



EY

Building a better
working world



Insurance bEYond 2020

How to stay relevant?

September 2020



EXEC Summary

1

The insurance market is increasingly challenged by tough macro-economic conditions e.g. unprecedented monetary policy, reduced economic growth rates and global instability. Most German insurance companies performed below industry average in recent years. Global economic damage of current COVID-19 pandemic and impact on insurance industry is uncertain.

2

Disruptive technologies and concepts like IoT, 5G, Artificial Intelligence, Cloud Computing, 3D printing and open insurance change vital parts of the traditional value chain and product portfolio. Insurers need to adapt, invest or cooperate to keep pace. Recent Corona Crisis underpins the need to develop further digital capabilities/assets and will fundamentally change the way of working.

3

Increasing competition in a saturated market, constantly changing regulatory requirements, evolving customer needs and new socio-economic factors even further accelerate the need to adapt in a changing market place.

4

In future, smart usage of data will enable companies to further maximize sales, reduce costs and manage risks. Product innovation will help mitigate sales reduction due to various exogenous factors. Value chain optimization will support in keeping pace with specialized providers and client experience improvements will retain - as well as win new - customers.

5

Market participants and sales channels will gradually change. Consolidation among insurers is expected to continue and specialized providers will tap parts of the value chain. Non-digital tied agents are still the dominant salesforce in retail business, but will shift towards a digitally enabled salesforce and platform economy. Current Corona Crisis will increase pressure to digitalize salesforce.

6

Local and foreign insurance companies have started to react to the challenges by acquiring or investing into innovative companies to secure intellectual property, building their own innovation centers and ecosystems as well as cooperating with tech companies to stay relevant in the future market place.

Table of Contents

- Insurance industry – Status quo
- What we did...
 - Factors driving the agenda of insurers
 - Hypotheses on possible changes in near future
 - Expected changes in a future market model
 - Key areas where we support insurers to stay relevant

Insurance industry continues to face an era of tough economic conditions: low interest, low growth, global uncertainty

"Global market turmoil and re-evaluation of global assets due to Corona Crisis. Central banks around the world initiate unprecedented monetary measures to stabilize the financial system with unknown short and long-term effect"

European Central Bank, Fed, Bank of England and many more, 2020

... insurance companies are the biggest institutional investors in Germany with EUR ~1.7 trillion invested.

GDV, latest figures

"Highly uncertain market conditions 2020ff. Damage of Corona Crisis to Top and Bottom Line of insurers not measurable yet. Insurance companies have to challenge their existing risk models, product landscape and digital capabilities to ensure business continuity"

EY outlook

... so far the Germany insurance market saw steady profitable growth between 2014-2019. 2020ff highly uncertain.

BaFin/GDV, latest figures, EY outlook

Besides primary effects like Corona, secondary effects like the impact of the on-off trade war between the US and China is felt across global supply chains. Firms across different industries are adjusting their operations to minimize the impact of further potential tariffs.

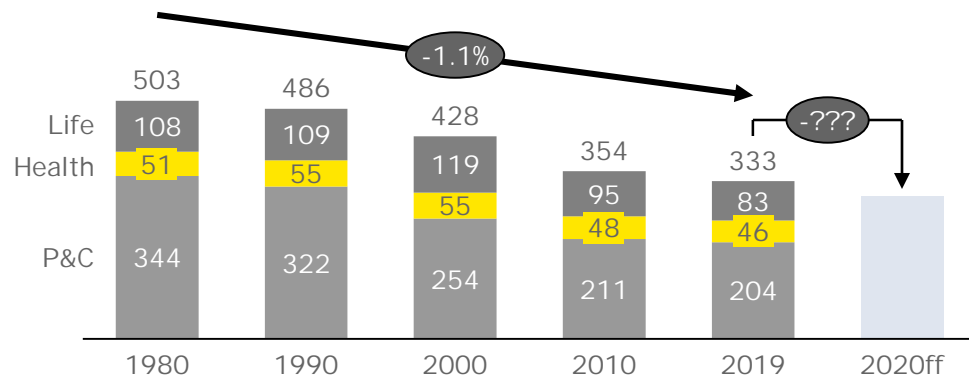
Swiss Re

... Germany is a main beneficiary of globalization. This economic openness is now turning into a vulnerability as the era of globalization turns into one of protectionism and economic nationalism.

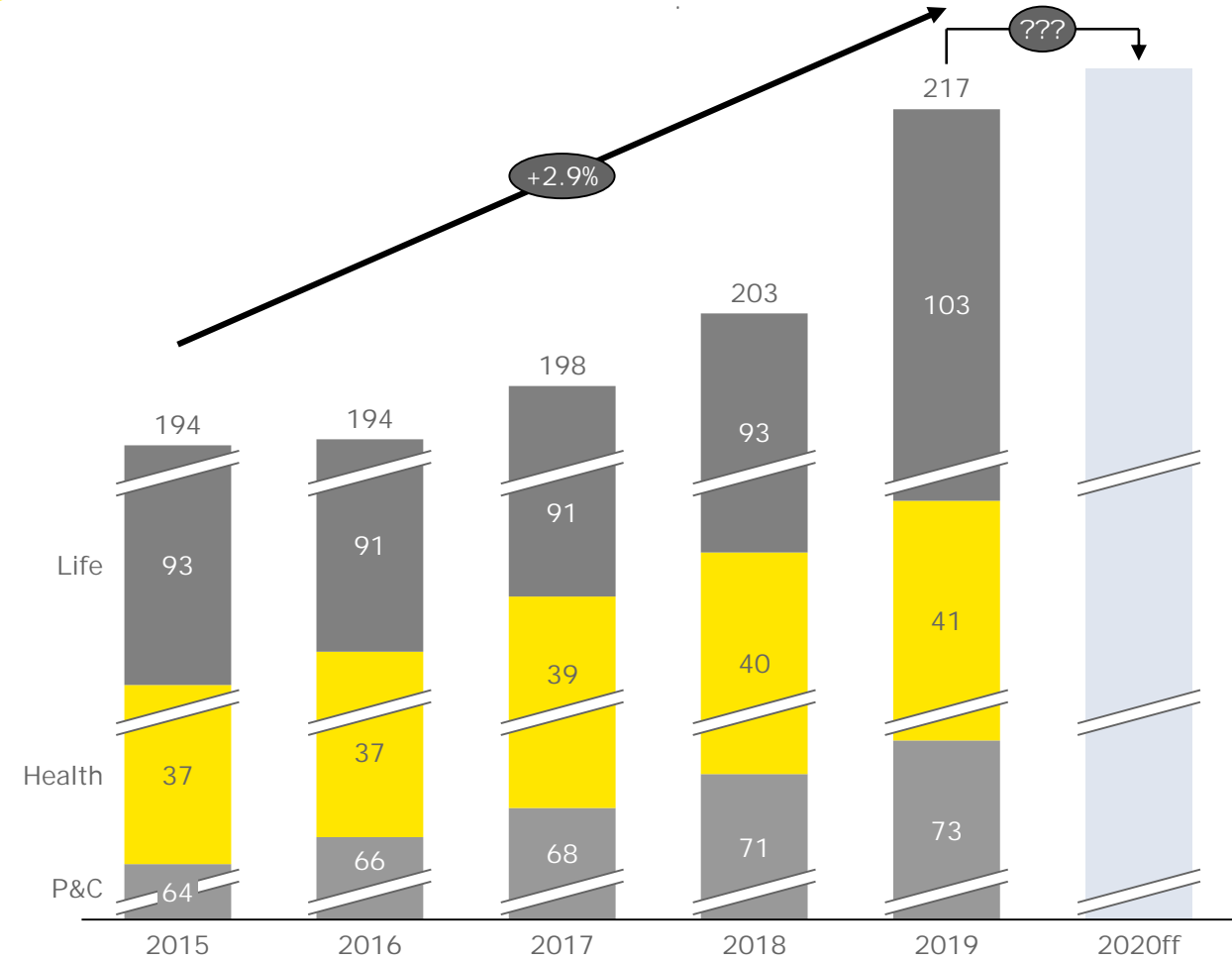
Bloomberg

German insurance market: In the last years, a decreasing number of licensed insurance companies with smaller workforce generated rising gross premiums

1 Number of registered insurers decreased in the last decades. While consolidation pressure forced participants out of the market, there were also some new companies registered recently – especially in the area of digital insurers. Trend expected to continue in 2020ff.



3 Rising gross premiums (in bn EUR) between 2015-2019. 2020ff. uncertain due to potentially negative impact on cancellation and new business due to global Corona Crisis.



2 Decreasing number of employed (in thousands) and self-employed workers in the German insurance industry. Trend expected to continue in 2020ff.

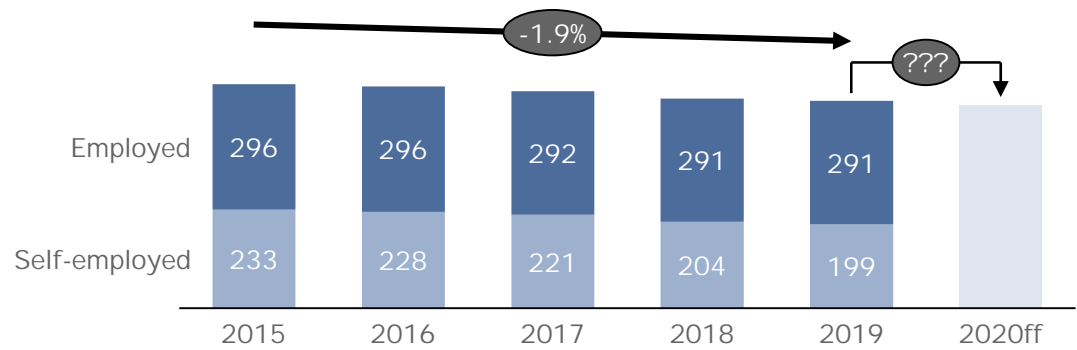




Table of Contents

- Insurance industry – Status quo
- What we did...
 - Factors driving the agenda of insurers
 - Hypotheses on possible changes in near future
 - Expected changes in a future market model
 - Key areas where we support insurers to stay relevant

What we did

A ...analyzed key factors driving the agenda of insurers going forward

By analyzing the latest trends, we identified 5 major areas putting pressure on established insurance business models



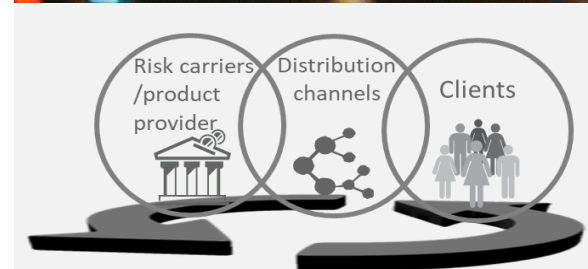
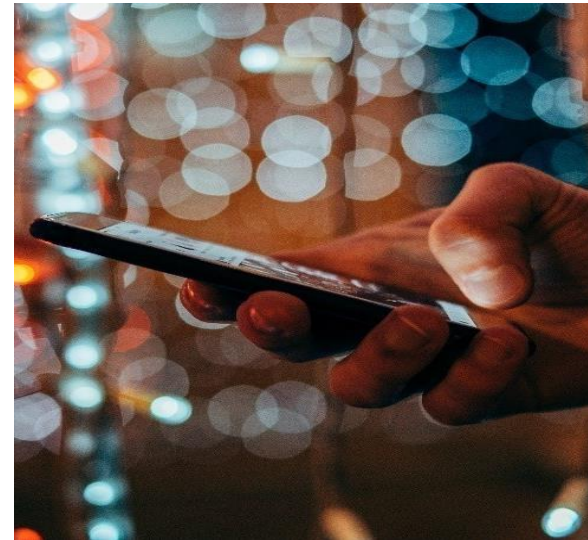
B ...framed 10 hypotheses leading to changes within the industry

Based on the identified areas we determined 10 hypotheses and their likely industry implications



C ...captured expected changes in a future market model

Trends likely to reshuffle the existing market model



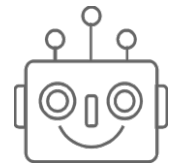
D ...defined key areas where we can support insurers to stay relevant

Concrete dedicated actions which need to be discussed to stay relevant in the insurance market of the future



Insurance of the future

Several factors increasingly put pressure on established insurers



Innovative technology

Disruptive technologies influence and change vital parts of the insurance value chain. Insurers need to adapt, invest or cooperate with technology companies (e.g. InsurTechs) in order to keep pace



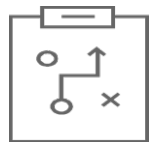
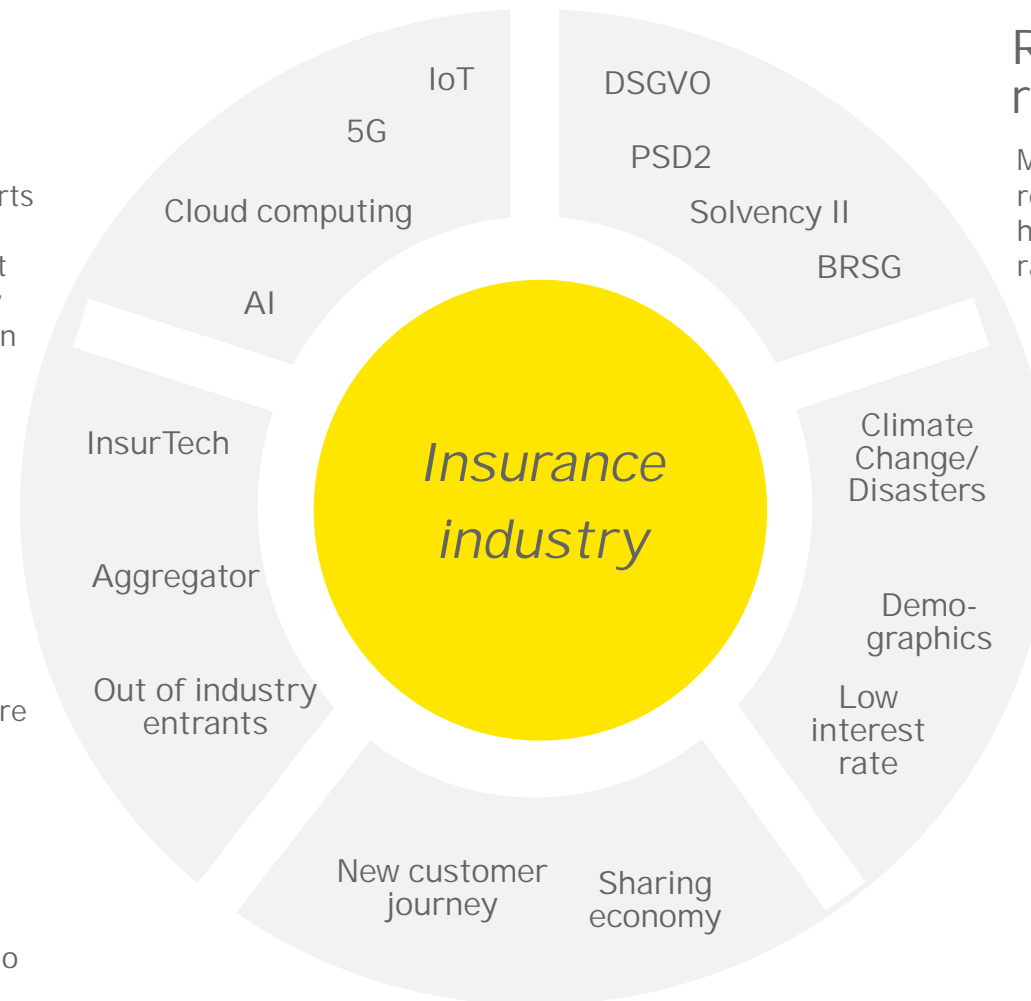
Regulatory requirements

More and stricter regulatory requirements impose bureaucratic hurdles, implementation and run-rate costs



Macro-, socioeconomic and catastrophic events

Exogenous factors impact insurers business models, and reinforce the need for continuous product portfolio adjustments and refinement of risk modelling. Impacts of Corona Crisis to be analyzed (e.g. social-distancing, re-shuffling of value chains, impact on risk model and balance sheet)



Increasing competition in a saturated market

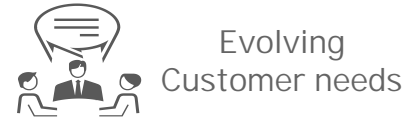
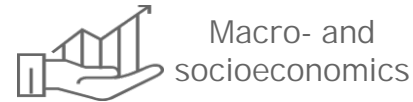
Insurance products get more and more commoditized with a vast number of insurance companies on the German market. New entrants with better technology (e.g. InsurTechs) or from other industries further increase competition. Smart cooperation with new entrants one of the key factors to evolve



Evolving customer needs

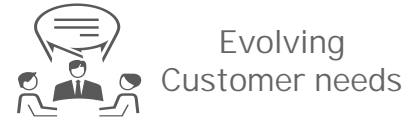
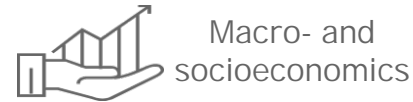
Drastic behavioral change drives the need for customer centricity

10 hypotheses on possible changes in the near future (1/2)



Factors	Hypotheses	Challenges
1 Global monetary policy 	Declining investment results increasingly force insurers to optimize cost structures, products and asset allocation. Unprecedented monetary measures create additional challenge	Insurers forced to turn around negative technical results and rethink their products while cutting costs. Impact of Corona Crisis potentially huge
2 Market consolidation 	Since 2000, no. of insurance companies decreased by ca. 20% - trend expected to continue while new licensed challengers emerge. Insurance brokers to be impacted as well	Adaption of strategy (M&A, Value creation) to take advantage and be prepared for expected market consolidation
3 Specialized providers 	Solution specialists (e.g. InsurTechs or established tech companies) are more and more conquering the value chain of insurers e.g. in products, claims, distribution etc.	Market participants forced to find ways to improve their own value chain efficiency. Key challenge to avoid severe cost and service problems
4 "Self-owned" digital ecosystems 	A significant share of insurance products will be distributed via digital ecosystems. Digital assets increasingly important to stay relevant	Find ways for successful participation in digital ecosystems and create meaningful digital assets with long term value
5 Converging/Cross-industry ecosystems 	Other sectors increasingly start selling insurance products e.g. e-commerce, health, automotive, housing etc.. Emergence of API economy	Market participants need to find ways to get access to other sectors/open market places and tap distribution opportunities

10 hypotheses on possible changes in the near future (2/2)

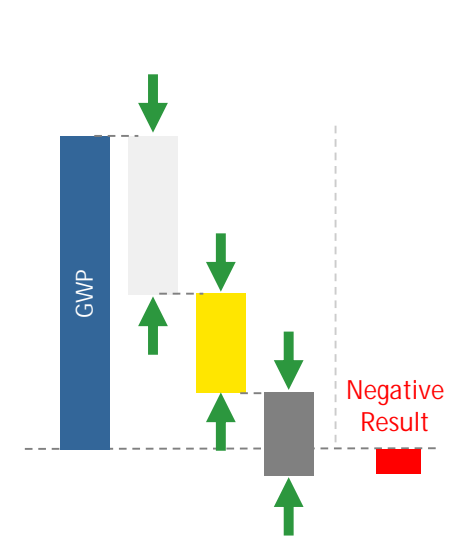
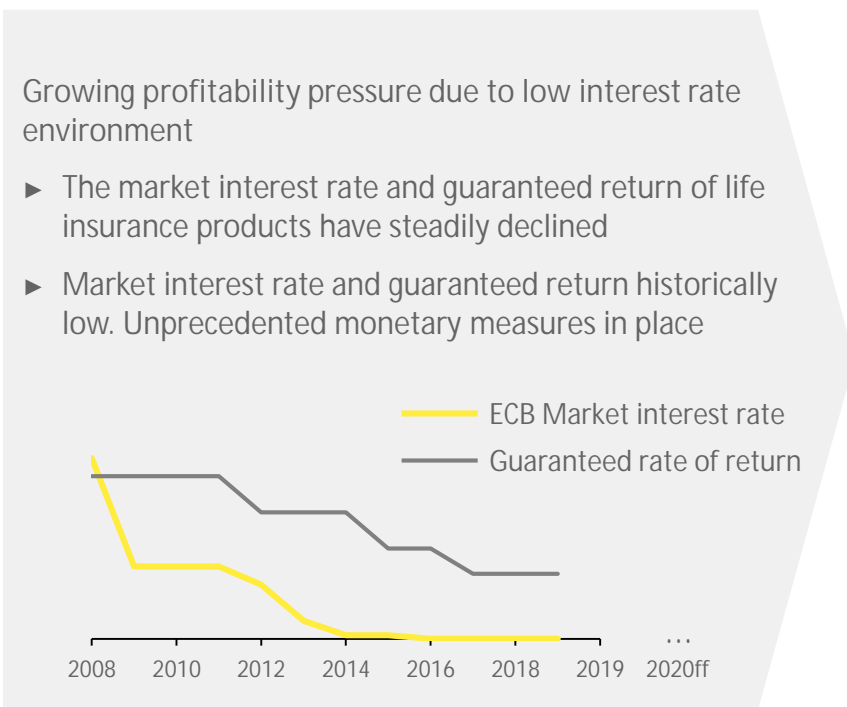


Factors	Hypotheses	Challenges
6 Customer Experience	Other industries set standards in convenient user experience; insurers are still lacking behind. Social distancing paradigm will speed up need for fully digital service offering	Companies need to provide a solid digital customer experience to avoid losing access to clients
7 Client interfaces	Customers increasingly do online research before buying online or offline. Social distancing paradigm will speed up need for fully digital service offering	Adaption of client interfaces and client interaction to match future customer needs
8 Distribution channel mix	Disruptive changes will significantly transform the distribution of commoditized insurance products. Market participants which are offering commodity products and not able to capitalize on new and innovative distribution channels will disappear step by step	Shift from face to face dominated sales culture to omni-channel distribution - including digital end-to-end insurance sale - to be managed efficiently
9 Product innovation	Need for product innovations due to changing client behavior, new ways of distribution, adverse weather conditions, growing cyber risks and cross-industry cooperation	Older product generations become more and more problematic while product innovations are likely to come with additional complexity
10 Data excellence	Data excellence will be a key differentiating factor for sales maximization, cost reduction and risk management. Emergence of AI and API economy	Market participants need to find ways to handle data correctly and exploit insights derived from data in meaningful ways

Unprecedented monetary measures by central banks create additional uncertainty and force insurers to optimize each position in their Profit & Loss

	Monetary policy 1/2 1
	Market consolidation
	Specialized providers
	Digital ecosystems
	Convergent ecosystems
	Customer Experience
	Client interfaces
	Distribution channel mix
	Product innovation
	Data excellence

- ▶ Insurance business was used to generate enough investment income with customer funds to compensate for negative technical results. Since 2008, the world is confronted with a historically low yield environment which threatens this principle
- ▶ Since 2014, the ECB Market interest rate is historically low and shows no signs of recovery. Insurance companies struggle to find suitable reinvestment opportunities pressuring their results. Latest Corona Crisis lead to unprecedented monetary measures globally which possibly enforces this trend and also creates additional risks in insurers balance sheets



Consequences

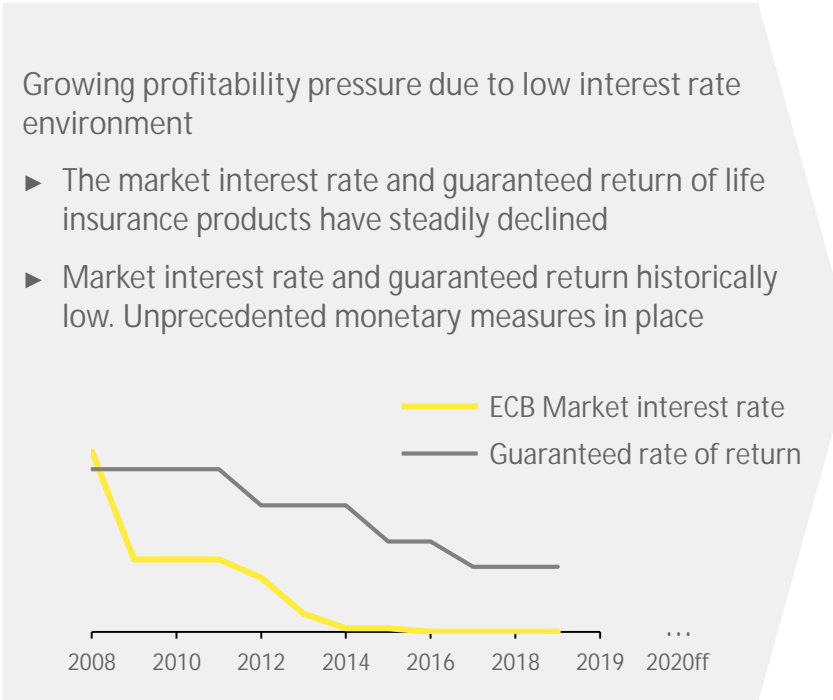
- Insurance companies are forced to compensate for missing investment results:
- ▶ Improved claims ratios (e.g. through more precise risk management)
 - ▶ Lower distribution costs (e.g. through digitally enabled salesforce and ecosystem economy)
 - ▶ Improved operations (e.g. modern core insurance systems or outsourcing to specialized providers)
 - ▶ Balance Sheet/Risk portfolio analysis to understand short-/long-term impact of current Corona Crisis

Key takeaway
 Under the current low interest rate environment, investment income might remain below the desired level and insurance companies are forced to compensate for missing investment results by optimization of their cost structure. Risk/Balance sheet exposure to be analyzed in context of current Corona Crisis

Low guaranteed return and long duration of life insurances are no longer attractive to consumers

	Monetary policy 2/2 1
	Market consolidation
	Specialized providers
	Digital ecosystems
	Convergent ecosystems
	Customer Experience
	Client interfaces
	Distribution channel mix
	Product innovation
	Data excellence

- ▶ Life insurance products are losing their allure as they are finding themselves increasingly in competition with alternative models of pension plans introduced by asset managers, fund providers and banks
- ▶ The poor positioning of life insurance product offerings within the insurance market is resulting in falling demand and decreased resiliency over changing industry and customer dynamics



What this means for insurers

- Acquisition of life insurance customers gets harder
- Rising customer expectation for alternative financial plans besides life insurance
- Asset managers and banks as new competitors providing alternative life and pension schemes

What insurers are doing

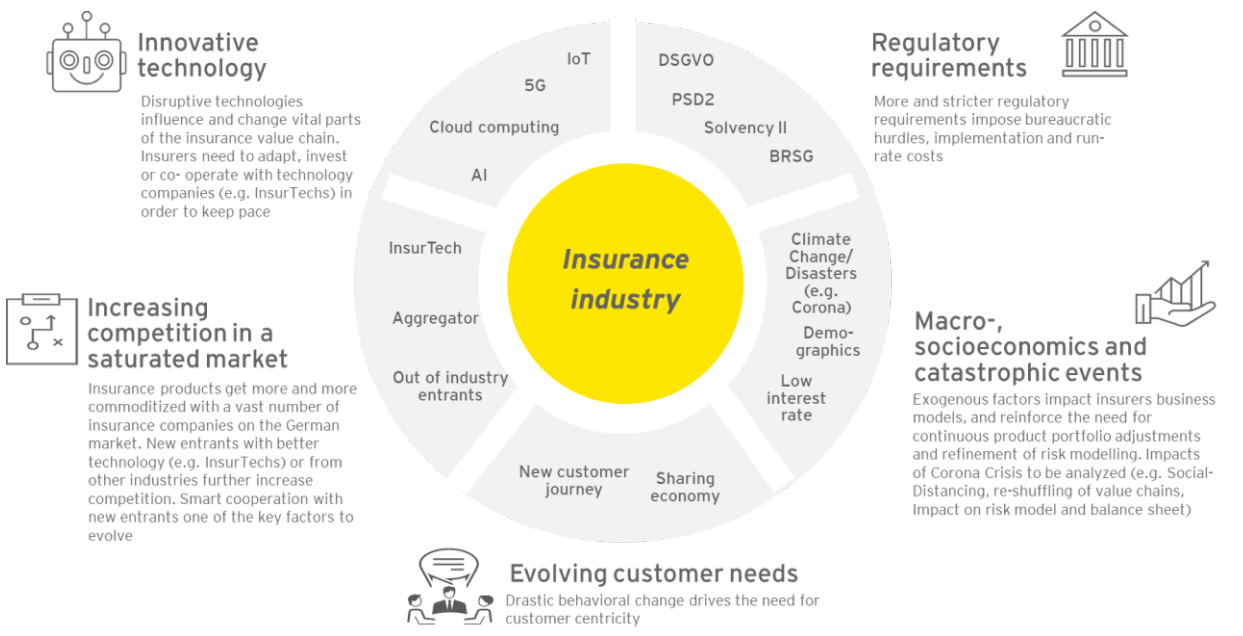
- ▶ Traditional life insurance products become obsolete, and capital market related products are more common
- ▶ The industry is shifting to unit-linked products and capital-light products (lower or no guarantees)
- ▶ Acknowledging the option to sell life insurance portfolios to run-off specialists
- ▶ Insurers still well positioned in the "savings business", but need to find strategies to maintain their position as attractiveness of life insurance products decline vs. alternative models
- ▶ Transition away from life insurance heavy product portfolio or target different products in life insurance

Key takeaway
 Life insurers (or insurance groups with life insurance focus) failing to adapt their product portfolio to the low interest rate environment will face material challenges to their existence. Asset managers, banks and other pension solution providers are taking over the role of traditional life insurance providers

Changing environment deteriorates market participants' cost and yield situation and intensifies the ongoing consolidation

	Monetary policy
	Market consolidation 2
	Specialized providers
	Digital ecosystems
	Convergent ecosystems
	Customer Experience
	Client interfaces
	Distribution channel mix
	Product innovation
	Data excellence

- ▶ Consolidation pressure on the insurance industry will increase due to changes in the market environment and the customers' behavior as well as rapid developments in the technological environment
- ▶ As a consequence, companies that are not able to adapt to the changing environment will not survive. Thus, the number of market participants will decrease further



Shrinking number of insurance companies in Germany

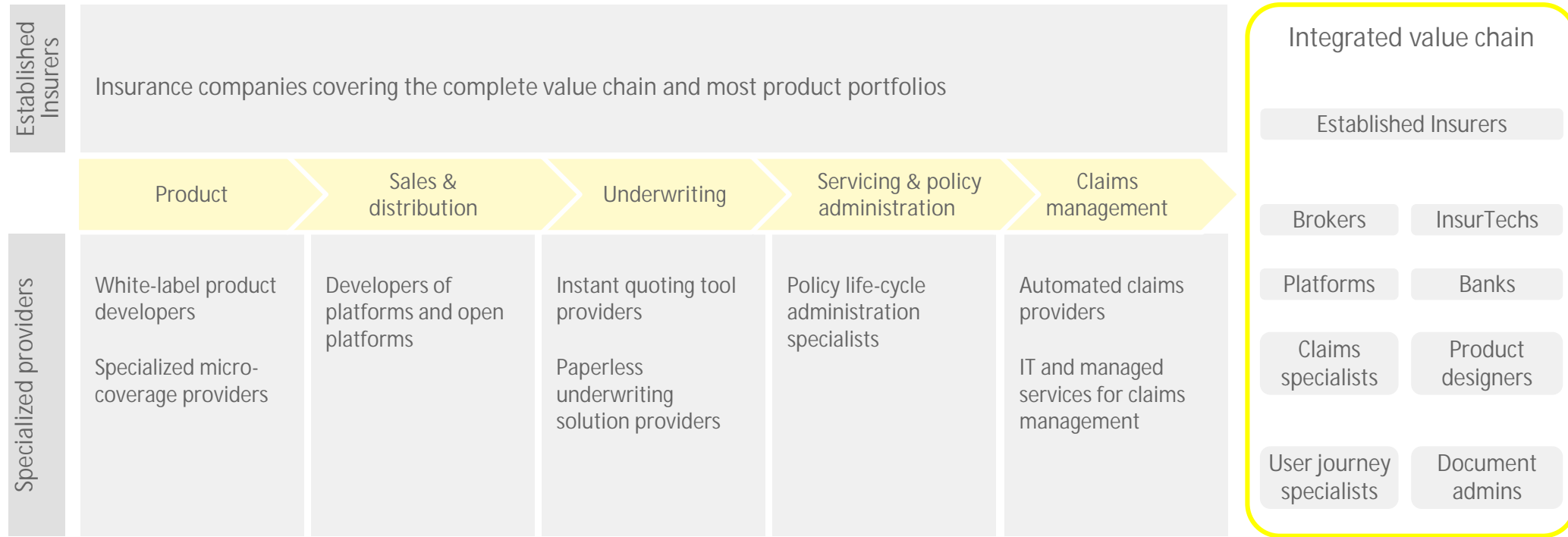
- ▶ The insurance industry will experience an accelerated development towards a "winner-takes-all" market as smaller players will have a hard time keeping up with ongoing and upcoming industry challenges
- ▶ The consolidation in the insurance industry fuels a thriving M&A market as larger companies try to capitalize on operational synergy potential and search for new ways to reduce costs

Key takeaway
 Consolidation within German insurance market already ongoing. Many insurers and other market participants will struggle to anticipate and adapt to the enormous challenges which the industry is faced with. Thus, many will have a hard time surviving the process leading to an overall consolidation in the market

Specialized solution providers focusing on distinct parts of the insurance value chain are expanding

	Monetary policy
	Market consolidation
	Specialized providers 3
	Digital ecosystems
	Convergent ecosystems
	Customer Experience
	Client interfaces
	Distribution channel mix
	Product innovation
	Data excellence

- ▶ Specialized function-oriented solution providers are offering services along the entire insurance value chain
- ▶ The speed and extent of a possible decomposition of the insurance value chain seems to be on the rise
- ▶ Insurers seek to innovate, cooperate with, copy or buy specialized service providers

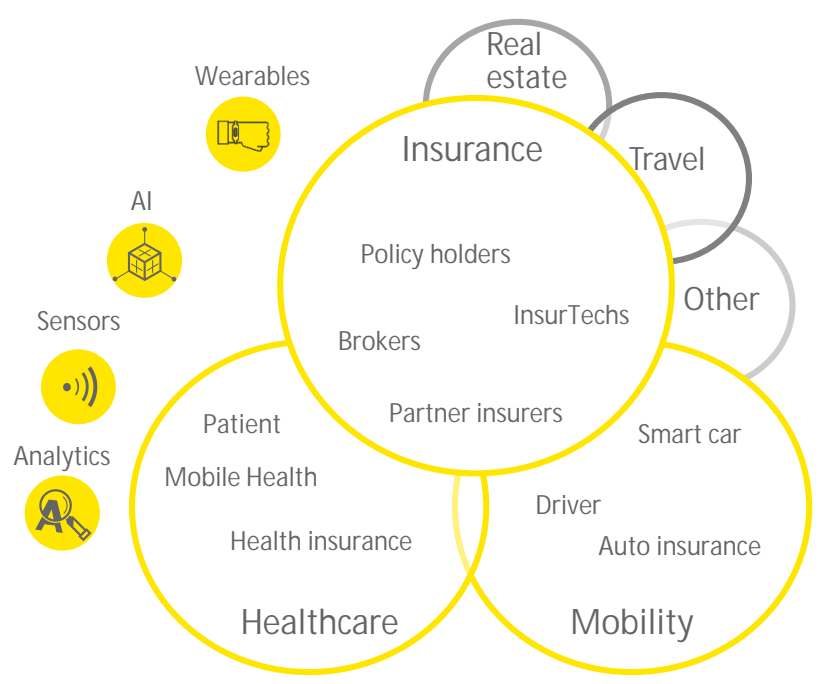


+ **Key takeaway**
 Scalable cost reduction and effective capability improvement motivate established insurance companies to explore joint opportunities with function-oriented specialists. Many insurers are undergoing strategic acquisitions and cooperation activities with these solution providers

Integrated ecosystems with insurance and complementary services are shaping a one-stop-shop

	Monetary policy
	Market consolidation
	Specialized providers
	Digital ecosystems 4
	Convergent ecosystems
	Customer Experience
	Client interfaces
	Distribution channel mix
	Product innovation
	Data excellence

- ▶ Leading insurers are starting to implement their open insurance platforms
- ▶ These ecosystems possess direct customer interface across diversified sectors on basis of proprietary data resources
- ▶ Data is the central component in the operation of ecosystems



- Consumers requirements:
- Network effect of complementary services around insurance
 - Instant information transparency of price and benefits
 - Seamless purchasing experience

- Benefits for ecosystem partners:
- Connection with hard-to-reach customers
 - Cross-/up-selling opportunities
 - Additional fee and commission sources

- Potential implementation
- Build:
Technically and financially capitalized insurers as self-developer
- Buy:
Financially capitalized insurers acquire ecosystem providers
- Cooperate:
SME insurers and non-digital brokers

Some leading insurers are starting their open insurance platforms

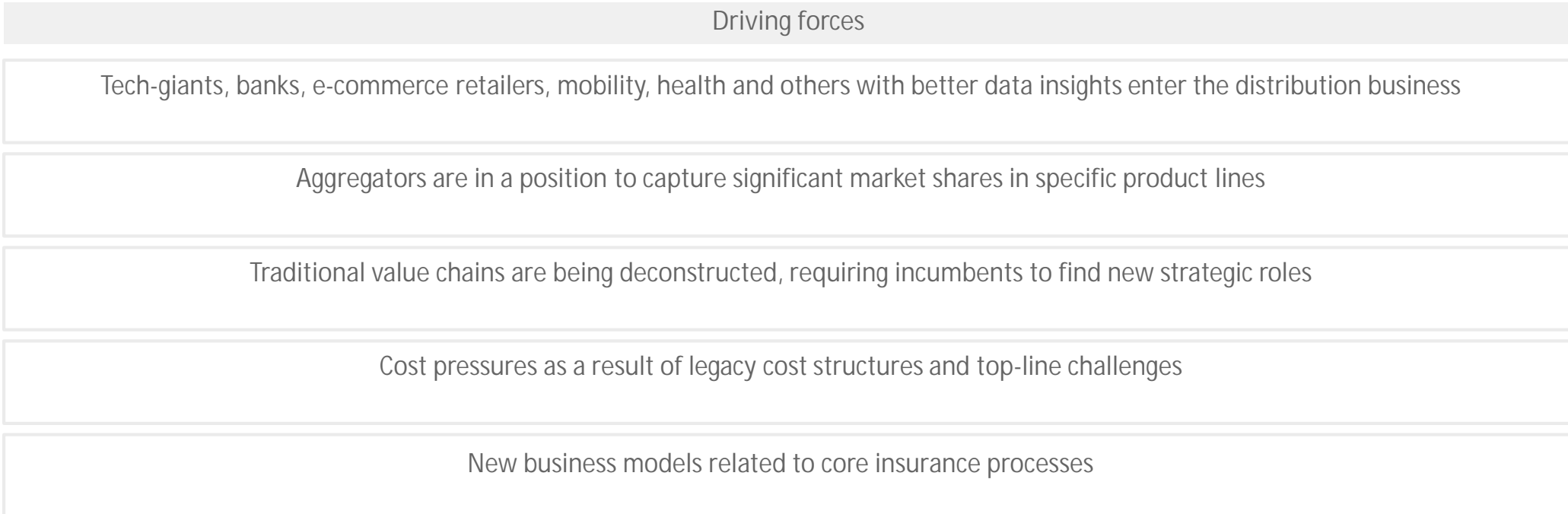
Key takeaway
 Open insurance platforms are predicted to be a major solution to generate virtual ecosystems, on which enhanced transparency, comparability, and customer-oriented solutions can be provided to generate added value for all market participants

Players with better data insights are generating new insurance business models that benefit from growing adoption

	Monetary policy
	Market consolidation
	Specialized providers
	Digital ecosystems
	Convergent ecosystems
	Customer Experience
	Client interfaces
	Distribution channel mix
	Product innovation
	Data excellence

5

- ▶ Leading technology players with their own proprietary ecosystems have an increasing interest in selling insurance products as they have good access to client data and are dominating the client interface
- ▶ New entrants from outside the traditional insurance industry (e.g. health, e-commerce, mobility, home) develop use cases replacing or complementing incumbents solutions and offers



+ **Key takeaway**
 The risks of direct replacement or disruption are limited, yet the focus is on collaboration and partnerships. Securing the right and most promising partners is key and implies a strong competition between strategic and financial investors

Seamless customer experience and new market standards are expected in insurance industry in the near future

- Monetary policy
- Market consolidation
- Specialized providers
- Digital ecosystems
- Convergent ecosystems
- Customer Experience** (6)
- Client interfaces
- Distribution channel mix
- Product innovation
- Data excellence

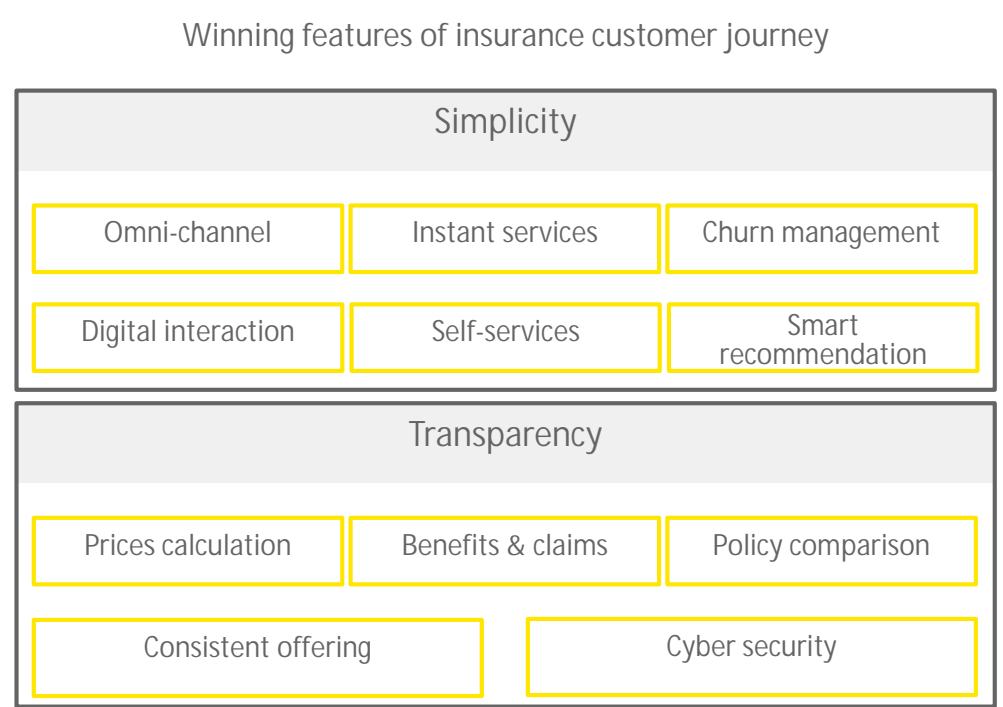
- ▶ Convenient customer experience and flexible pricing models are crucial factors to win consumer loyalty and trust
- ▶ Digital native industries have created new market standards with customer-centric journey design, which will be expected in insurance industry as new normal as well

Swift and easy customer experiences are set as market standards by industry leaders worldwide

Online services e-commerce

Banking Asset management

Mobility Healthcare



Better customer management

Satisfaction:

- ▶ Convenience advantages over timely services
- ▶ Low-cost by personalized product offering

Trust:

- ▶ Reasonable, adequate pricing
- ▶ Robust security and privacy to safeguard data

Loyalty:

- ▶ Maximize retention
- ▶ Cross-/up-selling

Key takeaway
 Convenient consumer experience is essential for insurers' existence. Insurance companies are thus urged to deploy the right mix of technologies, which will facilitate insurance companies in retaining existing policy holders and attracting new customers

In addition to brand and product differentiation, intuitive interfaces serve as a source of critical user data

	Monetary policy
	Market consolidation
	Specialized providers
	Digital ecosystems
	Convergent ecosystems
	Customer Experience
	Client interfaces
	Distribution channel mix
	Product innovation
	Data excellence

- ▶ Proximity to customers is becoming digital. Incumbent insurers have to adopt flexible and agile approaches to attract and retain clients. Social distancing paradigm in current Corona Crisis will likely enforce this trend
- ▶ 99% of customers will do online research before purchasing in the near future, expecting to gain clear and simple content. 80% of insurer-customer interaction will be digital

Recent market developments...

...Companies design focused applications that solve specific problems, and deliver high quality and intuitive digital experiences...

...Customers research and buy products online, and expect personalized communication through mobile channels...

...Leveraging data to improve underwriting, and product development, drives revenues and profitability by speeding entry into profitable niches

Trends & Consequences

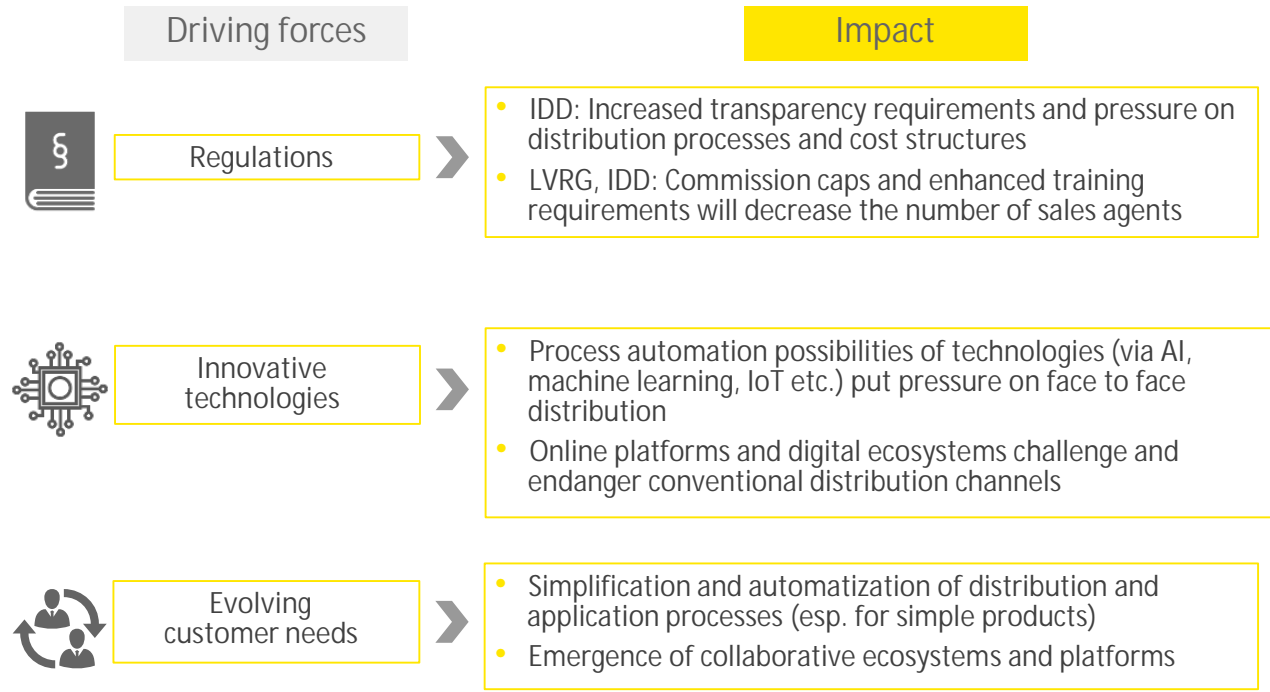
- Customer centricity will result in more solutions that identify, predict, and fulfill changing demands, thus, broaden premium sources
- Customer behaviors are changing, and expectations of tailored solutions are rising. This is leading to more partnerships with established platforms/ecosystems to launch insurance products
- Regulations (e.g. PSD2), together with open source platforms, support the emergence of ecosystem economies, affecting client authentication interfaces across the board
- Usage convenience represents the baseline for success, since it often serves as a decisive competitive factor along the customer journey

+ **Key takeaway**
 Evolving customer interfaces contribute to greater premiums for expanded product portfolios. Insurers are able to provide lower-premium products to cover niche segments. Cost efficiency in mass market communication

Tied agents and brokers will continue to consolidate and be further embedded in an omni-channel sales approach

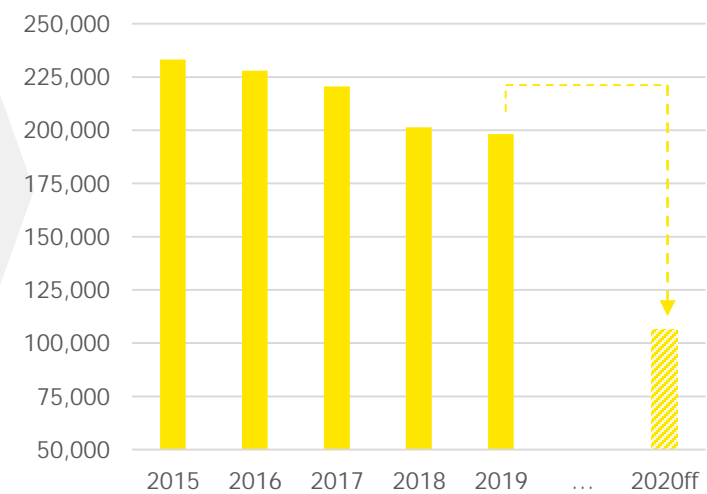
- ▶ New regulative requirements, innovative technologies and evolving customer needs change the conventional distribution channel mix
- ▶ In the upcoming years, face to face distribution will decline with the shrinking number of tied agents and insurance brokers. Digitally enabled tied sales force will partially persist as part of new multi-channel distribution solution

- Monetary policy
- Market consolidation
- Specialized providers
- Digital ecosystems
- Convergent ecosystems
- Customer Experience
- Client interfaces
- 8 Distribution channel mix**
- Product innovation
- Data excellence



Shrinking number of insurance salesforce in Germany

• Salesforce (tied agents and brokers count) in Germany is expected to further reduce in future



Source: GdV, EY Research

Key takeaway
 Consolidation of traditional salesforce already ongoing. Disruptive changes will significantly transform the distribution of commoditized insurance products. Market participants which are offering commodity products and not able to capitalize on new and innovative distribution channels will disappear step by step

Individualized and adaptive insurance and pension solutions replace traditional array of insurance offerings

	Monetary policy
	Market consolidation
	Specialized providers
	Digital ecosystems
	Convergent ecosystems
	Customer Experience
	Client interfaces
	Distribution channel mix
	Product innovation
	Data excellence

9

▶ Almost all dimensions of megatrends induce insurers to develop new products to cope with present and upcoming challenges as insurance start-ups/ scale-ups are quickly accommodating changing demand

▶ Changing market characteristics and new insurance risks categories require insurers' adequate reaction and the adjustment of existing business models and product portfolios

Regulatory requirements

- ▶ The German BRSG (Occupational Pensions Strengthening Act) enhances the emergence of new corporate pension scheme solutions

Evolving customer behavior

- ▶ Modern value proposition puts the focus on more individualized, customer-centric insurance solutions
- ▶ Increasing demand for situational and modular product design

Macro- and socioeconomics

- ▶ Changing risk characteristics (e.g. longer life expectancy, more NatCat damages, Pandemic events etc.) require adjustments of existing products
- ▶ Low interest environment threatens existing business models and product portfolios

Innovative technology

- ▶ Emergence of new risks due to technological innovations (e.g. autonomous driving, rising cyber risks, etc.)
- ▶ Enabler for predictive risk prevention as add-on service
- ▶ Pay-as-you-go

Property & Casualty

- ▶ InsureTechs capitalize on AI and big data analytics to accelerate the provision of new products in microcoverage
- ▶ Traditional insurers have e.g. partnered with sanitary fittings manufacturer to provide smart home insurance

Life & Health

- ▶ A growing number of companies offer digital corporate pension scheme solutions for employers and employees and innovative health care solutions
- ▶ Emergence of start-ups offering flexible pension planning for individuals

Key takeaway
 New products in both life and non-life insurance categories are strongly demanded by consumers. Emergence of new risks categories represent enormous potential for market leading insurers

Access to data creates opportunity in all parts of the value chain

	Monetary policy
	Market consolidation
	Specialized providers
	Digital ecosystems
	Convergent ecosystems
	Customer Experience
	Client interfaces
	Distribution channel mix
	Product innovation
	Data excellence

10

► Utilization of insurance-related client data creates new opportunities in product development, distribution, underwriting, policy management and claims management

► The cornerstones for the commercial exploitation of big data are technological innovations, regulatory changes and data relevant add-on services

Trend catalysts

	Artificial intelligence	►	<ul style="list-style-type: none"> Considerable efficiency gains in underwriting, claims and modularization of products AI-based digital assistants (e.g. robo-advisory and chatbots)
	5G	►	<ul style="list-style-type: none"> Significantly improved quality of customer journey via real-time insurance
	PSD2/Open Insurance	►	<ul style="list-style-type: none"> (Re-) Rise of bancassurance and push of one-stop finance concept Client and risk relevant data is necessary to develop personalized products and define pricing models
	Big data analytics	►	<ul style="list-style-type: none"> Utilization of big data related to customer insights Advancing business through the application of statistical, processing and analytical techniques

Industry impact

- New distribution & revenue models:
 - On-demand insurance
 - Usage-based insurance
 - Covering of new risk types
 - Targeted marketing
 - Improved prediction + prevention
 - P2P insurance
 - Lead generation
- Lower costs through better risk calculation
- Shift from pure risk coverage towards "predict and prevent"
- Add-on services (e.g. empirical knowledge analysis on client data)

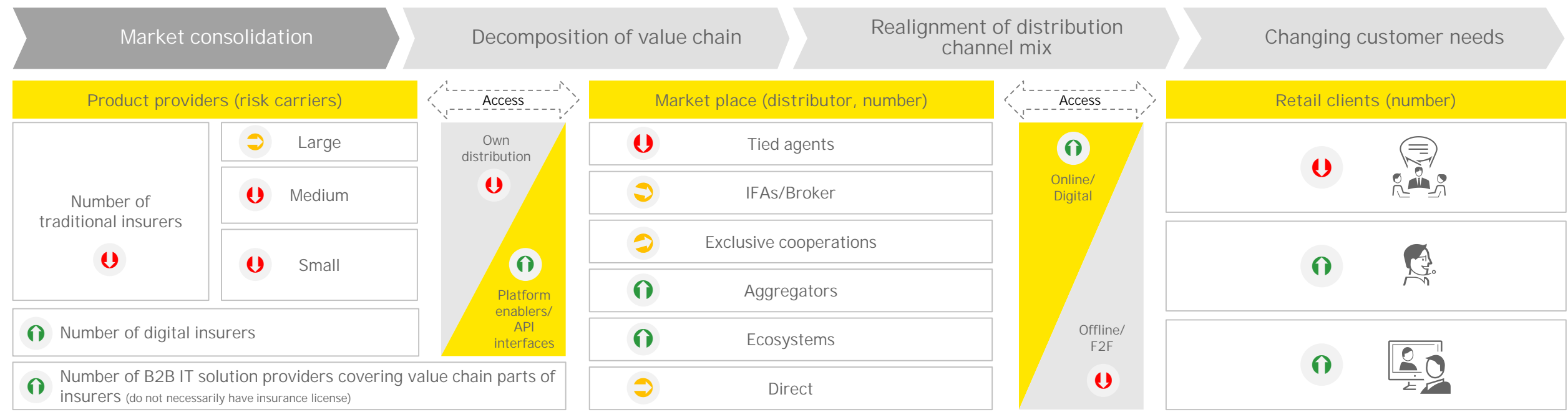
National and European regulators likely to closely watch the unrestricted formation of overly powerful data monopolies

→ Possibility of monopoly break-ups by regulators or legal enforcement of data sharing (like PSD2)

Standardized open data exchange

Key takeaway
 The value chain is impacted by data excellence. Insurers have to utilize the access and meaningful analysis of data in e.g. sales, underwriting and claims to take advantage of the benefits and maintain their future competitiveness. FRIDA newly initiated initiative to drive open data exchange between market participants

Digitalization and the need for customer centricity will reshuffle the insurance market place in the near future

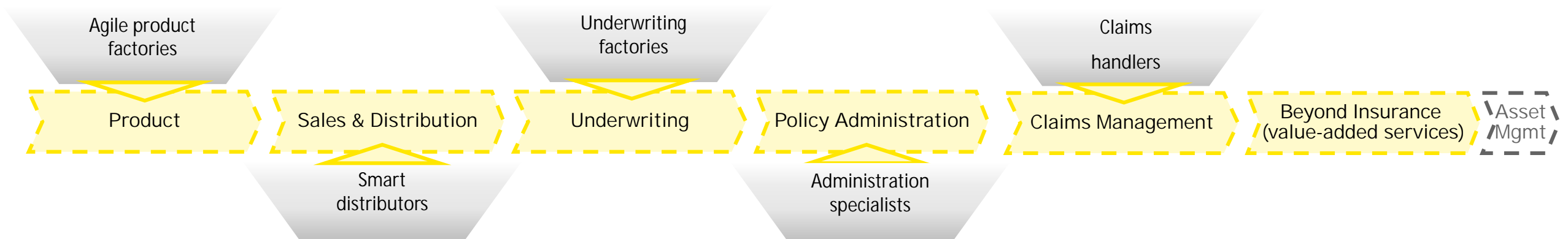


- ▶ Only a few larger insurers will be able to successfully keep a broader product range and a strong omni-channel distribution mix under one roof
- ▶ Mid-sized and smaller players will tend to make use of external distribution channels (such as API interfaces), while focusing on core products
- ▶ Some small and mid-sized insurers lacking own distribution capacities are likely to become pure product providers for third party distributors

- ▶ Distribution will shift from offline to multi-channel, especially for commoditized products
- ▶ Classic tied agent F2F advice will decline but will stay relevant for complicated products and older generations; IFAs have to upgrade technology stack
- ▶ Bancassurance partnerships or partnerships with other industries will remain relevant, with higher number of client touchpoints throughout the year
- ▶ Aggregators / Ecosystems to mature and will further increase market share

- ▶ Average retail clients will become more educated and self-directed with an ability to navigate online and understand the basics of insurance products
- ▶ Real-time interaction will put customers in control and improve conversion rates
- ▶ Online self research will be widely spread while still a number of Germans will purchase offline (ROPO)
- ▶ Corona Crisis enforces new social behavior and fuels the need for fully digital sales capabilities

Incumbent value chains are decomposed by new entrants and established players



I Capturing the value chain vertically - new entrants

- ▶ InsurTechs create improvements for particular sub-processes of the core insurance value chain and from lock-in positions expand into neighboring processes and service offerings
- ▶ With the emergence of digital ecosystems, incumbents need to manage portfolio partners more efficiently and strategically in order to retain control of their value creation and proposition

II Entering the value chain from outside - horizontal integration

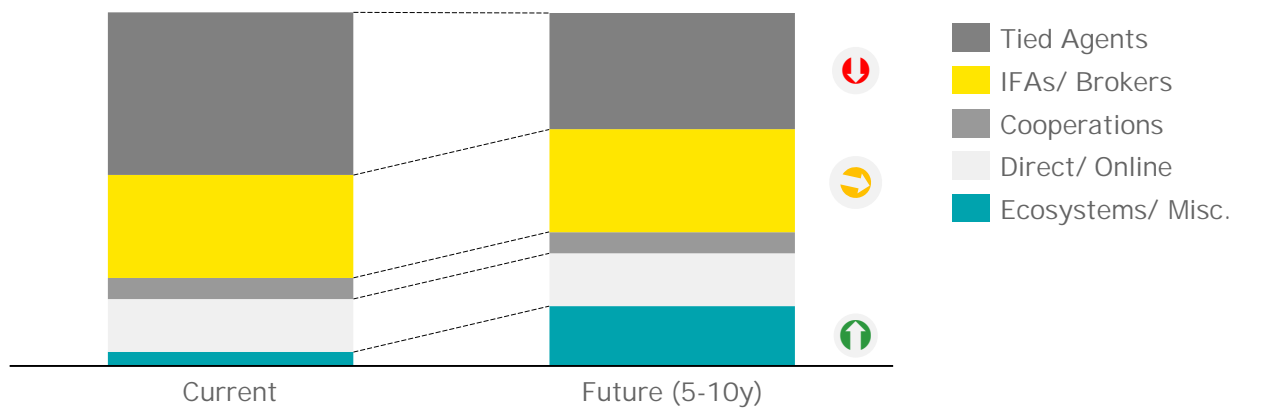
- ▶ Start-ups from outside the insurance industry complement products and processes, such as analytics or customer engagement providing low-cost and high quality improvements to incumbent offerings
- ▶ Vendors may in some cases obtain dominance in areas such as customer ownership, value-added service networks, data value creation and others

Key takeaway
Value chain decomposition is a stepwise process requiring careful portfolio and capability management

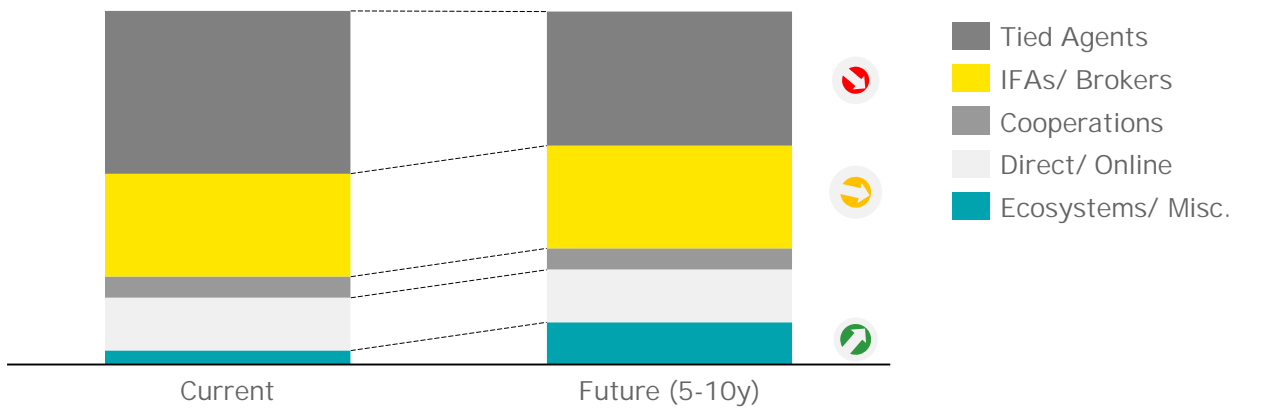
Channel mix changes - A tied agent and face to face dominated sales culture converts towards an omni-channel approach with ecosystems entering the arena



Aggressive scenario* - New business premium by sales channel (P&C)



Conservative scenario* - New business premium by sales channel (P&C)



Possible changes in sales channels

- Currently, insurance sales is still dominated by offline tied agents (with different shares in retail vs. commercial business), followed by IFAs/Brokers, exclusive Cooperations (mostly banks) and Direct/Online
- Following latest GDV figures from 12/2019, the number of tied agents in Germany reduced on average -6% p.a. between 2015-2019. However, the premium share of tied agents remained almost flat
- The reduced number of tied agents will likely lead to reduced premiums generated by this sales channel in the near future with customers increasingly asking for omni-channel and modern solutions based on their personal situation and preference
- There will be steep differences in speed and depth of disruption between simple vs. complex products and retail vs. commercial products with commodity insurance products shifting away from personalized sales first and at faster pace. Complex and/or commercial products will get disrupted later and more unlikely as the degree of consulting and "push-sale" remains high and difficult to disrupt
- Non-digital enabled sales intermediaries will most likely vanish from the market place step by step as customers increasingly ask for digital solutions. Current Corona Crisis and social distancing paradigm potentially will enforce this trend
- Digital ecosystems/open market places have the potential to absorb the premium reductions of other sales channels and emerge as one of futures' major sales channel

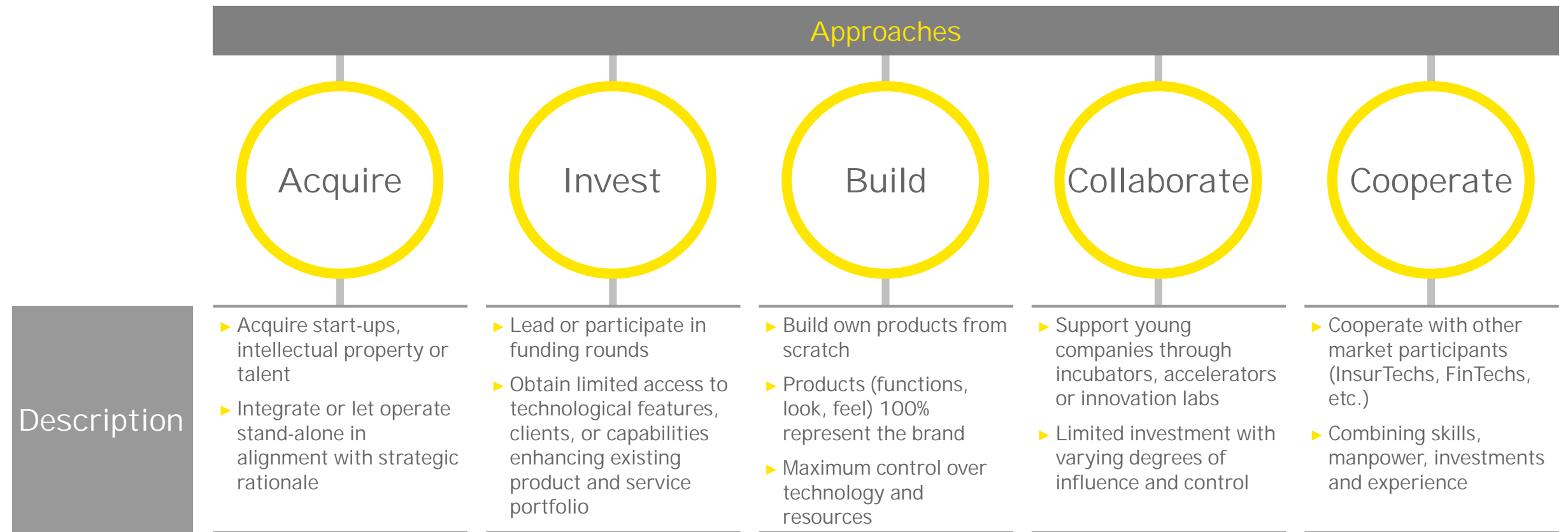
*Between 2015-2019 the number of tied agents reduced by -6% yearly (Source: GDV). Assumption: 50% (25% in conservative scenario) of this reduction will also convert towards premium reduction of this sales channel and gets absorbed by disruptive sales channels e.g. ecosystems.

Changing customer needs are pushing for new industry standards



Key takeaway
 Clients will be looking even more stringently for best combination of convenience, flexibility, price and trust

Incumbents leverage different approaches to collaborate and compete



About EY and InsurLab Germany



About EY

- EY is a global leader in assurance, tax, transaction and advisory services and a driving force in financial service innovation. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies all over the world. In doing so, we play a critical role in building a better working world for our people, for our clients and for our communities.
- EY supports start-ups with financing and growth, runs several accelerator programs, helps fostering partnerships and publishes studies around the FinTech landscape. We are also actively participating in the scene by providing speakers and mentorship. Our experts offer decades of experience in the financial service industry and we are a member of InsurLab Germany since day 1.
- We are a competence center for financial services innovation – get in touch!



About InsurLab Germany

- The industry initiative InsurLab Germany was founded in 2017 by the city of Cologne, IHK Cologne, University of Cologne, TH Cologne, established insurance companies and start-ups.
- The aim of InsurLab Germany is to advance innovation and digitalization in the insurance industry, in order to actively shape the future of the industry with new impulses and new ways of working.
- Within the Digital Hub Initiative, set up by the Federal Ministry of Economics and Energy, InsurLab Germany forms the location of competence for InsurTech in Cologne.
- Currently, 84 members belong to the association. Among them are many well-known insurance companies, universities, leading service providers and start-ups.

Your key contacts



Christopher Schmitz
Partner

Phone: +49 160 939 13545

E-Mail: Christopher.Schmitz@de.ey.com



Florian Gmach
Director, Strategy & Transactions

Phone: +49 160 939 23374

E-Mail: Florian.Gmach@de.ey.com



Christian Rink
Senior Manager, Strategy & Transactions

Phone: +49 160 939 29473

E-Mail: Christian.Rink@de.ey.com



Bastian Hengstler
Manager, Strategy & Transactions

Phone: +49 160 939 22604

E-Mail: Bastian.Hengstler@de.ey.com



Sebastian Pitzler
Managing Director

Phone: +49 221 98652920

E-mail: Sebastian.Pitzler@insurlab-germany.com



Laura Duffe
Managerin Communication, Marketing & Events

Phone: +49 221 98652920

E-mail: Laura.Duffe@insurlab-germany.com



Stefan Schmid
Senior Corporate Manager

Phone: +49 163 5683033

E-mail: Stefan.Schmid@insurlab-germany.com