



FRISS



DIGITAL TRANSFORMATION IN INSURANCE

SURVEY 2018

BLOCKCHAIN

INTERNET OF THINGS

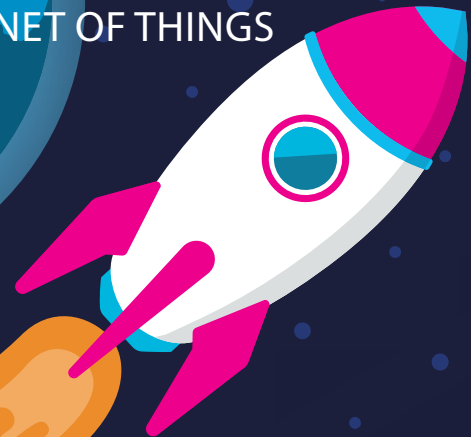
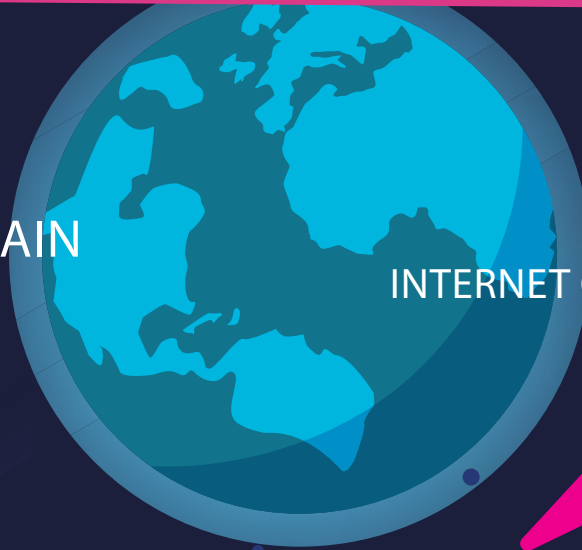
INSURTECH

AI

DIGITAL INSURANCE

MACHINE LEARNING

ONLINE CHANNELS



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FRISS





BEFORE WE START

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INTRO

Digital transformation provides the insurance industry with the opportunity to use technology to improve efficiency and customer satisfaction, as well as realize new strategic opportunities. These opportunities could create new services and business models. Digitalization also opens doors to improve customer experience. However, digitalization can result in additional risks and new emerging fraud schemes.

This survey was initiated to gain a better understanding of the current market state, challenges and the maturity level of the industry regarding digitalization. As such, it is a sequel to the 2016 Insurance Fraud & Digital Transformation Survey. The results were terrific, and we felt that it was time for an update. With so much happening in both the world of digital transformation and fraud, we decided to split the survey in two reports. This report focuses on the Digital Transformation Survey. The second will be the Fraud Survey, which will be released later this year, so both topics get the attention they deserve.

The Digital Transformation Survey was conducted by FRISS in Q3 2018. Over 170 insurance professionals participated in this survey, from various countries across the globe.



This survey aims to explore the emerging global trends in P&C insurance regarding digital transformation. We cover online presence, customer engagement, the rise of Insurtech, blockchain, Internet of Things (IoT), visual screening, predictive analytics and of course, Artificial Intelligence (AI). If possible, we compare the state of digital transformation with the results in 2016.

A small disclaimer that caution must be used when comparing the results of this year's survey to the 2016 survey. Over the years, individual respondents can change. Also, some questions have been modified, added, or eliminated based on current and emerging issues.

Given the amount and diversity of the respondents, this survey gives a realistic overview of the state of the market as it is today. We hope to see a number of the trends become a reality very soon, as we feel these are key elements in supporting an honest insurance industry.

I would like to thank everyone who contributed to this research.

Enjoy reading.

Jeroen Morrenhof
CEO @ FRISS



ONLINE DISTRIBUTION CHANNELS

69% of insurers currently work with an online distribution channel.

Distribution channels in insurance are changing. This is not surprising considering the changes in technology and consumer buying behavior which are driving the rise of online sales channels.

The go-to market strategy for online channels differs significantly from the traditional channels. How to build a profitable portfolio is the key question here. Know Your Customer (KYC) is of vital importance these days in order to achieve this profitable portfolio. More than ever there are risks around identity that carriers should take care of. One bad customer could easily destroy business objectives. In order to prevent getting high risk profiles in any portfolio, good risk assessment is needed.

The survey reports that 69% of insurers have a blended model of online and traditional channels or sell only through an online channel. Compared to the 2016 survey, this is a rise of only 4%. The 2016 survey had reported that 25% of the insurance companies that did not have an online channel at that time, would be establishing an online channel within 12 months. That doesn't seem to have happened. The 2018 survey reports 45% of insurers will start an online channel in 12 months. Only time will tell if this is going to be the case.

Compared to 2016, online channels have increased by 4 percent.



CUSTOMER ENGAGEMENT

Digital transformation also involves the way insurers engage with the customer. Consumers are now connected with everyone, everywhere, at any given time and have different expectations for the insurance carrier when it comes to customer engagement, as well as communication preferences.

For instance, insureds expect an immediate response when it comes to a policy renewal question or filing a claim. Consumers also expect their insurance carrier to respond via their preferred communication channel. How do insurers keep up with these demands?

It turns out that the vast majority of insurers still use email and telephone as means of communication, as well as traditional mail which is only used by 21% of the insurers. The use of online portals, which are in use at 41% of the insurers are becoming more popular as a means of communication, but other mediums move. WhatsApp and Facebook messenger are not commonly used to engage with customers.

What communication channels do you use most to contact your customers?



82%
email



69%
phone



41%
online
portal



31%
sms



21%
old school
mail



19%
own
app



17%
WhatsApp



16%
Facebook
Messenger

For the majority of insurers email and phone are the main tools to contact customers.

BUSINESS MODELS

“ **Customers are more and more questioning traditional business models.** ”

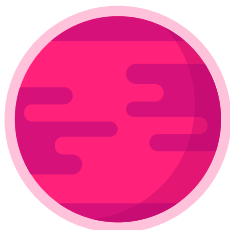
The essence of insurance has always been to cover risks. The model in which this was done differed by product and line of business. However, with the widespread influence of technological innovations, it is possible to not only cover risks for a term period, but also cover risks just for the moment it is needed.

Moreover, pricing needs to be fair, dynamic and transparent, as the customer can easily move to another carrier. And above all, customers can cover what they want in a seamless experience, whenever they want it.

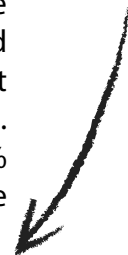
All of these changing dynamics are driving customers to question traditional insurance business models.



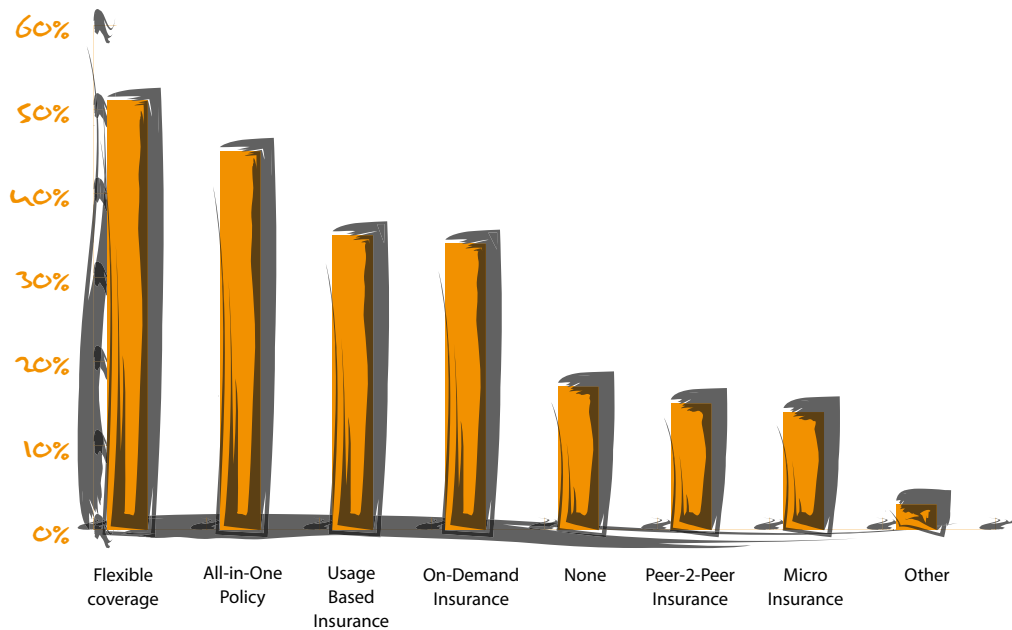
One of the most popular innovative business models is flexible coverage.



Innovative business models are on the rise within insurers. The survey reflects insurance carriers response to the needs of the modern customer with 35% of insurers providing usage-based insurance (UBI) and 34% offering on demand insurance, but 63% of these insurers are developing these models in-house. However, looking at the upcoming twelve months, almost 25% of the insurers state that they do not want to start any of the indicated innovative business models.



Which of these innovative business models do you offer? ?



25% of respondents indicate they will not start with any innovative business models in the upcoming 12 months.

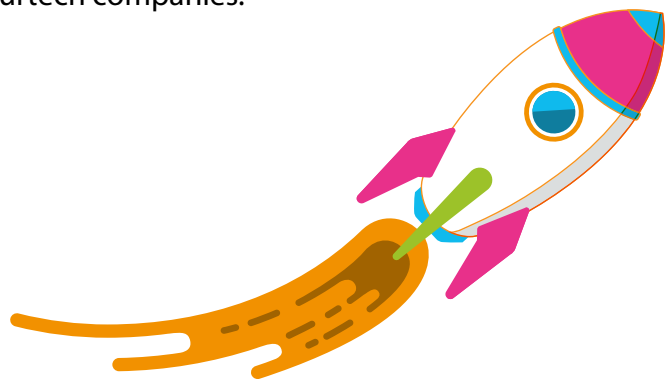


INSURTECH

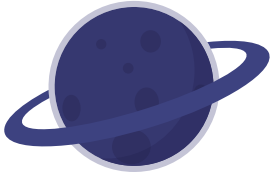
“ 50% of insurers are actively deploying or piloting with an insurtech solution.

Insurtech technology is rapidly changing the insurance landscape. Start-up companies usually have an idea to improve the industry by providing a simple, smart and fair customer experience. Disruption in the insurance industry is most likely going to come from insurtech companies. This is not surprising, since they can fully focus on the future and rethink the entire business.

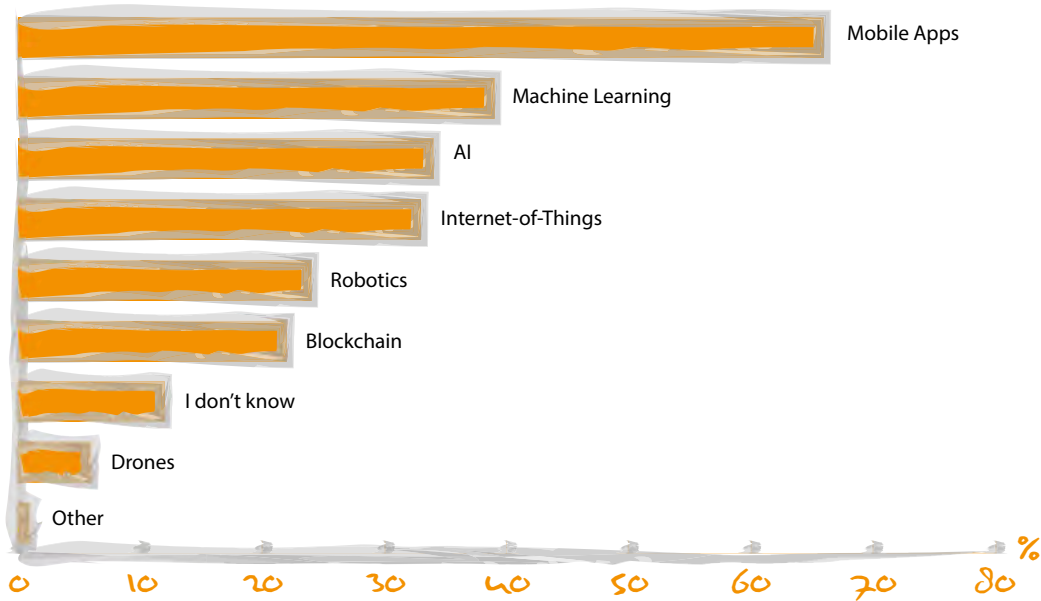
The survey reports that 88% of insurers believe that insurtech indeed provides opportunities for the industry. The use-cases are clear and sound. Insurtech actually provides innovative solutions and approximately 50% of insurers are actively deploying or piloting an insurtech solution. The survey reports that 19% of insurers are investing in insurtech, while 48% of insurers are monitoring developments. Interestingly enough, another 11% are considering the purchase of insurtech companies.



MOST POPULAR TECHNOLOGIES FOR INSURERS IN 2019



Which emerging technologies is your company adopting?



69% of insurers currently work with an online distribution channel.

BLOCKCHAIN

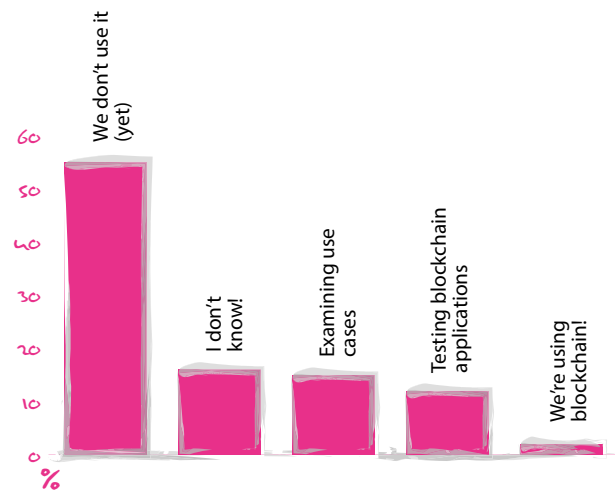
“ **21% of insurers are thinking of starting initiatives with blockchain.** ”

Blockchain holds an undisputable transaction between two parties that is transparent. The technology offers enormous opportunity to disrupt the insurance industry. Both innovative start-ups as well as innovation departments at larger carriers are experimenting with blockchain, but 44% of insurers are not sure what the use-case should be.

Blockchain technology is being investigated, but currently only 2% of the insurers indicate they are using blockchain technology, where 21% are thinking of starting initiatives in this field in the coming year.

Looking at how blockchain can change the insurance industry, predictions are that it can be used to simplify transactions (56%), transform the claims process (51%), enable smart contracts (42%) and reduce fraudulent claims (42%). That said, still 25% of the insurers have no idea on how blockchain would change the industry.

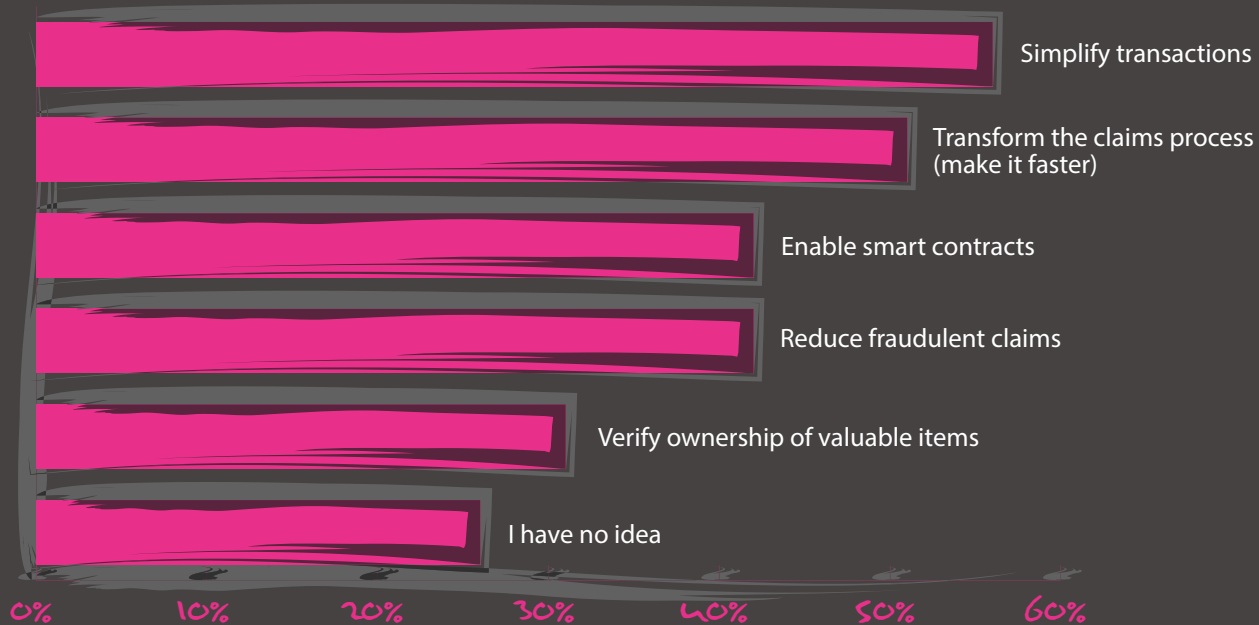
What is the current state of blockchain in your company?



Only 2 percent of insurers are now using blockchain in their processes!

53% of insurers indicate they are not starting with blockchain in the next 12 months.

How do you think blockchain technology can change the insurance industry? ?



“
Simplifying transactions and speeding up the claims processes are considered the main benefits of blockchain technology.

INTERNET OF THINGS (IOT)

“ Only 11% of insurers are using IoT technology today.

Insurance requires information. For instance, information about the policyholder, the insured objects and the circumstances in which damage occurred. The more information that is available, the better the decisions. The rise of IoT could help in gathering more data than was ever possible, connecting everything, anytime, anywhere.

Looking at the outcomes of this survey, 45% of the insurers have not leveraged IoT yet, and only 18% of insurers are examining the use cases. The survey reports that 31% of insurers state that creating a clear strategy for IoT is the biggest challenge. Data seems to be the major hurdle to tackle among 25% of insurers.

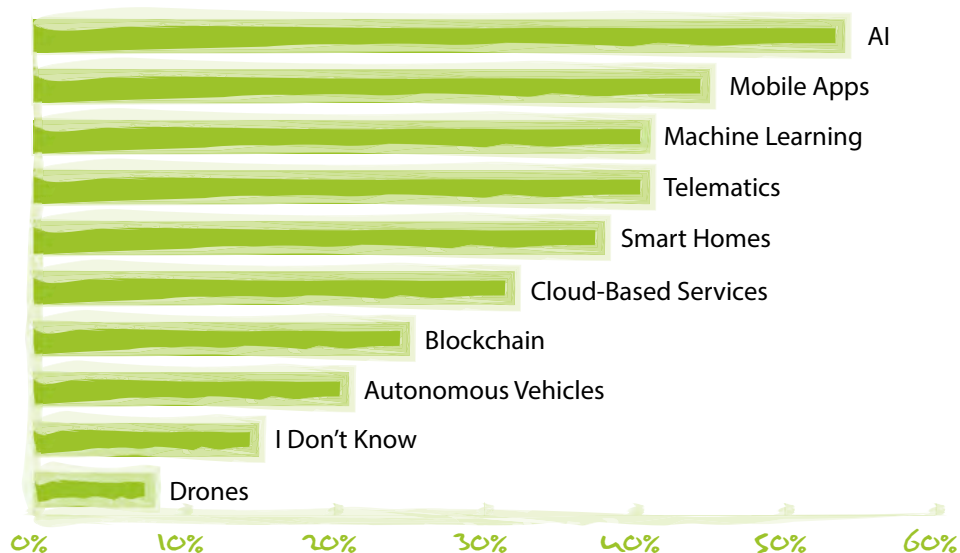


The greatest challenge for insurers to use IoT is creating a clear strategy on how to apply such technology.

The main reason why insurers want to embrace IoT is the opportunity to change consumer behavior. Almost 60% of the insurers believe that IoT is the technique to make this happen. Other areas insurers feel IoT could support them are prevention purposes (54%), assessing risk (52%) and detecting fraud (52%).



Which technologies are most effective for insurers to support Internet-of-Things initiatives?



60% of insurers believe they can change consumer behavior by leveraging the IoT.



ARTIFICIAL INTELLIGENCE (AI)

“ **There are three types of AI: General, Product-based and Domain-specific.** ”

Insurers are looking at Artificial Intelligence (AI) to cultivate intelligent capabilities within their systems. These can range from automating human behavior to predicting outcomes and anticipating results. In short, it is a self-learning system to make life easier. There is no way any insurer could visit an industry event without hearing about AI. It is definitely gaining traction, and a lot of products and services are constructed on or with the help of AI.



There are three types of Artificial Intelligence. The first benefits everyone and is known as 'general' AI. Examples of this type of AI include natural language processing, facial recognition, and augmented reality.

The second form is called product-based AI. It involves product with specific tasks. Just think about systems designed to identify and deactivate computer viruses, spam filters, and programs that detect fraud patterns. AI systems learn by doing and by drawing on feedback from many different users.

The third type of AI is custom or domain-specific AI. In short, this form of AI is trained for usage in a specific niche. An example from the insurance sector is AI that is trained to identify fraud patterns.



Thanks to everyone who contributed to the open question "What is your definition of AI?" A selection of definitions from respondents around the world:

Intelligence exhibited by machines, whereby machine mimics cognitive functions associated with human minds.

A Self-Thinking machine

AI is all around us in machines such as computers and other intelligent systems which have been programmed or taught and continue to learn how to do certain tasks without being continually programmed by humans.



The last big human invention

Using the processing of computers to perform tasks that humans normally do, but takes longer and without the emotion of humans.

AI is for me a program that is able to identify mistakes on its own and adapt accordingly.

Algorithms that are able to improve themselves

You need to embrace AI, sooner. The one who survives is the one who adapts.



There are different levels, but I'd say that it is to make automatic decision based on analysis of past behaviors.

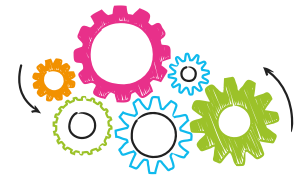


MORE AI...

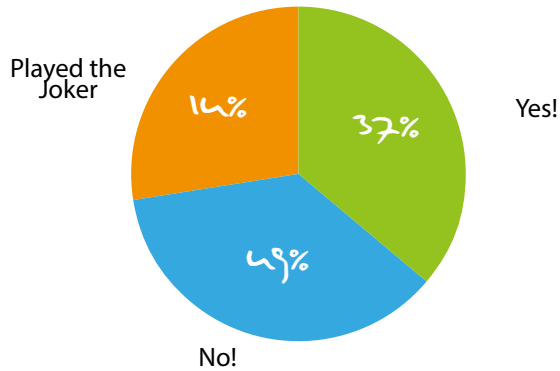
“ **Grasping exactly how AI will affect jobs in the insurance industry remains nearly impossible.** ”

Although AI is seen as very promising, only 37% of the insurers say they are currently investing in AI. Of these insurers, 68% are using AI to enhance customer service, 52% are leveraging AI to reduce costs, and 50% are using AI for automated fraud detection, as well as straight-through-processing (STP) for claims and underwriting.

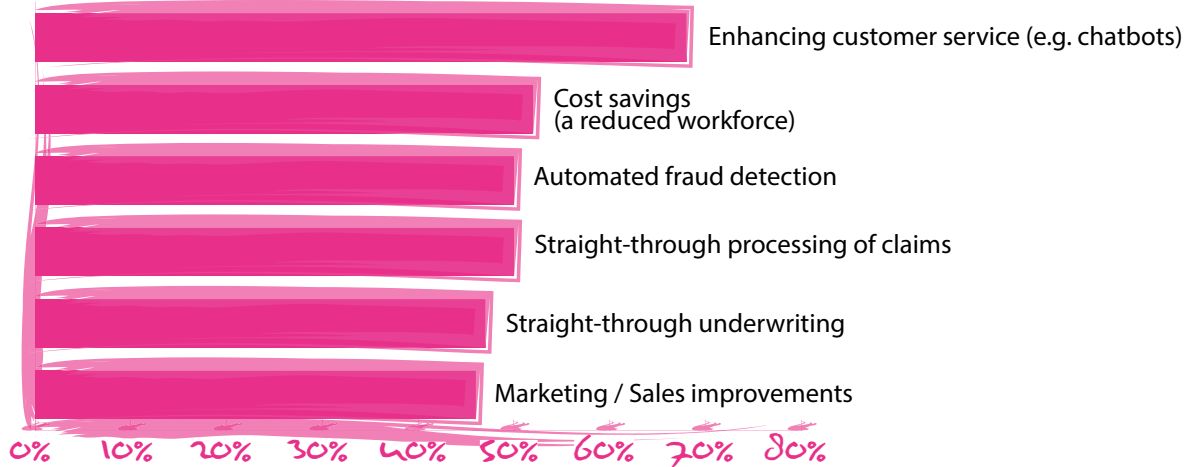
It is clear that AI is changing the role of insurance professionals and 77% of insurers state they see a change in their job in the future.



Is your company currently investing in AI technology?



How is AI changing your business?



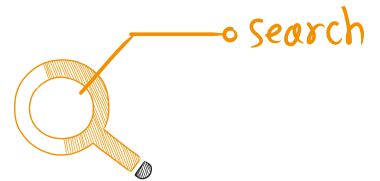
77% of insurers believe that AI will transform their role in the future.

VISUAL SCREENING

“ Only 29% of insurers use visual screening technology to support the underwriting and/or claim process. ”

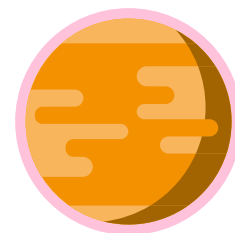
Insurers often give customers the opportunity to share photos and videos via online portals and apps. The main advantage is to gain more objective insights concerning the object in question or the damage that just occurred (e.g. driving direction, point of damage and environment). Moreover, instant insight into the impact and complexity of a claim gives an insurer the opportunity to efficiently determine the need for an expert.

Gathering photos and applying visual screening could decrease the initial processing time of claims and applications, since a list of standardized questions would become superfluous when images and videos are submitted. With this huge opportunity for improvement, the question arises: Is this a widespread or common technology used by insurers?

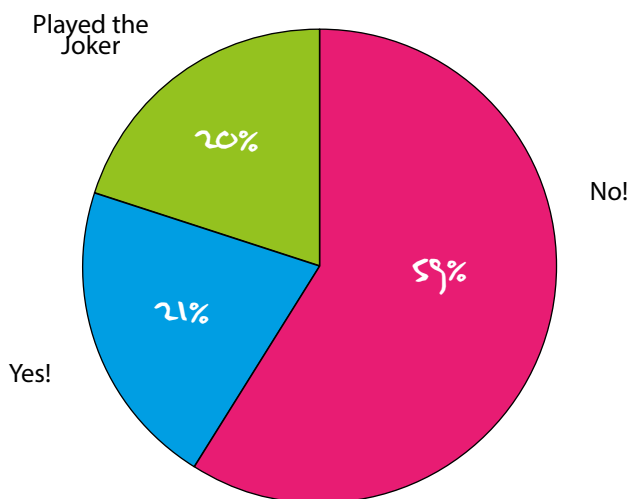


With visual screening technology, insurers can significantly decrease the processing time of claims and applications.

Only 29% of insurers indicated that visual screening is part of the underwriting or claim process. It is almost the same percentage as in 2016, when 32% of the participants stated that they used visual screening. Based on the survey results, it looks the adoption of visual screening is still in its infancy. The only difference right now is that 20% of the participants report that they would use the technology within the next year, compared to only 13% in 2016, illustrating that the industry believes this is still a promising technique.



Is your company planning to start using visual screening technology within the next 12 months?



PREDICTIVE ANALYTICS

“ **Predictive modeling and AI go hand in hand and are here to stay.** ”

Insurers' combined ratios are under pressure, competition is fierce, and profitability is hard earned. This is pushing insurance companies towards math, statistics and improved analytics. Predictive modeling is one of the techniques insurers could use to stay ahead of the competition.

P&C insurance companies believe that predictive analytics is on the rise and insurers are expanding the use of the application into new areas of operations within the organization. In 2016, insurers put faith in the model. Predictive models were applied in the field of risk mitigation, underwriting and pricing.

In 2018, predictive modeling is still being used for pricing (48%), underwriting (45%), fraud detection (32%) and risk mitigation (28%). It definitely appears that predictive analytics is here to stay and might even overlap with artificial intelligence.



For which disciplines does your company use predictive analytics?



CONNECTED DEVICES

In 2016, mobile technology was already in use at the majority of insurance carriers. It changed customer interaction, customer service, customer experience and sales.

At that time, it seemed that the use and existence of mobile apps at insurance carriers would rapidly replace traditional ways of communication between insurers and their customers. Based on the findings in previous questions, this idea might be a bit overrated, yet definitely existent.

The technology behind mobile apps for insurance has improved rapidly. In 2016, 53% of the insurers provided a mobile app to their customers. Since then, they have mostly improved their apps via a variety of add-ons and extra services like prevention of possible damages (27%), and advising on health and well-being (26%). Still, 25% of insurers report that they don't offer extra services or add-ons via their app.

Which additional services do you offer based on data from connected devices (e.g. smartphone)?





TO CONCLUDE

Innovation is an ongoing challenge. It is a way of life that will need attention in order to keep up, and which will completely surprise us every now and then.

Current themes, as shown in this survey, are numerous. From IoT to Blockchain to Artificial Intelligence. The question is how can these topics enhance insurance? In the end, we want to stimulate the industry to improve customer experience and deliver products that cover risks with a fair price.

As shown by the industry professionals interviewed for this survey, there is still a long road ahead of us in order to be able to work with the latest and greatest when it comes to digitalization. However, we are convinced that together we can make insurance more honest.

Thank you for reading.

Team FRISS



**STAY ON TOP OF INSURANCE TRENDS.
CHECK OUT:**

FRAUDTALKS

FRAUDtalks.com

A global network for insurance professionals, leaders and decision-makers in order to stay ahead of the fraud game and stimulate an honest insurance industry.

FRAUDtalks Conference

As an addition to the online community, we encourage insurance professionals, leaders and decision-makers to connect in real-life at our yearly FRAUDtalks conference. 6 acclaimed speakers will each dazzle the audience with an inspiring 18 minutes talk. FRAUDtalks brings a powerful program and an unconstrained vibe where insurance professionals can get connected and share ideas worth spreading.



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