Swiss Financial Services in 2030

Insurance

Joining the digital revolution

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Executive summary

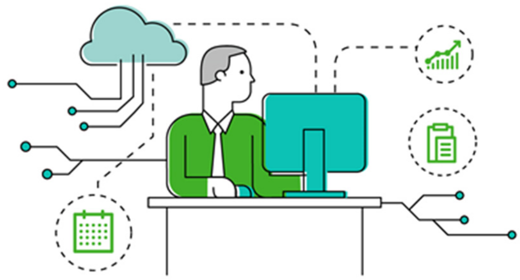
On the face of it, Switzerland's insurance sector is in great shape. Its big players are just that – large, strong and for the most part untroubled by the crises of the past. The Swiss market is deep and well served, even saturated. Other than the ongoing challenge of striving for market share and growth, there is seemingly little to disturb the sector's comfortable position.

Yet one glance at other sectors, even in parts of financial services, shows changing customer expectations, access to highly digitised customer experiences, and the pervasive influence of Big Tech on how we buy products and services. There is a genuine sense that insurance is next, with the first clear evidence that the change has already started.

The most successful insurers of 2030 will embrace this change, in three key ways:

1 | Firstly, they will have been redefined by the power of their ecosystems, and their power within them.

In some cases, they will control other service companies such as senior citizen care providers, retirement homes, old-age fitness providers, or inheritance planners. In others, they will act as strong partners within others' ecosystems, shaping and influencing them to their advantage. These could be mobility, home or health eco-systems, and insurers will be embedded firmly inside them as service providers themselves but with less direct contact to underlying consumers.



2 | Secondly, advanced insurers will embrace and partner with Big Tech – not battle against them.

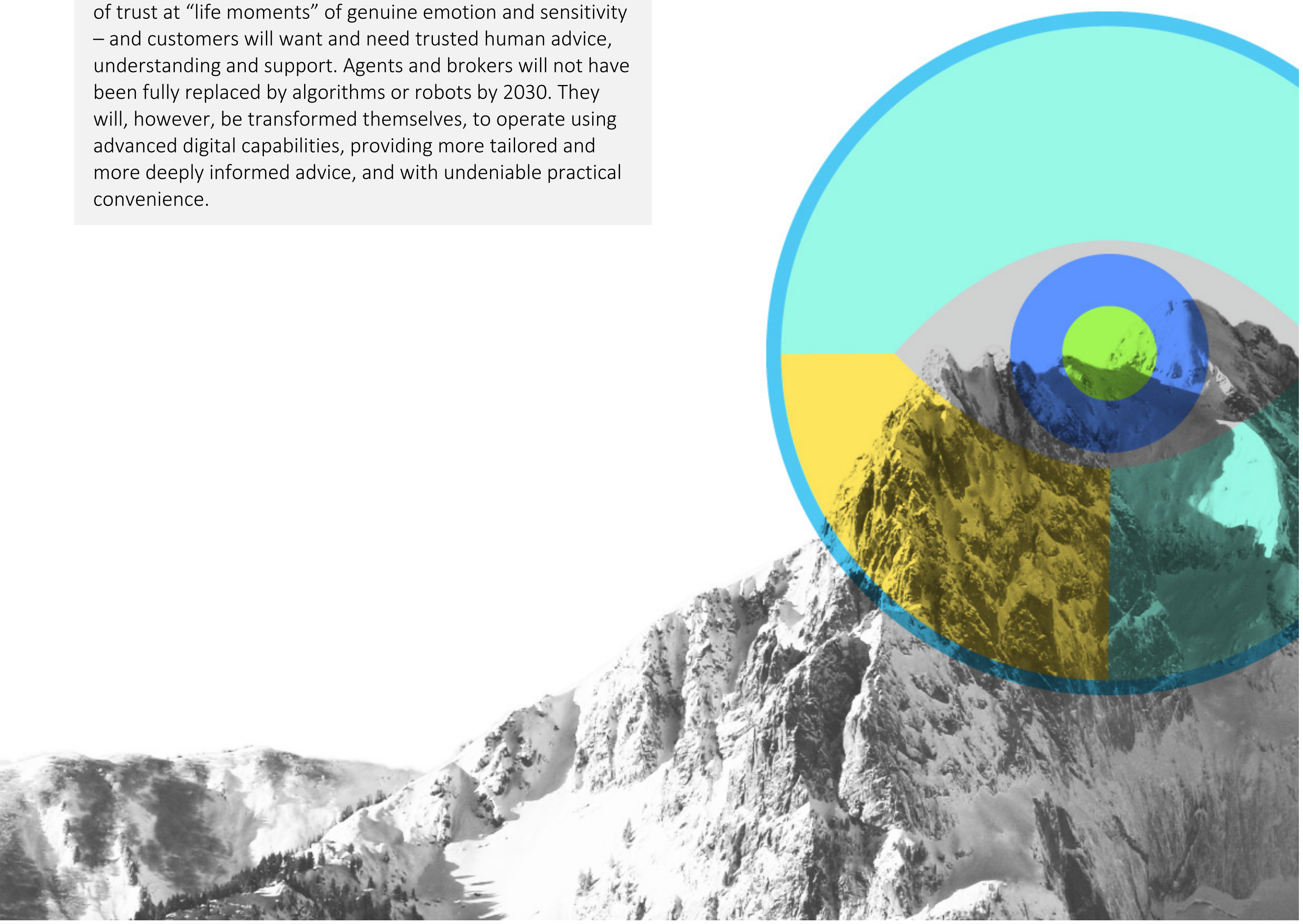
Deep success will depend on access to data, analytics and AI in a way that Big Tech are best placed to provide. It will also depend on continuing mastery of insurance risk in a (still) heavily regulated market – something that insurers will remain best placed to bring. In partnership, the combination can transform the market.

3

Thirdly, customer demand will have finally digitised insurance – but without fully removing the human touch.

Customers, shaped by the digital age, will demand online insurance that makes it easy for them to compare offers, seek advice, buy and modify insurance, and make claims. In many situations, however, insurance will remain a question of trust at "life moments" of genuine emotion and sensitivity – and customers will want and need trusted human advice, understanding and support. Agents and brokers will not have been fully replaced by algorithms or robots by 2030. They will, however, be transformed themselves, to operate using advanced digital capabilities, providing more tailored and more deeply informed advice, and with undeniable practical convenience.

Overall, we see the future in 2030 for insurers in Switzerland as bright. They will still be risk experts, bringing prevention and solutions in a continuingly uncertain world. And they will do this through embracing eco-systems, partnerships with the best of Big Tech, the leading edge of digital, and reinvigorated agents and brokers who will support their ultimate asset: trust with many of life's moments that matter the most.



Current status 2021

All is (mostly) well in insurance

Even in the context of the pandemic of 2020, the life and property and casualty (P&C) insurance industry in Switzerland in 2021 looks healthy. A glance at the share prices of Swiss insurance groups, or the reported profits, or rising dividends tells a positive story. The deep shocks of 2002, 2008 or 2012 are distant history and the industry has enjoyed a period of comparative stability, margin growth and rising confidence in the future.

Success has come, in part, from sheer size, and the economies of scale and diversification it provides. The Swiss life and P&C markets are big by any standards, and consolidation down to a small number of large players took place many years ago. In international comparisons, Switzerland typically comes out at the high end of measures of 'penetration', or the amount spent per capita on insurance premiums as a percentage of GDP.

Whilst the high penetration shows a level of trust in and acceptance of insurance seen in only the most advanced markets, it also creates a core challenge: how to grow in a saturated market. Premium growth in the Swiss life and P&C markets stagnated many years ago and has even fallen in the individual life segment where customers have looked elsewhere for investments and wealth creation, despite an attractive personal tax proposition.

To many outsiders, the growth challenge might be seen as a manageable distraction in an otherwise enviably comfortable market. To others, however, this is a perfect environment for disruption.

Signs of change

The industry has of course not stood still, and clear examples of change began some time ago – with more signs of acceleration in recent years:

- Smile is a direct-to-customer insurer owned by Helvetia which has grown to an established player
- Toni Digital was launched with the backing of Munich Re and the claim to "build whitelabel insurance solutions of the future" and made a splash through Postfinance
- VIAC came into the market with the strapline, "Your pillar 3a with VIAC: pension – simply better", and backed by WIR bank, demonstrated digital end-to-end processes from quote, buy, and customer onboarding to paying claims
- Wefox is a Swiss insuretech which states that it is aiming to simplify the way clients compare, buy and manage their insurance contracts while improving customer experience and building trust
- Calingo offers household, pet and home-owner insurance embedded within a rental contract
- Hemsäker is IKEA's first own household & personal liability insurance, backed by Swiss Re's iptiQ division.

Many of these developments are apparent in oversees markets too. In some cases they go even further:

- Tesla globally (and locally in Switzerland) have recently launched their own insurance product embedded in the car purchase
- Swiss Re and Daimler have just recently launched Movinx, a 50/50 joint venture aiming to establish a new business model as well as co-create and co-own an insurance platform
- in the US, Amazon launched Amazon Care recently

In many cases these examples are in their early stages and volumes, profits and the operational impact remain small to date. But whilst such cases have been met with a degree of scepticism in the past, they clearly demonstrate the disruptive power of technology in the insurance industry. At the same time, and helped by the limitations on people's social life in 2020, customers and policyholders show an increasing openness towards new ways of doing business, thus supporting innovative approaches to insurance, and rewarding existing and new players who are willing to invest, investigate, and be part of the potential disruption.

CEOs predicting transformation

Past incursions into this new world were often quiet ventures designed to test the water, without a flourish and with low-key announcements. CEOs today, however, are becoming increasingly vocal about their innovative ideas and are also warning of the perils of acting too late:

- "Interactions with customers will be digitally-based. The key for the future is to adapt to the new reality of a digitally-led world. We will have to provide the best possible services to the customers. It's a huge shift in the culture and the services that you provide."
- "If we don't change and adapt and transform ourselves even faster, we risk losing everything we have achieved so far."
- "Today, the key is end-to-end, digitally-enabled customer advice and support, which we are in the process of introducing on a broad scale, thus strengthening our physical distribution channels."
- "I firmly believe that "digital mobile medicine", i.e. diagnoses, treatments and interactions with medical experts via mobile devices, will gain importance in many areas of healthcare. In my opinion, digital mobile medicine will establish itself as an important cost-effective mainstay in medicine."

CEOs now see change and disruption coming. The simple question is: what change, and how to act on it.

The forces of change

Customers' expectations of insurers are changing

Technology is now used everywhere to allow previously distracting, difficult, daunting or downright impossible tasks to become natural, accessible, effective and even pleasurable. What started with the PC has become mainstream in smartphones. Accurate location measurement, heart rate sensors, fall detectors, constant connectivity, access to almost any information, personalised offers of goods or services, or simply ubiquitous cameras and microphones are taken for granted.

Some companies have leveraged the power of these technologies in ways that have appealed very directly to customers' expectations. Many did not even exist 10 or 15 years ago: Airbnb, Uber, WhatsApp, Zoom, …

But what about insurance? Customer expectations seem to be rather clear for insurance products as well.

Firstly, customers expect the basics of an insurance – buying cover, making claims and requesting advice – to be delivered with the same ease as other services.

Then, as customers notice that insurance is adapting to meet their expectations, there will be an acceleration in change as customers look even more for:

- the ability to change insurer easily, with scope to bargain
- desire for access to premium comparisons and easy-to-understand information to find the best deal
- 24/7 mobile access to services, like fast approval of claims, with reviews of how well each insurer is performing
- bundled or embedded insurance offered automatically as part of another service
- preventative advice or surveillance to help avoid insured events, rather than just pay out on claims.

Finally, brand and distributor loyalty will change too – as it has in countless other industries, but to only a limited extent in the Swiss insurance industry to date. Nevertheless, changing customers are challenging insurance companies to remain relevant to them – if not, somebody else will.

The increasing need for data, analytics & AI

As customer behaviours and insured risks change, understanding the new profiles and risks and pricing them will be critical to staying competitive and avoiding mispricing.

Customers will demand that their claims are submitted, analysed, approved, paid and supported quickly and conveniently. Gathering information reliably and accurately will drive not only customer satisfaction – and trust – but also avert the risk of fraud, if done well.

All of these requirements need data – intuition isn't enough. In fact, leveraging more and more sources of information, whether in-house or external, to develop a deeper understanding of customers and customer needs requires big data thinking and (really) advanced analytics skills – Amazon-style, but insurance-specific.

Imagine a simple scenario of a customer with a car crash. A perfect response in the future could mean using the smartphone as the command centre:

- the customer opens an app, which already contains all of the customer and car details, knows where the customer is, and can keep a record of the process that is about to begin
- the app calls a support line if requested by the customer, where a representative can guide them through what to do
- the customer makes an accident report by taking a video of the car, the damage, and any locational details, and by answering verbal questions which are automatically

used to populate a form which is read and approved by fingerprint

- the app makes an assessment of the potential for fraud by analysing the video and audio recordings for common signs of fraud
- the app or support line advises on practical steps, including getting the customer home, removing a damaged car, and arranging a replacement car.

The technology, artificial intelligence (AI), analytics and big data for this approach all exist today. In the future, our expectation is that they will become standard.

Disrupted distribution

The rapid change from Covid has challenged long-held beliefs about the slow pace of change in insurance distribution.

'Omni-channel management' or 'digital agency' have become a reality, at least in some form, quicker than was ever imagined; customers have not just wanted but needed a more seamless, easy, and personalised means of interaction with sales agents and advisors.

But even beyond this, we are seeing the first signs of fundamentally different distribution. For example, car insurance could be offered by car manufacturers or car leasing / mobility companies on an "embedded" basis, without the customer even needing to think about it (e.g. Mercedes-Benz Versicherung AG or Carvolution).

In a further shift, the advent of new technology such self-driving cars will mean that the insurance of a driver or of the individual car itself could simply disappear.

A different kind of human touch

For many aspects of insurance, human expertise will continue to be vital. The knowledge and experience of agents and brokers will continue to be required to assess and advise. Individuals, families and businesses will continue to look for people they can trust and expertise on which they can rely.

We therefore see a continuing critical role for agents and brokers in the formulation and sale of insurance policies and also in complex claims.

However, customers will expect agents and brokers to do much more, much better. They will need to be equipped with digital technologies that can facilitate many aspects of their work. Their role will evolve. Customers will demand that they bring more digitally-sourced information and insight, more informed advice, and more access to related services, ecosystems and preventative support. They will not want agents and brokers to be replaced by algorithms and robots – but they will expect them to use them.

State of the sector in 2030

Services & ecosystems

In 2030, successful insurers will have been redefined by the power of their ecosystems, and their power within them.

In some cases, like retirement savings, the most successful insurers will stand at the centre of these ecosystems and operate them.

They will control other service companies such as senior citizen care providers, retirement homes, old-age fitness providers, inheritance planners or specialist mobility firms. This is a seismic shift beyond today's limited range of services.

In cases like mobility or home insurance, the insurer will increasingly become invisible to the consumer.

For example, a car manufacturer or mobility service could charge customers, help prevent accidents, fire or theft, charge for an all-in service, and support all but the most complex claims – without the customer being directly aware of the insurer's expertise in the background. Securing that background role will be critical for insurers.

In both cases, the most enlightened insurers will become associated with prevention and accident avoidance, rather than with simply paying out on claims.

Finally, insurers will work with a completely new type of broker: technology platforms that connect ecosystems. These will be digital power houses dominating entire service categories or market segments – with a completely new approach to charging for their 'brokerage'.

Cloud & Big Tech

In 2030, successful insurance companies will rely heavily on big data and advanced analytics. This will be used to price their risks, pay claims reliably and quickly, and react fast to customer sales opportunities across complex ecosystems.

Big Tech will be significant partners to the industry and not, we suspect, direct competitors. Resisting this trend would be counter-productive; teaming at scale will be a huge advantage.

The most advanced insurers will bring their own power into these alliances. They will jealously guard proprietary algorithms and artificial intelligence that convert data and analytics into real-time differential pricing, risk profiling, scenario analysis, claims assessment matched to ever-changing policy terms and offers, and anti-selection.

Smaller insurers might need to 'rent' such capabilities from the larger ones; the larger ones will become formidable fortresses of competitive advantage.

Digital, but with real people

Despite an ongoing rise in technology-driven self-service, many successful insurance companies in 2030 will continue to have agents and brokers – but they will need to operate very differently.

The focus of these 'real people' will move away from 'simple' policy types and exclusively to insurance where customers need trust, deep understanding and advice – like retirement planning, critical illness and disability, and full packages to cover risks for small and medium-sized enterprises.

They will act within their ecosystems to do much more than simply sell and service insurance. They will work across all services, advising and designing bespoke solutions that customers value. They will also become risk experts, bringing prevention suggestions and solutions, taking on responsibility for some claims assessment, and orchestrating the recovery from complex claims.

They will be highly digitised, with the potential to act virtually. In their approach to supporting customers, they will have access to leading-edge technology that enhances their ability to be highly efficient, insightful, informed and relevant in their selling, claims or prevention areas. And seamlessly compliant too, without disturbing the customer.

Highly digitised agents and brokers will be at the core of some of the most successful insurers of 2030.

Solutions, strategies and success factors for providers

So what should insurers look to do now in order to succeed by 2030? Our perspectives focus on a common set of mission-critical success factors: partnership and customer understanding, transformation and change culture, and sophisticated technology and innovation skills.

Services & ecosystems: who, not only what

Whilst we can perceive a future vision, we don't know exactly how insurance will change. But perhaps we can have a better idea of who will be involved, leaving us with the question: what does our network need to look like to succeed?

In a Swiss context, we see the need first to identify the main ecosystems in which insurance can play an impactful, commercially attractive role. Then it's necessary to assess who is likely to be involved in these ecosystems. The final step is to forge strong, sustainable partnerships with complementary partners. This means creating a full map of active and potential players in an ecosystem – as seen from the customer's perspective – and then making smart decisions.

Will each player support sales or claims, or provide services? Do they align well in terms of customer focus and profile, technology and connectivity, and culture and values?

And importantly, what access to data-empowered insight and foresight do they bring? What understanding of customer needs and emerging customer buying behaviour and patterns do they have? How effectively do they already leverage data and cognitive technologies?

Then, what do we have to offer in return? Effective co-creation together with partners means showing a clear value proposition to those partners too.

Finally, having analysed how partners could help, there is a need to act fast to forge the deal and formalise alliances – before competitors get there first.

Cloud & Big Tech: thinking as partners

Again, we don't know exactly which technologies will most optimally meet the needs of the new world, but we have a good idea of the key technologies involved and can quickly assess the main players in those areas.

The key technologies are those providing data storage, external data, data analytics, AI approaches and skills, platforms and ecosystem connectivity, security, automated compliance and legal, communications, and hardware, including sensors.

Developing all of these technologies in-house will not be possible or desirable. Insurers will need to implement a strategic perspective on partnerships. This begins with short-listing a small number that meet their fundamental requirements and strategic criteria.

Then, critically, we see the final choice as one that is not derived by optimising the 'best' partner based on formal selection criteria.

In this context, flexibility matters. Today's decision is based on today's criteria, but the market and customers will move fast, and move the criteria with them. Which technologies will flex best to these changes? What are your criteria for understanding who is best set up to flex, for you, in a prioritised way? The most successful insurers will have a clear framework for answering these questions.

In order to do this well, insurers will need to develop new skills required to select, contract, manage, and develop mutually beneficial, future-focused relationships.

Digital, but with real people: taking the customer view

We don’t know exactly how customers and sales people of the future will respond best, but we have a good idea of organisations that understand customers and sales well, especially in a fast-changing world. The question therefore is: how are you connecting with these ‘customer gurus’ and how are you leveraging their insights?

Our perspective is to choose your external mentors well – look for others, almost certainly from outside insurance, who impress you the most with their customer impact, connect and engage with them, and be very open to inspiration and transformation.

Despite being published almost 80 years ago, Antoine de Saint-Exupéry in his most famous book “The Little Prince” already had a good idea on how leaders have to inspire others to follow them on a journey:

“If you want to build a ship, don't drum up people to collect wood and assign them tasks and work, but rather teach them to long for the endless immensity of the sea.”

Contacts and authors

Jean-François Lagassé
Financial Services Industry Leader
Tel : +41 58 279 8170
Email: jlagasse@deloitte.ch

Simon Walpole
Insurance Lead Partner
Tel: + 41 58 279 7149
Email: swalpole@deloitte.ch

Dr. Daniel Schlegel
Partner
Tel: + 41 58 279 6770
Email: daschlegel@deloitte.ch

Sergio Beer
Manager
Tel: +41 58 279 7503
Email: sergiobeer@deloitte.ch