



## *A view on insurance in 2030*



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### **ABSTRACT**

**What will our world look like in 10 to 15 years from now, and what will the role of insurance companies be in 2030? While we are all very curious about the answers to those questions, we have to admit it is impossible to predict the future. In a rapidly changing and ever more complex world full of uncertainties, it already is quite a challenge to develop a three-year strategy. Therefore, Ageas and AG Insurance decided to bring together high potentials from around the world to develop scenarios for our business in 2030. In this article, we share some highlights and conclusions from the 2030 team. Some reflections on the future... but without giving you any certainty about the outcome!**



The insurance industry is often perceived as less dynamic compared to other industries. However, insurance companies are no longer the conservative institutions that we think they are. Leading companies in Belgium, like AG Insurance, founded in 1824, are companies with a long history and extensive expertise, some of them being older than the national state. Our rich history is reflected in the typical values of insurance companies: stability, reliability and trust. Even today, and more than ever before, clients and Belgian citizens expect reliability as a core value from their insurance provider.

So, what about the future? Our environment has been changing at a mind-boggling pace. In life insurance, we say 'the returns of the past are not a guarantee for the future', and we couldn't agree more in the world today: it is not because the sector has successfully managed to adapt itself repeatedly, that we can take our future for granted. Who could have predicted ten years ago that the smartphone would have such an important impact on our daily lives? Analysts laughed when Steve Jobs presented the first iPhone in 2007, a phone without physical buttons... Shops with no physical presence existed for years in the form of mail order companies, like 3Suisse or Neckerman, but amazon.com, bol.com and Zalando reinvented the concept and completely reshaped the market in less than a decade. Now we call this e-commerce!

Not all innovations that seem promising have had a quick breakthrough: the younger generation has probably never heard of Lernout & Hauspie, a Flemish company focused on speech technology and promoted as the frontrunner in this domain in the mid '90s. It was a very promising technology, but it remained science fiction until Google and Apple picked it up with Alexa and Siri, although, even today, the success of these technologies is still mixed.

Coming back to the insurance business, exactly 30 years ago, Trends/Tendances announced the end of the distribution model through brokers in Belgium. Today, we can only note that brokers remain the dominant distribution channel in life and non-life insurance. Are these brokers still working as they did in the '80s? Of course not, but the channel has mutated to stay relevant over time.

At the same time, we should ask ourselves how new some trends really are. People talk a lot about growing automation and digitisation. I can agree with the speed of change today compared to the beginning of the century, but automation has always been an attention point in most industries, including the insurance industry. Delving into the history of AG Insurance, we can find announcements that go back to the '50s about important investments in automation (with the first electronic calculators in Belgium), the '60s and '70s (completely centralised IT platform), migrating low added value tasks from man to machine.



## So, how to properly prepare for the future?

AG Insurance is part of Ageas, an international insurance group with headquarters in Belgium and active in Europe and Asia. Since the financial crisis and the subsequent resolution of the legal and financial legacy, the group gives direction to its operating entities via a three-yearly revision of the strategy, resulting in programs like Vision 2015, Ambition 2018 and the current strategic focus: Connect21. Typically, the strategy defines the strategic direction of the group in four domains: (i) what are the strategic priorities of the group, (ii) what do we mean for our key stakeholders, (iii) what are the values that we all live up to, (iv) what are the KPIs to deliver on our strategy?

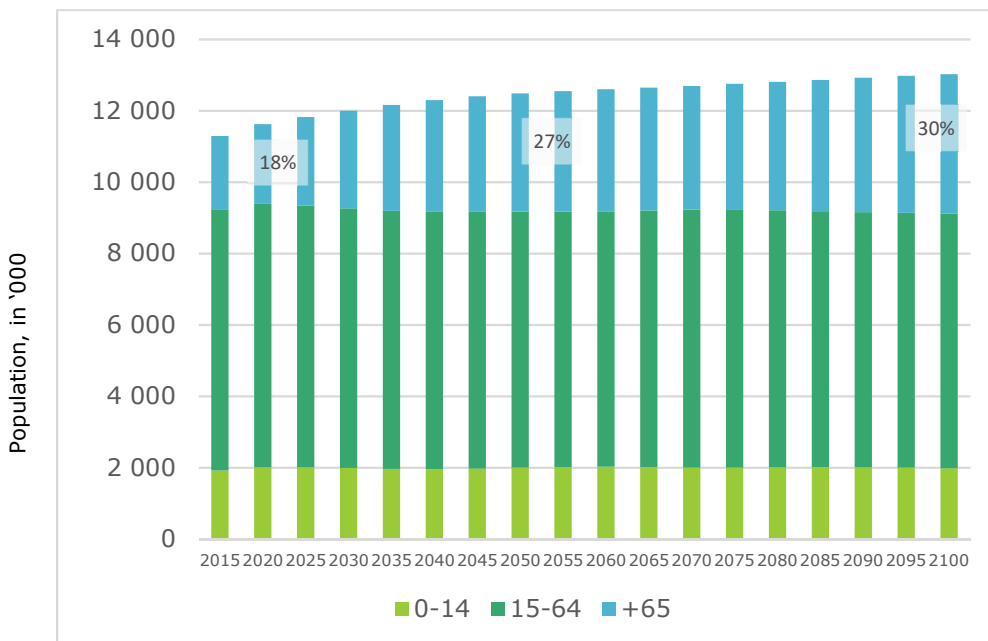
During the most recent strategic exercise of Ageas, Connect21, it was decided to add a fifth workstream and dedicate special attention to long-term future thinking. The current speed of change in our society and the rise of new economic models, require a deep dive and creative scenario thinking into a future that is uncertain, further away than the traditional three-year strategic cycle. Therefore, a '2030' think tank was created with the aim of having a window on the future in general and on insurance specifically. The outcome of this workstream would benefit the Connect21 strategic exercise as well as AG Insurance.

Let us zoom in on the trends we think could have an important impact in the long term on AG Insurance and the entire insurance industry:

- Private pensions, long-term savings and healthcare markets have a promising future
- Decreasing claims frequency in some major Property & Casualty portfolios will put this segment under pressure
- New risks and the changing nature of risk will create new opportunities
- Data insights and technology will transform risk assessment and the pricing of risk
- Regulation, data protection and ownership of data will steer the new economic models in the right direction
- From omnichannel to opti-channel distribution
- Prevention, assistance and services will further evolve into ecosystems around the customer
- Open networks and the world of APIs
- The potential of contextual insurance
- A war for talent

**Private pensions, long-term savings and healthcare markets have a promising future**

The Belgian population is ageing. Today, a bit less than 20% of the population is over 65, and this number will evolve towards 27% in 2050 and even to 30% in 2100. This phenomenon is not only a Belgian trend, but visible across Europe. National governments are struggling to keep the budget under control. In a context of economies growing slower than the cost of the social security, citizens and employers will need to rely on a private pension market to ensure their standard of living at an older age.



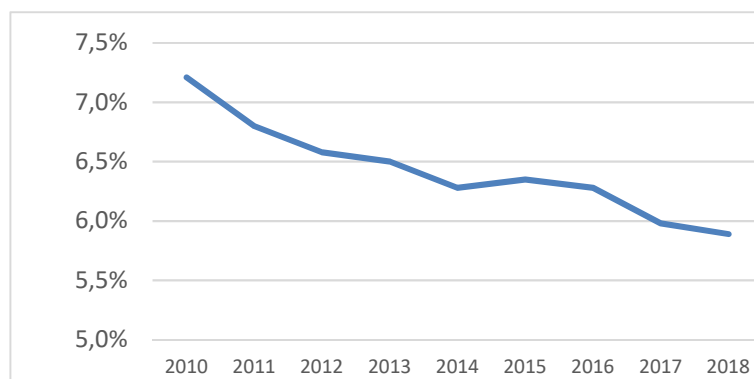
Graph: UN, World Population Prospects 2017

In Belgium, the life insurance and Employee Benefits markets are crucial to secure our welfare in the future. Despite the dramatic impact of the low interest environment on our life insurance portfolios, the role of private pensions and healthcare insurers will only increase in the coming years. Indeed, the same reasoning applies to the cost of medical care and the need for private sector healthcare solutions.

**Property & Casualty, decreasing claims frequency will put this segment under pressure**

Technology will positively impact the claims cost for our non-life insurance solutions: car insurance, home insurance, etc. We will see a trend of decreasing claims frequencies due to the constant improvement of claim preventing technologies and the Internet of Things. As a socially responsible economic actor, we can only welcome and stimulate this evolution.

The graph shows the claims frequency in car insurance in Belgium over the recent years: the trend is constantly decreasing. Until today, this improvement has been offset by the growing average claims cost, also due to the cost of technology in the car, which keeps overall premium levels quite stable. That being said, we can assume that technology will drive premium levels further down in the longer term. While automotive technology and better safety systems could eventually lead to completely autonomous and accident-free cars, we do not expect a material impact of 100% autonomous cars in the next decade.



Graph: the claims frequency for Motor Insurance in Belgium 2010-2018 (source: Assuralia)

We can draw a similar conclusion for home insurance and healthcare insurance, where a network built on the Internet of Things and smart watches will keep an eye on our home and our health, driving claims frequency further down.

This is one of the reasons why AG Insurance included the theme 'Prevent, prepare, protect & assist' in its strategy, which we will come back to later.

### **New risks and the changing nature of risk will create new opportunities**

The ever and rapid changing world around us has also sown the seeds for new risks for which retail and corporate customers will need protection. Technological evolution will create new opportunities for insurance companies, but it is often a challenge for insurers to understand, assess and price emerging risk. As an example, we can look at cyber risk and the global systemic exposure to cyber attacks! The damage caused by the Wannacry ransomware was estimated to be in the range of billions of euros on a worldwide scale; in Belgium we recently observed the shutdown of an important manufacturer of aircraft parts due to a cyber attack, keeping 1,000 employees at home for almost a month.

If we put ourselves in a world of autonomous and shared cars, the risk exposure will shift away from the asset (the car), and the liability of the individual driver will evolve towards the corporate liability of the car manufacturer, the network players or the telecom



operators who provide the required connectivity between cars. This would have an important impact, not only on claims frequency as mentioned before, but also on the role of insurance, where it is no longer the local insurer providing cover to the individual driving his/her own car, but the global insurer, and reinsurer, covering an entire, even worldwide, fleet for the liabilities arising from their technology and sharing platforms. Not all insurance companies active in the field of individual car insurance will have the global footprint to play a role in this new market.

### **Data insights and technology will transform risk assessment and pricing of risk**

Data will fuel the economy in the 21st century. A massive amount of available data is out there, and this will only grow in the future. Today, established players with older legacy systems work hard to get their own internal data well structured and digestible for advanced data insights and data enrichment with data coming from the digitalisation of their customer interaction. Over time, data will change pricing and risk assessment as we have never seen before. Insurers have to act, not only to personalise their service, but also to avoid misalignment in information between the insurer and the insured, increasing the risk of anti-selection. We have seen, for example, the fast-growing insights on human DNA, with techniques accelerating DNA sequencing making the results available quickly and affordable to everyone.

If we add the power of Artificial Intelligence and data science, the possibilities for companies to act are growing exponentially, eventually transforming the business model to a data-driven organisation. Today, risks are still priced based on historical experience, condensed into underwriting manuals and pricing assumptions. AI and new data sources can lead to case-by-case risk assessment that would never be feasible without modern computer power. Also, insurers have to find the right equilibrium between personalised risk assessment and the pooling of risk.

### **Regulation, data protection and ownership of data will steer the new economic models in the right direction**

In parallel with the growing availability of data, there is a counter movement raising attention for data protection and regulation. Customers expect to know and control who collects and owns their personal data, and for what purposes this data is used. As far as a clear benefit can be created for the customer, it can be expected that s/he will be willing to share his/her data and to allow companies use it. Recent regulation like GDPR or PSD2 is built on the basic principle that the individual will remain the master of his/her data; s/he can decide about the sharing, storing and deployment of his/her personal information.



Therefore, it will be crucial to build a relevant and positive experience with the data your clients are willing to share with you.

### Hyper-relevancy to the customer

What's in a name? Being hyper-relevant for the customer means in the first place guiding the customer to make the right choices, through a personalised service tailored to his/her needs. The offering in the market has multiplied over the years, and this in all kinds of business: 25 years ago, you had 1 telephone operator offering a fixed landline with one rate plan; these days you have multiple operators, offering each of them a multitude of options, combined or not with internet, mobile, TV, etc. The same case for your utilities like gas or electricity, or for your holidays. Choice is abundant, the amount of information customers are exposed to every day is enormous, and the complexity is ever increasing. The winners of tomorrow will be those that are able to take away the stress of too many choices, and to present the most suitable product with correct pricing and tailor-made service through the channel that fits best.

### From omnichannel to opti-channel

Since the launch of Vision 2015, Ageas has evolved from multi-distribution to omni-channel. The omni-channel approach, where companies make their products available to all types of customers on all different kinds of communication channels, will now evolve into an opti-channel approach, where the channels used will differ during the different stages of the customer journey.

It is not necessary to have your customer offer, your underwriting process, and the claims handling, etc... available on all of the different kinds of communication channels (web, mobile/app, phone, written communication, human interaction, ...).

A hyper-relevant provider will identify the optimal channel at every stage of the customer journey and guide the customer towards his/her preferred way of interaction. The skill to simplify the customer journey is critical for new insurtech providers to succeed with their digital solutions. Insurtech will force established players to develop equal, or even better, customer journeys. In this respect, digital is not the enemy of brokers, agents and banks, but an enabler to retain their customer base.

Offering a great customer experience is anchored in the strategy of AG Insurance. We continue doing this through our trusted relationship with our distribution partners, banks and brokers.



### Evolution to prevention, assistance, services, ... followed by the creation of ecosystems and the network economy

Insurance companies will look for mitigating actions and new revenue streams to absorb a potential improvement of claims frequency resulting from technology and IoT. In that perspective, insurers might extend their scope to services in advisory services, assistance, prevention, etc. Within Ageas, this is named the 'Beyond insurance' strategic initiative.

Under the brand 'SoSimply', AG Insurance has launched a repair service for basic home maintenance purposes (e.g. repair a broken water tap, a window not closing properly...) so we can quickly send out a craftsman, further building revenues on the success of Homeras, our in-house claims repair service.

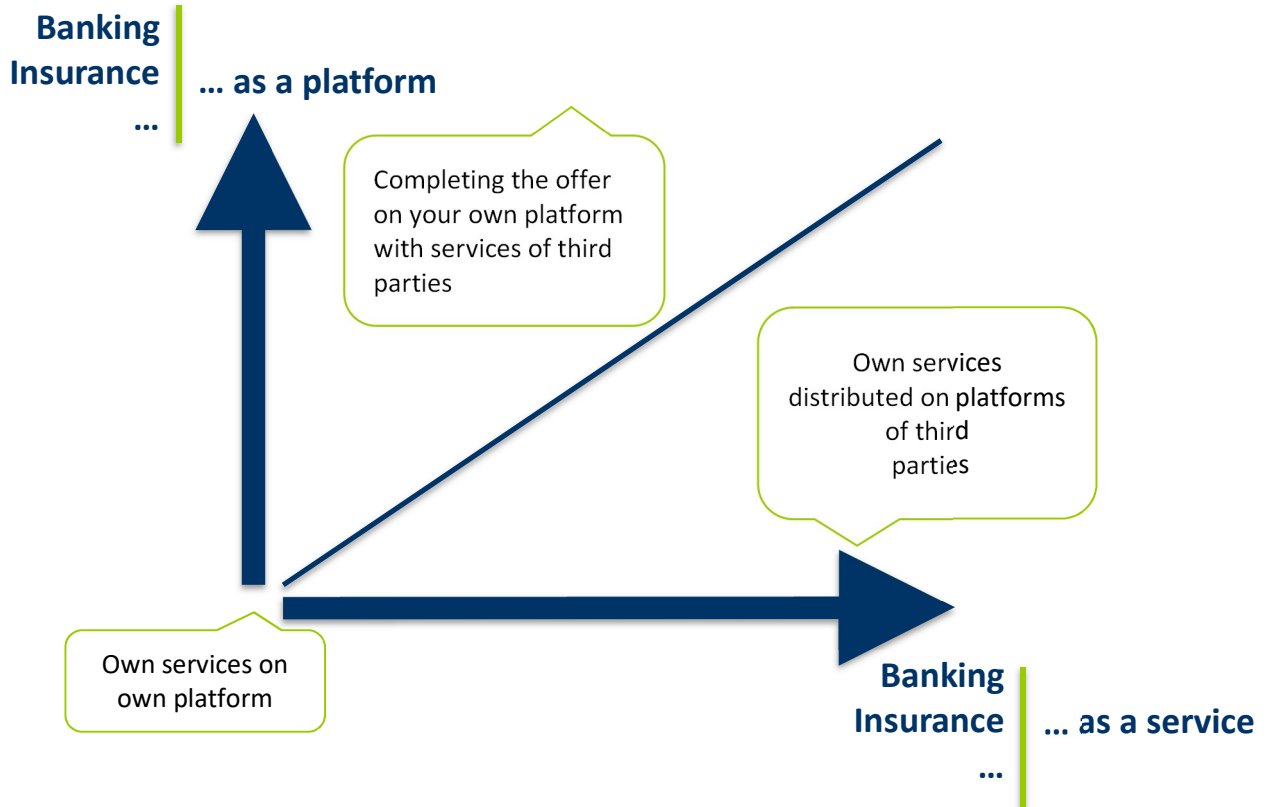
Phil@Home is another initiative where AG Insurance provides a complete assistance framework for elderly people with the aim to keep them in their home as long as possible. With safety technology (panic buttons, Fire & CO sensor), a tablet (with medication reminder, ...) and a "Phil" to manage daily services, AG prevents, prepares, protects & assists the elderly. But this is just a beginning: we believe insurance companies will build a new source of revenue with servicing fees, on top of the insurance technical and investment result.

We are talking here about services that are not pure insurance services anymore, that are created to ensure an integrated and effortless customer journey, eliminating customer frustration. Eventually, this will lead to the creation of ecosystems, where different services and products around one client seamlessly fit together.

### Open networks and the world of API's

PSD2 transforms the world of banking! The evolution to open up access to certain types of data and bank operations will certainly lead to all kinds of initiatives, from start-ups to traditional players and banks, to capture the new possibilities, and build new customer journeys. The technological driver of this evolution are APIs, Application Programming Interface, which make it possible to exchange data between parties securely. Through APIs, the data and certain types of operations that are locked in the mainframes of the companies can be opened to third parties. This trend will also affect the insurance industry where, similarly to banks, we can expect two new models to arise: the model 'as a service', where insurance services are offered through a platform of a third party, and the model 'as a platform', where the insurer opens its own platform for services from third parties. On the Belgian market, banks are already taking position and experimenting with additional services on their own platforms, e.g. integrating the sales of train tickets in their bank apps.





### Contextual insurance

Contextual insurance means the inclusion of insurance cover as a complementary service within the core product or service offered to a client. This is not new as such; we are familiar with insurance offerings added to credit cards, or car insurance sold through the dealer networks, or personal accident insurance coming together with your ski pass. But API and the rise of open digital platforms will further facilitate this trend. Some examples are the inclusion of home insurance in the process of home renting or home acquisition, or the inclusion of car insurance in the price of the car as already suggested more than once by Elon Musk for Tesla (but not yet gone live). A level playing field (IDD, Mifid, duty of care...) with the traditional insurance distribution model will be important to guarantee a proper functioning of the market.

### War for talent

With a tsunami of ideas, opportunities and initiatives, talent has become a scarce resource, certainly for specific types of competences required to work on the trends mentioned above. A study from 2018 by Agoria together with VDAB, Actiris and FOREM shows that, by 2030, the workforce in Belgium will increase by 200,000 people, while over the same period the demand for a skilled workforce will increase by over 600,000, which means that there is potentially an issue for about 400,000 workplaces. Robotisation, automation and Artificial Intelligence can reduce the gap with approximately 200,000 workplaces, but there will remain an important gap to fill. Automation is not the enemy of employment! This study proves the contrary: it will be necessary to automate to be able to keep our economic performance at a good pace, but it will still not be sufficient to resolve the increasing job demand that we will face.

However, time and money will need to be invested by employers and employees to retrain people and improve the quality of work during their career.

### AG Insurance Strategy



**• CARE  
• DARE  
DELIVER •  
• SHARE**



The result of the reflection on long-term trends was taken into account in the exercise on the new 3-year strategy of AG Insurance, especially in the definition of the strategic choices and strategic enablers (on the right side of the slide above):



- Offer a great customer experience: we need to stay relevant, we go for an omnichannel approach, a lifelong top customer experience
- Prevent, prepare, protect & assist: underscores the 'beyond insurance' story, looking for new opportunities to complete the customer journey
- With partners & through alliances: together with our partners, we want to (co)create these customer journeys of the future; we want to continue building on proximity to the clients of our current partners.
- Leverage technology: the quickly evolving technological landscape creates opportunities we will pick up, supporting an excellent customer experience and efficiency improvement
- Knowing our customer: we focus on further strengthening our data insights, seeking customer feedback and building a customer-centric servicing model
- Future-proof organisation: with an increasing war for talent, we will need a future-proof work organisation, based on our values Care, Dare, Deliver, Share, to continue being an attractive employer

Being a 'Supporter of your life' is a perfect summary of our ambition, our values, and the reason why we have made these strategic choices and enablers.