
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.

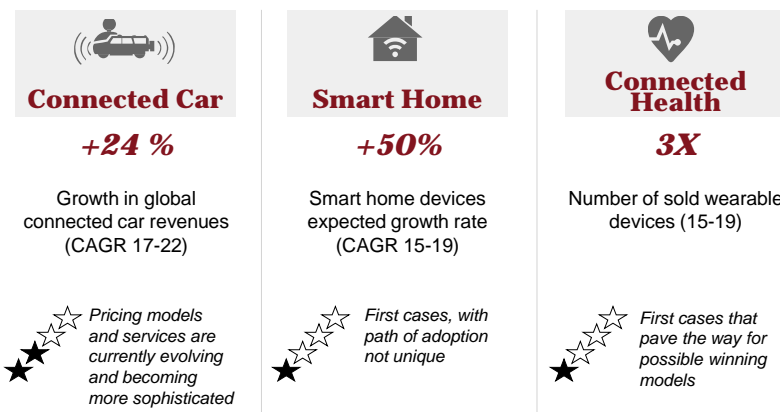
Connected Insurance

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.

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.

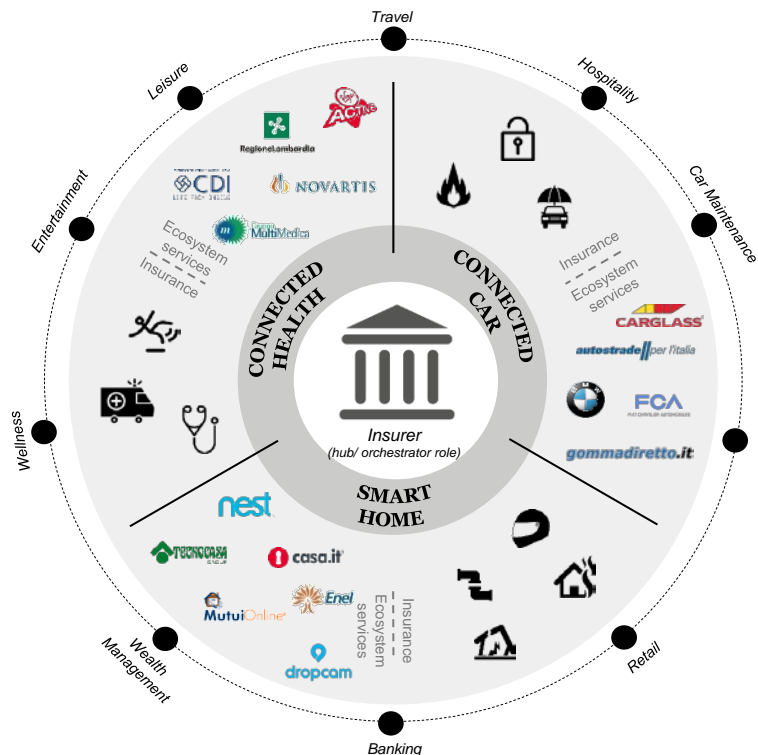
The adoption of IoT product paradigms enables significant benefits, both in terms of efficiency and growth. For example, market experiences and adoption cases in Motor field already show Insurers can reach benefits around -20% in MTPL claims frequency. A potential loss reduction of -40% is also expected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



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"

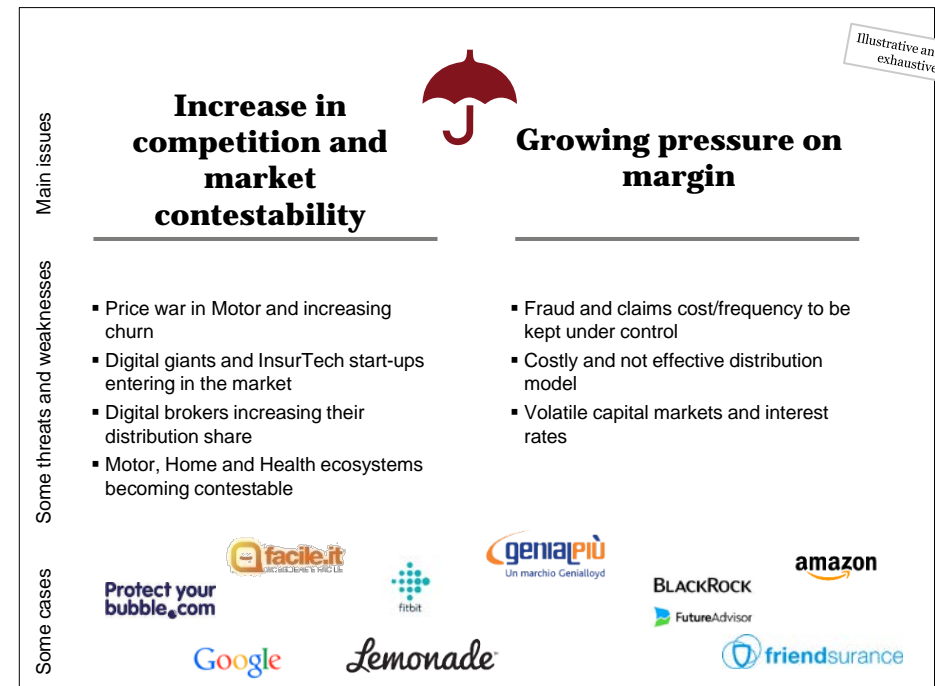
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In a "steady performances" scenario, the competitive arena displays increasing challenges and complexity

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



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



Growing pressure on margin

Business Imperatives to succeed

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***

2

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



Smart Home

Home automation, Internet of Energy, security, entertainment, home insurance, ...



Connected Car

Interactive nav., performance monitoring, proactive maintenance, road safety, security, ...



Connected Health

E-health, monitoring, electronic medical folder, wearable devices, ...



Smart City

Car traffic management, pollution monitoring, smart metering, security, ...



Smart Manufacturing

Smart factory, intelligent plant automation, augmented reality, ...



Connected Public Adm.

Emergency management, e-government, drones, ...

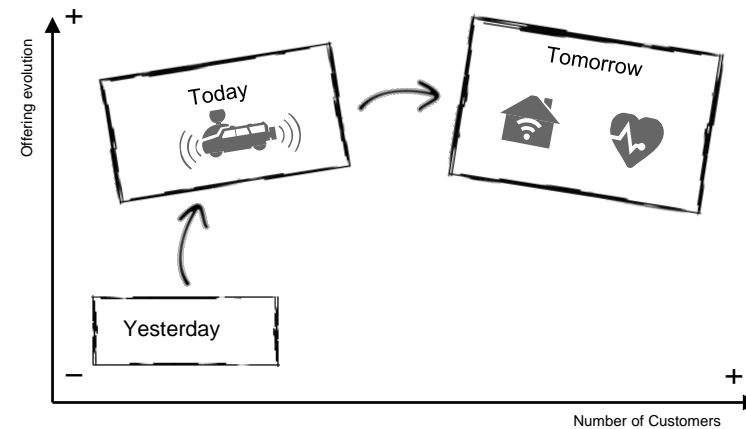
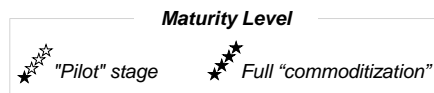
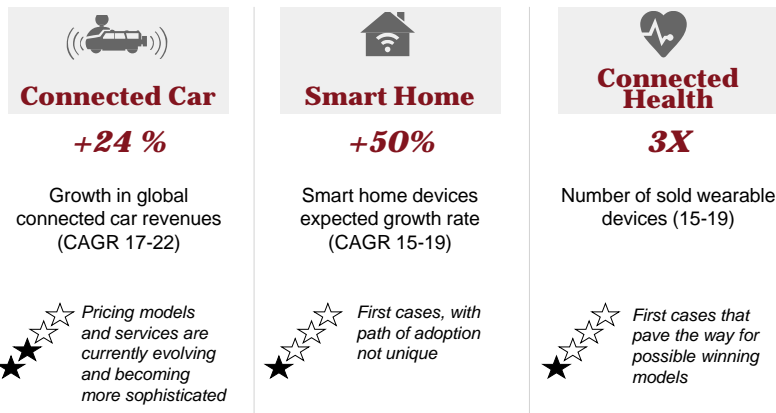
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In Insurance, Motor was the precursor, while Home and Health are the next frontiers

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

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

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



Marketing

- Reinforcement of **engagement levers** of prospects through marketing **Try-Before-You-Buy** models



Products Development

- Reinforcement of **risk-pricing & rating** capabilities, thanks to the availability of real-time data applied on the insured entity
- Enabling of **customized/behavioural tariffs** (e.g. Pay-How-You-Drive)
- Enabling of **micro-insurance and contextual/slice offering** (e.g. "on demand insurance", now profitable thanks to the possibility to control moral-hazard and adverse selection)



Underwriting & Risk Selection

- **Auto-selection of less risky clients**, thanks to the moral suasion carried out by monitoring devices
- Attraction of **digital/young customers**
- Opportunity of growth in **sub-penetrated segments** thanks to customized pricing



Claims & Services

- **Fraud reduction**, thanks to the real time monitoring
- **Loss ratio improvement**, thanks to claims cost reduction (better prices thanks to data) and the claims frequency reduction (moral suasion)
- Enabling broad spectrum of **new value-added services**, thanks to the ecosystem partners and technologies



Renewal & Retention

- Enhancement of **retention levers** for the best customers through dynamic and customized pricing
- Opportunity of selective **up/cross selling** thanks to the deep knowledge of the customer and its context

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

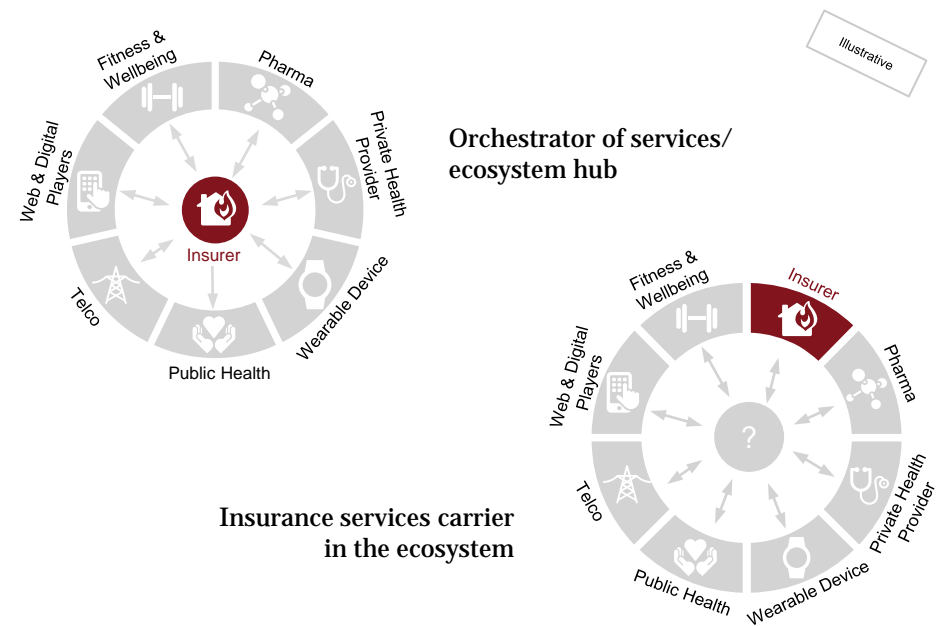
Leveraging and embracing IoT requires Insurers to go "beyond the Insurance"

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



- 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, ...)

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

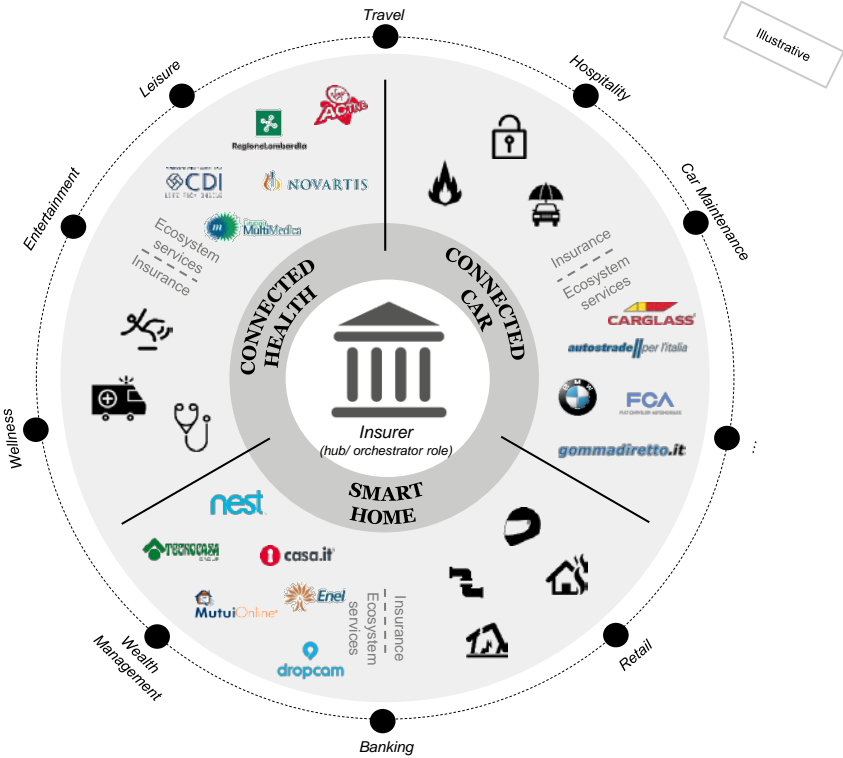


The Connected Insurance Ecosystem

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***

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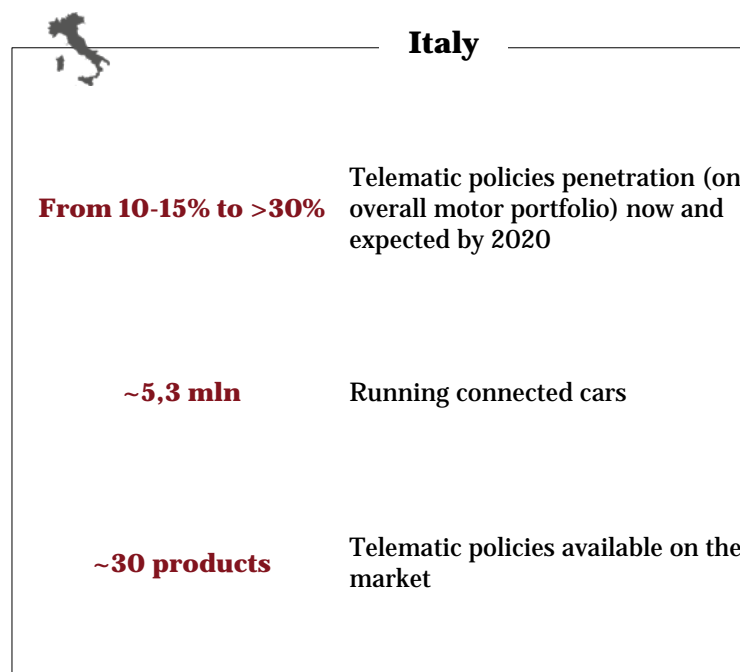
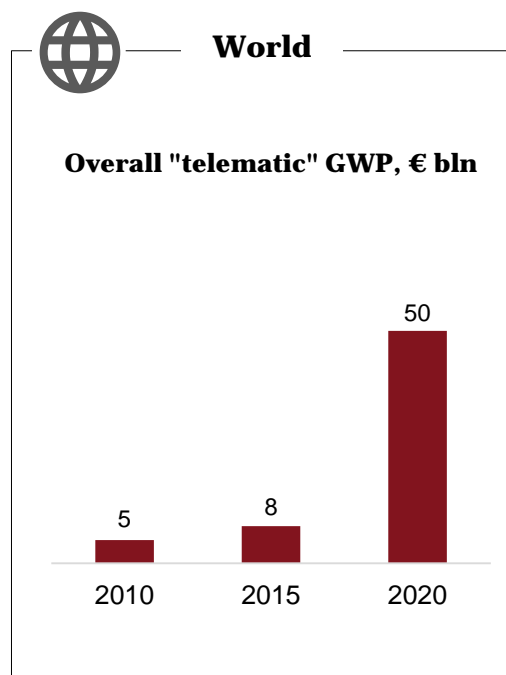
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3.1 Connected Car



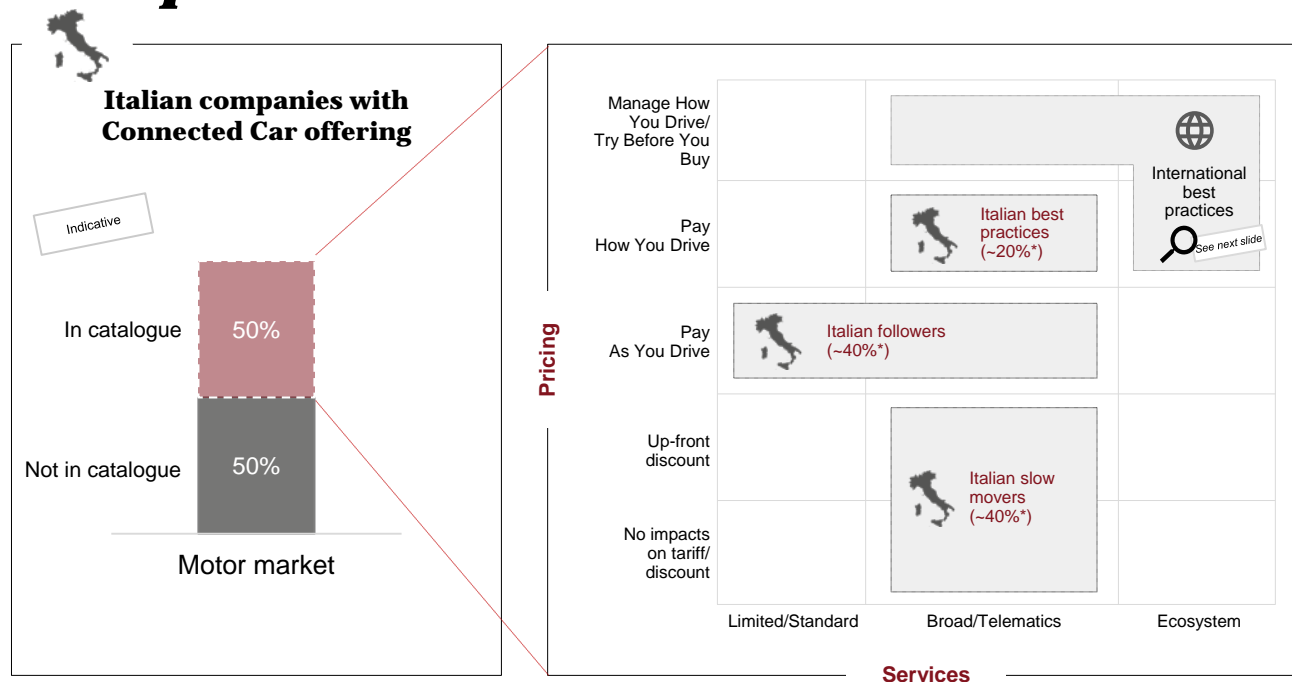
The Italian Connected Car Insurance arena is one of the most penetrated and developed compared to the main peers



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 of the most relevant achievable benefits 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

		<ul style="list-style-type: none"> ▪ Combinable and modular motor product ▪ Up-front discount at first subscription ▪ Vitality Drive Programme to obtain: <ul style="list-style-type: none"> - 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)
		<ul style="list-style-type: none"> ▪ Motor products with telematics ▪ PHYD pricing model, together with customer engagement programmes, such as: <ul style="list-style-type: none"> - Loyalty programmes for renewal discounts - Gamification and coaching instruments (apps monitoring driving style, target definition, ...) - Car related ecosystem

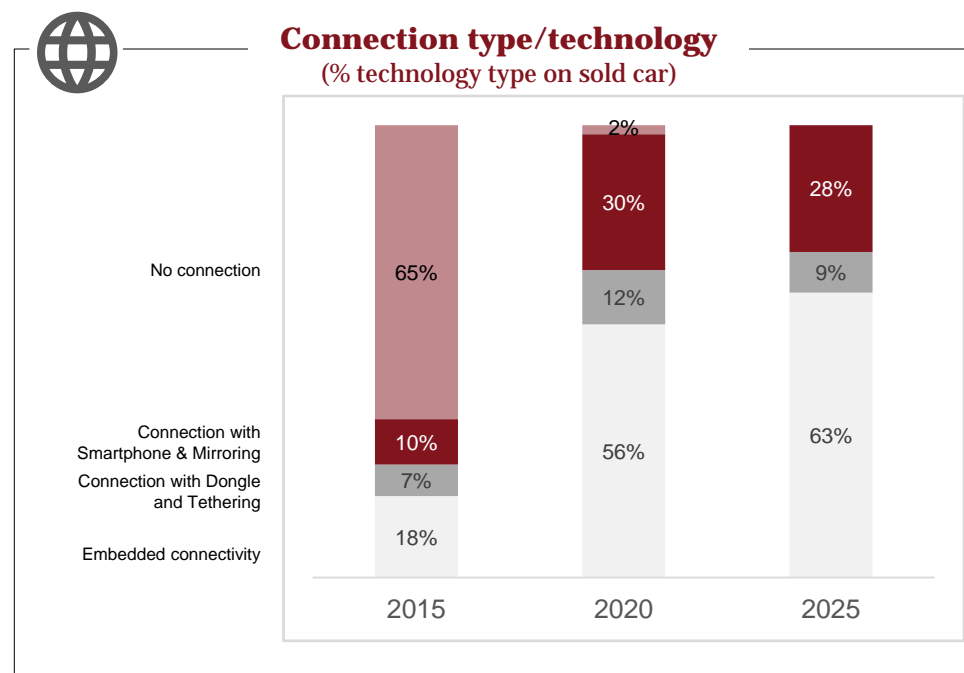


However, in the long term competition, the type of underlying technology will become a more relevant factor

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, ...



Source: elaboration on GSMA data

***A helicopter view on Italian
and international markets***

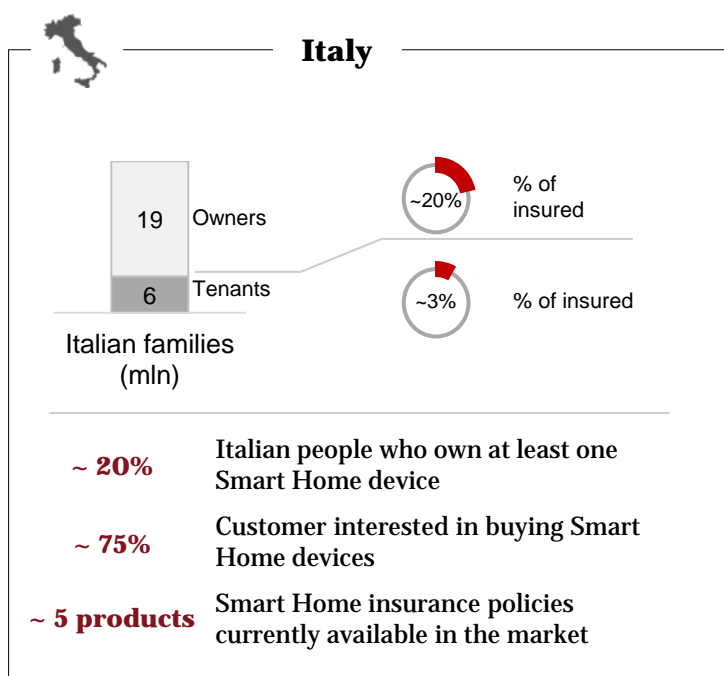
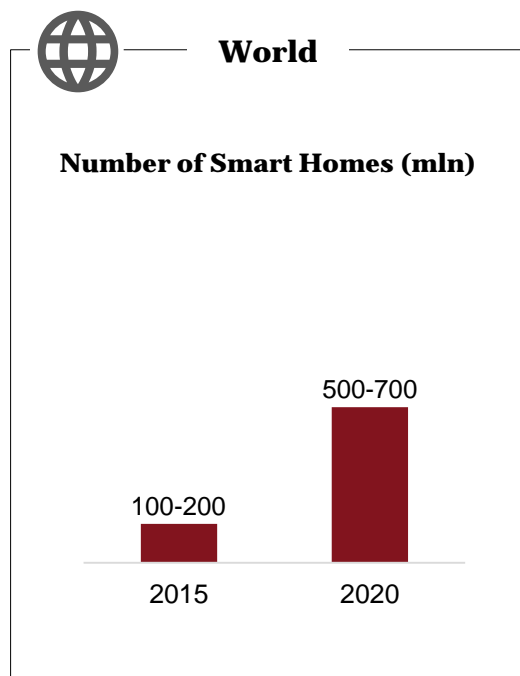
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3.2 Smart Home



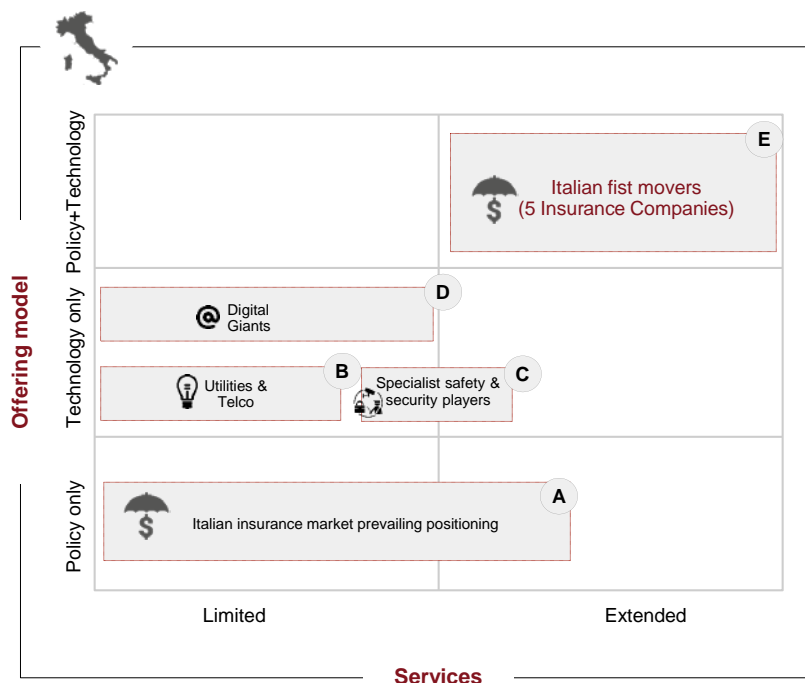
Despite a great potential, Smart Home struggles to take off



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"



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**

Considering 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

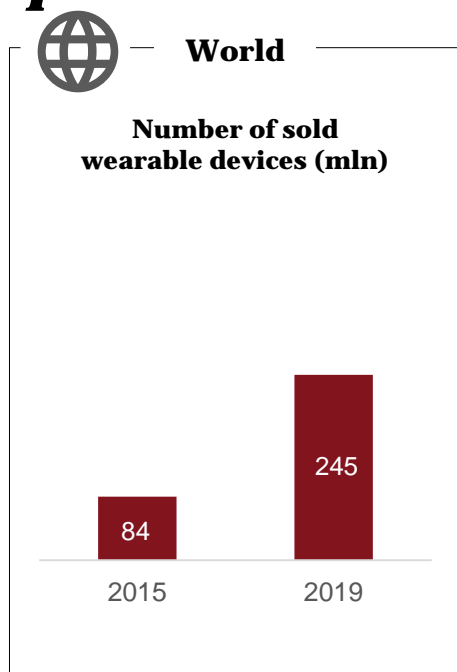

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3.3 Connected Health

The Italian Health scenario shows a great potential due to demographic trends, not addressed needs and under-penetration

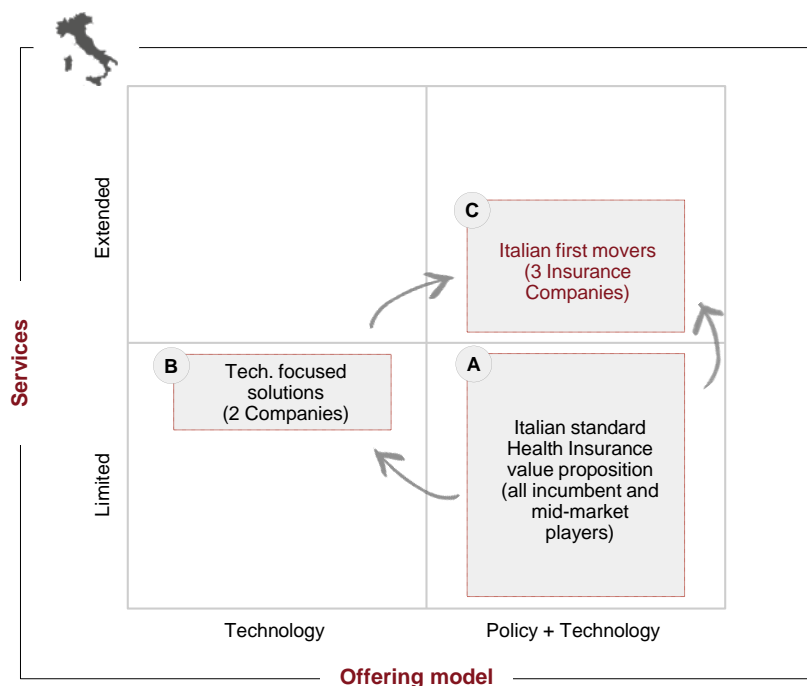
Italy

- >10%** Growing share of overall **health expenditure** on GDP (forecast 2050), especially within **private** component, due to demographic trends
- >30 €bln** **Current private health expenditure**
- 95%** Share of private **out-of-pocket** health expenditure. Insurance companies and Health Funds account only for the 5% of the total private health expenditure
- 72%** **Waiting time** and accessibility are considered as the most relevant issues in the Healthcare System (% of interviewed people)
- 51%** Percentage of people who had access to **prevention** programmes vs. EU level around 80%

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

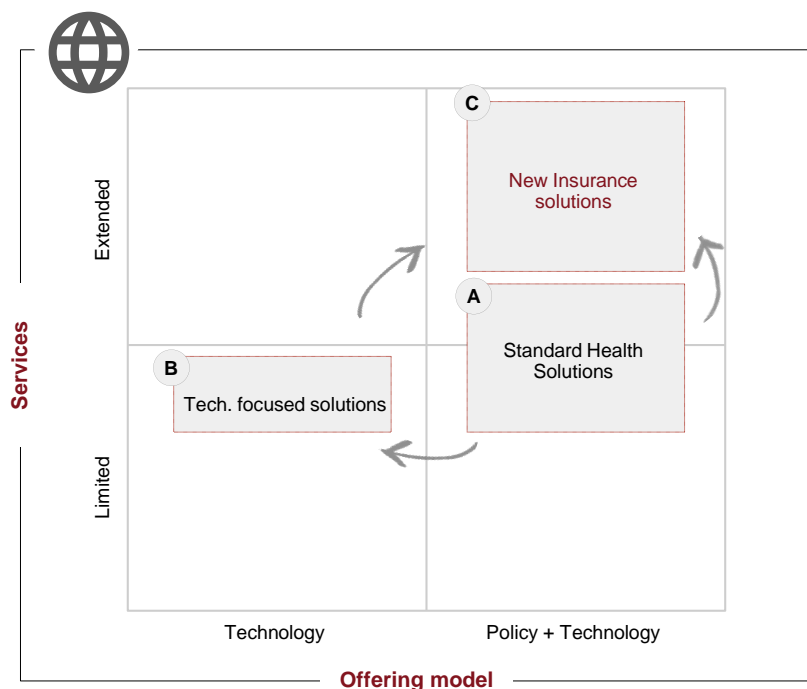


Highlights

- 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

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 remote 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

The international scenario is quite similar but with a rather more innovative value proposition



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

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

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