

FIRST MUTUAL

HOLDINGS LIMITED

Go Beyond

THE ROLE, IMPACT & IMPLICATIONS OF e-COMMERCE IN THE INSURANCE SECTOR

22 August 2016, Troutbeck Resort, Nyanga

Farayi Mangwende

Group Marketing & Strategy Executive,
First Mutual Holdings Limited

Outline

- Definition
- e-Commerce Today
- e-Commerce Dynamics
- Zimbabwe e-Commerce Analysis
- Role of e-Commerce
- Impact of e-Commerce
- Implications of e-Commerce
- Conclusion
- Q&A

FIRST MUTUAL
HOLDINGS LIMITED

Go Beyond

FIRST MUTUAL
WEALTH
Go Beyond

FMRE
LIFE & HEALTH
BETTER PROTECTION, BETTER SECURITY

FIRST MUTUAL
HEALTH
Go Beyond

PEARL PROPERTIES
PROPERTY MANAGEMENT

TristarInsurance
Creating Stability For Life

FIRST MUTUAL LIFE
ASSURANCE COMPANY
Creating Stability For Life

FMRE
PROPERTY & CASUALTY
Protecting What Matters

FMRE
PROPERTY & CASUALTY
Protecting What Matters

Introduction



Nokia CEO ended his speech saying this “we didn’t do anything wrong, but somehow, we lost”.

Nokia CEO ended his speech saying this “we didn’t do anything wrong, but somehow, we lost”. By:
Ziyad Jawabra

During the press conference to announce NOKIA being acquired by Microsoft, Nokia CEO ended his speech saying this “we didn’t do anything wrong, but somehow, we lost”. Upon saying that, all his management team, himself included, teared sadly.

Nokia has been a respectable company. They didn’t do anything wrong in their business, however, the world changed too fast. Their opponents were too powerful.

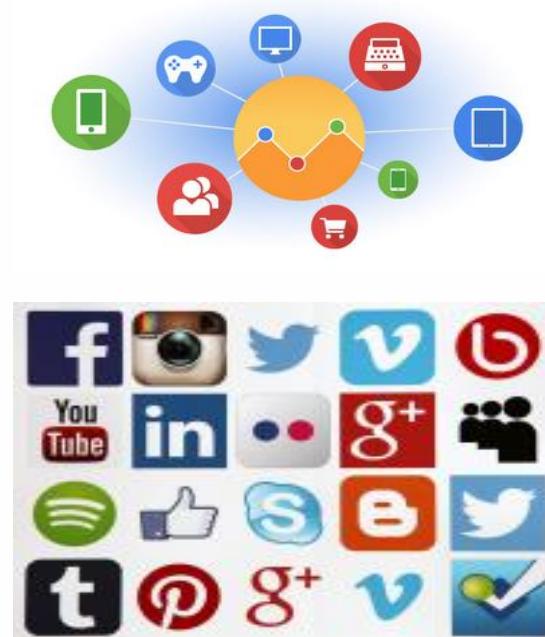
Definition

- e-Commerce involves the buying and selling of products and services through an electronic medium.
- e-Commerce is widely considered the buying and selling of products over the internet, but any transaction that is completed solely through electronic measures can be considered e-commerce.
- e-Commerce is subdivided into three categories:
 - business to business or B2B,
 - business to consumer or B2C, and
 - consumer to consumer or C2C.

e-Commerce Today



Mobility



Data & Analytics



Interactivity

FIRST MUTUAL
HOLDINGS LIMITED

Go Beyond

FIRST MUTUAL
WEALTH
Go Beyond

FMRE
LIFE & HEALTH
BENEFITS PROTECTION, WEALTH SOLUTIONS

FIRST MUTUAL
HEALTH
Go Beyond

PEARL PROPERTIES
GO BEYOND

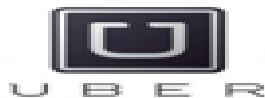
TristarInsurance
GO BEYOND

First Mutual Life
ASSURANCE COMPANY
Creating Stability For Life
GO BEYOND

FMRE
PROPERTY & CASUALTY
GO BEYOND

FMRE
PROPERTY & CASUALTY
GO BEYOND

e-Commerce Today



The World most popular media company owns no content.



The World most popular media company owns no content.

The World's largest taxi company owns no taxi



The most valuable retailer has no inventory



The Digitization of Anne

Meet Anne, a connected consumer who uses technology to make everyday life just a little easier. From how she shops to how she receives medical care, the digital transformation has changed the way Anne interacts with the world today.

Who is Anne? She's all of us, really!

48%

of Americans have used text or email messages, mobile apps or a website to communicate with physicians and/or view test results.

— U.S. Department of Health & Human Services

32%

of U.S. adults conduct banking transactions via mobile phone

— Pew Research Center, Internet and American Life Tracking & Omnibus Surveys, 2009 – 2013

36%

of all auto insurance carriers are expected to use telematics by 2020

— Strategy Meets Action Research

23%

of U.S. employees did some work remotely [in 2014]

— Bureau of Labor Statistics, American Time Use Survey, 2015

64.4%

of the United Kingdom's digital population who access retail-apparel sites do so on mobile devices

— comScore Media Matrix Multi-Padform

With digital workplace technology, I work remotely during the week while staying in touch with colleagues and managers.

When I'm not feeling well, I use an app to schedule an appointment with my general physician. After the visit, I review my patient record and test results electronically.

Biometric technologies such as fingerprint and face recognition let me do my banking securely via smartphone.

I shop for nearly everything online these days. Augmented reality apps let me virtually "try on" clothes from the comfort of my smartphone.

I installed a telematics device in my car to monitor my safe driving behavior and report back to my insurance company for discounts and rewards.

I use a wearable fitness device to track my daily activity levels. My company offers perks like health insurance discounts when I reach certain goals.



e-Commerce Dynamics World Trends

- United Nations Conference on Trade And Development (UNCTAD) currently estimates global e-commerce market worth at around \$22.1 trillion

e-Commerce World Trends

Top 10 e-Commerce Markets

1. China: \$562.66bn

- Average user age 25

2. USA: \$349.06bn

- More purchases on PC than mobile

3. UK: \$93.89bn

- 33% of online sales after 6pm
- Online sales 30% of the economy

4. Japan: \$79.33bn

- 97% of internet users shop online

5. Germany: \$74.46bn

- Highest open rates in the morning
- Amazon & Otto 50% of online sales

Top 10 e-Commerce Markets

6. France: \$42.62bn

- 68% of French use internet
- 19% of purchases made on non French websites

7. South Korea: \$36.76bn

- Fastest internet speeds globally
- Most people shop online 10pm – 12pm

8. Canada: \$28.77bn

- 45% purchases on non-Canadian sites
- 70% of smart phone users purchase on their mobile

9. Russia: \$20.30bn

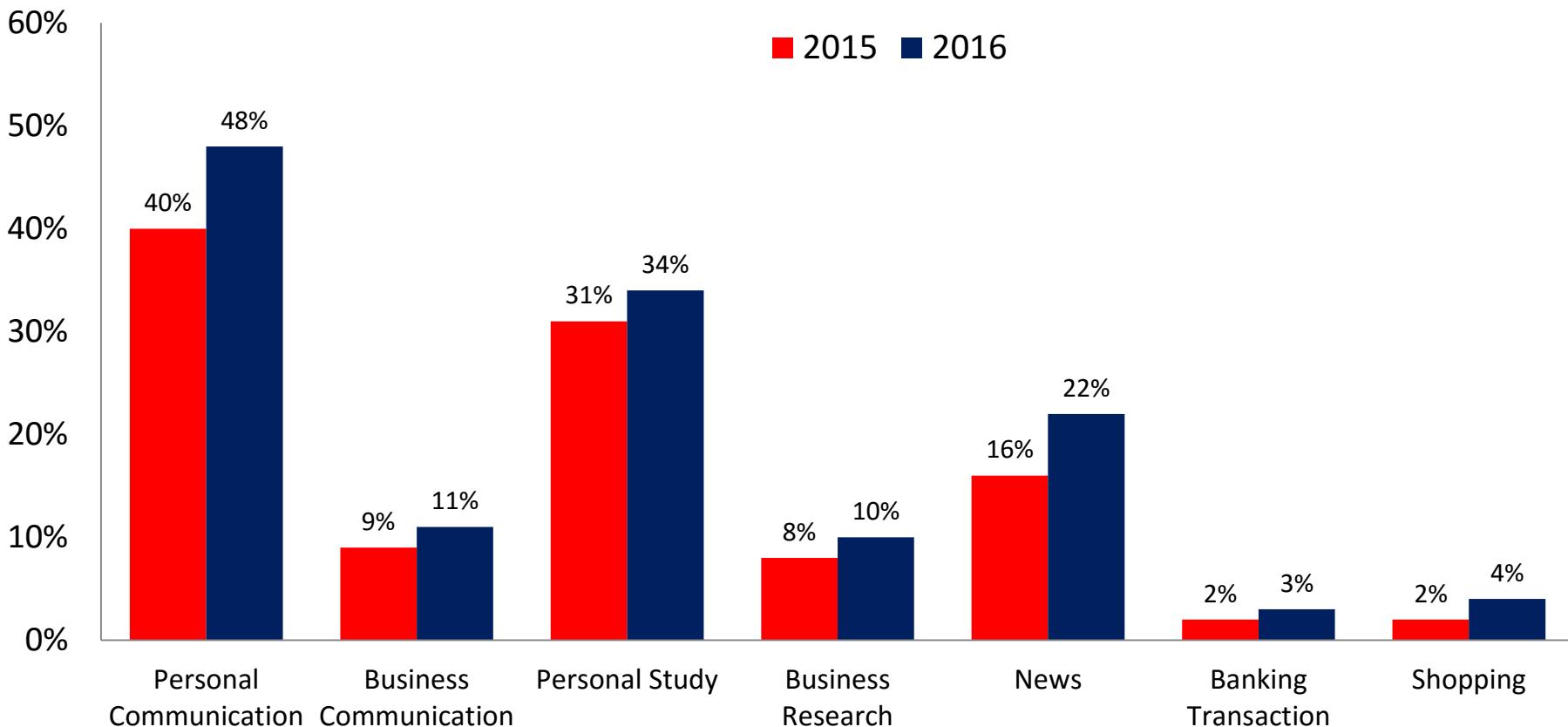
- 13% of Russians purchase online

10. Brazil: \$18.80bn

- 18% of all online stores are fashion focused. 7% purchases on smart phone

ZIMBABWE INTERNET USAGE ANALYSIS

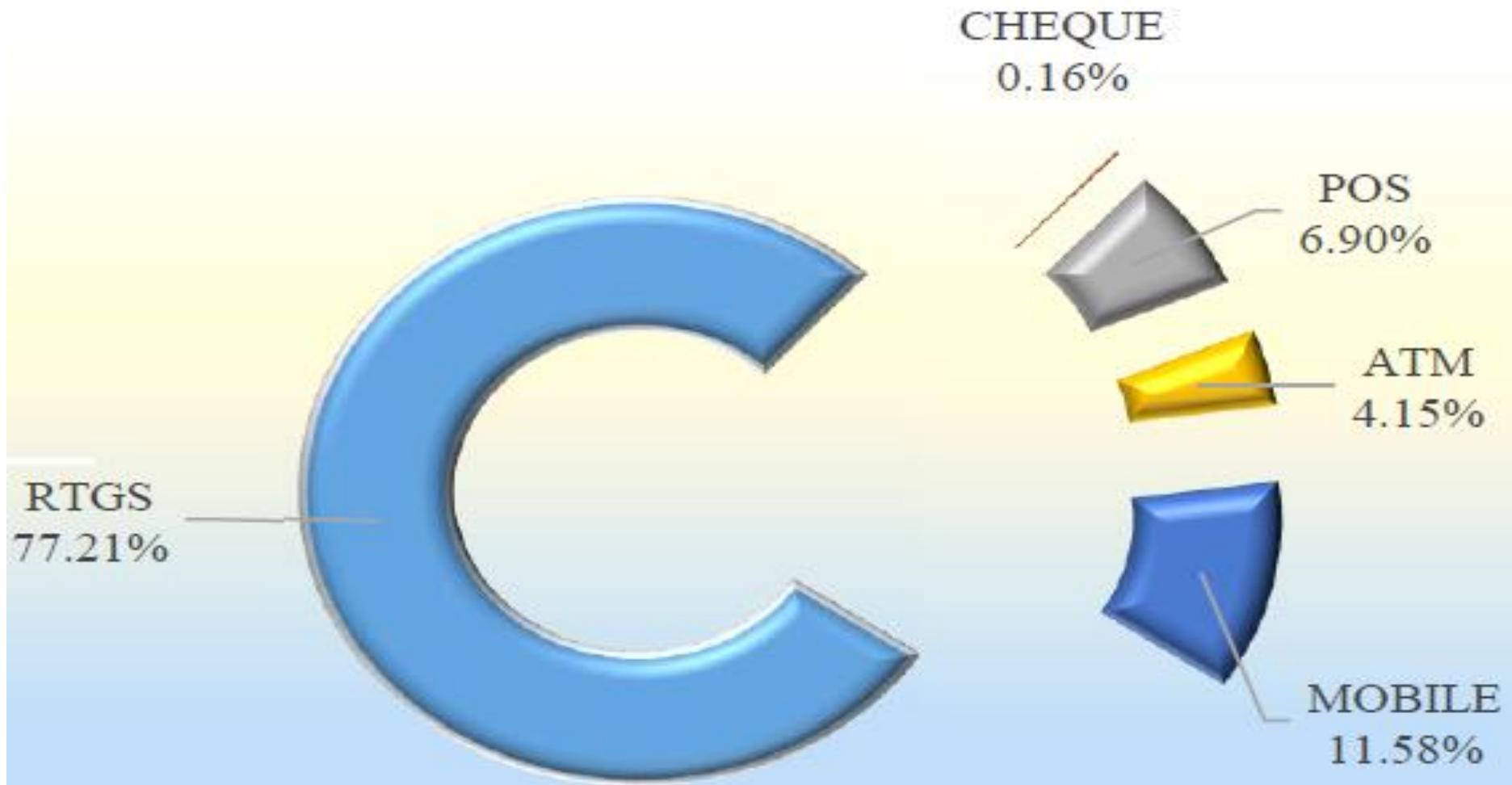
PURPOSE FOR ACCESSING INTERNET



Source: Zimbabwe Advertising Research Foundation

ZIMBABWE NATIONAL PAYMENTS ANALYSIS

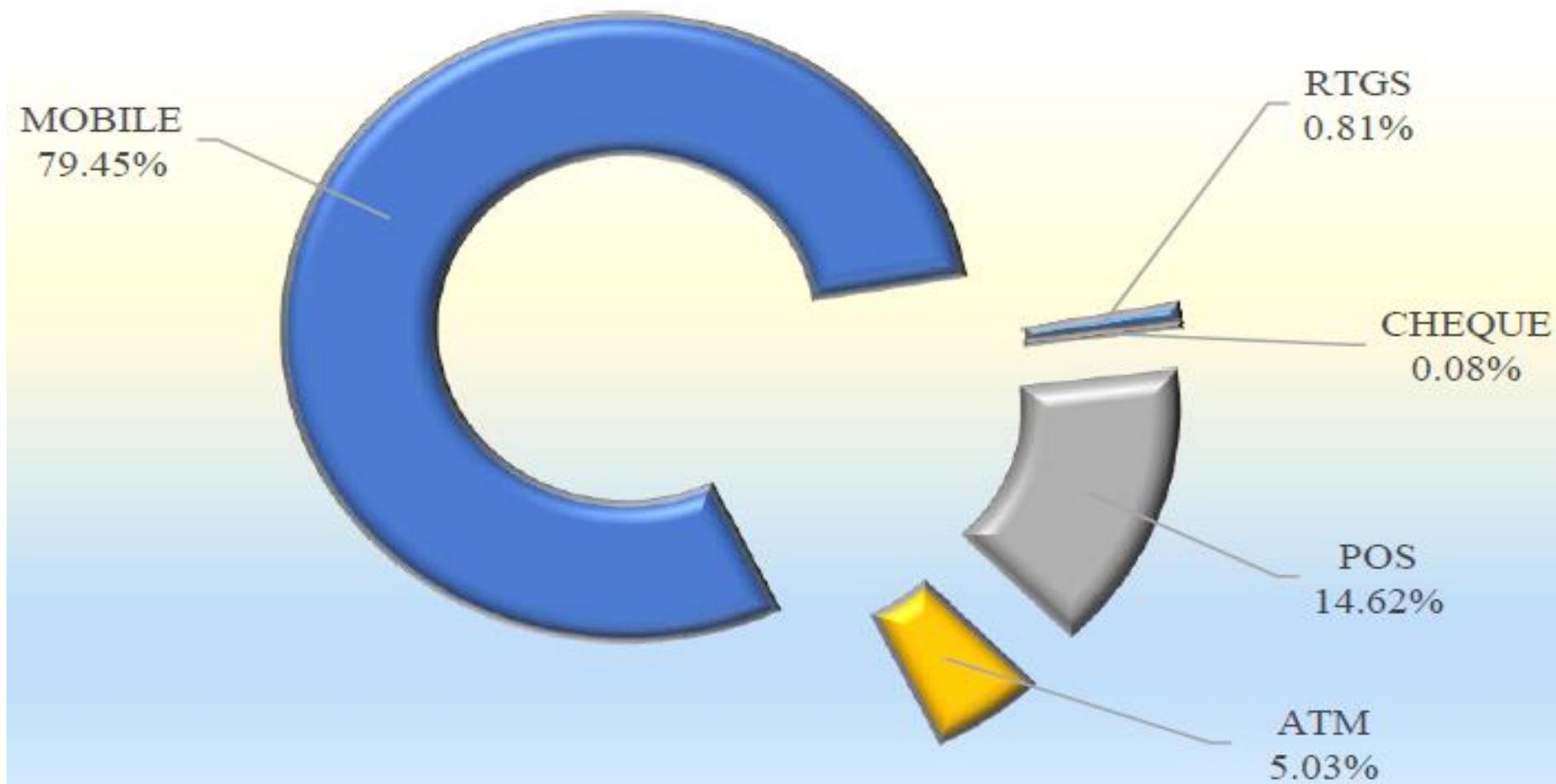
Proportions of NPS Transactions in Value Terms



Source: RBZ Weekly Report, 5th Aug 2016

ZIMBABWE NATIONAL PAYMENTS ANALYSIS CONTD...

Proportions of NPS Transactions in Volume Terms



Source: RBZ Weekly Report, 5th Aug 2016

E-Commerce Dynamics

STEEP Drivers

- **Social**
 - Balance of Power Shifting towards Customers
- **Technological**
 - Advances in software & hardware that transform ‘big data’ into actionable insights
- **Environment**
 - Rise of more sophisticated risk models, risk transfers to address increasing severity & frequency of catastrophic events
- **Economic**
 - Rise of economic and political power in emerging markets
- **Political**
 - Harmonisation, standardization & globalisation of insurance market

e-Commerce Dynamics



Source: PwC analysis

e-Commerce Dynamics

Social: The balance of Power Shifting towards Customers

- e-Commerce and internet increasingly becoming one of the most important drivers of strategic change for business
- The business world and operating environment has evolved drastically from traditional channels to modern and swift solutions as a result of disruptive technologies.
- It is now business unusual
- **The balance of power is shifting to customers**
- **Customer expectations escalating**
 - Relentless march of online & technology continues to fuel change in customer expectations
 - Simplicity & transparency
 - Innovations in product service & delivery
 - Mobility & service of delivery

FIRST MUTUAL
HOLDINGS LIMITED

Go Beyond

FIRST MUTUAL
WEALTH
Go Beyond

FMRE
LIFE & HEALTH
BETTER PROTECTION, BETTER SECURITY

FIRST MUTUAL
HEALTH
Go Beyond

PEARL PROPERTIES
GO BEYOND

TristarInsurance
Creating Stability for Life

FIRST MUTUAL LIFE
ASSURANCE COMPANY
Creating Stability for Life

FMRE
PROPERTY & CASUALTY
Protecting the Future

FMRE
PROPERTY & CASUALTY
Protecting the Future

e-Commerce Dynamics

Social: The balance of Power Shifting towards Customers

- Social Networks
 - Will continue to empower customers
 - Wielding substantial purchasing power
 - Increased benefits from online driven intermediaries
 - Future of pooling mechanisms for self insurance
 - Migration of insurers from primary level to administration service providers
 - Online community Influence
 - Reviews, eg Trip Advisor

e-Commerce Paradigm Shift

- Paradigm shift
 - More & more insurance will be bought by customers and not sold by agents
- Migration from structured data / tactical decision making, reactive business model to increased use of
 - real time data / big data
 - Artificial intelligence
 - Unstructured data from social networks & online communities
- Recent survey by PwCx revealed that 49% expect new sources and techniques in the use of data to be a competitive differentiator
- Innovations around convenience & technologies key business driver

Role of e-Commerce

- **Business Enabler** through capacitation of:-
 - Distribution channels (mobile and electronic sales e.g., global travel insurance market)
 - Payment systems simplification (mobile and electronic sales and claims processing at negligible cost, e.g., impact on financial inclusion/micro insurance by allowing collection of sub \$1 premiums)
 - Speedy & flexible **business growth without borders** (no need for brick and mortar expansion)
- **Empowerment**
 - Disruptor to traditional capital models
 - Capacitated consumers (ubiquity of devices and connectivity)
 - Intra-industry competition and collaboration (Telcos, banks & insurance companies)

Role of e-Commerce

- Reduction in costs
- Competitive products by incorporating the speed, flexibility and interactive capabilities of the net
- Opportunities for new and existing intermediaries
- Amazon effect, that is, the concept that consumers are so used to buying product online (sometimes with as little as one click) that the insurance industry must get as close to that reality as possible.

Role of e-Commerce

- Insurers must identify the middle ground between using the web to funnel leads to live agents, and finding other ways to interact with customers online
 - Things like live chat are popular when prospects have questions about their coverage that they want answered.
- According to J.D. Power & Associates, for every 100 people that consider a brand, 59 will visit the company's website, 33 will solicit a quote but only 2.4 will bind on the website.
 - One could say that the web doesn't perform at a high closure rate
 - There are hybrid or blended channel pathways that complete the circle

Impact General

- Convenience
- Speed of Execution
- Choice
- Real time delivery

FIRST MUTUAL
HOLDINGS LIMITED

Go Beyond

FIRST MUTUAL
WEALTH
Go Beyond

FMRE
LIFE & HEALTH
Enhanced Protection, Enhanced Benefits

FIRST MUTUAL
HEALTH
Go Beyond

PEARL PROPERTIES
GO BEYOND

TristarInsurance
Creating Stability for Life

FIRST MUTUAL LIFE
ASSURANCE COMPANY
Creating Stability for Life

FMRE
PROPERTY & CASUALTY
Protecting What Matters

FMRE
PROPERTY & CASUALTY
Protecting What Matters

Impact Insurance

- Survival of the fittest
- Possibility of reduced insurance companies due to economies of scale and emergence of aggregators with strong brands & support services (diversity, innovation & technology)
- Reduced profit margins
 - Emphasis on high volume
 - Heavy investment of capital in advanced technology
- Customer Profile
 - Looking for simplicity, discounts & specialisation, real time collaborative assistance such as live chat etc help with customer conversion
- e-Commerce & Internet changing the role of the broker from intermediary to ‘infomediary’
- Not embracing technology presents threat of being edged out of the market

Impact

Insurance

- Increased customer expectation of quality service continues to rise driven by internet price comparisons which can be made quickly
- New players using advanced technology can and will put long-term solvency of some traditional insurers
- Dynamic Pricing based on actual experience
 - Telematics
- Improved claims experience using modern, automated technologies provides a knock-on effect on retention rates
- Change in actuarial pricing models where historically premiums have been calculated at expense per policy
 - Volume of business decreases cost - TCF
 - Future will be expenses based on real life pricing techniques
 - Internet has considerably lower costs

Impact Insurance

- Appraisals Values of future profits at a risk discount rate will be harder to calculate in constantly changing e-commerce environment
- Actuarial control cycle
 - Traditional model will be difficult to implement in dynamic e-commerce environment
 - Instead of monitoring the past a combination of ‘prediction, action & reaction’ will be the key to controlling an e-commerce business
 - Sensitivity testing & analysis will become crucial relying heavily on Business Intelligence monitoring tools

Impact Legislation / Reinsurance

- Legislation & Regulatory environment differ for traditional and e-commerce
 - Traditional Insurance sector heavily regulated
 - E-Commerce – nominal regulation which gives them agility, a strong competitive edge and disruptor effect
- Somewhat difficult as reinsurers have minimal based internet activity

Reinsurance

- Reinsurers not so involved in the transfer of information as they are the risk bearers
- Decreased administrative costs due to ease of information sharing which allows ease of monitoring of customer accounts

FIRST MUTUAL
HOLDINGS LIMITED

Go Beyond

FIRST MUTUAL
WEALTH
Go Beyond

FMRE
LIFE & HEALTH
BETTER PROTECTION, BETTER SECURITY

FIRST MUTUAL
HEALTH
Go Beyond



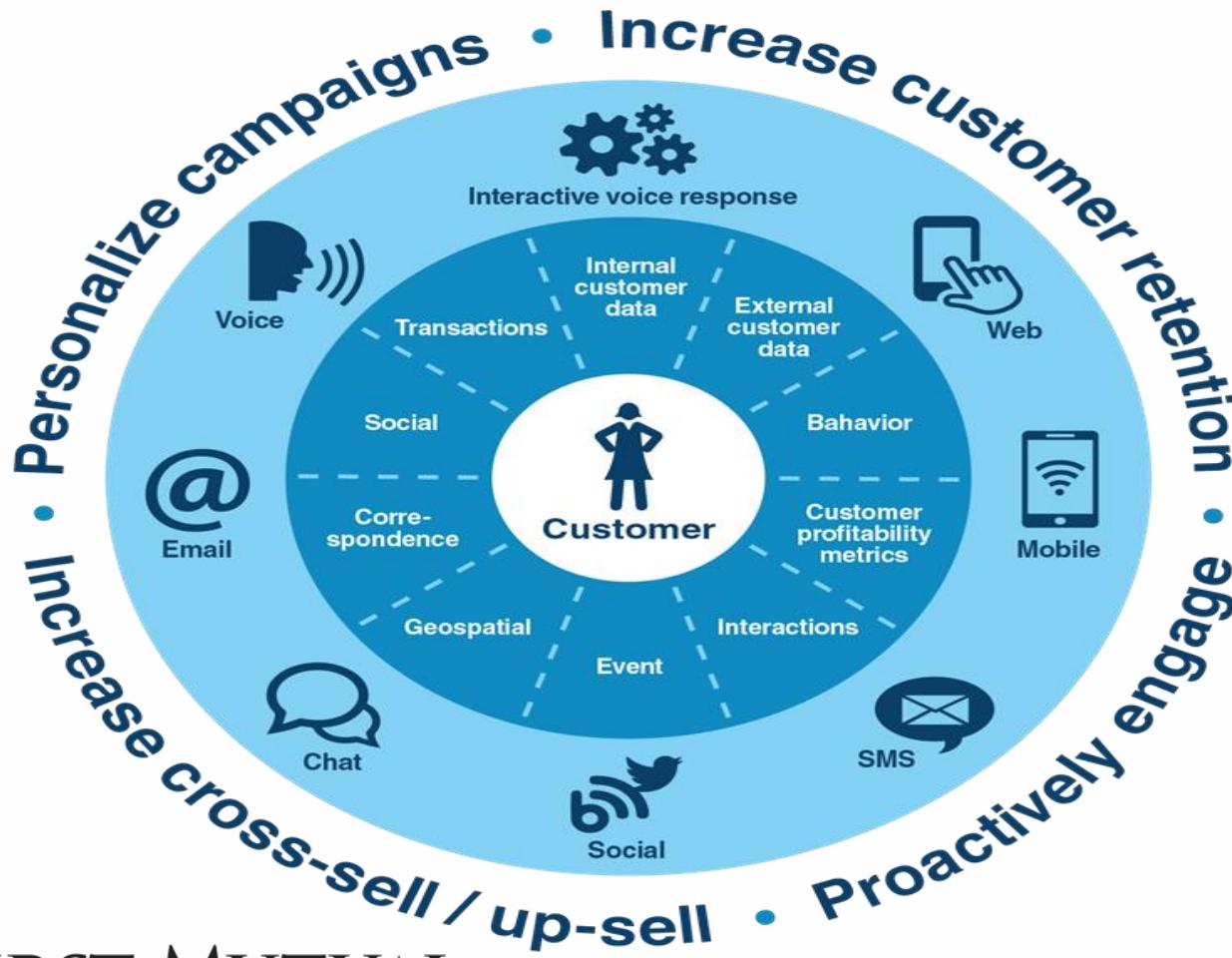
TristarInsurance
Creating Stability for Life

FIRST MUTUAL LIFE
ASSURANCE COMPANY
Creating Stability for Life

FMRE
PROPERTY & CASUALTY
Protecting the Future

FMRE
PROPERTY & CASUALTY
Protecting the Future

Implications 360 Degree View of Customer



- Enabling a 360-degree customer view increases servicing efficiency.
- Relevance is the currency of the e-commerce era

Implications

- Personal lines
 - Greater Commoditisation
 - Price Transparency
 - Virtual social community led bulk purchase
 - Decreasing Profitability
 - Driven by increasing globalization, technologies & price competitiveness
 - Automated Underwriting
 - Greater Loss Control
 - Telematics to price mileage based insurance (USA, UK, SA)

Implications

- Commercial Lines
 - Virtual Business Affinity Groups
 - Social networking will create virtual business groups that pool their risk
 - Greater availability of information & increased price transparency will facilitate this trend
 - Automated Underwriting
 - Business Model Transformation
 - Real time data from wearables and devices will transform business models (data analysis)
 - Focus will migrate to standardized products & value added services to proactively manage risks

Implications

- Individual Life, Annuities & Retirement
 - New Products for seniors
 - Aging population will result in new growth opportunities in drawdown or retirement income products
 - Insurers will face competition from other financial service providers
- Better Risk Management
 - Greater availability of medical & behavioural data along with personalised medicine to drive greater sophistication in underwriting
 - Opportunity to better manage risk and expand boundaries of insurability
- Tailored Products
 - For group benefits the responsibility for protection & retirement savings will continue to migrate to the individual resulting in increased voluntary coverage

Implications

Case Study: LifeCo

2012

- Low interest environment & legacy technology made it difficult to adapt to changing needs of customers
- Challenges in data aggregation
- Customer desire for transparency & speed of execution
- Profitability compromised

Beyond 2012

- Developed personalised customer portal which provided binding quotes in minutes making them first choice of agents and individuals
- Hired experienced business intelligence leader
- Enabled constant flow of insightful, fact based information helping the executives make the right decisions faster
- Developed novel products geared at customer needs
- Resumed profitability

Implications

Some Changes Affect Everyone

- Globalisation and interconnectivity of risks
 - Insurers will be forced to think and act globally
 - Insurers will be more involved in deciding which geographies, products & customer segments and channels that will provide desired level of growth
- Automated and assisted decision making
 - Extensive internal & external data as well as artificial intelligence based techniques will expand scope of decision making
 - Identification of markets / segments to enter or grow, risk selection, customer segmentation, preventive loss prevention management
- Changing Cost Structures
 - Insurers who fully exploit potential offered by the internet / e-commerce will be able to transform their cost structures (distribution channels, cloud based technologies, automation)

Conclusion

- What do you want to be?
- **Expansionists**
 - Carriers who want to shape future through expansion?
- **Fast Followers**
 - Carriers who do not want to be first but are adept at following leaders and establishing a strong presence
- **Survivors**
 - Focus on short term performance and survival
- Whichever choice is made, a clear strategic direction about what you want to be is important
- It is also important to note that we **cannot** ignore e-commerce and the technological era which is now the norm, especially for the ‘Millenials’ (future market)
- Human interaction still important for some markets but need to balance and embrace future markets and channels

Conclusion

How DID KODAK FAIL?

- Kodak - leader in the photo film, chemical and paper business – founded in 1889 by George Eastman
- Kodak invented the first digital camera in 1975
- 1981 Kodak research reveals digital photography had the potential to replace their film based business – and they would have approximately 10 years to prepare for transition
- Kodak made business decisions focusing on their core business in film and chemical
- Regardless of their own tech breakthroughs and accurate market assessment, Kodak failed to make the right strategic choices
- On 1/19/12, Kodak filed for Chapter 11 bankruptcy protection



Conclusion



Conclusion



Reason For Failure

- 1.Core competency became core rigidities
- 2.Lack of market research
- 3.Late mover of digital photography
4. Innovation and transformation Failure
- 5.Unwillingness to change

Kodak



FIRST MUTUAL
HOLDINGS LIMITED

Go Beyond

FIRST MUTUAL
WEALTH
Go Beyond

FMRE
LIFE & HEALTH
BETTER PROTECTION, BETTER SECURITY

FIRST MUTUAL
HEALTH
Go Beyond



TristarInsurance
GO BEYOND

FIRST MUTUAL LIFE
ASSURANCE COMPANY
Creating Stability For Life
GO BEYOND

FMRE
PROPERTY & CASUALTY
GO BEYOND

FMRE
PROPERTY & CASUALTY
GO BEYOND

Q & A

FIRST MUTUAL
HOLDINGS LIMITED

Go Beyond

FIRST MUTUAL
WEALTH
Go Beyond

FMRE
LIFE & HEALTH
Enhanced Protection, Enhanced Benefits

FIRST MUTUAL
HEALTH
Go Beyond



TristarInsurance
Tristar Insurance Company
Creating Stability for Life

FIRST MUTUAL LIFE
ASSURANCE COMPANY
Creating Stability for Life

FMRE
PROPERTY & CASUALTY
Protecting the Future

FMRE
PROPERTY & CASUALTY
Protecting the Future

Q & A

FIRST MUTUAL
HOLDINGS LIMITED

Go Beyond

FIRST MUTUAL
WEALTH
Go Beyond

FMRE
LIFE & HEALTH
Enhanced Protection, Enhanced Benefits

FIRST MUTUAL
HEALTH
Go Beyond

