InsurTech and its implications for the industry and workers compensation

May 19, 2017
The future belongs to the connected.
The positive trends

Industry financials

Focus on workplace safety

Increased interest in healthy living

Technology enabling pace of innovation
Some challenges

- Change is required everywhere
- Rising health care costs
- Regulatory requirements will evolve
- Continually restructuring labor markets
The opportunities

- Explosion of valuable new data (sensors, wearables)
- Growth in mobility and machine learning
- Ecosystems converge around purpose
- The expanding gig economy
Technology enables constant change.
Organizations combining innovative business models and technology to enable, enhance and disrupt financial services.

Fundamentally lower barriers to entry in FS

Changing key defining characteristics of FS providers

Disruptive activity in number of hotspots in FS
A confluence of several trends led to the explosion of FinTech/InsurTech activity

**Technological**
- Mobile proliferation and increased connectivity
- Big data analytics
- Cheap on-demand computing and storage
- AI/machine learning/NLP

**Industry**
- Slow tech adoption
- Incentivized to appeal to mass consumer base
- Constraints on customer focused innovation

**Social**
- Loss of confidence in traditional insurers
- Generational change and comfort with technology
- Increased consumer expectations driven by nonfinancial services
The financial industry is in the midst of a technological revolution

Investment has grown exponentially

- Yearly private investment in financial technology increased to more than $19b in 2015 (~60% y/y growth)
- Consumers are frustrated with the cost, complexity and inconvenience of traditional financial services
- Big data, security and cloud innovations are allowing for successful and elegant alternative solutions

Source: CB Insights and Accenture, Banking Reports Research
FinTech investments are resulting in innovative business models across financial services

<table>
<thead>
<tr>
<th>Deposits and lending</th>
<th>Investments</th>
<th>Insurance</th>
<th>Payments</th>
<th>Enterprise</th>
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<tr>
<td>P2P/SMB lending</td>
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<td>Social insurance</td>
<td>Integrated payments</td>
<td>Cybersecurity</td>
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<td>Crowdfunding</td>
<td>Algorithmic investing/robo-advice</td>
<td>Wearables</td>
<td>Contactless payer</td>
<td>Big data analytics</td>
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<td>Internet of Things</td>
<td>Cross-border/P2P transfers</td>
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<td>Smart contracts</td>
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<td>Financial inclusion</td>
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Different mechanisms can be used to engage with FinTechs

Organizations employ mechanisms best suited to maximize competitive advantage

► Adjacent and disruptive innovation mechanisms increase in autonomy from the existing corporate structure

► Innovation mechanisms that are focused on disruptive innovation can also be a source of adjacent and sustaining innovations
Example of how incumbents are actively engaging with new players and innovations using multiple mechanisms

1. Digital transformation and internal innovation
   - MetLife
   - Zurich
   - USAA
   - American Family
   - Allstate
   - Prudential
   - SBI Life
   - Progressive
   - GEICO

2. Acquisitions, joint ventures and partnerships
   - Progressive
   - Chubb
   - MassMutual
   - Munich Re
   - Hartford Steam Boiler
   - AIG
   - Allstate
   - Travelers

3. Incubators and accelerators
   - USAA Innovation Lab
   - MetLife Lumen Lab
   - American Family/Microsoft
   - Plug and Play
   - Global Insurance Accelerator
   - Startupbootcamp
   - Open Innovation Lab

4. Innovation networks
   - Blockchain Insurance Industry Initiative (B3i)

5. Venture funds
   - Transamerica Ventures
   - American Family Ventures
   - MassMutual
   - Hartford Steam Boiler
   - New York Life Strategic Investments
   - AXA Strategic Ventures
InsurTech is bringing innovative new business models to a traditionally staid industry

### US InsurTech VC funding

<table>
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<tr>
<th>Year</th>
<th>No. of deals</th>
<th>Deal value ($b)</th>
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<tr>
<td>2012</td>
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<td>2016 H1</td>
<td>$1.0</td>
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</table>

### Drivers of disruption

**Changing customer needs**
New players are filling market gaps with less traditional product offerings
- Metromile
- Lemonade

**Enhanced interaction**
New market entrants can provide better customer experience using tech
- Northwestern Mutual
- LearnVest

**Strategic relationships**
Traditional market boundaries are being crossed with JVs and partnerships
- BIMA
- Zenefits

**Leveraging data**
Real-time data allows for better risk pricing and prevention
- Mnubo
- Airphrame

**Sophisticated operations**
Cloud-based solutions have facilitated scalability and flexibility
- OutsideIQ
Global InsurTech activity

As of April 2017, 675 new InsurTech startups started in the US alone.

Approximately 60% are concentrated in the US and the remaining 40% are spread across a wide cross-section of countries.

P&C distribution is the most significant area of focus, followed by life underwriting.

Technology focus is heaviest in the areas of chatbots, machine learning and intelligent virtual assistants, with blockchain applications growing fast.
InsurTech by domain and market strategy

- Distribution: 50%
- Underwriting and risk: 32%
- Claims management: 13%
- Risk capital and investment management: 5%

- Disruptors: 32%
- Enablers: 68%
Engagement
Continuous customer engagement throughout the value chain
- Digital delivery
- Digital claims process
- Robo-advice

New products
Innovative products, adaptable to customer needs
- Micro-duration policies
- Usage-driven policies

Digital brokerage
Data aggregator consolidating policy information
- Aggregated insurance quotes
- Data enrichment
- Personalized quotes

The disruptors are focusing on ...

Data intelligence
Use of AI, machine learning and robotics for improved collection and use of data
- Dynamic underwriting
- Predictive/forecasting
- Risk mitigation
- Automated (robotics) claims processing

IoT
New data sources from sensors/telematics, wearables to lead to variable premiums, pushing customer behavior adaptation
- Product pricing
- Underwriting
- Claims processing

Blockchain
Increased risk-recording abilities, transparency, accuracy and speed
- Fraud detection
- Risk management

The enablers are innovating in ...
The convergence of InsurTech with traditional insurer capabilities

- **Corporate functions**
  - **RPA:** compliance reports
  - **AI:** investor engagement

- **Product**
  - **Blockchain:** peer-to-peer smart policy
  - **Telematic:** automated FNOL
  - **Robo advisor:** customer policy

- **Marketing and distribution**
  - **Big data usage model:** personal property
  - **AI:** predictive robo sales
  - **Unified digital shop for insurance — blockchain**

- **Insurance value chain**
  - **Claim management**
    - **RPA:** claims settlement
    - **IoT:** los prevention automated insurance and adjudication
    - **Weather satellite:** claims fraud detection

  - **Policy admin**
    - **Digital underwriting blockchain**
    - **Drones for claim and damage assessment**
    - **AI:** customized policy creation

  - **Underwriting**
    - **RPA:** automated pay and close
    - **Telematics:** fleet insurance
    - **Drones:** asset automated inspections
    - **Blockchain:** re-insurance
    - **AI:** risk profile

  - **Customer self-service**
    - **IoT:** smart device trigger
    - **Virtual sales assistant**
    - **Interactive service experience — AR/VR**

- **Immersive training — AR/VR**
- **RPA:** automated financial reporting
- **AI and RPA:** automated financial reporting

- **AI:** cross-selling
- **Social media acquisition**
- **AI:** online policy acquisition

- **AI:** investor engagement

- **Customer acquisition**
The convergence of InsurTech with traditional insurer capabilities
The new connected workers compensation ecosystem

- Smart, connected organization
- Connected workers compensation ecosystem
- Real-time analytics
- Faster return to work
- Claims management/fraud detection
- Distribution and delivery
- Customization and customer service
- Smart contracts and blockchain
- Intelligent process automation
- AI and machine learning
The new connected workers compensation ecosystem

Smart, connected organization:

- Using sensor tech to monitor working environment
- Leveraging virtual and augmented reality apparatus in training
The new connected workers compensation ecosystem

Faster return to work:

- Providing easier access to healthcare practitioners through mobility
- Allowing real-time monitoring during recovery
- Using gamification to encourage healthier behaviors/outcomes during recovery
The new connected workers compensation ecosystem

Distribution and delivery:

- Providing a seamless omnichannel sales experience
- Enabling communities/groups to self-insure
The new connected workers compensation ecosystem

Customization and customer service:

- Offering pay-as-you-go workers compensation plans
- Emphasizing personalization of health insurance coverages
- Leveraging smartphones, optical character recognition and advanced image processing to digitize the healthcare experience
- Deploying AI (virtual assistants) to answer insurance questions
The new connected workers compensation ecosystem

Claims management/fraud detection

- Using big data and analytics to improve pricing and reduce claims and fraud
- Deploying robotics process automation to streamline claims processing
- Automating the claims experience through smart contracts
The new connected workers compensation ecosystem

Real-time analytics:

- Providing a means for continuous evaluation of working conditions and employee health to minimize risks
- Using continuous data and predictive analytics to proactively detect anomalies and characteristics of fraudulent claims
How can you get connected?
Exploring InsurTech

1. Organic digital strategy
   - Pick your path
   - Choose your partners
   - Start now!

2. Outright acquisition or partnerships
   - Progressive
   - Chubb
   - AIG

3. Venture capital model
   - Hartford Ventures
   - American Family Ventures
   - XL Innovate

4. Incubator model
   - Manulife
   - MetLife
   - AXA Kamet
   - USAA

5. Sponsorships and partnerships
   - John Hancock
   - Munich RE
   - AIG
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