FinTech

The PwC FinTech blog hosts all of our latest insights and opinions surrounding innovation, new emerging technologies and regulation in this space from our experts.

It's not a question of 'if', it's a question of 'how': the impact of FinTech on insurance

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By Jonathan Howe

The insurance landscape is changing, and quickly. FinTechs - or more particular for insurance - InsurTechs, are shaking-up the status quo and encouraging insurers to think in a different way. Yesterday, 15th March 2016, marked the launch of our first global FinTech survey "Blurred lines: How FinTech is shaping financial services". We interviewed over 500 executives from 46 countries on what FinTech means to them and their business.

The results are interesting; and what they do show is that insurers need to harness the innovative and entrepreneurial spirit of FinTechs, rather than shy away from it. FinTechs, on the other hand, recognise the opportunity in the insurance space, the value they can create - and they are determined to make an impact.

Customer centricity is fuelling disruption

Historically, insurers have found it tough building valued relationships with their customers, who buy a policy once, or once a year, and have no other contact with their providers unless they need to make a claim. As customers are becoming accustomed to the digital experience offered by the likes of Amazon, Google or even the online insurance aggregators, their expectations have changed and they expect the same level of customer experience from their insurers. Our research echoes this; 75% of respondents see the most important impact of FinTech is meeting changing customer needs with new offerings.

And startups are responding. Through working with Startupbootcamp InsurTech, I have noticed that over 70% of our shortlist are focused on the customer. And at the Big Data and IoT Hackathon last month over 80% of teams focused on engagement - with millennials a key focus.

Leveraging data and analytics to bring personalised value propositions while proactively managing risk

From my recent time in Silicon Valley, and by working closely with the Startupbootcamp InsurTech accelerator, I can see that data and analytics is incredibly important to both FinTechs and established insurers. For example, it underpins new technologies like wearable and telematics – what could be reams of information, can quickly be personalised and relevant.

Our survey shows that insurers are investing in the design and implementation of more self-directed services for customer acquisition and servicing. The results also indicate that self-directed services will be the trend that the market is most likely to respond to. With the likes of wearables and telematics, we can see that customers want more ownership of the insurance products they use – if they drive slower, will their car insurance be reduced? If they walk up the stairs instead of the lift, will they be rewarded by their health insurer? Technologies such as these encourage continuous engagement, and reward customers for displaying behaviours that reduce their risk.

Personalisation is a key part of this. While insurers have traditionally depended on a model that lumps customers together to pool risk, it is now possible to offer more bespoke cover – even tailored to a customer's specific usage patterns. We are moving from grouped risk, to personalised risk. Technology can also help move the dial from compensation to prevention, helping customers avoid events that lead to claims, rather than just compensating when something happens. This can make insurance a more relevant and satisfying purchase.

Blockchain – an untapped technology that's rewriting the rulebook

Traditional insurers need to reduce their cost base, to increase profitability and to make their products more affordable. Blockchain has the potential to transform insurers' infrastructure and processes – for example, when used in the claims area it could speed up the process, reduce fraud and enable instant communication with customers and other suppliers; enhancing trust, efficiency and satisfaction. Some insurers and FinTech companies are enthusiastically exploring where

Blockchain could add value.

But our respondents are on the fence. 56% see Blockchain as important, but 57% aren't sure how to respond. This could be because a strong 83% are at best 'moderately' familiar with Blockchain, and a very small percentage willing to call themselves Blockchain experts. I believe that this will change. Blockchain, and its application in insurance, is still in its infancy and it may not be the panacea that some advocates claim. But have no doubt that it will bring change.

What will tomorrow bring?

It's not a question 'if'. It's a questions of 'how'. Insurers must now decide how to embrace the opportunities new tech brings. It seems clear that they can't do this in isolation. Some have set-up their own innovation labs, while others are taking a venture capital approach to FinTech, investing in start-ups – either alone, or in partnership with others. But what we can see is that insurers who are open to the new and innovative – working with FinTech and reaping the benefits - can look forward to a brighter future.

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