ITONICS

# PLUGGED IN

## B2C Insurance in the Digital Age

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# EVOLVE. CHANGE. DISRUPT.

*We live in a time of unparalleled change. There is an undeniable shift in the world that has resulted in both big stakes to be won and an incredible urgency to not be left behind.*

Insurers are navigating a volatile world, competing to withstand economic uncertainty, political instability and new business, investment and regulatory conditions that have emerged from the financial crisis. The industry, however, is evolving. With high technology adoption, data streams are multiplying — and as consumers are increasingly plugged in, new opportunities are emerging.

By considering these new shifts from the consumer's perspective, insurers can better anticipate and plan for change.

Those with the courage to innovate will shape the sector's long-term future and differentiate themselves as sector leaders.

This report unpacks **B2C insurance in the digital age**, exploring contemporary trends and future scenarios to uncover innovation opportunities across all horizons.

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# HOW WE DO IT

*The complexity of the 21st Century calls for a holistic approach to end2end innovation management. Linking trends, technologies, and weak signals to innovation roadmaps, ITONICS supports strategic planning for cross-sectoral product, technology and resource management.*

By combining profound industry know-how and scientific expertise, the ITONICS trend management methodology provides the foundation to the development of disruptive innovations. Based on an 'outside-in' analysis, our research takes the impact of global social, technological, environmental, economic and political factors (STEEP) into account.

Through the rigorous contextualized environmental scanning and AI-driven trend scouting made accessible through our modular software suite, we explore more than 30 trends that are impacting insurance. In determining the future of **B2C insurance in the digital age**, we synthesize our extensive research and trend content and consider new frontiers – extending our imagination to the future. Benchmarking industry knowledge with strategic foresight, we examine the interplay of not-so-distant realities. By arriving at plausible scenarios, we uncover how these connections will influence the industry.

Adopting an 'inside-out' approach, we detail the implications for innovation. Evaluating the impact of these different scenarios on sector-wide strategies, we identify potential whitespaces that will help innovators engage in authentic dialogue with consumers and realize winning strategies. To leverage these insights, we provide an adaptable framework of recommendations and highlight the changes incumbents could make to avoid risks and maximize opportunities.

# HOW TO READ THE REPORT

1

## Evaluate the current state of the industry

Setting the scene, we provide an overview of the **change in the world** with a specific lens on the insurance sector. We look to disruptive forces impacting the insurance industry in 2020. Consider your organization's status in the context of current events. What are the immediate implications for change?

2

## Explore the changing world from the consumer's perspective

Highlighting key trends at play, we explore six distinct themes as **forces shaping the future of insurance**. We reference pertinent examples where industry players have successfully responded to tangibly demonstrate the maturity of the respective trends. Use all blue hyperlinks throughout the document to better navigate through the report while pink links provide additional external sources and lead you to the ITONICS Innovation Cloud. Sign up to receive free-trial access.

3

## Consider promising innovation spaces

Providing a **snapshot of the future**, we elaborate on plausible outcomes trends and technologies will have as they develop and mature in-market through various scenarios. What does your organization look like in the context of this future? Consider the potential challenges presented by this new world. What opportunities might you leverage to deliver differentiated value?

4

## Apply recommendations to shape the future of your business

Contextualizing the future, we provide **implications for innovation** specific to insurance, indicating tactics incumbents can adopt to remain relevant. Using the framework provided, tailor the recommendations to your specific scope, strategic intent and distinctive capabilities. Boldly innovate to shape the future!

# FOREWORD

The past few months have proven that the future is impossible to predict. We have watched now no-longer nascent trends and technologies we have been tracking for months accelerate to become normalized within weeks. While the forecasts will remain fuzzy, the one thing our current situation can teach us is that preparedness cannot be underestimated.

At ITONICS, we maintain that a clear vision of the future is the key success factor for the development of sustainable strategies in companies and organizations. The uncertainty has underscored the importance of monitoring relevant information to make intelligent connections and consider next-order outcomes. And as history has shown us repeatedly, it is in these times of crisis that creativity and innovation are most critical. Entire industries are having to nimbly navigate a new reality that demands greater agility and strategic direction.

For the insurance industry, it is no different. The challenges the sector presently faces are certainly formidable, but we see compelling transformative upsides ahead for those that dare to innovate. While disruptive technologies hold the prospect of streamlining systems and enabling scalable models to build greater resilience, new competitive forces may evolve the ecosystem entirely through collaborative efforts. Industry leaders will be those that translate even the most daunting threats to present new opportunities.



***We invite you to engage in this dialogue with us and look forward to helping you shape the future.***

At ITONICS, our job has always been to simplify the context of innovation. In the current turbulence of 2020 — even as organizations come to rely more on digital — it is the ability to align strategy and drive consensus for a definitive path to execute against these opportunities that will set the new pace for change.

This report is aimed to equip industry leaders with the tools, insight, and inspiration to see the horizon more clearly, tackle the challenges ahead, and develop cutting-edge strategies to emerge as winners.

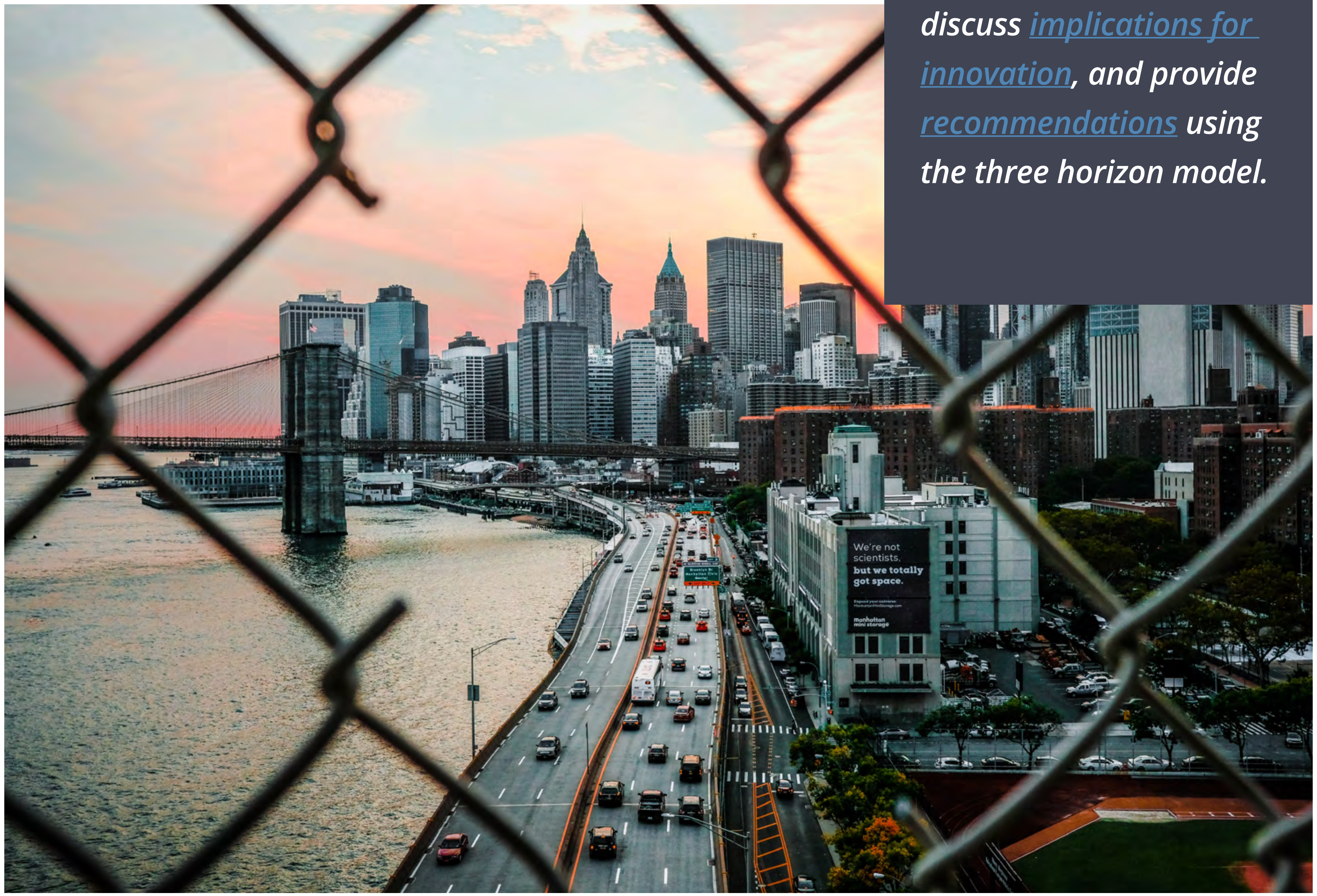
**Dr. Michael Durst**
*Founder and General Manager*
*ITONICS*

# EXECUTIVE SUMMARY

**Like many other industries, the insurance industry is in a state of turmoil. With forces of change including international financial uncertainty, historically low interest rates, the global COVID-19 pandemic, a U.S. election year, widespread social instability, rapidly changing customer demographics and changing consumer life stages, insurers are faced with an "adapt or die" scenario.**

Technology is increasingly shaping underwriting practices, non-insurance products are becoming key differentiators for consumers, and a plethora of new challengers are entering the market, keeping incumbents on their toes. With digital transformation well underway, as well as increased connectivity and data modeling capabilities, risks are changing and opportunities for new value propositions abound. However, regulation is becoming more stringent, and consumer expectations are heightened.

Digital convenience, flexible offerings and personalized service rule supreme. Moreover, with diversity and inclusivity in the spotlight, brands – insurers included – must place greater emphasis on building their communities and addressing their customers' real needs through integrated lifestyle offerings that actively improve their quality of life.




*In this report, we explore six core themes or **forces shaping the future** of insurance, then provide a snapshot of the future, discuss implications for innovation, and provide recommendations using the three horizon model.*

# FORCES SHAPING THE FUTURE OF INSURANCE

## I DIGITAL TRANSFORMATION

*will shape the customer experience*

Digital transformation in the insurance industry is no longer a pipe dream. With the help of easily implementable technological innovations like application programming interfaces (APIs) and business process automation, even incumbents weighed down by outdated legacy systems can board the digital transformation train, leading to seamless user experiences that offer consumers unprecedented ease of use.

## II DATA MANAGEMENT AND PRIVACY CONCERNS

*will redefine brand-customer interactions*

In the age of the Internet of Things and social media, insurers have access to new data sources that increasingly inform underwriting best practice and allow for more personalized policies and more convenient service. However, this access comes with heighted data privacy concerns and gives rise to the need for meticulous data governance.

## III FLEXIBILITY

*will democratize and disrupt insurance models*

With consumer demographics shifting and traditional life stages being disrupted, there's a growing need for more flexible, more accessible insurance offerings. In response, usage-based insurance options have proliferated, as have modular insurance models that allow consumers to tailor their policy to their unique lifestyle needs.

## IV POSITIVE REINFORCEMENT AND BEHAVIOR SHAPING

*will transform the industry*

The insurance industry is seeing a gradual shift from risk management to risk prevention. With the proliferation of data sources, insurers are adopting strategies like predictive maintenance and behavior incentivization to encourage risk-reducing behaviors like careful driving and healthy habits.

## V HYPER-CONNECTED COMMUNITIES

*will be a key differentiator*

Brands that build highly-engaged communities that unite people around a shared purpose that goes beyond the brand itself foster lasting bonds of loyalty. Moreover, in the wake of various social justice movements around the world, human brands that take a clear stance on current events resonate with consumers with similar values.

## VI LIFESTYLE ECOSYSTEMS

*will drive new revenue streams*

Consumers have come to expect seamless convenience in their interactions with brands, with brand partner networks creating integrated ecosystems that holistically address their lifestyle needs at numerous touchpoints. These types of diversified value propositions are increasingly facilitated by mergers and acquisitions particularly with InsurTech startups that provide incumbents with new technological capabilities.

# SETTING THE SCENE

*Around the globe, a multitude of forces is changing the socio-economic landscape and impacting the insurance industry. Below, we'll discuss some of the changes affecting the insurance market.*

### FINANCIAL UNCERTAINTY

A global pandemic, dramatically fluctuating markets, historically low interest rates, widespread job losses and a U.S. presidential election have created a melting pot of uncertainty which has caused many insurers to focus on underwriting as opposed to investment.

### COVID-19

The COVID-19 pandemic has led to widespread loss of income, and, in many cases there has been litigation and regulatory pressure to attempt to force insurers to pay business interruption policies despite policies not covering government-mandated shutdowns. Meanwhile, social distancing recommendations require businesses to embrace virtual communication technologies.

### U.S. ELECTION YEAR

The impending presidential election in the United States has the potential to significantly impact markets, specifically in the health and technology sectors.

### SOCIAL INSTABILITY

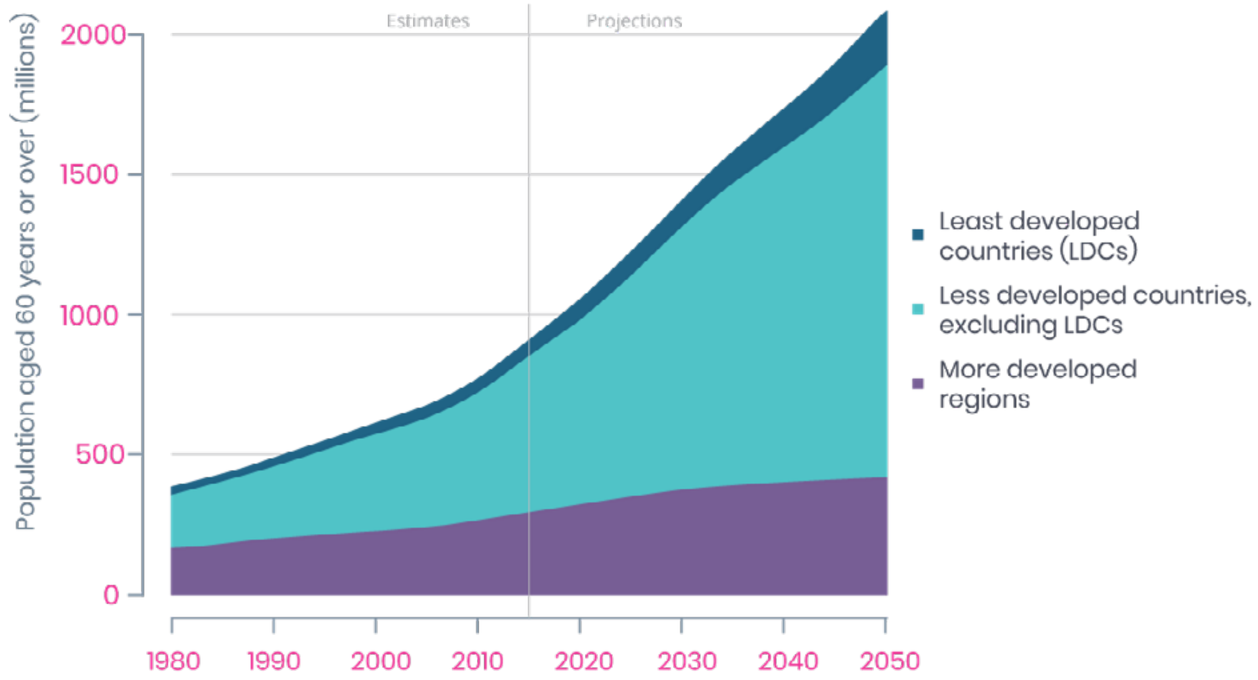
Recent civil unrest and protests in cities across the United States and elsewhere have led to vandalism of businesses, vehicles and homes, impacting sectors such as property damage and business interruption insurance with greater claims frequency.

### CHANGING CUSTOMER DEMOGRAPHICS

Millennials now make up the largest generation in the workforce. A Gallup poll found that millennials are more than twice as likely to buy insurance online as older customers and this number will rise as this generation's spending power grows. Meanwhile, population aging means that Baby Boomer retirement numbers will continue to rise.



Number of persons aged 60 years or over by development group,[1] from 1980 to 2050




*Data source:* United Nations (2017). World Population Prospects: the 2017 Revision.

### CHANGING LIFE STAGES

Millennials and other younger generations are delaying or altogether avoiding traditional milestones like marriage, children, and property ownership. As childfree relationships become more common, greater emphasis may be placed on products such as pet insurance.

### DIVERSITY AND INCLUSIVITY IN THE SPOTLIGHT

Insurers face increasing pressure to actively participate in discourse surrounding diversity and inclusion, for instance through non-racially-biased policies and by covering gender affirming surgeries.

### INCREASINGLY STRINGENT REGULATION

Since the last financial crisis there has been a considerable uptick in regulation of the insurance industry. Legislation including GDPR, PSD2, Solvency II, the Insurance Distribution Directive, MiFID II, not to mention the impending introduction of IFRS 17 in 2021, have transformed the industry.

### OPEN BANKING DISRUPTION

The rise of open banking has led to growing cooperation between traditional financial institutions and FinTech and InsurTech start-ups as well as other third parties, creating a climate of unprecedented innovation in the B2C insurance space.

## NEW CHALLENGERS

The rise of new, more agile and tech-savvy players poses a threat to incumbents weighed down by legacy architecture and bureaucratic decision making processes. Incumbents that don't want to lose market share to more flexible, more convenient and better-priced upstarts need to proactively pursue agile innovation.

## MERGERS AND ACQUISITIONS

Far greater caution is being exercised this year than in 2019, with deal volume and average deal value down from last year. While some sectors, like property, casualty, life and health have seen declines, it's been a record year in terms of InsurTech investments as consumer familiarity with remote technology has skyrocketed.

## TECHNOLOGY SHAPES UNDERWRITING

Automated underwriting platforms use AI applications like natural language processing and text mining to analyze applications without human input. Meanwhile, APIs allow underwriters to access third-party data such as social media data and functionalities such as reporting and data visualization tools.

## RISKS ARE CHANGING

As tracking and predictive technology evolve, uncertainty is reduced. For instance, connected cars have fewer breakdowns and accidents, business interruption is reduced by predictive maintenance, and fitness trackers encourage healthier lifestyles.

## DIGITAL TRANSFORMATION UNDERWAY

Insurers continue to strive to digitize their systems and processes to take advantage of all the technology available to promote resource efficiency while improving the customer experience. Tech industry benchmarks are trickling through to insurance. These include business process automation, cloud deployment, and microservices architecture, not to mention rigorous security protocols such as end-to-end encryption.

## NON-INSURANCE PRODUCTS MATTER

Some 62% of insurers feel that non-insurance products that serve as an extension of core products are the deciding factor for consumers when choosing an insurer.

# FORCES SHAPING THE FUTURE

*We've identified six major forces playing out in the consumer-facing insurance industry.*

## I

## DIGITAL TRANSFORMATION WILL SHAPE THE CUSTOMER EXPERIENCE

**There's a widespread misconception that implementing digital transformation means entirely overhauling your tech stack and that it's wholly incompatible with legacy systems. This is simply untrue.**

With the growing prevalence of microservices architecture, businesses can integrate all kinds of useful software into their systems using application programming interfaces (APIs).

There's a good reason for all the hype around digital transformation, and simple but crucial interventions can lead to massive improvements in operational efficiency as well as exceptional customer experiences.

### *Automate Everything*

Implementing business process optimization by way of automation can have a powerful ROI. Changes as simple as switching to digital forms, adopting electronic signatures, automating data entry, and implementing workflow routing and reminder notifications can have a massive impact on how long it takes to process applications and pay claims – which translates directly into a better customer experience.

Processes that can be automated with relative ease include marketing, customer onboarding, online sales, customer service and various internal processes ranging from HR to finance. Allowing business rules and bots to handle the basic and repetitive tasks frees up staff to focus on more complex and important activities and cases.

U.S. property and casualty insurer Lemonade has made great strides in this arena, digitizing much of its claims process for homeowners. Instead of sending an insurance adjuster to inspect damages and manually process the claim – which can take a long time – Lemonade allows customers to make claims via its mobile app.

Some 30% of claims are handled by the insurer's chatbot, AI Jim, allowing many claims to be reviewed, approved and paid in a matter of seconds – with the help of 18 anti-fraud algorithms.

When it comes to larger or more complex claims, traditional claims practices are still followed, relying on highly trained (human) insurance executives. If the machine thinks your claim is unusual, your claim is redirected to a human.

**ESTIMATED PREMIUMS UNDERWRITTEN BY AI**

**2019:**
**$1.3 billion**

**2024:**
**$20.0 billion**

*Source:* Juniper Research

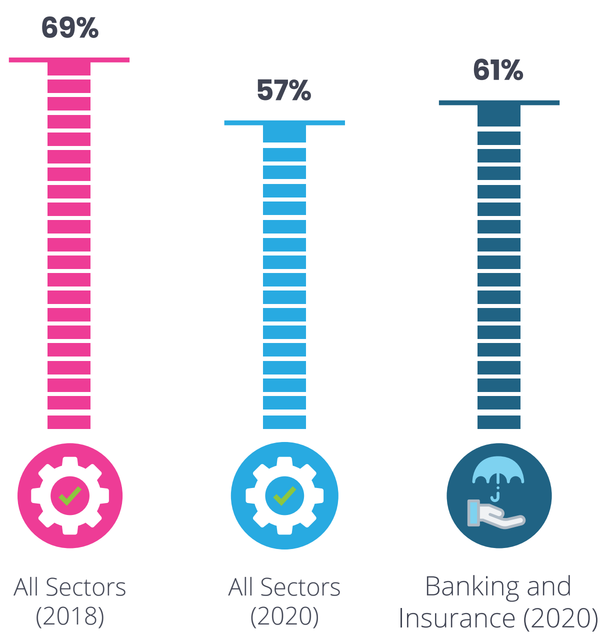
## *Seamless User Experiences*

These days, a convenient and seamless customer experience is no longer a differentiator – it's the norm. This is where Fintechs and InsurTechs have most incumbents beat. While they sell the same products (albeit repackaged as services) and often charge more for them, they draw consumers in through simple, user-friendly customer journeys.

User experience is everything: the number of clicks (or taps) it takes to sign up, the number of documents needed to verify one's identity, the ease of finding the information they seek, the time it takes to resolve queries. In an era of sky-high customer expectations, the insurer that lets customers use smartphone photos or biometrics to fulfill KYC obligations is the one that wins.

Interestingly, studies have shown that as AI acceptance has grown as a result of COVID-19, satisfaction levels have decreased. It's speculated that this is due to higher customer expectations and a desire for more human and personalized interactions.

Customer satisfaction with AI interaction has fallen since 2018




***Source***: Capgemini (July 2020), The Financial Brand



***Seamless customer experiences come down to more than implementing some back-office automation and a chatbot or two. Personalization and omni-channel support are part and parcel to catering to the modern consumer's user experience expectations.***

Insurers need to invest in understanding – and mapping – the various digital journeys customers take to arrive at their product. More than that, they should use the technology at their fingertips to understand their customers' individual intent and needs at the different stages of the sales funnel and respond accordingly. With a half-decent marketing strategy and a good CMS and CRM system, personalized communications are entirely within reach, even for the most monolithic insurers.

## *Related Trends*

### Flexible Workplace »

The nature of work is changing, with a growing number of companies offering flexible work hours, remote working, and new types of benefits. Meanwhile, on-demand employment has evolved to become a larger part of the economy. Self-employment and freelancing is on the rise, driven by a desire for the flexibility to find a balance between career and lifestyle. The post-pandemic era is likely to see an increase in remote working, freelancing and other flexible work models facilitated by technology.

### Black Mirror

It is estimated that we will spend 41% of our lives in front of a screen, amounting to some 21 years! Omnipresent screens or "black mirrors" have influenced how people behave, interact, speak and curate their lives – both as content creators and consumers. With the proliferation of screen culture, consumers have instant access to information and high expectations of user experience design and anticipate ease of use and constant availability.

### Seamless Customer Experience

A seamless customer journey offers an integrated, accurate and responsive experience, creating frictionless interactions with companies. Good customer experience (CX) is intuitive, interactive and problem-solving, reflecting the same brand experience online and offline and across channels to create omnichannel solutions. Seamless CX demands minimal effort from the user.

II

# DATA MANAGEMENT AND PRIVACY CONCERNS WILL REDEFINE BRAND-CUSTOMER INTERACTIONS

**Insurers are finding that by using new sources of data, they can clean up the risk assessment process – for instance through shorter, simpler application forms. Insurers can now use the massive quantities of data at their disposal to pinpoint life insurance customers' risk levels with fair accuracy – and price premiums accordingly.**

With robust analytics models, insurers can save a lot of time and money and offer customers faster turnaround times, greater convenience, and even cheaper premiums.

For example, "no-exam" policies that are purchased without a physical exam and have traditionally been more expensive (less health information = greater risk) can now be made more affordable by integrating personal health information from third parties (such as health-tracking apps, social media, browsing history, prescription history, etc.) with the customer's consent.

## *Data Privacy Concerns*

While using personal data may make insurance cheaper and more widely accessible, its use raises privacy questions. In the wake of the 2018 Cambridge Analytica scandal and various public data breaches in recent years, consumers are increasingly skeptical about how companies use and secure their data.

Consumers now want to know exactly what type of data is being collected, how this data will be used, which third parties it may be shared with, and how (and for how long) it will be stored. And perhaps even more importantly, what security measures are in place to secure this data from cybercriminals.

In usage-based automotive insurance, policies are based on driving behavior. But in order to create this driver profile, the vehicle must be tracked continuously via telematics, which some consumers find overly invasive. While some insurers don't collect location data, others, like US insurer Root, do (except in California).



While consumers are willing to give up a surprising amount of their personal data in exchange for personalization, convenience or discounts, it seems that for many, geolocation data is simply too sensitive. As usage-based insurance gains mainstream adoption, these consumers may face increasingly disproportionate premiums for refusing to give up their privacy.

In some cases, the question of data privacy becomes even more fraught, as in the case of "interactive healthcare policies" that mandate the sharing of health tracking data. For instance, John Hancock's 2018 announcement that it would only sell interactive policies going forward, means all its customers are required to share their fitness data with the company.

Another data-related pitfall insurers need to take care to avoid is the issue of algorithmic bias that may lead to discrimination based on factors like race. Data veracity is also a troubling issue when considering discrepancies in data collected by fitness trackers, for instance.

## *Data Governance*

In this increasingly data-driven industry, insurers will need to comply with ever-more stringent data ownership and privacy regulations.

Europe's General Data Protection Regulation (GDPR) made waves across all industries since its 2018 implementation, forcing businesses to be more transparent about data use and giving consumers unprecedented ownership of their data, including the right to be forgotten.

In the United States, consumer data protection legislation has lagged behind Europe, but that's gradually starting to change. California's California Consumer Privacy Act (CCPA) came into effect in January of 2020, with other states expected to follow suit with their own consumer privacy laws. Health information has long enjoyed protected status under HIPAA regulations in the U.S. but with the rapid rise of the use of video conferencing tools and telehealth apps, it's more critical than ever that covered entities including health insurance providers ensure that their use of these technologies complies with regulations, particularly when it comes to security.

It's incumbent on insurers to offer customers complete transparency regarding the use and security of their data. Additionally, giving policyholders more control over their data, such as the option to 'be forgotten' by deleting their data after the initial trial period may make consumers feel more comfortable sharing their data, allowing forward-thinking insurers to differentiate themselves.

## *Related Trends*

### Data Security

With heightened awareness of the dangers of cybercrime and increased data privacy regulation, businesses are under growing pressure to ensure the security of their customers' data. Organizations that store and transmit identifiable consumer data are turning to advanced encryption, AI and other security protocols to comply with stringent security standards outlined by frameworks such as SOC 2 and ISO 27001.

## Data Ethics

In recent years, commercial and political entities alike have faced controversy over their use of consumer data and lack of transparency regarding data practices. As a result, there is a growing debate concerning data governance regulation and the privacy rights of individuals. Businesses are increasingly being held to higher standards in terms of how they use the consumer data they have access to.

## Radical Transparency

With a rising trust deficit and increasing access to information regarding companies' business practices, people are demanding greater transparency. In the context of data governance, consumers expect businesses to be entirely forthright about their data collection, storage, sharing and security practices.



# III

# FLEXIBILITY WILL DEMOCRATIZE AND DISRUPT INSURANCE MODELS

**Consumer lifestyles and life stages look very different now to how they did twenty or thirty years ago, and insurance models would be wise to take this into account and provide products that fit into modern consumers' lives. Today's consumer comes armed with information and choice, and has high expectations when it comes to finding products that serve their needs perfectly.**

In response, a growing number of insurers are adopting new, flexible business models that take personalization to a whole new level, offering policies and pricing to suit the needs and lifestyle of the individual.

## *Usage-Based Insurance Boom*

Usage-based insurance models allow users to toggle their coverage on and off as and when they need it. For instance, South African Naked Insurance allows its customers to pause their accident cover if they won't be driving their car – while remaining protected against theft, hail and other "stationary risks".

We'll get into behavior shaping in the next section, but it's worth mentioning that usage-based insurers like Root base their policy prices almost entirely on their customers' driving behavior. Similarly, San-Francisco-based Metromile bases rates on how many miles the customer drives on average, which is ideal for urbanites who only use their cars for weekends away. Under the restrictions COVID-19 has placed on movement, this type of flexibility has been a huge advantage for cash-strapped consumers.

## *Modular Models*

A growing number of insurers including Progressive, GadgetBuddy and Uswitch are also offering insurance for (portable) personal electronics like laptops and mobile devices like tablets, e-readers and smartphones that are typically not covered by home insurance because they're used on the go. This modular approach makes insuring these pricey devices more feasible for younger, underinsured cohorts.

Meanwhile, travel insurance offerings for on-the-go consumers such as digital nomads are gaining traction. For instance, SafetyWing's policies are priced on a sliding scale according to the customer's age, the length of their travels, and the countries they will visit on their travels – policies are significantly higher when they include the U.S.!

**23%** *of **premium volume in 2018** came from new value propositions that didn't exist five years prior.*

## *Related Trends*

### One Size Fits None

There is a growing demand for more inclusive offerings that are designed to meet the unique lifestyle needs of every individual. Modular, customizable product and service options are increasingly replacing generalised cover-all approaches. These tailored offerings – and personalized marketing – attempt to serve even the most nuanced individualistic requirements.

### Product-as-a-Service

There is a growing preference for consumers to access products instead of outright purchasing them. Simultaneously, circular business models invite businesses to increasingly move toward access over ownership models as a means to design waste out of the system.

This market push-and-pull has seen offerings evolve to provide Product-as-a-Service.

### Lifestyle Changes

As ideologies evolve and traditional life stage milestones change, lifestyles such as multi-generational living, blended families, nomadism, coliving and other alternative lifestyles become the norm. With widespread unemployment and increased financial strain, many individuals's lifestyles are shifting not out of choice but from necessity.





# IV

# POSITIVE REINFORCEMENT AND BEHAVIOR SHAPING WILL TRANSFORM THE INDUSTRY

**With all the behavioral data made available by the Internet of Things, a growing number of insurers are focusing on risk prevention instead of claims mitigation. With proactive monitoring and predictive maintenance, insurers are able to reduce claims significantly.**

What's really interesting is that numerous insurers are starting to apply this same principle to human behavior and using subtle (mostly benevolent) manipulation tactics like gamification and incentivization to promote healthy behaviors and reduce risk.

## *Prevention vs Cure*

One way of reducing risk – and reducing claims volumes – is through sensor-equipped devices like Water Hero and Gem Sensor that are attached to water mains to detect water flow anomalies before they become serious. This is crucial considering ***around one-third of all household claims are related to leaks.*** If unusual water flow is detected, the customer and/or insurer is alerted and can arrange preventative maintenance – or even turn off the water remotely.

Smart home security systems like SimpliSafe not only protect homes from break-ins and losses but can also help prevent flood and fire damage by detecting leaks and smoke. In the U.S. insurers like State Farm and AmFam use premium discounts to incentivize clients to use NEST devices to monitor their homes for risks.

## *Incentivized Behavior*

Prevention remains the best cure, not just for home security but also in other markets like vehicle insurance. As mentioned in the preceding theme, a growing number of insurers are adopting telematics and rewarding their customers for safe driving behavior or driving less. Also known as "black box driving," this type of usage-based insurance collects data about the customer's driving habits. Many providers offer users prompts and tips to help them improve their driving, which can lead to discounts on their premiums.

The health and life insurance sectors are also increasingly rewarding customers for healthy behaviors, for instance by incentivizing customers to track their activity levels through fitness wearables.

South Africa's Discovery Vitality is a shining example of how insurers can encourage healthy behavior through incentives. Using a combination of discounts and rewards through its robust partner network, Vitality's gamified points system rewards healthy habits like exercising, buying healthy food and going for regular health checkups; safe driving through vehicle tracking; and its newly launched "behavioral banking" offering promotes financial health with preferential interest rates.

Tools like gamification, real-time prompts and reminders, and short feedback loops can help insurers to move away from being reactive and become proactive in promoting desirable behaviors instead.

## *Related Trends*

### Experience As Currency

People increasingly value experiences over possessions, collecting and sharing them to express their individuality and signal status. Companies are catching on to the idea of experiences being used as social currency and tapping into individuals' experimental nature to create novel and memorable engagements by which to grow stronger brand relationships.

### DIY Wellness

Individuals are embracing preventative care, self-monitoring, and holistic wellness to keep their bodies in check. With the help of tracking technologies such as fitness wearables, consumers are embracing ways to improve their personal consumption and lifestyle habits, including those related to sleep, food, exercise and mood management. This proactive approach boasts the potential to mitigate rising health care costs in the long run.

### Behavior Shaping

Drawing on the principles of behavioral economics, organizations are increasingly using "nudges" to positively influence customer behavior. This choice architecture alters people's behavior in a predictable way without forbidding any options or significantly changing their economic incentives. To be effective, interventions must be accessible, affordable and easily fit into consumers' lifestyles and reward their behavior in ways they find appealing.



# V

# HYPER-CONNECTED COMMUNITIES WILL BE A KEY DIFFERENTIATOR

**Despite whatever anyone may say about people today being antisocial or disconnected, humans are essentially social creatures. Our social nature is the reason we've survived this long as a species. It's also the reason we're so spectacularly bad at social distancing.**

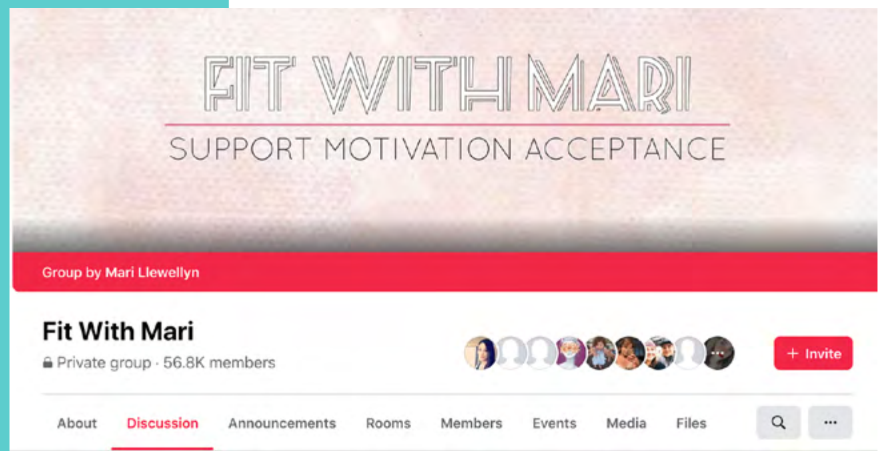
People need people. Despite all our technology and individualism, at heart, humans still need their tribes – and it shows in the ways we behave online as well as offline.

Savvy brands know this and take advantage of this fact, building tight-knit brand communities around shared purpose and passions. While insurance as an industry may not be famous for its loyal brand communities, the companies that get it right will truly stand apart from the rest.

## *Community Matters*

While traditional rewards such as discounts, freebies and access to exclusive experiences are strong incentives, the power of social status should not be underestimated as a motivator. For many consumers, a supportive community can be motivation enough to live a healthy lifestyle. One need only look at the business models of successful fitness influencers to see the power of uniting consumers around their common goals.

As an example, consider weight loss guru Mari Llewellyn, who has built a thriving supplements company on the strength of her Instagram and Facebook community. The secret of her success – of any successful brand community's success – is that it's not about the brand so much as the community. Llewellyn herself rarely interacts with her community beyond her routine public posts – it's not about her anymore.



While her followers are there because they use her products (fitness guides, workout gear and nutritional supplements), most started following her because her own personal fitness transformation inspired them. They stuck around because they find a community that motivates and supports them, giving advice, cheering on one another's victories and commiserating when they encounter obstacles to meeting their goals. Participants proudly wear merchandise that marks them as members and Llewellyn's supplements routinely sell out within hours of restocking, with community members ardently sharing photos of their "haul."

Building strong customer communities online and offline can be a distinctive differentiator for insurers that get it right. For social, slightly competitive consumers, interactive leaderboards and public recognition of their achievements can be motivation enough – all while serving the purpose of promoting behavior that reduces risk.

## The Rise of Human Brands

In the face of wave after wave of social justice movements around the world, brands increasingly face scrutiny with regards to their socio-political standing.

Politically active new generations of consumers expect brands to put their money where their mouth is when it comes to addressing issues like racial and gender-based discrimination. Empty, performative statements and ad campaigns can do more reputational harm than good if not backed by real action, as many companies discovered in responding to the Black Lives Matter movement.


In this climate, brands that stand for positive change and support causes consumers care about will continue to win market share, and in an industry that often lacks substantial differentiation, aligning with customers' ideals can be a game-changer. Lemonade's popular peer-to-peer insurance model features a Giveback feature that works like this: the company pools all members' premiums together and takes a fixed percentage to cover operating costs, pays claims from the pool, and donates the balance of the pool to charity at the end of the year.



# LEMONADE'S GROWTH SPEAKS FOR ITSELF:

Lemonade ARR (in $m) by Quarter


*Source*: Lemonade (November 2019), Zero-to-100 Million in 3 Years

## Related Trends

### Purposeful Practices

A growing cohort of consumers actively seek to support responsible corporate citizens whose social, political and environmental values and priorities align with their own. People increasingly choose to support — and work for — companies whose practices reflect their own values and individuals now expect brands to take a stand and clearly articulate their vision and mission.

### Broadcast Self

Leading a large proportion of their lives online, it has become commonplace for individuals to use social media for personal branding and self-promotion. Individuals meticulously select the information, experiences, and aspirations to be shared on social media; using digital content to socialize, network, express themselves and earn money.

### Digital Campfires

A new generation of social media users are dismissing the endless friends list in favor of more intimate connections with a select few. While social platforms like Facebook are promoting the use of closed private groups, emergent closed networks have started to form. As people shift into tight-knit, like-minded niche groups, brands are starting to develop more intimate communities that facilitate genuine connections among their users.

# 6

# LIFESTYLE ECOSYSTEMS WILL DRIVE NEW REVENUE STREAMS

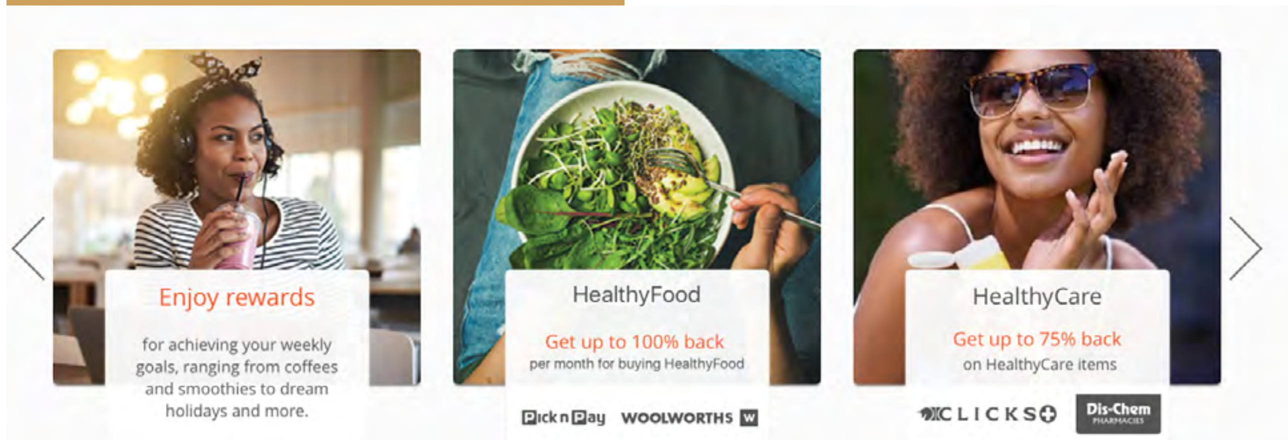
**Insurers increasingly seek to transform their offerings into integrated ecosystems with multiple touchpoints that holistically address consumers' lifestyle needs. As such, it's becoming more common to pivot in new directions and launch complementary products. This kind of integration has the added benefit of allowing insurers to access and utilize data across multiple services, facilitating more personalized customer solutions.**

Allowing customers to effortlessly switch between related services and benefit from rich partner networks – without needing to navigate a variety of different portals – can profoundly impact product stickiness by allowing insurers to become integral to the customer's life.

## *Partnerships Pave the Way*

The beauty of such ecosystems is that the insurer doesn't actually need to own or operate the individual components of the ecosystem. Instead, insurers can win through targeted partnerships and brand collaborations with companies that serve their customers in other sectors.

In this arena, Discovery's Vitality program is an absolute market leader. Its Vitality rewards program uses customer goal setting and incentives to interweave its health, vehicle and life insurance products, as well as its recently launched behavioral bank. Discovery Bank customers who maintain a high financial health score benefit from lower service fees on the company's other financial products such as retirement annuities.

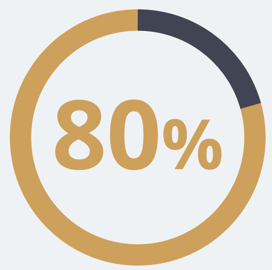





Meanwhile, Discovery's partnerships with gyms, supermarkets, pharmacies, sports apparel, fitness trackers, healthy takeout companies and more create a tightly interwoven ecosystem of points, tangible rewards, discounts and cashbacks.

The system feeds itself, because once a customer has signed up for one product, it becomes increasingly clear that it's in their best interest to sign up for additional products because their interconnectedness unlocks greater value in the form of savings.

*According to recent research by Accenture,*




*of insurance executives acknowledge the importance of **ecosystems** as part of an overall **digital strategy**.*

## *M&A Fuel Innovation*

With ever-rising consumer expectations, and the role of technology in insurance expanding, incumbents must adapt or die. Luckily for companies hindered by legacy architecture, mergers and acquisitions with innovative InsurTech startups are all the rage. While current global conditions have adversely affected M&As around the world, bringing deal volume down to the lowest levels since 2013, the InsurTech sector has continued to thrive.

In the wake of COVID-19, the way policyholders interact with insurers has changed, dramatically accelerating the need for smart digital solutions that facilitate fast, remote-enabled service delivery. For some organizations, addressing this gap necessitates making deals with InsureTech companies.

Recent deals have included Cigna's partnership with tech-driven health insurer Oscar to provide health plans for small businesses with the support of Oscar's digital capabilities.

Meanwhile, workers' compensation InsurTech Pie Insurance has raised $127 million, with investment from Greycroft, Gallatin Point Capital, SVB Capital, Elefund, Sirius International Insurance Group, Ltd. and Aspect Ventures.

Analytics InsurTech CLARA Analytics recently raised $25 million. Its clients include Amerisure, QBE Insurance, Berkshire Hathaway Homestate Companies, and EMC Insurance. Similarly, AI-based data analytics platform InsurTech Planck raised $16 million in a Series B round that included Nationwide.

## Related Trends

### Diversified Value

The boundaries between industries are blurring, where brands can be anything; banking links to lifestyle, art to entertainment, and online to retail. Organizations are extending their existing business models and core capabilities to reach new customers or markets and ensure longevity. Due to technological advances and companies' converging value propositions, many businesses are venturing into seemingly-unrelated revenue streams in order to remain competitive and serve people's lifestyle needs more holistically.

### Brand Collaboration

As consumer choice continues to grow, value expectations heighten, causing brands to strive to differentiate themselves and find new audiences. A common strategic response is collaborating with other – sometimes wholly different – brands for campaigns and limited-edition product runs. These initiatives allow brands to leverage one another's credibility and gain traction in new markets.

### Collaborative Commerce

In response to rising consumer expectations, brands are partnering to develop strategic alliances that let them create novel products and services, with the intention of gaining a competitive advantage in the market. In these instances, companies with compatible values come together to co-create offerings, leveraging one another's assets or audiences to accomplish a common goal. These partnerships often lead to greater profits and market share while adding value for the consumer.



# A SNAPSHOT OF THE FUTURE

*COVID-19 has brought on a tsunami of uncertainty and its wake will leave individuals to seek out simplicity across all aspects of their lives. Intermediaries are forced to transition away from face-to-face interactions to compete for customer interaction by adopting an integrated multi-channel approach.*

## NEW WAYS OF DIGITALIZATION

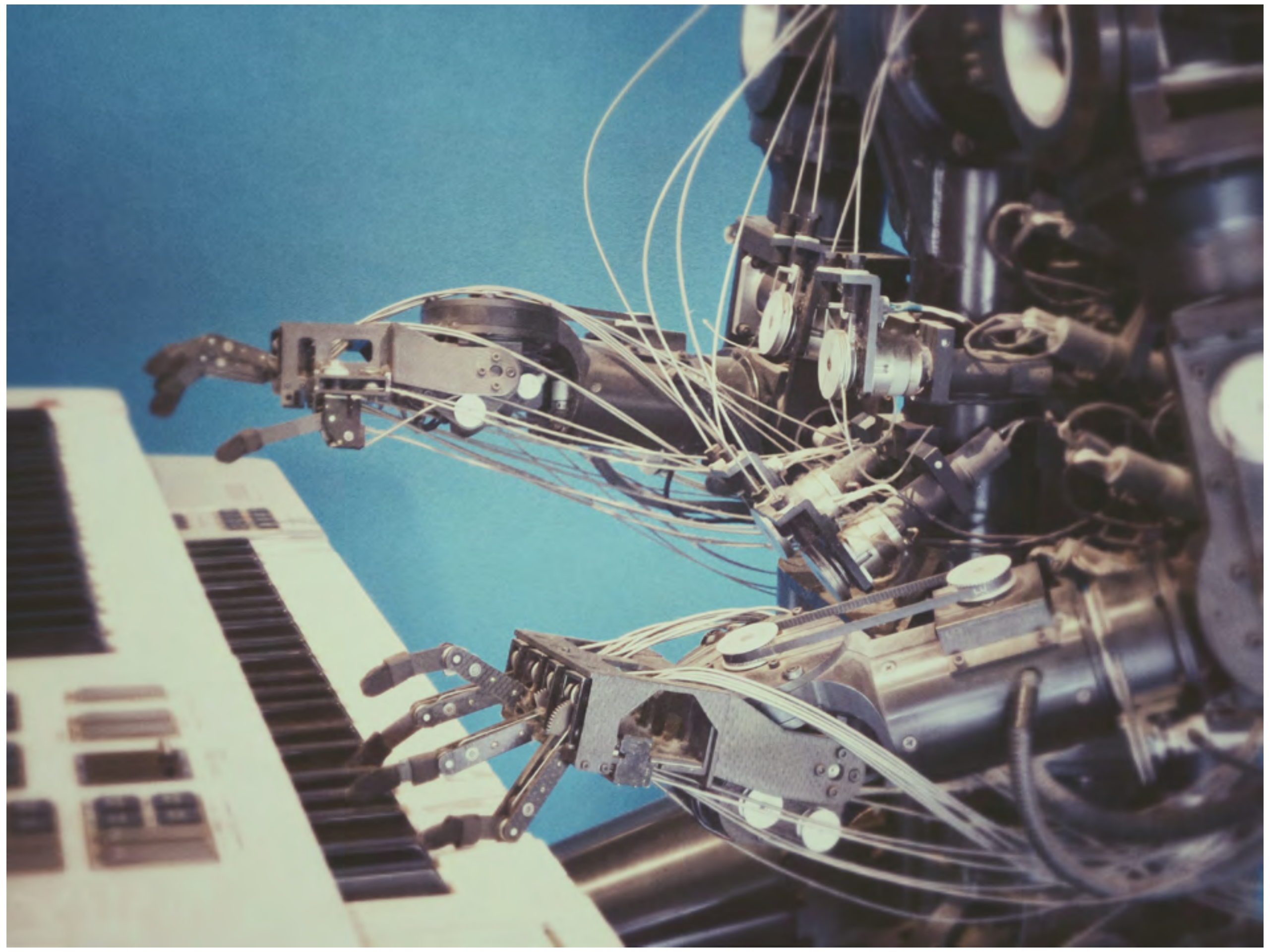
The exceptional circumstances of lockdown protocol have accelerated the demand for seamless customer experiences (CX), inviting a new wave of digitalization. Industry-wide distribution models have transformed to offer streamlined integration, embracing business process automation (BPA) to unify communications and improve every touchpoint of the customer journey.

Omnipresent screens or “black mirrors” now influence how people behave, interact, speak and curate their lives – both as content creators and consumers. They also serve as the primary interface for engagement.

Finding comfort from the confines of their own homes, consumers start to rely on digital kinship more heavily. Smart Home systems, concierge services and chatbots edge towards human-like intelligence, disrupting current distribution models to offer consumers greater opportunity to buy from carriers directly. Emerging mobility technologies, including unmanned aviation devices (in this case, drones), are revolutionizing the way property is assessed for risk.

Within these new digital ecosystems, consumers are increasingly faced with robotic responses. As capabilities evolve to meet AI aspirations, most manual tasks – as well as a growing list of cognitive tasks such as those pertaining to customer service roles – become automated, diminishing the gap between human and machine competence. Mindful of data



security concerns and skeptical of brands’ associated intentions, consumer demand for a human-centered approach to business grows.

## THE RISE OF EMPOWERED CITIZENS

After years of social and political instability, and born of a deeply polarized society, Generation Z activists fight identity politics, using platforms such as #BlackLivesMatter to challenge how societal structures like finance and education function. In the context of data breaches, hacks, corruption and scandals, there is a disillusionment with formal institutions and a revolt against antiquated ways of thinking. Amid the shift from top-down institutional dominance, individuals and groups take a stand against social inequality in their capacity as empowered citizens; some from the comfort of their homes while others protest in the streets. With consumers’ digital identities embedded online, questions arise around issues like data ownership and algorithmic bias.

## THE LIFEBLOOD OF THE FUTURE

As autonomous, data-driven decision-making increases across all industries, the potential damage due to bad data translates to an enterprise-level existential threat. Data veracity is secured through measures such as biometric signatures. These modalities offer access and authorization to highly sensitive information – from health records to financial applications – anchoring personal data to a unique identity en masse. Consumers demand radical transparency from brands and only relinquish their privacy to those that have strict policies in place to ensure that it is securely stored, protected and managed.

Through quantum cryptography, accumulated sensitive data is protected against the threat of decryption. Self-adaptive security measures extend into AI, analyzing and offering full disclosure of AI's decision-making process to ensure the ethical use of consumer information.

As the lifeblood of the future, technology enables advanced early warning systems and new risk transfer/sharing mechanisms to reduce potential losses. To manage the ever-changing demands of consumers' lifestyle changes, sensor-based communication technologies and the IoT connect incumbents directly to their consumers' world. Advanced predictive personalization and optimized cost models enable single-click-based policy issuance and claims management along with recommendation engines. These advise customers on which products they should purchase and when, including customized pricing based on health status, lifestyle and driving data.

Progressive insurers iterate and evolve the quality of product-as-a-service value propositions and overall business models almost in real time. Sophisticated transformation and analytics models reach a tipping point where no further information




can be extracted and all key decision-making has been automated; providing incumbents with the opportunity to shift to prevention and productivity gains.

## THE CONCIOUS CONSUMER

Leveraging location and proximity technology, brands embrace behavioral economics to serve relevant, contextual and personalized rebates and incentives throughout the consumer journey, shaping behavior to achieve mutually-beneficial results and drive proactive health Enforcement. DIY wellness occupies center-stage as consumers seek out communities and living environments that support both physical- and mental wellbeing and governments implement ambitious policies and industry regulations guided by health priorities.

Consumers strive to keep up with the new non-negotiable digital dimension of their lives, curating elements of their broadcast self find deliberate and genuine connections that add value to their lives. Brands collaborate closely with celebrities and influencers who are no longer reliant on third-party social media platforms or algorithms but make use of owned platforms – digital campfires – where they foster strong community bonds.

Through 5G, accelerated processing speeds enable live-streaming platforms as an extended reality and continual form of engagement. Video conferencing platforms evolve to offer virtual events augmented through haptic feedback. Individuals, communities, governments and businesses, immersed in new virtual worlds, connect deeply across networks in entirely new ways. Portable medical devices and Telemedicine are commonplace while new points of connectivity create a seamless, symbiotic network between our bodies and the digital world.

Human-digital connectivity extends beyond handheld devices and wearables through applications like fashion and body

modifications to support embedded health monitoring. Individuals turn to nanotechnology-enabled devices to track and stream vital internal health data and healthcare systems have been democratized to offer quality services at accessible rates.

### SUSTAINABLE TRAJECTORY

As technological-, legal- and behavioral barriers subside, the informal economy is formalizing through innovation. Infrastructure providers are now able to reach traditionally excluded populations, unlocking the economic potential of a formerly invisible economy. The boundaries between industries continue to blur, creating a space where brands can be anything. Organizations extend their existing business models and core capabilities to converge comprehensive offerings and achieve diversified value; venturing into seemingly unrelated revenue streams in order to remain competitive and serve people's lifestyle needs more holistically.

The regulatory climate improves with greater harmonization across countries, leading to standardization across products and practices. Emerging markets relax their restrictions, easing the entry and control of developed market insurers into emerging markets. New emerging market insurers move into developed markets and become global businesses.

Consumers engage with businesses based on values rather than value and only brands that lead purposeful practices beyond commercial success prevail. Disillusioned by the unsustainable growth trajectory previously expected of unicorns, collaborative commerce sees "zebra" startups balance profit and purpose, champion democracy, and put a premium on sharing power and resources. New ecosystems emerge to offer greater shared value.



# IMPLICATIONS FOR INNOVATION

*Though there is no certainty in what will happen next, looking to the future allows time to envision new eventualities and possibilities. We believe that the competitive landscape will change fundamentally in years to come. To remain relevant, insurers must consider the following implications for Innovation:*

## A

## THE CRISIS WILL CONTINUE TO PUT PRESSURE ON PERFORMANCE

Already pressurized, the underperformance of the insurance sector has widened as a result of the pandemic. The projected post-crisis climate will add a level of complexity that most management teams have never had to face before. The unclear medium-term outlook will require carriers to innovate and develop new value propositions for their customers.

Digital technologies provide new opportunities in multiple areas, while smart M&As hold the prospect to streamline portfolios for changing market conditions. According to BCG, investment in a value protection strategy alongside a clear, collaborative acceleration roadmap is critical to survival. For incumbents to withstand the crisis – and in turn transition to deliver greater shared value – they must realign innovation priorities and build consensus across their organizations.

## B

## THE BENEFITS OF DIGITALIZATION CAN NO LONGER BE DENIED

Performance is no longer simply correlated to digital investment, but is rather seen to be a direct outcome of innovation investment. Digitally mature organizations surpass lagging peers on several differentiating metrics, including cost reduction, client satisfaction, and revenue growth.

Robust technology R&D and implementation pipelines will not only serve to reduce costs but also improve performance, customer acquisition and retention.

Digitized claims processes and robotics have shown to lower costs by 20-40%, while delivering productivity enhancement. Companies that fail to adopt developing and advancing technologies such as AI and blockchain will be left behind by the time fully autonomous releases appear. Innovators must accelerate the early identification of game-changers such as signals, novel technologies and trends, patents, and market activities to gain competitive advantage.



## C

## THE PRACTICE OF INNOVATION MUST REMAIN INHERENTLY HUMAN-CENTRIC

While established players hold dominance in developed economies, new markets are opening up to challengers who are able to build digital-first infrastructure from the outset. While technology serves as a primary enabler to modernize complex legacy systems and enable new offerings, these strategies have their limits. There will be a tipping point where greater differentiation will be needed to secure loyalty.

Looking forward, industry leaders that want to deliver a new era of value creation will have to evolve to establish authentic, emotional connections with customers. To deliver true value, keeping the customer at the center of these developments is key. And, in an increasingly dynamic world – where innovation opportunities are endless – maintaining a focused and balanced innovation portfolio is essential. An integrated view of all data points and activities not only allows for stringent planning and implementation of innovations but grounds efforts in validated insight for strategic buy-in.

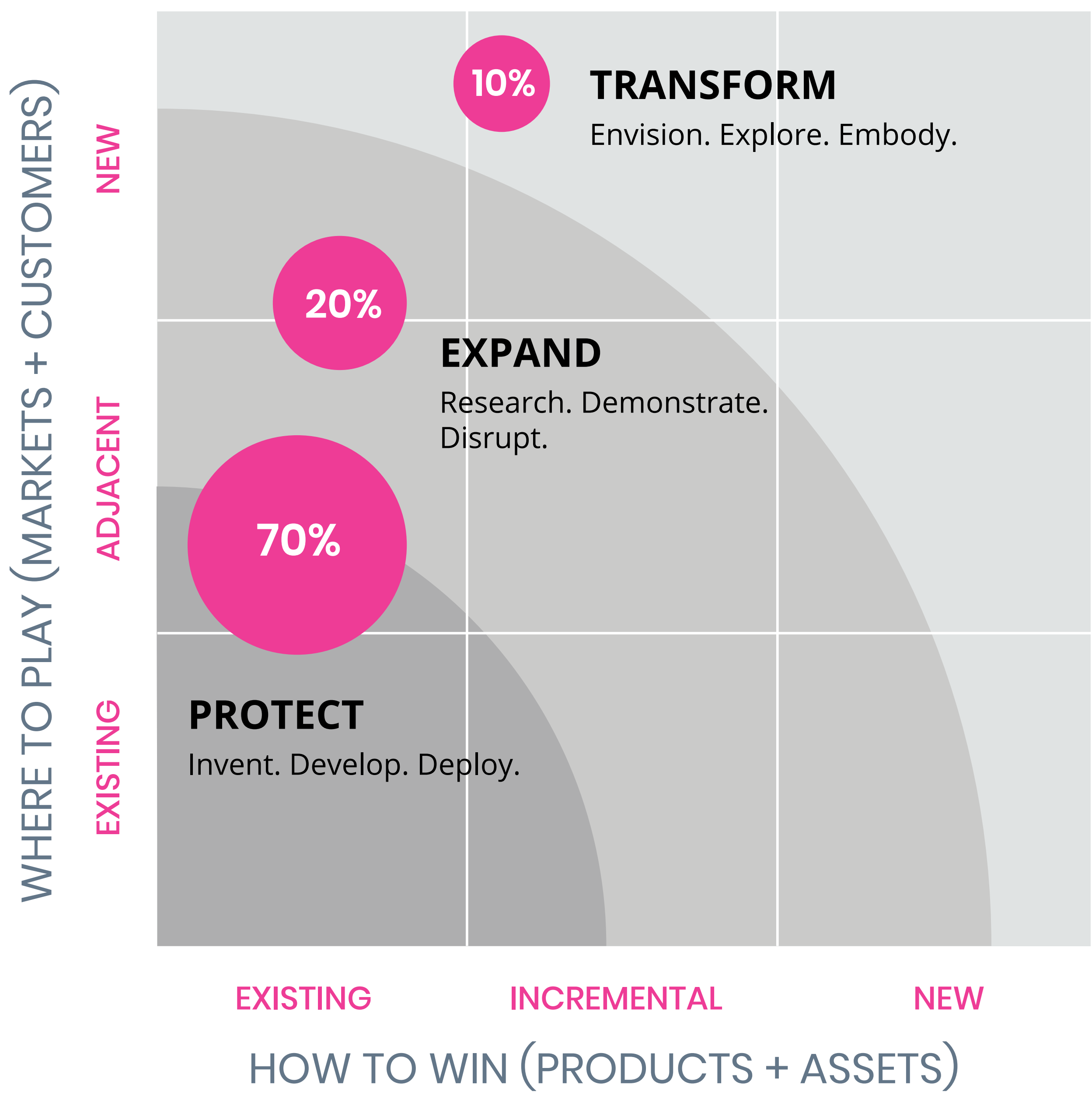
# Recommendations

*In order to respond appropriately to these implications for innovation, innovators require the right set of tools to determine their next steps.*

Using the three horizon model, we have identified broad strategic directions that incumbents could take to balance innovation portfolios. To do this, we have plotted key trends and technologies along the three horizon framework to highlight the potential they might hold if explored through innovation efforts.

While the highlighted trends and technologies impact all insurers globally, they hold various levels of maturity across different markets and organizations. The course insurers choose to take will depend not only on their targeted audience, but also on their strategic intent, available resources, structured capabilities, and organizational culture. Keeping the 70/20/10 model front-of-mind, innovators must intuitively and collectively assess priorities based on internal dynamics.

| ***Protect*** | ***Expand*** | ***Transform*** |
| --- | --- | --- |
| *How can we defend/ex-tend existing business?* | *How can we ensure growth & organization-al renewal?* | *How can we seed options for future transformative growth?* |
| **Incremental Innovation.**<br><br>Focus on operational performance to build resilience and enhance operational efficiencies. | **Innovate Beyond the Core.**<br><br>Focus on leveraging core capabilities in-cluding talent,capital, product portfolios, and customer understand-ing to move into adja-cent and similar mar-kets around the globe. | **Breakthrough Innovation.**<br><br>Focus on building ro-bust R&D pipelines, new product innovation and analytical decision-mak-ing techniques to dis-rupt the status quo. |
| ***Consider*** | ***Consider*** | ***Consider*** |
| Scaling capabilities across a broad market by finding agility in operations, technol-ogy and information to deliver operational excellence. | New geographies, new customer segments for existing products, and/or new distribu-tion channels to reach customer segments. | Using unstructured real-time data to draw operational and stra-tegic insights and go beyond NPD to create value-added loss control and risk management services and adapt offerings to suit local needs. |




***Note:*** *The golden ratio for a balanced innovation portfolio can be expressed with the 70/20/10 model. 70% of a company's portfolio and budget allocation should, therefore, be aimed at protecting and maintaining the core business. Innovation efforts regarding "new" projects count for around 20% of the company's portfolio. 10% is recommended to be of a transformational character and new to the market - so called moonshots.*

# WITH DISRUPTION COMES OPPORTUNITY

Irrespective of their current position, incumbents need to anticipate the implications for innovation internally and adapt to offer new, differentiated value. Whether you are a personal, commercial, individual life and annuities, group benefits, or retirement provider, the insights outlined in this report hold relevance to be embedded in future business models and strategies.

But how? Leverage the insights by applying them to your business context - what other factors play a role for the growth of your company? Compile all the information in your own trend radar, evaluate it and find the growth opportunities that create value for your business in the future. Plan your way forward by steering future developments and technologies within strategic roadmaps. Provide transparency across teams, units, and organizational structures - and enter a new era where change becomes the common ground.

*Perhaps many fear that the outlook is particularly challenging in the situation of a global pandemic and falling economic conditions, but the current upheavals, risks and disruptions should be taken as a catalyst for opportunities and positive change.*

# ABOUT ITONICS

ITONICS is a leading SaaS provider of growth-driven innovation management. Together with our clients, we shape the future.

Our data-driven platform combined with a systematic framework to steer innovation efforts helps companies to identify emerging technologies, trends and market potentials and to translate them into customized growth strategies.

Supported by artificial intelligence, companies can manage their entire innovation process in a modular software suite to efficiently achieve their business goals and remain future-proof.

Working with global teams to innovate new products, services and business models, ITONICS professional services inspire, guide and accompany organizations on their innovation journey.

ITONICS was founded in 2009 and today employs more than 100 experts on 3 continents. Almost 500,000 users worldwide rely on our expertise, including innovation leaders such as adidas, Audi, CISCO, DZ Bank, Intel, Johnson & Johnson and SAP.

*As a strategic partner to key market players across all industries, we systematically advance the topics of innovation, strategy and digitization.*

# LET'S TALK!

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LET'S TALK

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