Trends in the global insurance market and implications for African insurers
During a recent visit to South Africa, PwC’s global insurance lead, Stephen O'Hearn, shared his views on developments in the global insurance industry with Alsue du Preez, Africa insurance lead, Pieter Crafford, Africa FS Advisory lead, and Luizet Ruzow, Strategy& partner. He also discussed the megatrends that are likely to shape the insurer of the future globally and locally in South Africa.
What are some of the trends prevalent in the insurance industry?

Over the last five years the insurance industry has been among the most disrupted sectors in the global economy, which created a sense of intimidation among insurers. This disruption has emerged from the speed of technological change, changing customer expectations, continued regulatory change and fear of new market entrants.

In the last 12 months, we have seen this picture change dramatically as the industry comes to grips with how to deal with this disruption, figuring out how to respond and how to grasp the incoming new technology and use it to its advantage, and how to deliver a different customer experience. This has caused a significant change in the confidence levels of insurers and an optimism around the industry pertaining to how to deal with this change.

All this taken together means this is a great environment for insurers to compete and differentiate themselves on the basis of a unique customer experience. Appreciating customers and fulfilling their needs, together with their enhanced digital connectivity, is the first trend which is easily identifiable. This is arguably the number one megatrend impacting the global insurance industry today – that insurers recognise they can compete on the basis of a differentiated customer experience for the first time. The power is now in the hands of the customer, with insurers forced to respond with simple products and digital distribution channels. Today’s customers are open to a more interactive relationship with insurers. This is in contrast to the low-touch industry we have traditionally seen, where customers just paid their premiums every month and contact was made with them when an insured event happened.

This new development is great because it allows insurers to offer a more focused, customer-centric experience. As insurers, we need to worry more about knowing the risks that concern customers and making sure we develop products that address those risks. We can no longer rely on the products that have been there for decades and may not be addressing the evolved needs of a modern and more informed customer. This is more so because advice has become so prevalent and you can find it even in places such as social media and the Internet. Customers are no longer willing to pay for advice like they used to before, as they can simply get it for free. Customers want to derive value from the comfort they get based on the coverage they buy and not from the advice they receive.

All this means insurers will need to position themselves at places where modern customers and young people get their information from, such as online and on social media, so they can continue to interact with the customer of the future.

Asia is speeding ahead of the rest of the world on the digital customer experience front. This is because consumer comfort with mobile transactions far exceeds that in the West, with customers comfortable buying insurance on a mobile phone – which leads to an environment that fosters the digital distribution of insurance. The other key elements to this are the lack of legacy systems in Asia compared to the West, and also a regulatory environment looking to foster the growth of the insurance industry.

The second megatrend we see is the increased reliance on data and analytics. While we used to talk about big data as informing us about better segmentation of the market and tracking of where people spend their time, today it has progressed to knowing the needs and wants of the individual. This is a major opportunity the industry must take advantage of.

We are starting to see more behavioural science incorporated into insurance activities as we progress from predicting what will happen to determining what should happen, and making it happen. The insurance industry is increasingly incorporating behavioural science techniques to nudge customers in a direction that is beneficial – for example, nudging them away from disability income streams back to work, from call centres towards online transactions and from normal car-repair shops to preferred auto-repair shops.

Knowing your customer and using sensors to aid in the prevention of loss is also becoming a major trend. For instance, at home, sensors can be put on the plumbing system to enable the detection of a problem before it occurs. Sensors also allow the Internet of Things in factory equipment to sense when something is not working so that it can be repaired. In the motor industry, sensors make it possible for telematics to send warnings to the insurer pertaining to the driving behaviour of the insured, enabling the insurer to flag the behaviour and offer advice on how to change it.
Who are the disruptors in the insurance market?

The insurance industry is increasingly embracing online retailers for improved access to the customer. Insurers are doing deals with online retailers to help them distribute their products, as they have a much more penetrative reach to all groups of potential customers.

The insurance value chain is also being impacted by Insuretech through activities such as claims processing and underwriting. The Insuretechs are pulling insurers beyond the confines of the traditional industry into ecosystems where the insurers have an opportunity to be relevant in the lives of potential customers and develop loyalty and trust that can be turned into product sales.

In the South African context, particularly, telecoms are also having an impact in the insurance industry as a distribution mechanism. This works well, as the penetration of telecoms is high among low-end consumers, which makes it easy to reach this customer grouping with insurance products. This way insurance companies are skipping generations of distribution mechanisms and, instead of starting off with face-to-face agents, they can move right to the current day of agile product distribution through mobile phones.
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<th>What keeps global insurance executives up at night?</th>
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<td>The insurance industry is very focused on its costs, as low global interest rates are putting pressure on the cost structure.</td>
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A few years ago, it was all about the traditional labour arbitrage opportunities such as outsourcing and shared services. However, over the last couple of years, the focus has moved to the automation agenda, including robotics and artificial intelligence.

The cost conversation has changed in the last nine months to one of productivity. This is an upbeat conversation about how to make the workforce productive. The productivity agenda has a number of important tenets to it, such as companies tracking time and asking people to account for what they are spending their time on. Meetings get shorter, decisions are made faster.

The insurance industry is also grappling with change management and having the right people responsible for seeing the process through and really driving the change function to achieve significant impact on productivity. Some insurers are also buying into the gig economy and the use of temporary employees, especially since millennials are more open to short-term contacts.

Furthermore, the digital upskilling of executives also requires attention. Millennials typically come into the workforce with a digital agility and it is important for mature senior employees to get dialled up as well. Hence, we are seeing companies making investments in bringing their decision-makers up the curve to be more digitally enabled.

The second thing that occupies the minds of insurance executives is the talent agenda, especially with regard to attracting the right digital talent. The industry is still viewed as a little bit tired and grey. However, the opposite is true: the industry is exciting and vibrant and can offer great career fulfilment and rewards for talented people, so we need to sell it a little more than we are doing at the moment.

We are seeing insurers taking down the walls that have traditionally existed between the departments of a typical insurance company – maintaining separation between departments such as underwriting, marketing, claims, finance and actuarial. These walls are being replaced by teams with the required science and emotional skills. This is a behavioural change in the industry that has a real impact on people’s roles, how they communicate and how they work together. It also has the added advantage of facilitating the flow of data throughout the organisation.

The culture of the organisation is important in ensuring that the organisation’s values are inculcated throughout, where companies are decentralising decision-making and moving it closer to the customers. The most important decisions are supposed to be made, with speed, by the people who are customer-facing. Therefore, it is incredibly important in the minds of the insurance executives to make sure that those who are making decisions fully ascribe to the values of the organisation.

Thirdly, cyber risk also keeps insurance executive worried all the time. Insurers worry about cyber risk in the systems where there is a proliferation of data that is attractive to hackers. This makes insurers possibly top of the list of entities attacked, as their data carries such appeal to people with bad intentions.
By its very nature, insurance is a tremendously socially conscious industry. It is about allowing people to pool their risks and get back on their feet after an unfortunate event. We have taken our participation in the prevention of loss to an even more relevant level. The social consciousness of the industry is at an all-time high, and the industry is going to great lengths to provide insurance coverage supportive of economic development.

Nigeria and Kenya are good examples, where microinsurance is provided to insure crops. The whole economic development starts with the confidence that events such as hailstorms and bad winter will not wipe out a family’s entire livelihood. So financial inclusion and raising the standard of living is what the insurance industry has been about, and there is a tremendous amount of investment being made to support this noble cause.

The topic of sustainability and climate change is something this industry worries about to a large extent. We are seeing storms in places we have not seen them before – the traditional weather patterns have changed, and this concerns the industry. Substantial research is being done, with reinsurers leading the way on the topic of the impact of climate change and disaster.

One of the forums the industry runs is the insurance development forum, which is a consortium of 20 of the largest insurers applying their minds around the topics of economic development, supporting sustainability and supporting the management of impacts of climate change.
How can African insurers transform quickly?

African insurers can learn a great deal from insurers in other developing markets, with Asia providing the biggest lesson. Insurers from the region got to where they are today by, over the last 15 years, focusing on distribution. The focus has been on choosing the right distributors for their simple products, and only providing products offering cover that people need at a price they can afford, using distribution channels that people trust. Telecoms and grain companies are a good example. The latter has proven very effective as a product distribution vehicle: the farmers already trust grain companies as a result of the relationship formed over years of buying their seeds from them.

Another big positive is that banks are generally trusted entities in this part of the world, which creates great potential to distribute products through the financial institutions.

In closing, it is important to highlight that African insurers can have a very bright future if they remember a number of very important points. The goal is to always remain customer-centric and offer simple products that solve customers’ specific problems. And you always want to make sure that you are data-enabled and have efficient systems. And lastly, you must never compromise on your duty to be socially sensitive and environmentally aware at all times.
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