Connected Insurance

Our view about the Italian Market
Connected Insurance: Opportunities and challenges for the Italian Insurance industry

The insurance industry has to cope with increasing challenges and complexity: growing competition, new “digital native” phenomena and stronger pressure on profitability. This is the scenario depicted by Strategy& “Connected Insurance” study.

In this context however, many emerging digital levers can support the Industry in transforming emerging threats into tangible opportunities: e.g. Robotic Process Automation, Artificial Intelligence, Internet of Things, Blockchain, Analytics.

The Internet of Things (products, tools, sensors, services, people and organizations, which connect and communicate with one other) is the main and most disruptive factor, able to value and activate all the innovation levers. The adoption of Internet of Things enables a new way of writing Insurance, especially for the Motor, Home and Health business lines: the Connected Insurance.

The expected Compound Annual Growth Rate (CAGR) for the period 2017-2022 of global cross-industry Connected Car revenues is around +24%. Focusing on the Insurance field, service and pricing models are already becoming significantly sophisticated.

In the Smart Home area, home devices expected growth rate for the coming years (CAGR 2015-2019) is +50%. Also for Connected Health a strong growth is foreseen: for example, the number of sold wearable devices will triple by 2019.

The adoption of IoT product paradigms enables significant benefits, both in terms of efficiency and growth. For example, market experiences and adoption cases in Motor field already show Insurers can reach benefits around -20% in MTPL claims frequency. A potential loss reduction of -40% is also expected for Connected Home insurance.

Connected Insurance

In recent years, all industries (including Insurance) are adopting IoT technologies to evolve within increasingly competitive markets. In the Insurance field, Motor was the precursor, with Home and Health as the next frontiers.

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<tr>
<th>Connected Car</th>
<th>Smart Home</th>
<th>Connected Health</th>
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<tr>
<td>+24%</td>
<td>+50%</td>
<td>3X</td>
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<tr>
<td>Growth in global connected car revenues (CAGR 17-22)</td>
<td>Smart home devices expected growth rate (CAGR 15-19)</td>
<td>Number of sold wearable devices (15-19)</td>
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<td>Pricing models and services are currently evolving and becoming more sophisticated</td>
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<td>First cases that pave the way for possible winning models</td>
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A new ecosystem

IoT management requires to look beyond the design and management of policies: it is now necessary to orchestrate an extended value proposition. "Do basics well" is no longer enough.

For this reason, Insurers must evolve in an ecosystem logic, regardless of the role they will assume: ecosystem orchestrator/ hub or specific services carrier.

Motor business line

The Motor line of business has started to leverage Connected Car as a competitive lever, in order to better manage its current customer base and improve profitability. The ongoing initiatives are already reaching significant benefits along the entire value chain, reinforcing risk rating/ pricing capabilities, developing new and more customizable products, reducing claims cost and frequency, reinforcing selective retention.

Around 50% of Italian players already offer Connected Car solutions. In a crowded arena, more customer engaging/ behavioural pricing models, service range extension beyond “core Telematics” and quickly evolving connectivity technologies will become the main competitive factors in the medium term.

Home and Health business lines

In the Home and Health fields, the aim is to achieve new customers/markets, in order to grow in these historically under penetrated areas. This process is still in its initial phase. Key success factors will be extension of the offering through non-insurance services, activation of cross-industry ecosystems and partnerships, development of enhanced customer engagement models to improve risks and reward good behaviour, adoption of “open” technologies (in terms of devices and platforms).
The Italian Insurance industry: the main business challenges "in a snapshot"
The Italian Insurance market continues to show slack and steady performances.
P&C is suffering from a 5-years shrinkage path, especially in the Motor business, due to increasing competitive and price pressure.
The Life business, usually fluctuating following capital markets, is also expected to slow down and to decrease in 2016. Overall profitability still remains below pre-crisis levels. In this difficult situation, the competitive game is becoming more and more challenging due to new phenomena and worsening factors, both exogenous and endogenous.

In a "steady performances" scenario, the competitive arena displays increasing challenges and complexity.

Some cases

Main issues

Increase in competition and market contestability

- Price war in Motor and increasing churn
- Digital giants and InsurTech start-ups entering in the market
- Digital brokers increasing their distribution share
- Motor, Home and Health ecosystems becoming contestable

Growing pressure on margin

- Fraud and claims cost/frequency to be kept under control
- Costly and not effective distribution model
- Volatile capital markets and interest rates

Some threats and weaknesses

Section 1 – Italian Insurance industry: the main business challenges “in a snapshot”
How can Digital address current market challenges?

However, in such a hectic context, many emerging digital levers can support the Industry in transforming emerging threats in tangible opportunities to re-shape its business model, paving the way for a new relevance and a pivotal role for Insurers.

**Increase in competition and market contestability**

1. **Go Digital**
   *Design a “digital retailer” Company*
   - Evolve your offering, from core insurance policies towards not insurance extended services, leveraging the Internet of Things
   - Design ecosystem partnerships, both from commercial and service perspective, to fully exploit the Internet of Things
   - Boost direct/digital distribution channels, integrating them with traditional ones
   - Innovate customer experience in the “moments of truth” (e.g. claims), to address the changing expectations of digital customers
   - Know your customer and customize your offering

2. **Be Digital**
   *Boost operational efficiency, exploiting digital levers*
   - Re-shape claims management, leveraging the Internet of Things to better monitor risks and evaluate occurred claims
   - Reinforce the efficiency in back office processes (e.g. claims, F&A, anti-fraud) leveraging Automation tools (e.g. RPA)
   - Improve the productivity of customer care, exploiting the potential of Artificial Intelligence solutions (e.g. virtual assistance based on chatbot)
   - Boost distribution and sales effectiveness, integrating physical channels in e-commerce funnels

We believe Internet of Things is one of the main levers for transformation and growth of the Insurance Industry.
Connected Insurance: towards a new Insurance business model
Connected Insurance: a new business model enabled by the Internet of Things (IoT)

The Connected Insurance, as an evolution of the Insurance business model, is primarily enabled by IoT technologies that allow the direct connection between all actors of the ecosystem: customers, Insurers and players from other industries.

Internet of Things products, tools, sensors, services, people and organizations, that are able to connect and communicate each other.

In recent years, all the industries (including insurance) are adopting IoT technologies to evolve within increasingly competitive markets.
In Insurance, Motor was the precursor, while Home and Health are the next frontiers

Nowadays, there are 3 main potential areas that are already clear to Companies: Connected Car, Smart Home and Connected Health

- **Connected Car**: +24% Growth in global connected car revenues (CAGR 17-22)
- **Smart Home**: +50% Smart home devices expected growth rate (CAGR 15-19)
- **Connected Health**: 3X Number of sold wearable devices (15-19)

Pricing models and services are currently evolving and becoming more sophisticated.

First cases, with path of adoption not unique.

First cases that pave the way for possible winning models.

In Home and Health businesses, historically under-penetrated, the aim is the achievement of new customers/markets.

In the long run, other P&C no Motor business lines (eg. SME products) and Life business will be impacted by the Connected Insurance model.

Source: Strategy&, analysis and elaboration on BI Intelligence and CSS data.

Section 2 – Connected Insurance: towards a new Insurance business model
**In the Motor field, IoT benefits are clearly emerging along the whole value chain**

The adoption of IoT product paradigms enables significant benefits, both in terms of efficiency and growth. For example, market experiences and adoption cases in Motor field already show Insurers can reach benefits around -20% in MTPL claims frequency. A potential loss reduction of -40% is also expected for Connected Home insurance.

Moreover, Insurers can leverage IoT to become data driven Companies: the proper combination of connected devices/sensors and insured risks/entities enables an exponential increase in customer knowledge available for all the Company functions. Furthermore, the IoT paradigm fosters the quality and the quantity of customer interactions (historical issue of the Insurance industry)

Source: elaboration on ANIA data
**Leveraging and embracing IoT requires Insures to go "beyond the Insurance"**

IoT management requires to look beyond the design and management of policies: it is now necessary to orchestrate an extended value proposition. "Do the basics right" is no longer enough.

For this reason, Insurers must evolve in an ecosystem logic, regardless of the role they will assume: ecosystem orchestrator/hub or specific services carrier.

- Policy structure (modular architecture, packages, ...)
- Coverages (mix of risks and entities to be insured, multi-LoB bundles and incentives, ...)
- Pricing models (discounts for adopting technology, pay-per-use-models, behavioural tariffs, ...)
- Technological devices and intelligent touch points to be properly coupled with insured objects and risks
- IoT, data normalization and business action platforms, to transform insights in real time business decisions
- Additional and value added services, both in insurance and not-insurance perspective, based on collection of data from devices, aiming at engaging customer towards less risky behaviour, rewarding less risky behaviour and serving its enlarged needs (e.g. transport, wellbeing, ...)

Section 2 – Connected Insurance: towards a new Insurance business model
Market leaders could have the ambition to play the role of orchestrator of services/ecosystem hub building alliances in order to pervasively serve macro customer needs (enlarging their core offering) and to get the access to the right technology (e.g. the right devices providers for a specific risk, the IoT platforms to ingest and normalize data).

Moreover, doing business in an ecosystem logic means to reinforce the distribution channels and make the Insurance more relevant for customers: distribution partnerships are one of the most important emerging trends in the financial services industry, as PingAn and Alibaba digital ecosystems clearly show.

Even small, players will need to join the Connected Insurance Ecosystem. They will not be the hub, but they will take advantage of participating as Insurance service providers.
A helicopter view on Italian and international markets
A helicopter view on Italian and international markets

3.1 Connected Car
The Italian Connected Car Insurance arena is one of the most penetrated and developed compared to the main peers

<table>
<thead>
<tr>
<th>Overall &quot;telematic&quot; GWP, € bln</th>
<th>World</th>
<th>Italy</th>
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<tbody>
<tr>
<td>2010</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>2015</td>
<td>8</td>
<td>50</td>
</tr>
<tr>
<td>2020</td>
<td>50</td>
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Motor Telematics is nearly becoming a commodity in the insurance business. The Italian market is one of the most mature in the international benchmark and early embarked on this road due to its historical issues, such as fraud incidence, claims cost and frequency. In such a context, one the most relevant achievable benefit is a -20% MTPL claims frequency reduction.

By 2020 it is expected that in Italy 1/3 of Motor policies will be based on Telematics and that the number of telematics policies will continue to be higher than in the other peer-countries: e.g. ~10 mln vs. ~7 mln in UK and ~3 mln both in France and Germany.

Source: market analysis and elaboration on Ptolemus, ANIA, ACI, Politecnico di Milano data
In a crowded arena, more customer engaging pricing models and service range extension will become the main competitive factors in the medium term.

In terms of services availability, current market solutions are quite similar, offering a wide range of core Telematics enabled services (e.g. e-call, b-call, crash report, geo-localization). Also considering pricing models, if only one year ago the edge of competition was Pay As You Drive scheme (i.e. pay per use), nowadays many Italian players are moving towards Pay How You Drive/behavioural models. Looking forward at incoming trends, we can have a look at foreign markets: they are of course less penetrated, but some best practices are moving faster towards pricing and services innovation.

Source: market analysis on a sample of Companies

(*) Share of overall Insurers offering Motor Telematics
Despite a more limited market penetration, some worldwide best practices are already working on these specific factors

As international best practices show, the key to succeed in the next years will be further pricing and services innovation.

We expect the next step, also for Italian insurers, will be the implementation of more engaging models: for example allowing customers to "touch" benefits and feature of Connected Car policies (Try Before You Buy) or reinforcing customer engagement towards less risky behaviours (Manage How You Drive) by helping them monitor driving styles (e.g. with gamification or enhanced apps).

Moreover, core Telematics services will be not enough: not insurance ecosystem services (e.g. car maintenance programs, concierge, driving courses, fuel cards, highway and parking payments) provided by the ecosystem partners will support Insurers to remain relevant, to better serve broadening customer needs, to further mitigate risks and to exploit partnership as an additional distribution channel.

- **Combinable** and modular motor product
- **Up-front discount** at first subscription
- **Vitality Drive** Programme to obtain:
  - Additional **discounts** on the policy and ecosystem services as rewards of good driving behaviours
  - Additional discounts in case of subscription of other LoB products (es. Discovery Health)
- Motor products with **telematics**
- **PHYD** pricing model, together with customer engagement programmes, such as:
  - Loyalty programmes for **renewal discounts**
  - Gamification and coaching instruments (apps monitoring driving style, target definition, ...)
  - Car related ecosystem
However, in the long term competition, the type of underlying technology will become a more relevant factor.

By 2025 all the sold cars will be natively connected. The growing adoption of the embedded connectivity could foster native partnerships with the automotive industry.

Furthermore, ecosystem services could make another radical step forward, enabling new attractive possibilities for customers, such as policy management via infotainment, e-commerce by infotainment, contextual insurance up/cross selling, predictive maintenance, interactions with assistance via infotainment, owner and driver advanced identification, ...

![Connection type/technology](chart.png)

Source: elaboration on GSMA data
A helicopter view on Italian and international markets

3.2 Smart Home
Despite a great potential, Smart Home struggles to take off

The real estate plays a fundamental role in the Italian economic scenario. Around 60% of overall families wealth is based on real estate (~6,000 € bln). The large majority of Italians are homeowners and a significant share of buildings are in "cat-nat" risky territories. Moreover, there is a strong interest in Smart Home solutions, in order to gain benefits as saving in energy consumption and improvement in home safety and security. Even though these elements depict a significant burning platform for Insurers, the historical barriers are still standing. Household insurance, with few currently available Smart Home solutions, remains untapped.

Source: elaboration on Gartner, ANIA, Banca d’Italia and Politecnico di Milano data
In a highly contestable field, few Insurance players have a Smart Home value proposition, especially with regard to "bancassurance"

Consideration that the penetration of Smart Home insurance in Italy is still in an initial and pilot stage, this field is probably the most contestable within the 3 main areas of Connected Insurance. Many industries are looking at Smart Home, moving from their specific core business. The opportunity for Insurers is that they could be the only players able to combine technology and advanced/broad assistance and protection services. Anyway, the lack of proximity to customer and access to best of breed technologies are threats that need to be addressed, to avoid Digital Giants and Utilities easily win the battle.

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**Highlights**

A. **Traditional insurance offering** (e.g. multi LoB policies for home and family protection, with household liability, fire, theft, assistance coverages), without technology

B. **Utility & TLC companies** offering bundles of energy services and usage monitoring devices

C. **Specialist players** offering home safety & security technologies, coupled with limited assistance services (e.g. teleassistance)

D. **Digital Giants** offering a broad ecosystem of devices and automation/monitoring advanced apps

E. **Insurance First movers**: first bundle value propositions coupling the policy with monitoring devices and advanced assistance services
A helicopter view on Italian and international markets
The Italian Health scenario shows a great potential due to demographic trends, not addressed needs and under-penetration

Three facts depict the unique potential in Italy for Connected Health.
First of all, overall health expenditure is foreseen to grow (especially the private component) due to demographic trends. Moreover, >95% of the 30€ bln of private expenditure, is not efficiently allocated (it is an "out-of-pocket" component, not channelled through Insurers). Finally, there are increasing health needs not yet addressed by the health system: accessibility and prevention.
The results are un-served needs for citizens and a vicious "low mutuality circle" for Insurers: low volumes → low mutuality → low profitability → high premiums → adverse selection. Leveraging the possibility to define customized pricing and attract profitable prospects, to better monitor risks and assess claims, IoT technology can be the "spark" for Insurers to unblock this circle.

Source: elaboration on CSS, CERGAS, ANIA and Europassistance data
Very few Italian Insurers (first movers) have started with some limited and experimental initiatives

The combination of traditional Health policies and technologies is not new in the Italian market. The main players already couple their coverages with e-health medical devices, in order to support the most chronic situations (e.g. home hospitalization).

Nowadays, 3 Insurers have started to define new insurance health bundles, exploiting not only e-health medical tools, but also wearable devices focused on health monitoring and prevention. These propositions are only the first step, but they are actually paving the way for a full exploitation of the potential benefits of IoT. The next steps will be to evolve pricing models towards behavioural frames and to build broad ecosystems of partners to further expand services.

### Highlights

A. **Standard offering with comprehensive coverages**, but standard/not dynamic pricing models and remote medical **technologies** used only for chronic and **dread diseases** (e.g. home hospitalization)

B. **New tech. focused/non-Insurance solutions** for customer engagement *via technology*, often as a pilot strategy for the next stage

C. **New Insurance solutions** which add technologies and **prevention/wellness/monitoring** services to the traditional Insurance offering, addressing emerging Italian citizens’ needs

#### Services

<table>
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<tr>
<th>Technology</th>
<th>Policy + Technology</th>
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<tbody>
<tr>
<td>Limited</td>
<td>Extended</td>
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</table>

#### Offering model

- **A** Italian first movers (3 Insurance Companies)
- **B** Tech. focused solutions (2 Companies)
- **C** Italian standard Health Insurance value proposition (all incumbent and mid-market players)
The international scenario is quite similar but with a rather more innovative value proposition

As for Connected Car, some international best practices are leading the innovation (e.g. Discovery, Oscar, Prudential): broad range of ecosystem services, openness to different wearable device providers and engaging pricing models are the keywords.

| Highlights |
|-----------------|-------------------------------------------------|
| **A** Standard Health solutions | already including apps, devices and some engagement frames, aimed at providing customers benefits in terms of initial discount |
| **B** New tech. focused/non-Insurance solutions | aimed at providing discounts for core health-related services, leveraging connected devices and engagement/gamification programs |
| **C** New Insurance solutions: broad bundles together with an extensive set of devices/services and dedicated engagement programs |

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**Offering model**

- **Limited**
  - Technology
  - Policy + Technology
- **Extended**
  - Technology
  - Policy + Technology

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Section 3 – A helicopter view on Italian and international markets
Connected Health
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