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Internet of Things and Increasing Digital Demand Signals Major Insurance Industry Disruption

*Gen Y behaviors and emerging connected technologies
breaking thresholds of existing business models*

Paris, New York, March 1, 2016 -- The World Insurance Report 2016 (WIR), released today by [Capgemini](#), one of the world's foremost providers of consulting, technology and outsourcing services and Efma, identifies multiple threats pushing the insurance industry toward massive disruption. The continued evolution of the Internet of Things (IoT), combined with changing behaviors and preferences from Gen Y¹ customers, is driving the urgent need for insurers to undergo significant transformation or risk falling behind emerging competitors such as FinTechs.

Capgemini's Voice of the Customer Survey, covering more than 15,500 insurance customers worldwide, found that Gen Y customers are much less likely to have positive experiences with their insurers compared to other age groups, despite communicating with them more frequently. Gen Y customers have more interactions with their insurer across all communication channels, particularly digital ones. They interact with insurers up to 2.5 times more on social media than other customers and over two times more via mobile.

Those interactions, however, are resulting in positive customer experience levels that are nearly 20 percentage points lower than those of customers in other age brackets, suggesting that Gen Y customers have higher expectations for the standard of digital channels than their older peers. Given that more than one-quarter of all customers plan to purchase or renew their insurance through digital channels in the next 12 months, customer experience levels among Gen Y customers is particularly concerning for the industry. In addition, nearly one-quarter of Gen Y customers say they would be likely to buy insurance from non-traditional technology-led providers, highlighting the threat from emerging competitors to the customer base of traditional insurers.

"By not providing adequate engagement for digitally-advanced customers, carriers run the risk of pushing them toward a growing population of market entrants and non-traditional technology-driven competitors," said John

¹ Gen Y refers to the customer segment aged between 15 and 34.
Press Release

Mullen, Corporate Vice President and Global Insurance Leader for Capgemini. *“Gen Y is clearly indicating that they do business differently and those insurers who respond to them on their terms will have a clear competitive advantage.”*

IoT Looms Large

A more fundamental threat, or enabler, to the future of insurers is the coming wave of connected technologies, in the form of such innovations as smart home ecosystems, wearable devices and machine-enabled drones, robots, and cars. These IoT technologies are expected to transform traditional insurance business models, including everything from the way insurers connect with their customers to their fundamental assessment and management of risk. Yet despite this threat, insurers are significantly underestimating the degree to which connected technologies will be broadly adopted. Only 16 percent of insurers think customers will embrace driverless cars, for example, while 23 percent of customers express interest.

More significant than age, affluence² is the most compelling factor in determining customer uptake of IoT technologies. More than 45 percent of affluent Gen X³ customers are likely to adopt connected devices, smart ecosystems and wearables, compared to only 30 percent to 35 percent of younger, non-affluent Gen Y customers. Customers that are both Gen Y and affluent are the most likely to adopt connected technologies (50 percent). However, affluent customers are also more likely to purchase insurance from non-traditional technology-led firms. Nearly 31 percent of affluent customers globally say they are likely to purchase insurance from technology firms, a percentage that increases to 47 percent for affluent Gen Y customers.

Redefining Risk

In addition to its impact on customer connections, IoT is expected to have an even bigger impact on the core tenets of the insurance business. In a connected world, data provided by connected devices, smart ecosystems and wearables will increase risk transparency, a dynamic that will likely lead to new business models, especially in pricing and risk control. Risk ownership will also shift with connected technologies, as responsibility for actions, for example in the case of driverless cars, moves from car owner to car manufacturer. Finally and most important, IoT looms large in managing the level of risk exposure due to safer environments. This will shift premiums significantly, threatening some carriers, but providing opportunities for those who can understand the emerging risks that are inherent as the rate of technology change becomes more pervasive in the lives of people and commerce.

Insurers must start preparing themselves for the transformation of the insurance business. The report advises insurers to build strong but agile foundations in the short term. In the medium term, they must sharpen their value propositions through strategic alliances and data-driven insights. Long-term strategies must focus on transforming the business to stay ahead of emerging risk profiles, new interaction models, changing customer behaviors and IoT's expected disruption of risk selection, pricing, and loss prevention.

² Affluent customer is defined as having US\$250,000 or more in assets.

³ Gen X refers to customers born between 1960 and 1980 who are aged 35 to 55 years.

“While already experiencing digital disruption, the insurance industry needs to brace itself for the massive, inevitable disruption brought on by Gen Y and the Internet of Things,” said Vincent Bastid, Secretary General, Efma. *“Those insurers who make it a top priority to improve their ability to manage and leverage data and risk will be the most prepared.”*

The World Insurance Report 2016 features data from more than 15,000 insurance customers globally through Capgemini’s Voice of the Customer survey and exclusive Customer Experience Index (CEI), as well as findings from more than 150 insurance executive interviews. The report’s research covers 30 markets across North America, Europe and Asia-Pacific representing 93 percent of the global insurance market in terms of premium income.

For more information visit www.worldinsurancereport.com

The report will be presented at the Insurance Summit in Milan on June 9-10, 2016. To register to attend the event, please visit: www.efma.com/insurance16.

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