



The Future of Insurance

How disruptive innovations are reshaping the way financial services are structured, provisioned and consumed
Singapore, March 2016

WALL STREET'S SCRAMBLING TO CATCH UP WITH SILICON VALLEY

The fintech revolution

Lending Club rapid expansion plans undimmed

Disruption on Deck for Retail Financial Services

UBS CIO: Blockchain Technology Can Massively Simplify Banking

TECH UPENDED BANKS AND STOCK TRADING. INSURANCE IS NEXT

Industry Convergence In Financial Services Is Accelerating

Human wealth advisers are going out of fashion

Masters joins cryptocurrency start-up

Beyond Bitcoin: How The Blockchain Could Disrupt Our Financial System

Equity crowdfunding thrives despite high risks

Goldman joins online lenders' club

Peer-to-Peer Lending Takes Off in China

The London Fintech Boom — TransferWise And Others Hit Record Numbers

'Robo' Advice Strikes a Chord With Consumers: Study

APPLE PAY RECRUITS DOZENS OF NEW BANKS AND STORES

Crowdfunders seek revisions to FCA rules



WORLD
ECONOMIC
FORUM

We have to get the balance of regulation right now [or we risk] facing an Uber-type situation in financial services

Mark Carney at the Annual Meeting of the World Economic Forum



Silicon Valley is coming ... with a lot of brains and money working on various alternatives to traditional banking.

Jamie Dimon in a letter to JP Morgan Shareholders

Summary of
the World
Economic
Forum
Research



Over 15 months of research, we engaged with experts in the financial services industry to explore transformative potential of innovation

- 1 Which emerging **innovations** are the most **impactful and relevant** to the financial services industry?
- 2 How will these innovations **impact** the ways in which financial services are **structured, provisioned and consumed** in the future?
- 3 What would be the **implications** of these changes on **customers, financial institutions, and the overall financial services ecosystem**?

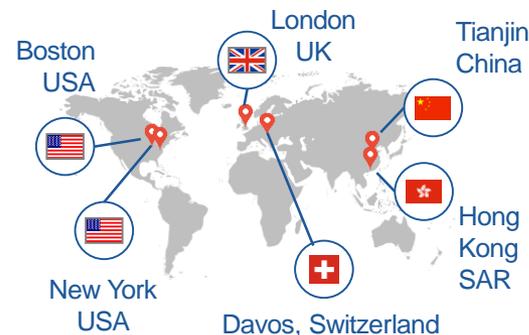
Industry Leaders



Innovators



Global Workshops



The outcome of this work is the first consolidated taxonomy for disruptive innovation in financial services

Research outcomes

Identified 11 key **clusters of innovations** based on how they impact the core functions of financial services

Considered a range of **scenarios** for the degree and nature of impact each cluster of innovation could have

Analyzed the **implications** of each scenario on customers, incumbent institutions and the overall financial services ecosystem



10 unique insights about innovations in financial services (1/3)

What are the common characteristics of innovation in financial services?

1

Innovation in financial services is **deliberate and predictable**; incumbent players are most likely to be attacked where the greatest sources of **customer friction** meet the **largest profit pools**

Alternative Lending



Automated Wealth Management



New Market Platforms



2

Innovations are having the **greatest impact** where they employ business models that are **platform based, modular, data intensive, and capital light**

Alternative Lending



Automated Wealth Management



New Market Platforms



3

The most **imminent** effects of disruption will be felt in the banking sector; however, the **greatest impact of disruption** is likely to be felt in the **insurance sector**

Disaggregation of Insurance Value Chain



Connected Insurance



10 unique insights about innovations in financial services (2/3)

What are the common characteristics of innovation in financial services?

4

Incumbent institutions will employ **parallel strategies**; aggressively **competing with new entrants** while also leveraging legacy assets to provide those same new entrants with **infrastructure and access to services**

Alternative Lending



Automated Wealth Management



5

Collaboration between regulators, incumbents and new entrants will be required to understand how new innovations alter the **risk profile of the industry** – positively and negatively

Alternative Lending



Decentralized Systems



Smarter, Faster Machines



6

Disruption will not be a one-time event, rather a **continuous pressure to innovate** that will shape customer behaviors, business models, and the **long-term structure of the financial services industry**

Shifting Customer Preferences



Process Externalization



New Market Platforms



10 unique insights about innovations in financial services (3/3)

How will innovations reshape the future of financial services?

7

Universal banking model will become **unbundled** as niche entrants develop credible point-solutions and customers migrate to best-of-breed selection

8

Traditional term structuring and leverage role of banks will be **substituted by new sources of capital** as innovative products erode banks' core deposit base

9

The benefits of scale will be eroded as innovative service providers provide small and mid-sized institutions with access to sophisticated capabilities

10

Traditional mechanisms of **measuring customers' risk profile** will **lose their efficacy** as new models and data sources emerge

How will innovations reshape the future of Insurance?

Looking
ahead:
Impact on
insurance
value chain



Connected devices and platforms emerging across cars, homes and lifestyles present an opportunity to improve and expand the telematics insurance models

Drivers behind the emergence of connected devices



Smarter, cheaper sensors



Internet-of-Things



Communication protocols



Advanced analytics

Key innovations with connected devices

1. Connected Cars

- Run on operating systems (apps can be installed) and are connected to the Internet
- Gather and transmit information on every part of the vehicle
- Communicate with other cars to prevent accidents



CAR 2 CAR
COMMUNICATION CONSORTIUM

2. Connected Homes

- Monitor key metrics (e.g., temperature) and automatically modify the environment accordingly based on learning
- Identify risk factors (e.g., smoke) and take adequate actions for prevention / triaging
- Communicate with the environment to adapt to surrounding environments



3. Connected Lifestyles

- Quantify, track, monitor and manage daily activities through wearable devices
- Identify trends, patterns and recommendations based on quantified data
- Measure, track and analyze vitals relevant for specific conditions and illness



4. Standardized Platforms

- Increase interoperability; facilitate data gathering, management and utilization; and improve coordination among connected devices



Apple CarPlay



Open Automotive Alliance



SmartThings



Key advantages of emerging connected devices

Easier utilization of data

Gathered data can be shared easily via connectivity and data-based services can be easily provided as apps through platforms (i.e., a tap to install and opt in)

Real-time communication

Data from vehicles, properties and individuals are gathered and analyzed in real-time to provide timely, relevant insights and information to users

Mix-and-match of data

Data from multiple sources can be combined and analyzed to create more comprehensive and accurate understanding of users

Proliferation of connected insurance models will create channels for insurers to better understand and engage more closely with their customers

Key characteristics of the future of insurance



Personalization

Increased measurability and availability of personal data will allow insurers to pulverize their understanding of customers' risks from cluster-based approach to individualized pricing



Accuracy

With better understanding of each individual's risks, the pricing accuracy of insurers will improve and more customers will pay premiums appropriate for their risks (i.e., less cross-subsidization among customers)



Transparency

As customers' usage and behaviors become more measurable, insurers will gain greater visibility into the circumstances surrounding claims and the opportunities for fraud will decrease



Data-Rich

Insurers will become a critical custodian of customer data as they gain access to behavioral data on their customers (e.g., vehicle movement), above and beyond historical and static data available today (e.g., type of vehicle owned)



Engagement

Insurers will be able to access additional channels to engage with their customers through mobile and other connected platforms and generate more relevant content for their customers based on data

A number of emerging forces will lead to pressure on the insurance industry across the value chain

Key pressures across the insurance value chain

- Advancing technologies, changing customer preferences and the market landscape are enabling a number of innovations and trends, which create pressure across the insurance value chain



e-Aggregators

Online aggregators that allow customers to compare prices and purchase insurance products online may displace traditional distribution channels as customer preferences change and more insurance products are commoditized (e.g., UK P&C market)



Entry of tech players

Technology providers with brand recognition and trust surpassing financial institutions may enter the insurance distribution market, leveraging their extensive data and distribution capability. Google acquired a UK e-aggregator BeatThatQuote charging insurers up to \$54 per click



Securitization

Insurance linked securities such as catastrophe bonds are introducing new pools of capital providing fully collateralized coverage to insurers, outside of traditional re-insurance and insurance pools



Mercedes-Benz



Self-driving cars

Fully or partially self-driving cars are emerging leveraging smart sensors, connectivity and machine-to-machine communications. This will considerably reduce the risks associated with driving and may shift the principal of insurance from drivers to manufacturers



Sharing economy

As sharing economies emerge from pay-as-you-go rentals to shared vehicles and houses, the concept of ownership may radically change, challenging traditional insurance models developed based on one-to-one ownership structure

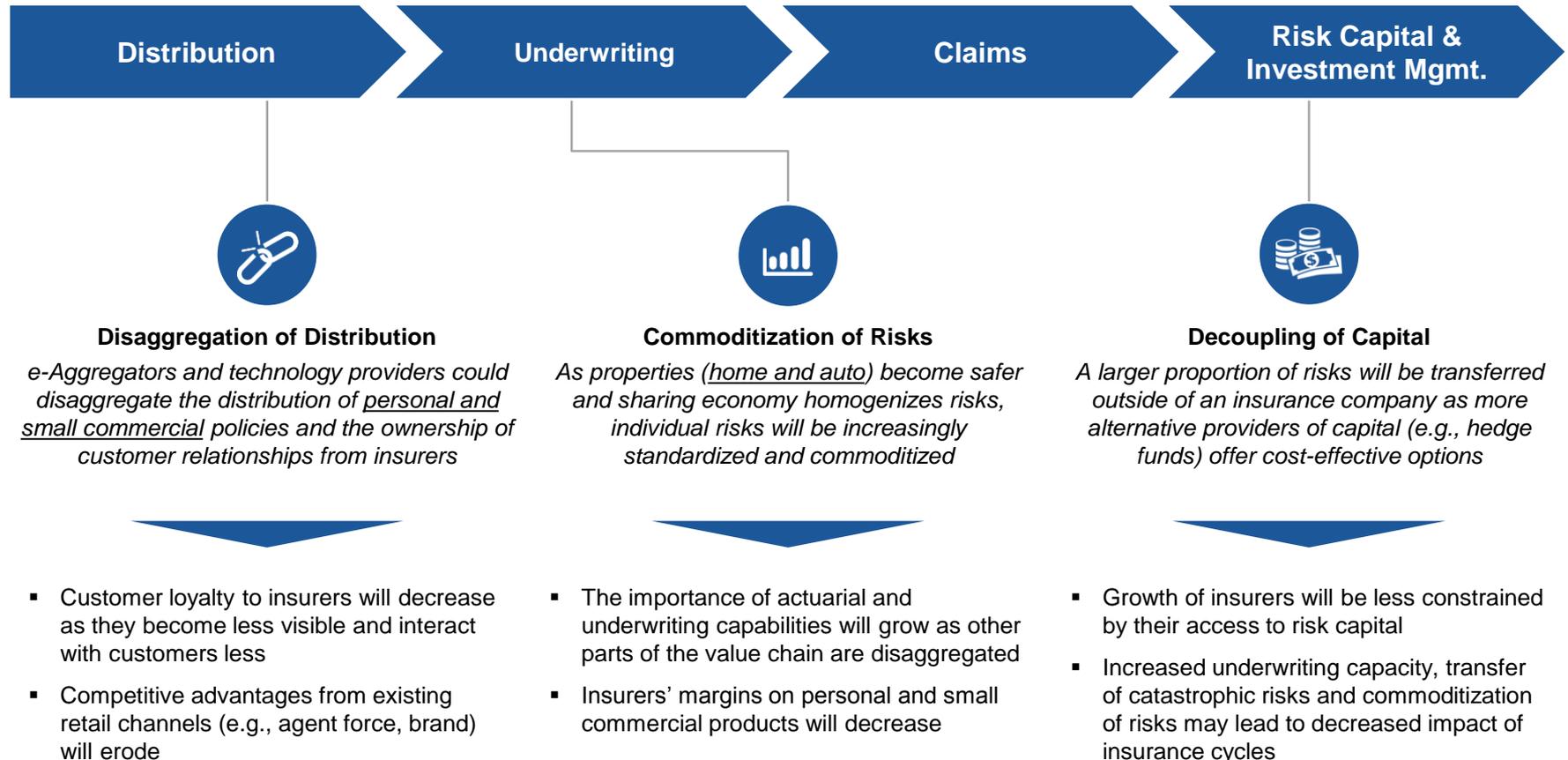


Entry of hedge funds

Driven by low interest rate environment and access to premiums, hedge funds and alternative sources of capital are moving closer to the insurance value chain by setting up reinsurers, providing additional funding options for insurers

As the result, the insurance value chain will be increasingly disaggregated in the future, changing the nature of the insurance business

Key characteristics of the future state insurance value chain



Cleared for takeoff: Five megatrends that will change financial services

A report from the World Economic Forum in collaboration with Deloitte

- Rapidly advancing technologies, evolving customer expectations and a changing regulatory landscape are opening doors to disruptive innovation in financial services. From crypto-currencies to big data to peer-to-peer lending, fintech innovations have captured the attention and imagination of customers, investors and incumbents.
- However, the nature and extent of the impact that these innovations will have on the financial services industry remains unclear. This document captures the results of a series of multi-stakeholder dialogues that explored the potential for these innovations to transform the financial ecosystem as well as the risks and opportunities that could emerge from changes in the way financial services are structured, delivered and consumed in the future in the future.
- Click [here](#) to download the report. For more information, please visit the [World Economic Forum's website](#).





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