Major trends in the insurance landscape
“Back to basics” Insurance conference
Ljubljana, September 6th
Insurance is at the verge of a profound change in its value creation model, with technology and shifting client expectations as foremost drivers.

**Technology**
- Connected devices (incl. smartphones)
- Artificial intelligence
- New payments
- Block chain

**Client behaviour**
- Research and purchase online
- Looking for simplicity
- Access 24/7, self-control

**Regulatory & economic environment**
- Low interest rates
- Increasing transparency
- Regulation (e.g., PRIIPS)
In the expected evolution of insurance landscape, we can easily identify four major trends:

1. **New attacker models**
   - Direct 2.0 powered by incumbents and new players

2. **Incumbents**
   - Digitizing the value chain

3. **Disaggregation of the value chain**
   - Specialized digital players dismantle the value chain

4. **Ecosystems emerging**

Source: McKinsey analysis
In addition to Insurtech attackers, even big Tech companies are the door

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<tr>
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<th>Google</th>
<th>Amazon</th>
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<tr>
<td><strong>“Pros” of entering</strong></td>
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<td>Market view and customer data</td>
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<td>Access to huge customer base</td>
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<td>Current activity in personal finance area (Google Play)</td>
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<td>Already offering insurance product (Amazon protect)</td>
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<td>Ability to offer insurance to sold products</td>
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<td><strong>“Cons” of entering</strong></td>
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<td>Threats to the core Adwords business</td>
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<td>Partnership negotiations</td>
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<td>High share of manual processes</td>
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<td>Established aggregators</td>
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<td><strong>Momentum</strong></td>
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<td>Unsuccessful launch of Google Compare (shutdown in 2016)</td>
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<td>Insurance PWC in UK currently under establishment</td>
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<tr>
<td><strong>Probability</strong></td>
<td>Low</td>
<td>High</td>
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3. Aggregators have been reshaping the Motor insurance market in Europe

Direct Motor GWP in core European markets\(^1\),
2007-18, EUR billions

CAGR ‘07-‘18E

Non-PWC

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<td>PCW</td>
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<td>17,2</td>
<td>18,2</td>
<td>18,0</td>
<td>18,6</td>
<td>19,8</td>
<td>22,2</td>
<td>23,4</td>
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Source: McKinsey analysis
1. Germany, France, Italy, Spain, The Netherlands, UK
2. Major trends in digitalization of the insurance value chain

- **Initial consideration**
  - Agile marketing war room/leads engine (e.g. content affiliates)
  - Digital enabled advisory
  - Pricing and UW based on advanced analytics

- **Active evaluation**
  - New digital shopping experiences (across channels)
  - Frictionless UW and enrolment process (customers and distributors)
  - Product configuration tools based on modularity

- **Purchase**
  - Digital end to end customer onboarding
  - Pricing and UW based on advanced analytics

- **Admin / claims**
  - Digital end to end claims experience
  - Omnichannel servicing capabilities

- **Ongoing engagement**
  - Next best product to buy and cross sell capabilities
  - Predictive analytics for ongoing customer engagement

Source: McKinsey analysis, research
More and more players from other industries are pushing into the traditional insurance value chain.
In particular in the Motor sector, technology driven trends have the potential to change the future of mobility and transportation.

**ACES: Autonomous, Connected, Electrified, Shared**
We are assisting to a progressive sophistication of behavioral profiling algorithms thanks to an easier access to data and to connectivity.

By 2020 approximately 140 million cars sold worldwide will have some form of connectivity.

New sophisticated pricing models have been emerging by leveraging on the extended set of data available.

Source: Internal estimations based on Ptolemus CG
The gradual adoption of autonomous features is expected to significantly impact the evolution of the Motor sector

Motor vehicles have been classified in 6 clusters based on level of automation...

...with an increasing impact on claims frequency and severity

Forecast on max collision reduction of different level of vehicle automation

Source: Morgan Stanley research, BDG analysis, PWC estimates
Various new mobility models are emerging in the Motor space, using cars owned by individuals or professional cars.

Overview on new emerging mobility models

- **CARS OWNED BY INDIVIDUALS**
  - **RIDE-HAILING**
    - On-demand bookings for rides
    - Customer requests ride through app
    - Request routed to available driver nearby
  - **PEER TO PEER RIDE SHARING**
    - Private individual makes planned rides available for sharing
    - Driver adds planned ride to platform
    - Customer pays to share ride
  - **PEER TO PEER CAR SHARING**
    - Private individual makes his/her car available to rent
    - Available through platforms
    - Rented usually by the day with flat mileage rate

- **CARS OWNED BY COMPANIES**
  - **STATION BASED CAR SHARING**
    - Car is assigned to a specific parking space
    - Customer pays for time and distance traveled
    - Return to same parking spot
  - **FREE FLOAT CAR SHARING**
    - Car can be parked anywhere
    - Vehicles can be parked anywhere in a specific area
    - Customer pays for distance traveled

Main expected impact

- Reduction in the car park (and in overall market premiums!) due to a shift from car ownership to car usage/sharing
- Remaining Motor market shifts from a B2C (personal) to a B2B (commercial/ fleets) model
- Evolution of Motor product offering towards a concept of enlarged mobility, covering for a wider range of means of transport
Thank you!

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