

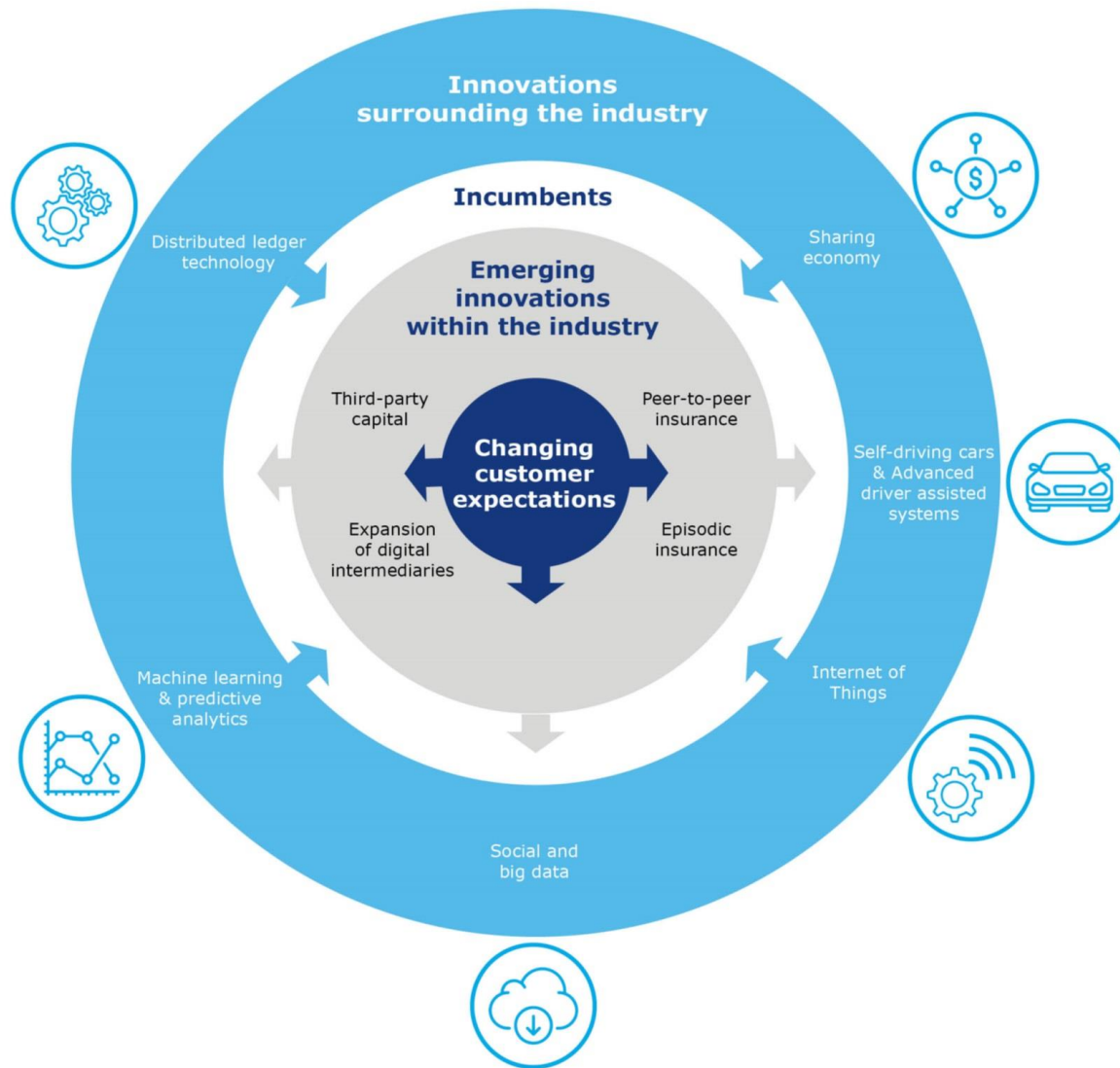


Turbulence ahead

The future of general insurance

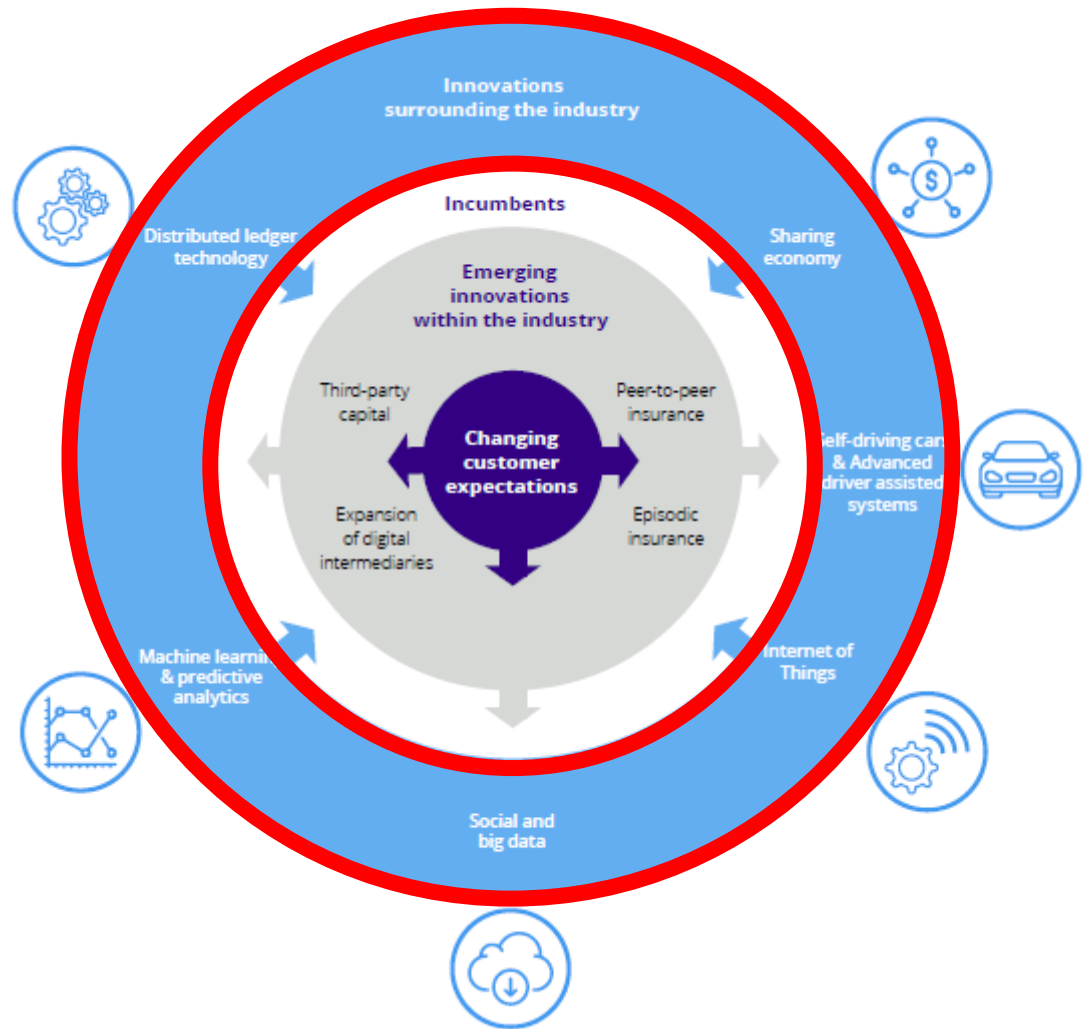
Leeds Insurance Institute - October 2017

Forces transforming the general insurance industry



Innovation from the outside

1. Sharing economy
2. Self driving cars
3. Social and big data
4. Internet of things
5. Machine learning and predictive analytics
6. Distributed ledger



The sharing economy



Social and big data

“From the dawn of civilization until 2003, humankind generated five exabytes of data. Now we produce 5 exabytes every two days and the pace is accelerating.”

Eric Schmidt
Executive Chairman, Alphabet Inc



QUICK QUIZ

Out of 16 industries, how highly did customers rank insurers for online experience?

A: First

B: Tenth

C: Fourteenth

D: Last

Insurance online experience lags behind

Consumer satisfaction with online experience, by industry

Relative satisfaction utility score



Morgan Stanley/BCG's "Evolution and Revolution in a Digital World"

sonnet

Insurance ▾

Claims

[About Us](#)

[Contact Us](#)

[Blog](#)

[FAQs](#)

[Français](#)



[Get A Quote](#)

[Login](#)

Hello, welcome to Sonnet

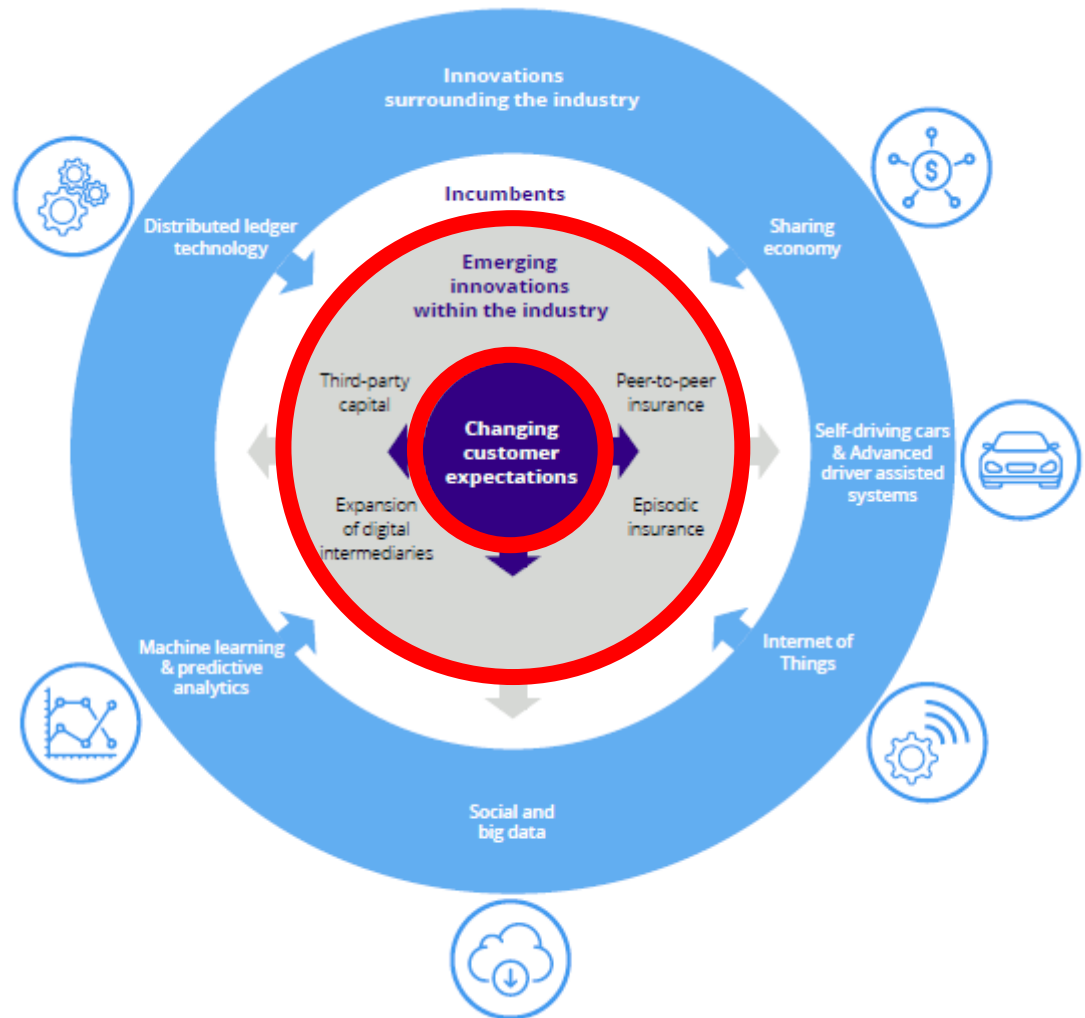
The smart new insurance is now available completely online.

[Buy Now](#)

Chat

Innovation from the inside

1. Expansion of digital intermediaries
2. Episodic insurance
3. Alternative capital
4. Peer to peer insurance



Episodic insurance

metromile

OK·车险

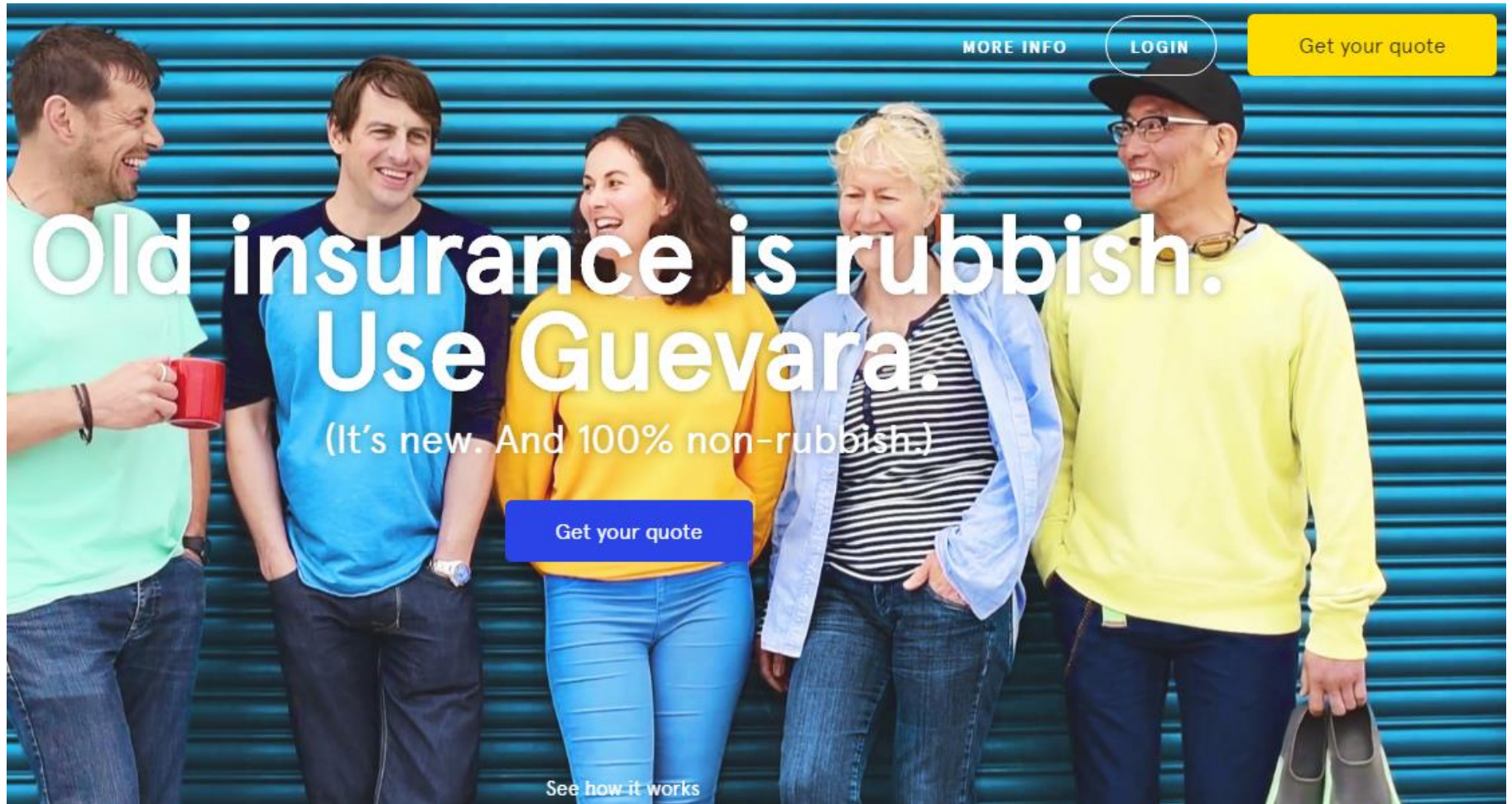
trōv

CUVVA



A few days?...
but I want it now!

Peer-to-peer



Old insurance is rubbish.
Use Guevara.
(It's new. And 100% non-rubbish.)

MORE INFO

LOGIN

Get your quote

Get your quote

See how it works

How emerging innovations may transform the future market landscape

1. Commercial ownership of policies

As users' risks disaggregate from assets, the ownership of personal property policies will migrate from individual customers to commercial institutions



IMPACT TO INCUMBENTS

- Portfolio shift from personal to commercial policies
- Market erosion in the insurance industry
- Rise of reinsurance
- Moral hazard due to mismatch between the ownership of policies and usage of properties

How emerging innovations may transform the future market landscape (cont'd)

2. Shortening policy lifecycle

Insurance consumption will be more episodic in duration as the needs-based usage of assets proliferates



*Sharing
Economy*



*Episodic
Insurance*



*Internet of
Things*



*Distributed
Ledger*



IMPACT TO INCUMBENTS

- Reduced ability to pool risks across customer lifecycle
- Increased uncertainty on predictable cash flows from annual premiums
- Higher likelihood of gaming
- Accelerated virtualization of insurance distribution
- Reduced customer loyalty

How emerging innovations may transform the future market landscape (cont'd)

3. Unbundling of perils

Risks will be broken down into their lowest level units as the driver of liability and protection separates



*Sharing
Economy*



*Episodic
Insurance*



*Self-
Driving
Cars &
ADAS*



*Internet of
Things*



IMPACT TO INCUMBENTS

- Requirement for multi-modal distribution channels
- Growing importance of connectivity and sophisticated underwriting capabilities
- Increased stickiness of customers

How emerging innovations may transform the future market landscape (cont'd)

4. Commoditisation of risk

Insurance policies will become increasingly commoditized as risks are reduced and homogenized



*Digital
Distribution*



*Sharing
Economy*



*Peer-to-
peer
Insurance*



*Self-
Driving
Cars &
ADAS*



IMPACT TO INCUMBENTS

- Reduced ability to differentiate
- Increased importance of value-add services
- Margin pressure and erosion of premiums
- Growing significance of scale and expense ratios

How emerging innovations may transform the future market landscape (cont'd)

5. Unpooling of risk

Insurers' ability to pool risks across customers will decrease as customers become more informed about their risk levels



*Digital
Distribution*



*Machine Learning
& Big Data*



Internet of Things



IMPACT TO INCUMBENTS

- Emergence of self-insurance models, increasing average risk levels of available demand
- Pricing sophistication becoming a necessity from a competitive advantage today
- Growing importance of scale for pricing flexibility
- Profitability driven by long-term customer retention

How emerging innovations may transform the future market landscape (cont'd)

6. Separation of origination from underwriting

Origination activities may be separated from underwriting risks as more efficient providers of risk capital that specialize in investment activities enter the market



*Digital
Distribution*



*Peer-to-
peer
Insurance*



*Proliferation of
Third Party
Capital*

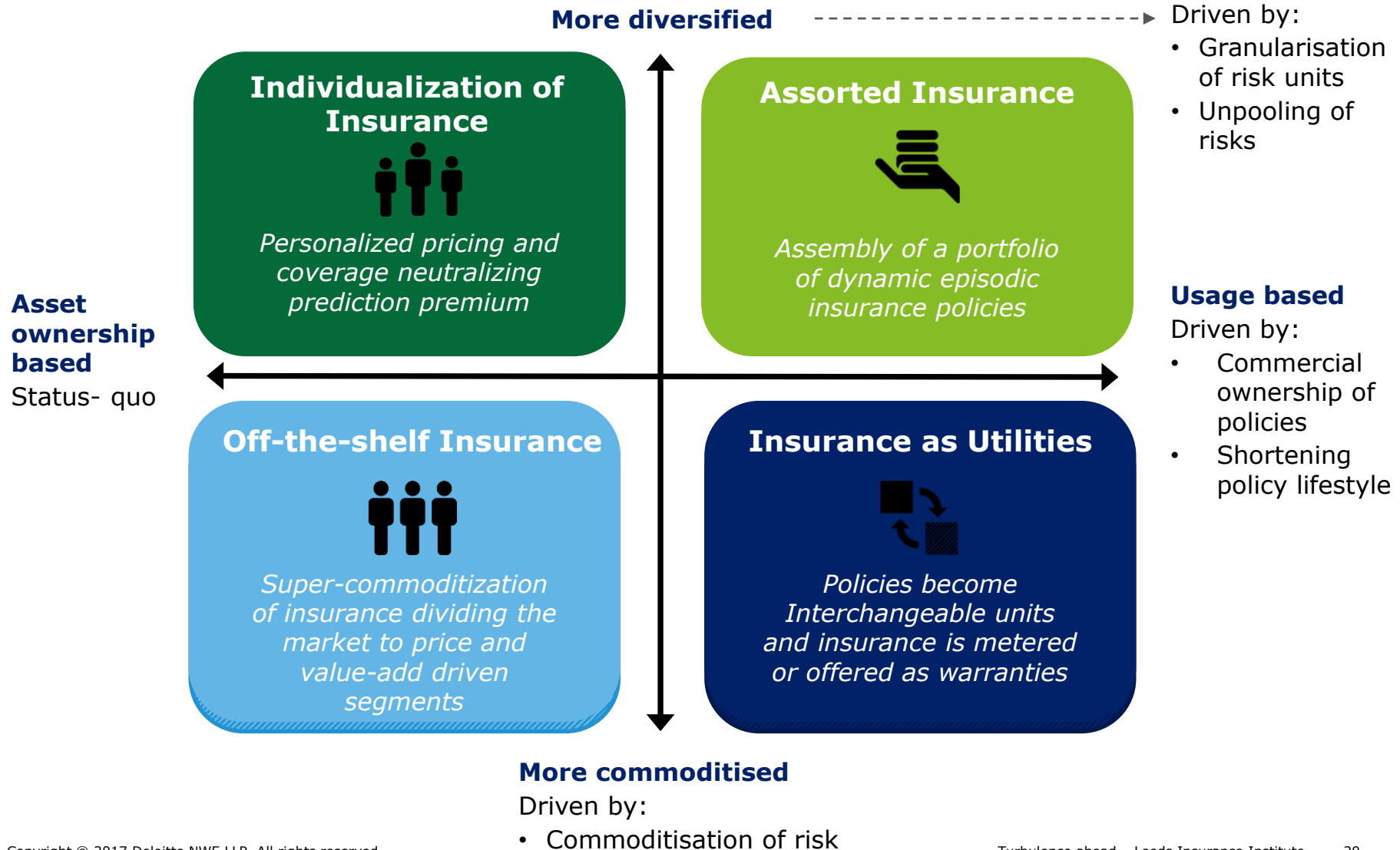


IMPACT TO INCUMBENTS

- Diversification of insurance value proposition
- Fluctuation of competitive dynamics
- Downward pressure on rates
- Increased participation of commercial and reinsurers in personal insurance

The future of general insurance offers four likely scenarios

How will the nature of risk change? How will policies be owned and consumed?



Closing thought

We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction.

Steve Jobs, Co-founder of Apple

TURBULENCE AHEAD

The future of general insurance





This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London, EC4A 3BZ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

© 2017 Deloitte LLP. All rights reserved.