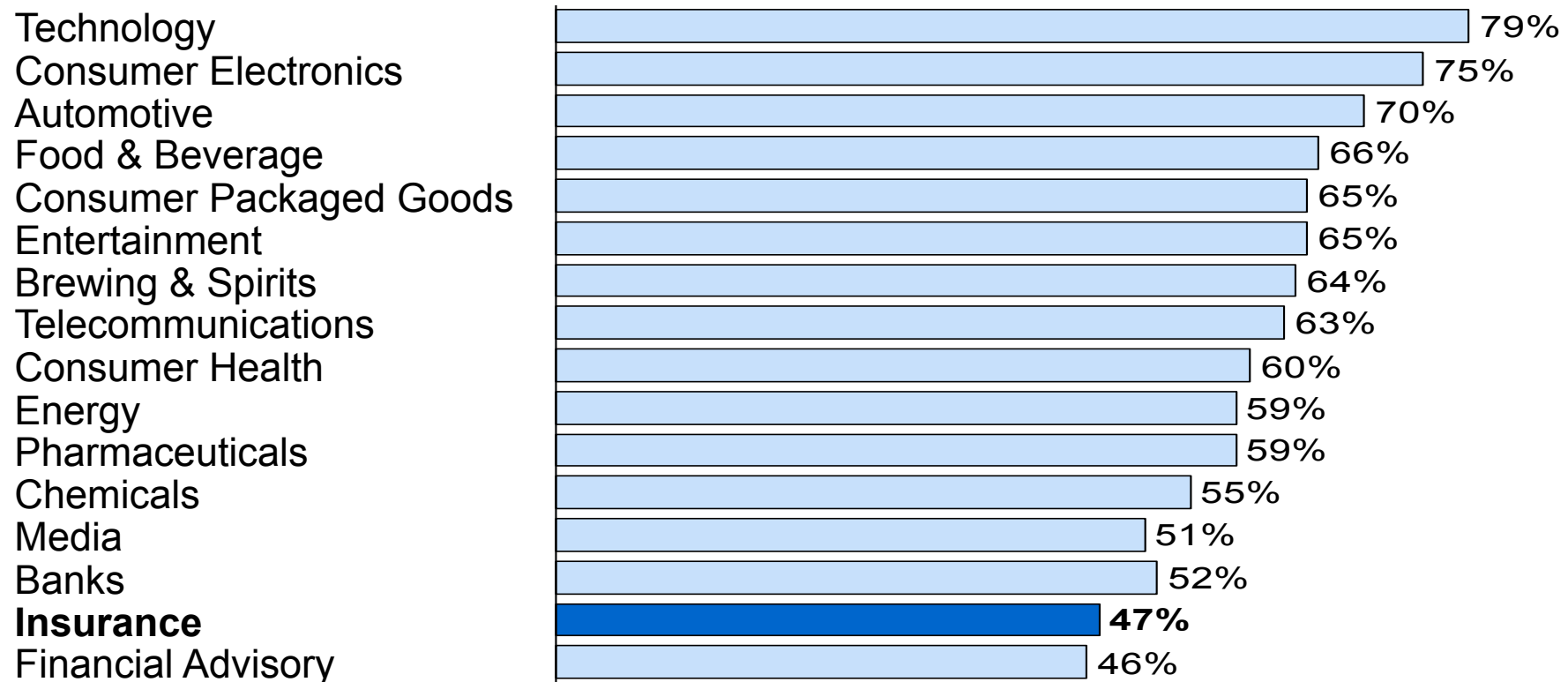
Trust and confidence are important elements in insurance. How do you feel about insurance yourself?



Global trust in insurance is among the lowest of all sectors

Trust in industries

Global, 2013



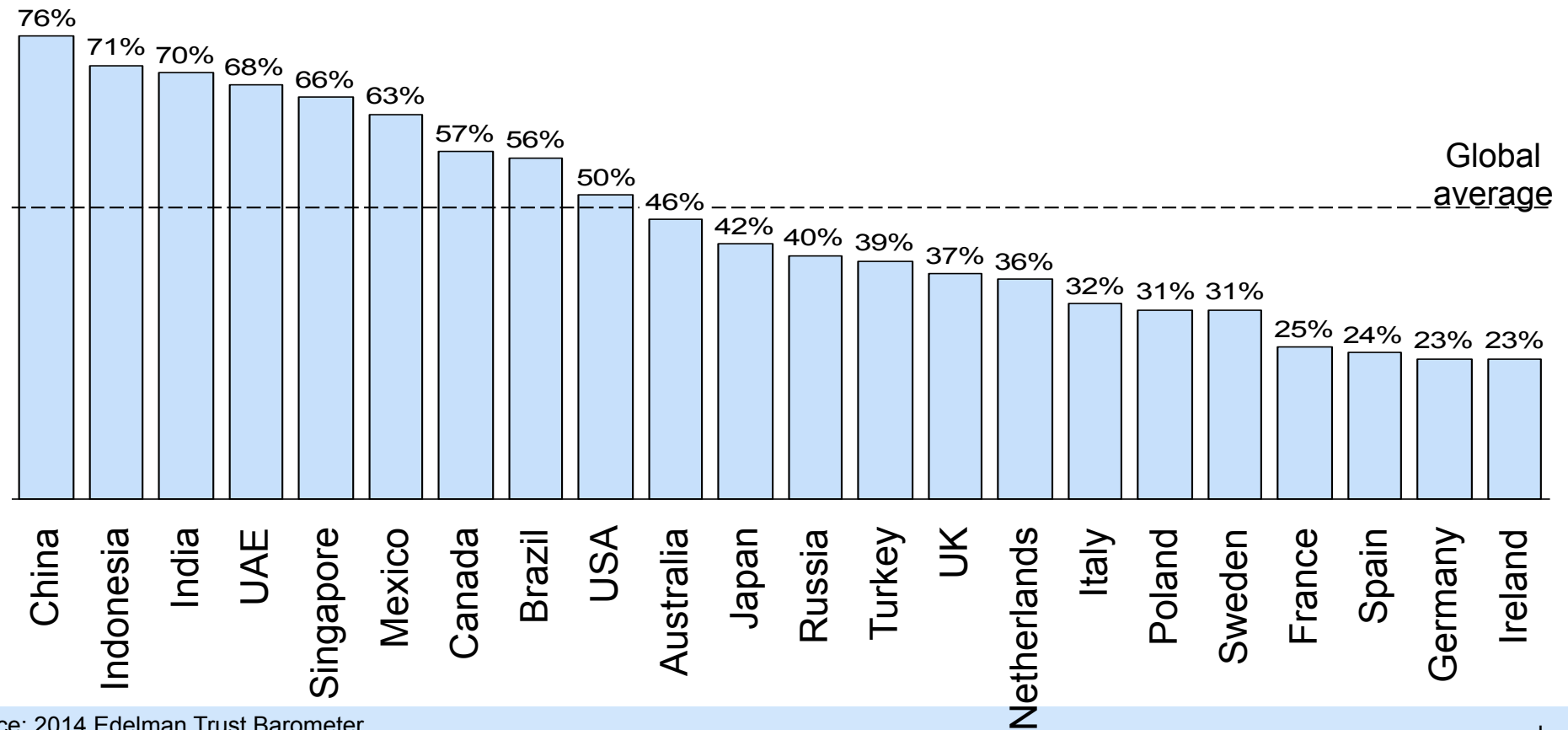
Source: 2014 Edelman Trust Barometer.

Indication of trust is based on the question 'How much do you trust businesses in each industry to do what is right?'

Trust in Financial Services is especially low in the European Union

Trust in Financial Services

Global, 2013



Source: 2014 Edelman Trust Barometer.

Indication of trust is based on the question 'How much do you trust businesses in each industry to do what is right ?'

Trust and customer centricity are often defined in the mission statements of insurance companies, indicating a substantial gap between goal and reality



“...delivering products and services that our **clients recommend**, being a great company to work for and achieving the best combination of profit and growth. We aim to achieve this by **putting the customer at the heart** of everything we do...”



“...AXA's mission is to help customers live their lives with **more peace of mind**...we are committed to redefining the standards of our business so that we truly differentiate ourselves and **earn the trust** of our key stakeholders”



“...be the **trustworthy** global insurance company...that works to constantly improve our services and develop the **best relationship with our clients**, distributors, suppliers, shareholders and society at large...”



“...our purpose is to actively protect and enhance people's lives...we **deeply care about our clients' and our people's future and lives**...”

Trust is built by multiple attributes such as engagement and integrity, which appear to be challenging for the financial industry

Importance of trust building attributes

Financial Services, Global, 2013



Source: 2013 Edelman Trust Barometer.

Indication of attribute is based on the question 'How important is each of the following actions in building trust in business?'



Trust

Growth and culture

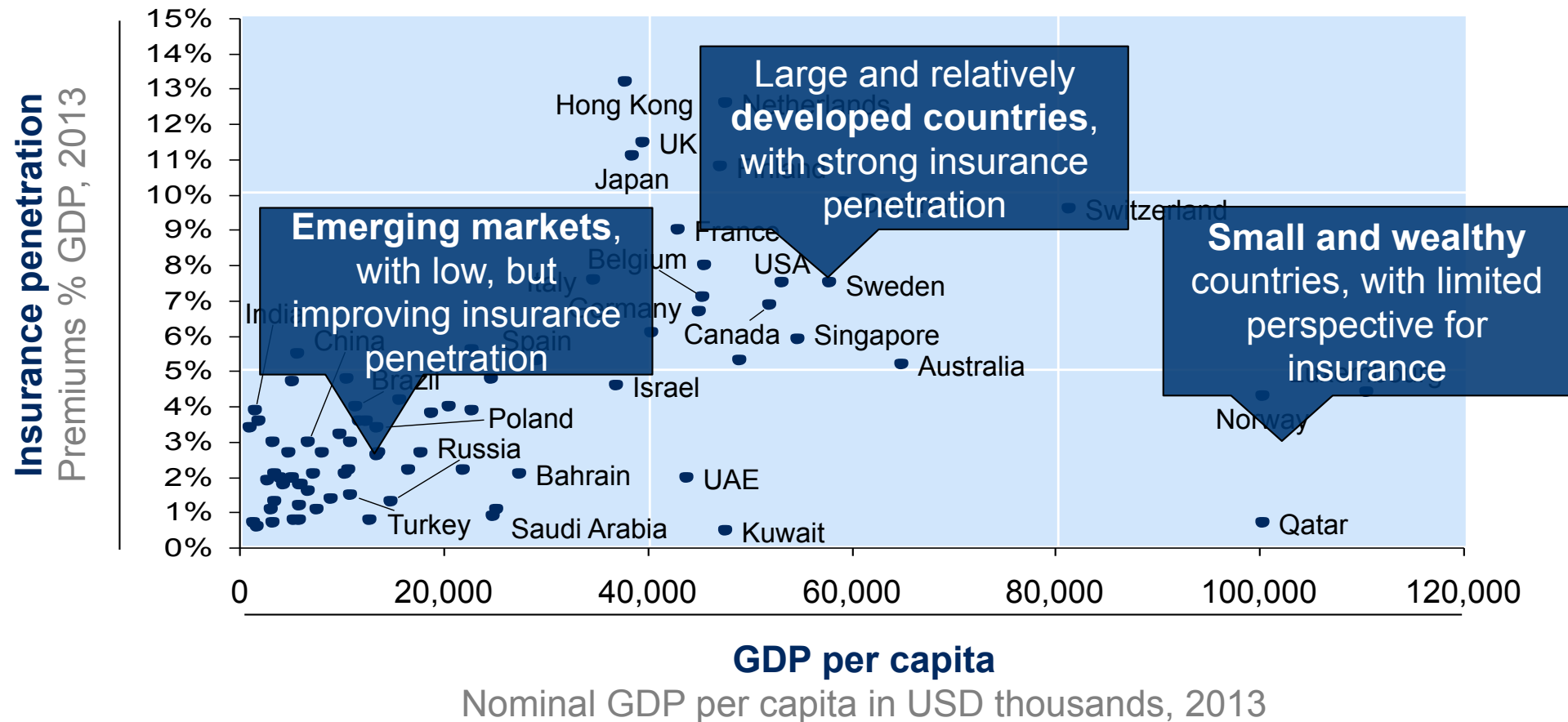
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The working assumption is that the insurance spend per capita increases when people get more wealthy over time



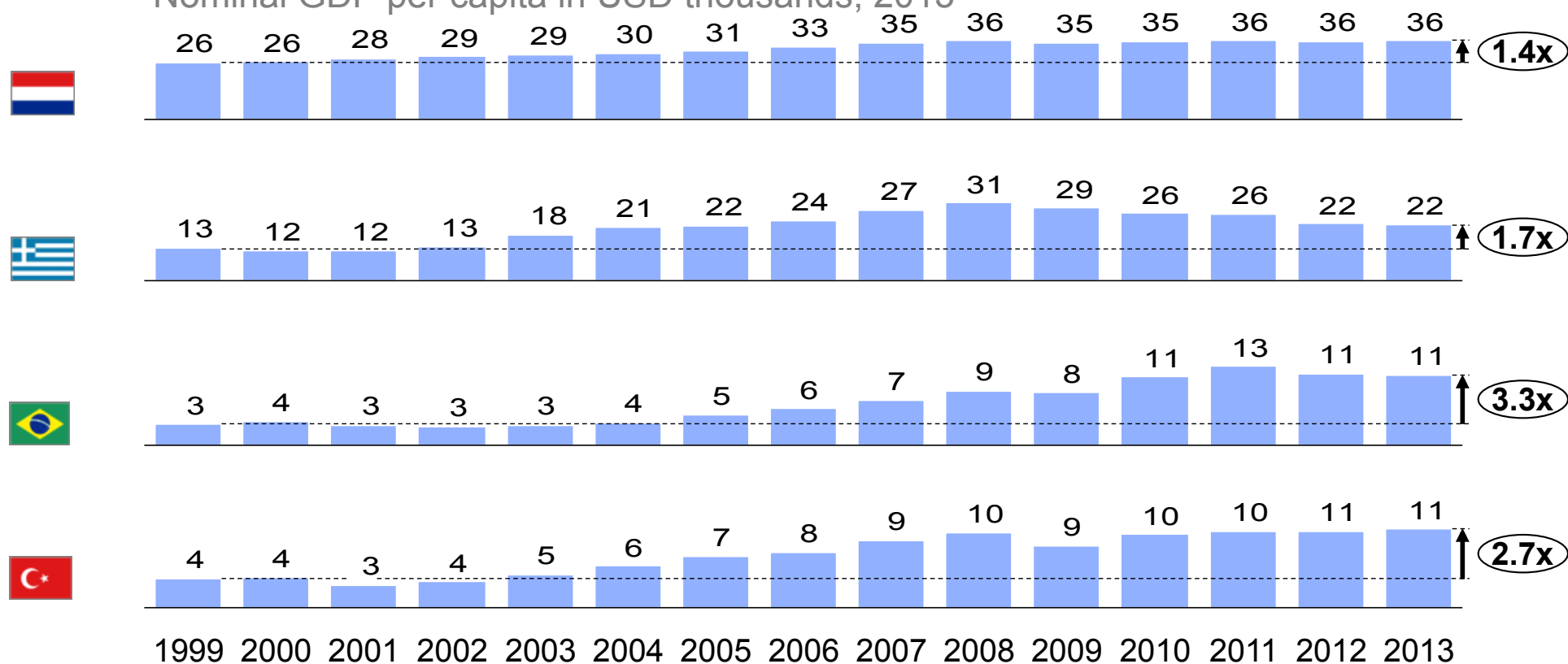
Source: Swiss Re, IMF WEO (April 2014)

Insurance penetration includes both life and non-life insurance premium

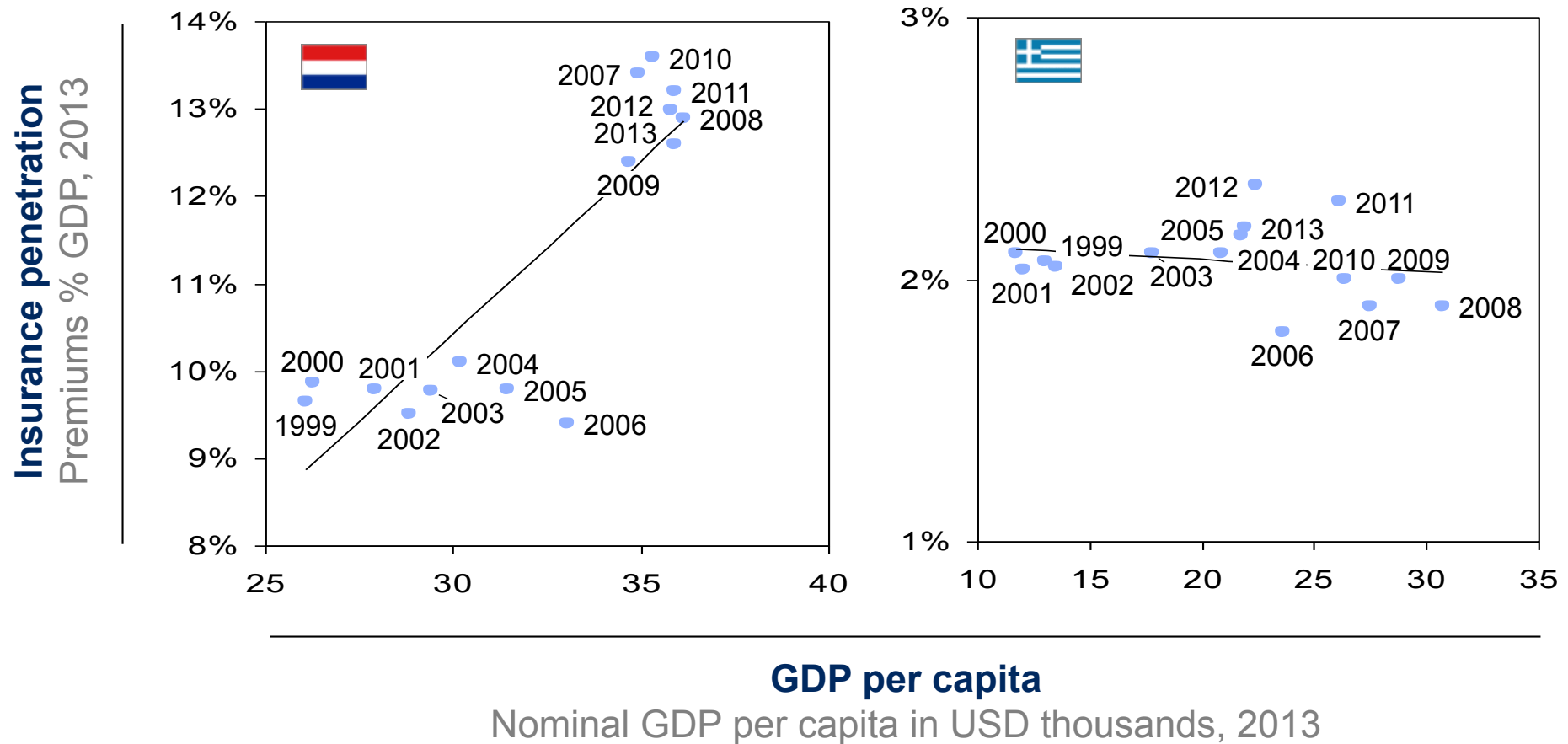
Beware of differences between countries

GDP per capita

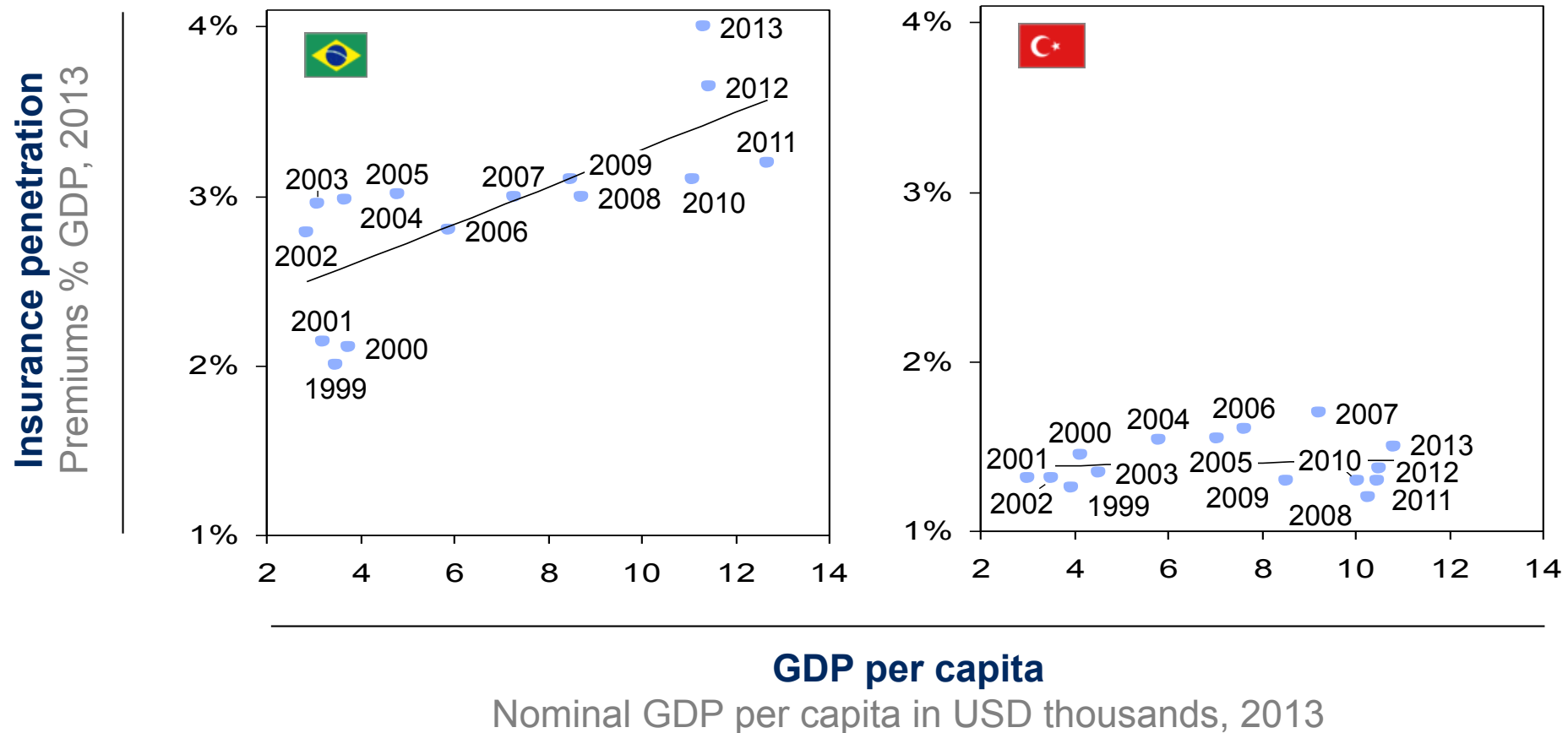
Nominal GDP per capita in USD thousands, 2013



Beware of differences between countries: 2 examples from the EU



Beware of differences between countries: 2 examples of developing countries





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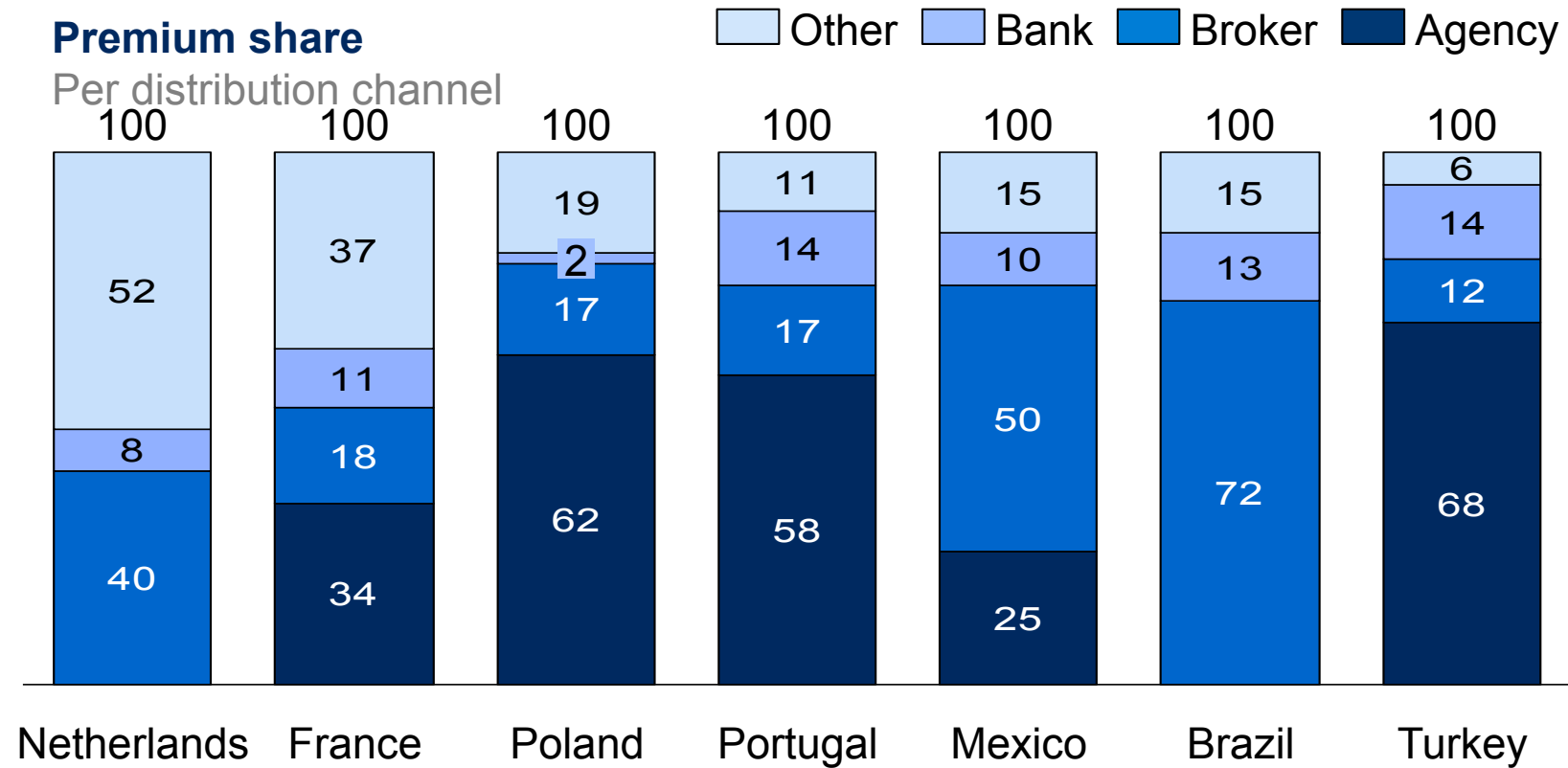
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Insurance markets show differences in distribution, driven by economic and cultural differences



Insurance brands need to operate within a new digital reality

Evolution from ownership to access



Self service and control



Simplicity and transparency



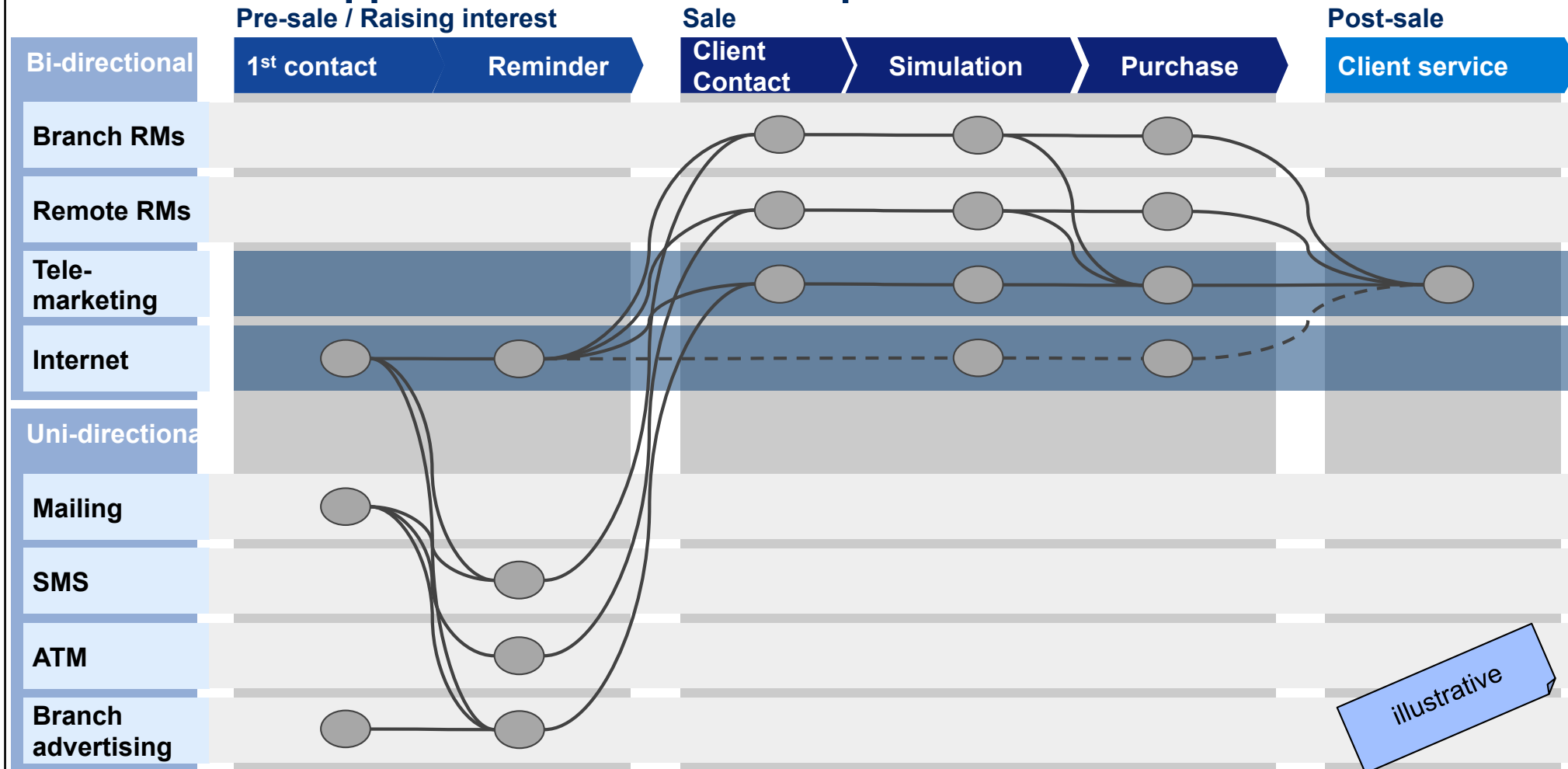
Social empowerment



Potential of data and tracking



A multichannel approach includes Online presence



The digital reality provides opportunity to offer personal insurance coverage, tailored to personal needs and embedded in digital lifestyle



Motor



Travel



Fire



Liability



Assistance

The cloud

1 insurance for everything



Always on

Just add what you need

Simple and transparent subscription models are being developed



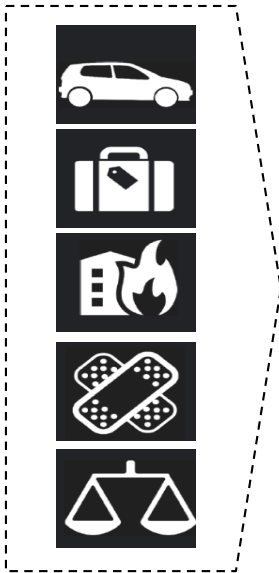
**Choose
premium cap**



**Pick
coverage**



**Adapt
on the go**

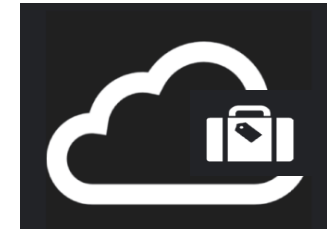
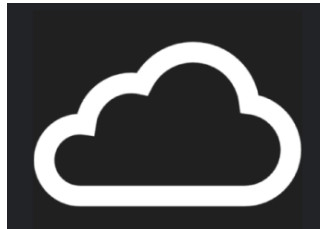
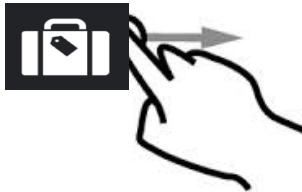
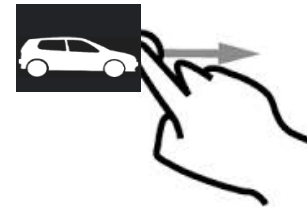
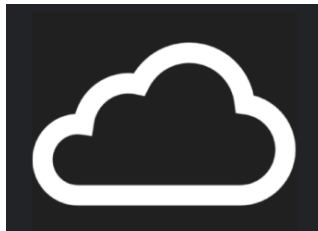
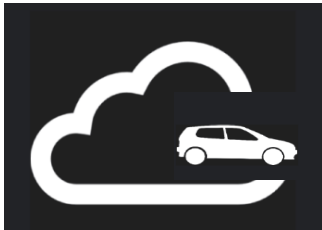


- Choose the maximum premium you are willing to pay
- The premium amount defines the size of your cloud
- Choose payment intervals
- Use credit card billing
- Adapt premium whenever you want

- Choose a start coverage for your lifestyle
- Based on profiles
 - Family
 - Student
 - Traveler
 - Etc.
- Adapt coverage later whenever you want

- Add, remove or replace coverage for what you need
- Adjust your premium if you want or need to
- Adapt your coverage as your lifestyle changes
- All on the fly
- All in real time

Why pay for car insurance when on holiday by plane?





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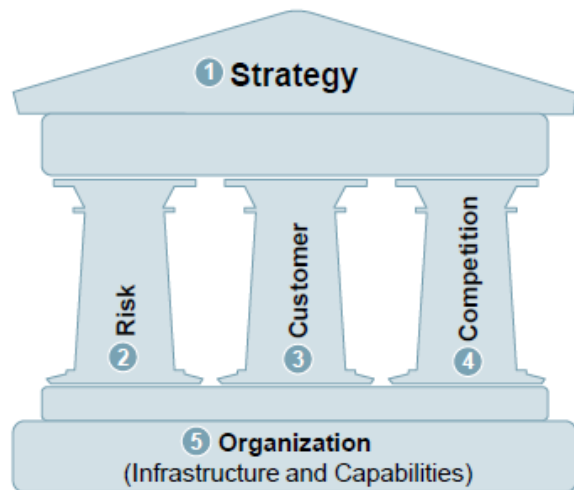
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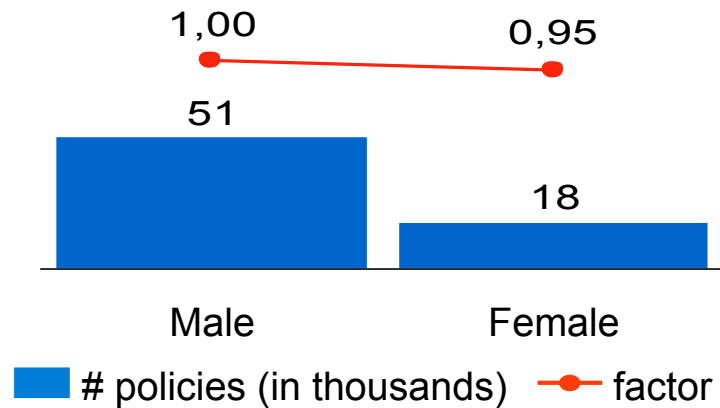
Best-practices in pricing through 5 perspectives



- 1 **Price strategically to retain/grow customer value**
 - Grow most profitable customer segments
 - Develop high potential segments
 - Grow segments leading to claim efficiency
 - Incentivize loyalty
- 2 **Price risk accurately**
 - Boost data sophistication
 - Boost modeling sophistication
- 3 **Tailor offer to customer**
 - Factor in customer willingness to pay
 - Cross/up-sell to high potential segments
- 4 **Optimize position against competition**
 - Dynamic pricing
 - Design products that differentiate from competition
- 5 **Organize for pricing efficiency & effectiveness**
 - Define processes, rules, responsibilities
 - Boost cross-BU collaboration
 - Improve execution efficiency
 - Ensure sustainability of pricing capabilities

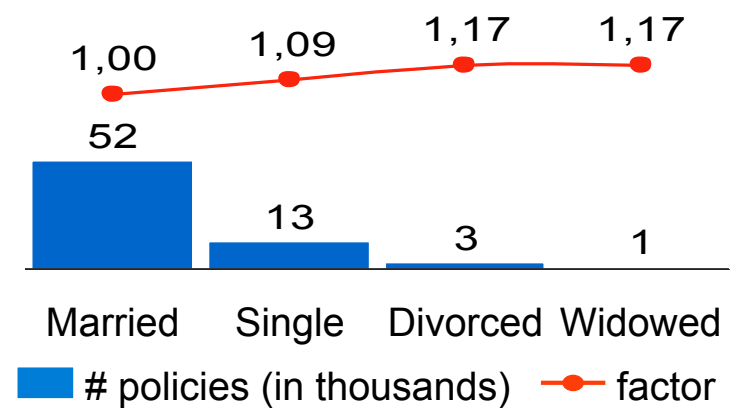
Example: Gender and Marital status are relevant characteristics in the identification / segmentation of risks

Gender



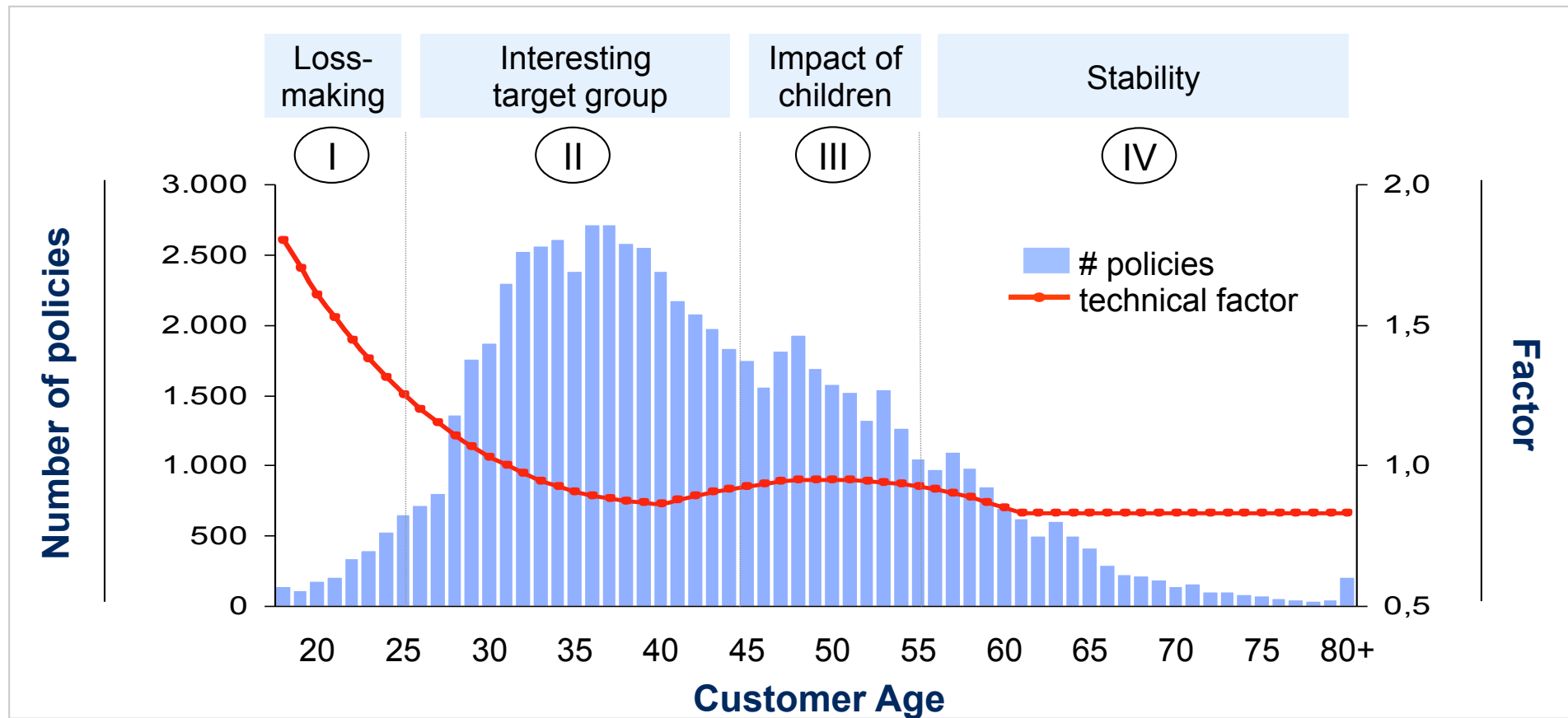
Female customers
pose a better risk

Marital status



Married customers
pose a better risk

Age of customers as a relevant pricing variable



Dynamic Pricing and Online presence can go hand-in-hand

**Retrieve
relevant
quotes**

Retrieve quotes

- ... for the companies in panel ...
- ... including relevant variables ...
- ... in a semi-automated way



**Understand
tariff
coefficients**

Understand competitors' tariff

- ... by computing univariate coefficients
- ... considering most common interactions among variables ...
- ... comparing spread and granularity



**Analyze
competitive
positioning**

Analyze competitive positioning

- ... on relevant profiles
- ... or a real portfolio ...
- ... or a simulated portfolio representing the whole or a part of the market ...





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Wrap-up

In the current motor insurance market, safe drivers are paying for... dogs

On the internet, no one knows that you are a dog



In the car, neither...



Technological solutions to the insurance industry can offer risk mitigation and product differentiation



**PAY-AS-YOU-DRIVE
STATE-OF-THE-ART
SOLUTION**



**DIFFERENTIATE
YOURSELF FROM
OTHER INSURERS**



**IMPROVE YOUR
CLIENT'S DRIVING
PERFORMANCE**



**RAISE AWARENESS
ABOUT
RESPONSIBLE
DRIVING**

Telematics provides for a more dynamic approach in insurance

Basic Principles

- Most underwriters currently use **static / statistical** criteria to evaluate drivers' risks
 - Age
 - Gender
 - Vehicle make & age
 - Place
 - Business category
 - Occupation
 - Etcetera
- The historical **claims profile** is also taken in account
- Insurance telematics is a policy based on these criteria and **4 new dynamic parameters**

Static criteria

Historical claims profile

Distance

Time

Place

Driving behavior

Technology can change the motor insurance industry



Today

Cure

- High claims ratio
 - Fraud
 - Theft
 - Etcetera

Opaque and focused on the past

- Limited understanding of actual risks, only of the past

Diverging interests

- 'Higher premiums, more profits for the insurer'



Future

Protect & prevent

- High expense ratio
 - Driving behavior advice
 - Fuel management
 - Remote diagnostics, etc.

Transparent and predictive

- Real-time visibility on risks, crashes, thefts etc.

Aligned interests

- 'Lower premiums, lower claims, more profits for the insurer'



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Trust

- Reason to exist for the sector, but is still relatively low
- Appears to be challenging and difficult for insurers

Growth

- Markets range from being saturated to being emerging
- Beware cultural differences between countries

Online

- Each market has its own distribution merits
- Online seems promising, but beware cultural differences

Pricing

- Best practices through 5 dimensions
- Dynamic pricing and online can go hand-in-hand

Telematics

- Technological solutions to the insurance industry can offer risk mitigation and product differentiation