

# Innovating for sustainable insurance

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# Executive summary



## 1. Sustainability represents a blue ocean for insurance companies

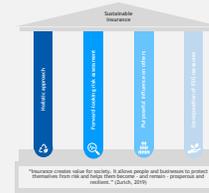
Current insurance market is highly competitive

Sustainable insurance offers a new dimension for value creation and appropriation

Currently none of the big insurers have claimed it



## 2. Sustainable insurance definition helps guide Insurance company ("IC") to become sustainability front-runner



Holistic approach

Forward-looking risk assessment

Purposeful influence on others

Incorporation of ESG measures



## 3. 12 potential products provide basis for future product development pipeline

- Ideation was conducted based on identified pain points
- Ideas were evaluated and ranked based on pre-defined criteria such as alignment with sustainable insurance definition and internal/external consistency
- Provide ideas and inspiration for more concrete products



## 4. Carbon credits and one-for-one insurance identified as most promising products

Carbon credits allow IC's travel, motor and property customers to offset their carbon footprint by funding carbon-negative projects

One-for-one insurance subsidizes policies in emerging economies based on contributions from developed markets

1

## Sustainable insurance

2

Idea 1: Carbon credits

3

Idea 2: One-for-one

4

Further considerations

# Environmental, social and digital challenges put increasing pressure on society so insurance needs to adapt to meet future needs

## The current world differs dramatically from the one in the past...

- The world around us is **changing rapidly**: environmental, social and digital challenges create tremendous **pressure** for people, governments and businesses alike thus necessitating **sustainable solutions**
- The insurance industry plays a crucial role as society's **risk manager**, but has yet to define its **updated function** in tomorrow's world

Project purpose



What will be the role of insurance in the future?

How can insurance companies evolve to prepare both themselves and customers for these future challenges?

Project topic



"What are sustainable insurance solutions for retail insurance customers?" (Zurich, 2019)

## ... so insurance needs to adapt on an ideological and business level

### Vision:

Learning, thinking, creating, working, exploring, innovating etc.

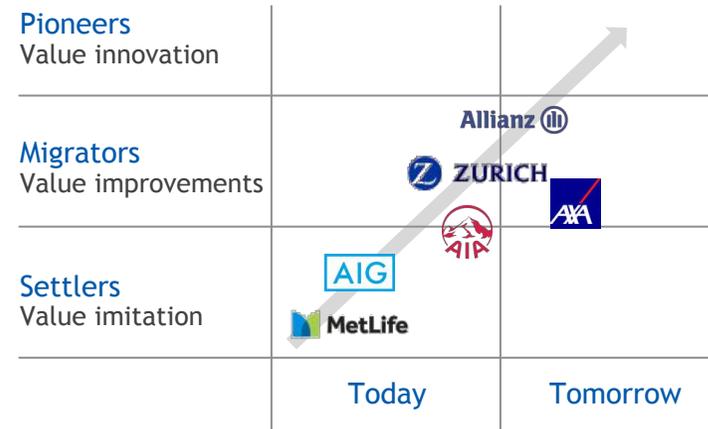
Hedging and mitigating risks as well as educating people

Unleashing all of humanity's potential by **managing current and emerging uncertainty along the way**

Closing the protection gap (half of natural disaster losses are not insured)

Adaptability, future orientation and innovation

### Business opportunity:



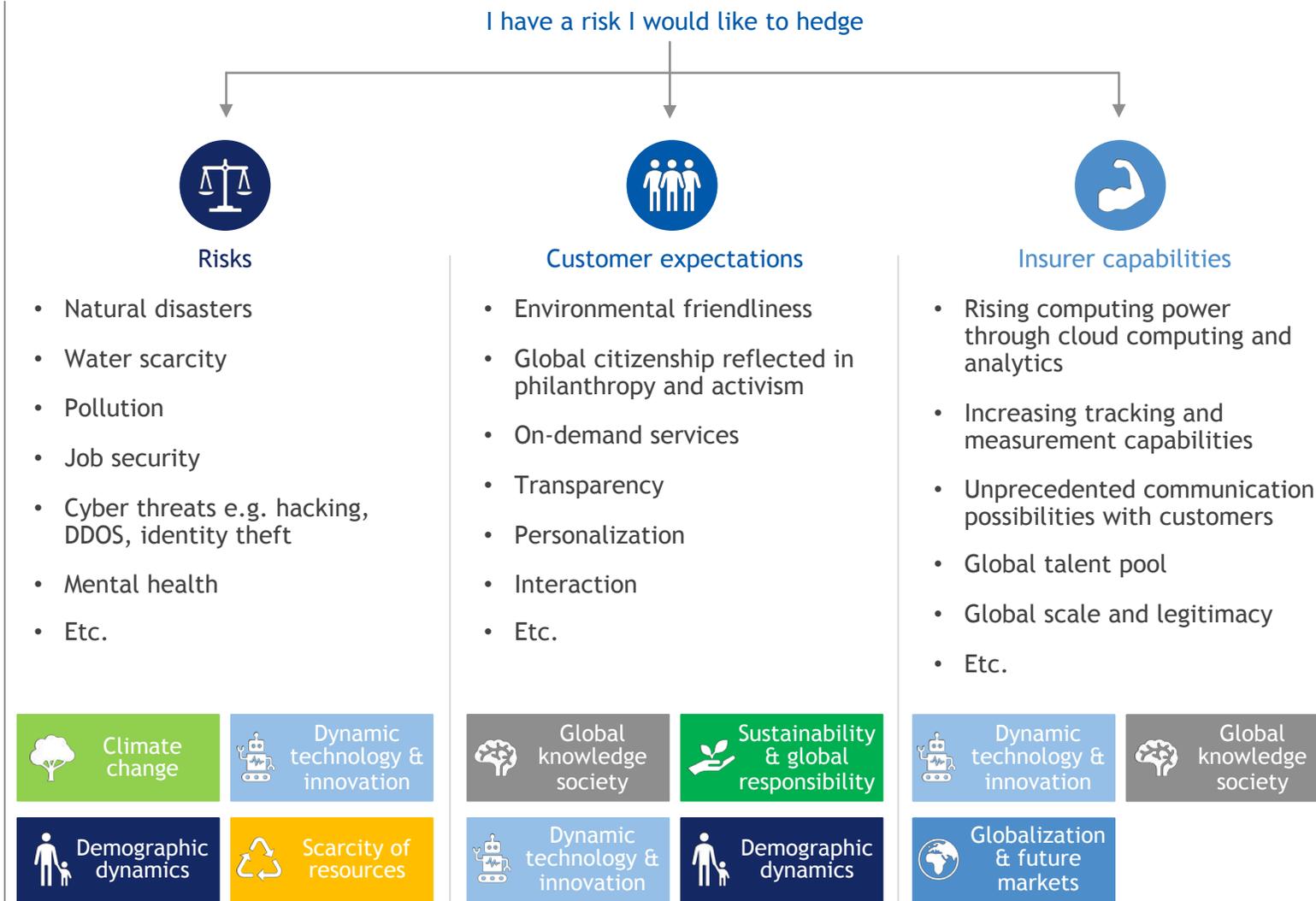
- Current insurance market is highly competitive
- Sustainable insurance represents a blue ocean
- Currently none of the big insurers have claimed it

# Basic need stays the same while underlying factors are changing rapidly under the influence of megatrends

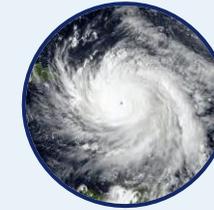
The basic age-old need stays the same...

... but the underlying factors are changing...

... under the pressure of megatrends



Changes in underlying factors are increasingly swift and impactful



In 2017, a Swiss IC announced that losses resulting from hurricanes Harvey, Irma and Maria would exceed €600m net of reinsurance

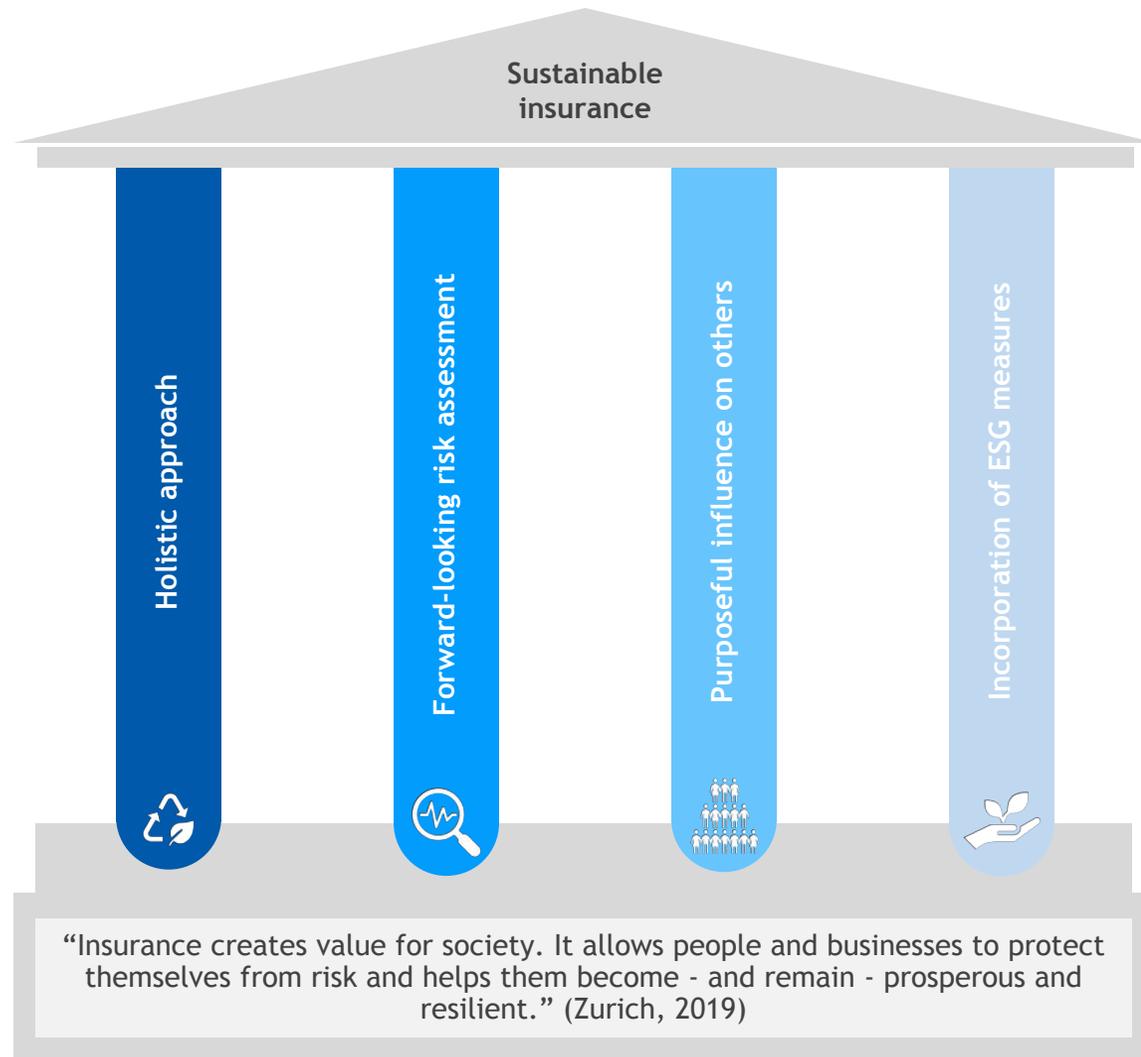


In 2018 Adidas sold more than 5m pairs of shoes containing recycled plastic waste



“98% of insurance executives believe that cognitive computing will play a disruptive role in the insurance industry” (Deloitte, 2017)

# Sustainable insurance builds on the long-term orientation of traditional insurance and adds four new dimensions



## Holistic approach

Insurance models and their by-products transition from pure protection to prevention, mitigation and even issue-solving.



## Forward-looking risk assessment

Sustainable insurance should identify, assess, manage and monitor risks and opportunities in a forward-looking manner.



## Purposeful influence on others

Insurance products have purposeful direct and indirect benefits to stakeholders other than the insuree without compromising the ability of future generations to meet their own needs.

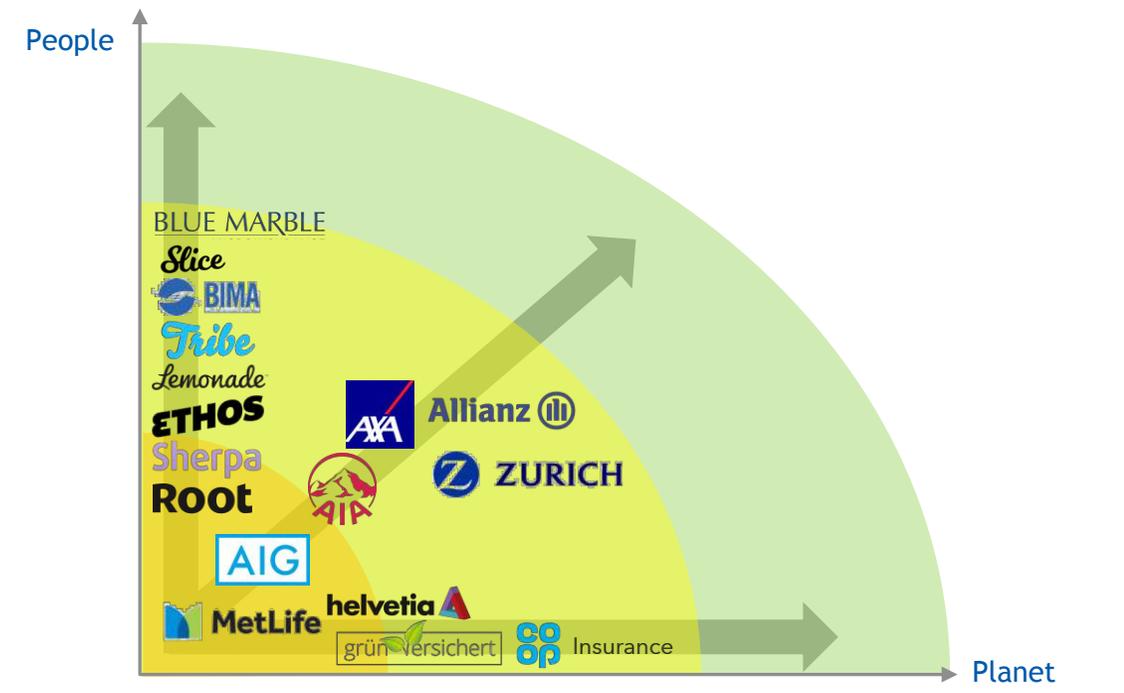


## Incorporation of ESG measures

Systematic structure of insurance products, asset management and business model around ESG<sup>1</sup> goals.

# The industry is transforming, but no clear sustainability front-runners have emerged

Three strategic directions have emerged, but no clear front runners as of yet



- Overall, the industry is changing towards **higher sustainability**
- Three directions are visible: **people focused, planet focused and mixed**
- Focused strategies are pursued mainly by start-ups and mixed by incumbents
- More innovation is present on the people dimension
- **No clear front-runner**, especially on the planet dimension

Using design thinking, we have ideated products to turn IC into leader

Empathize

Foster understanding through internal and external analysis



Define

Identify and outline pain points and crucial needs



Ideate

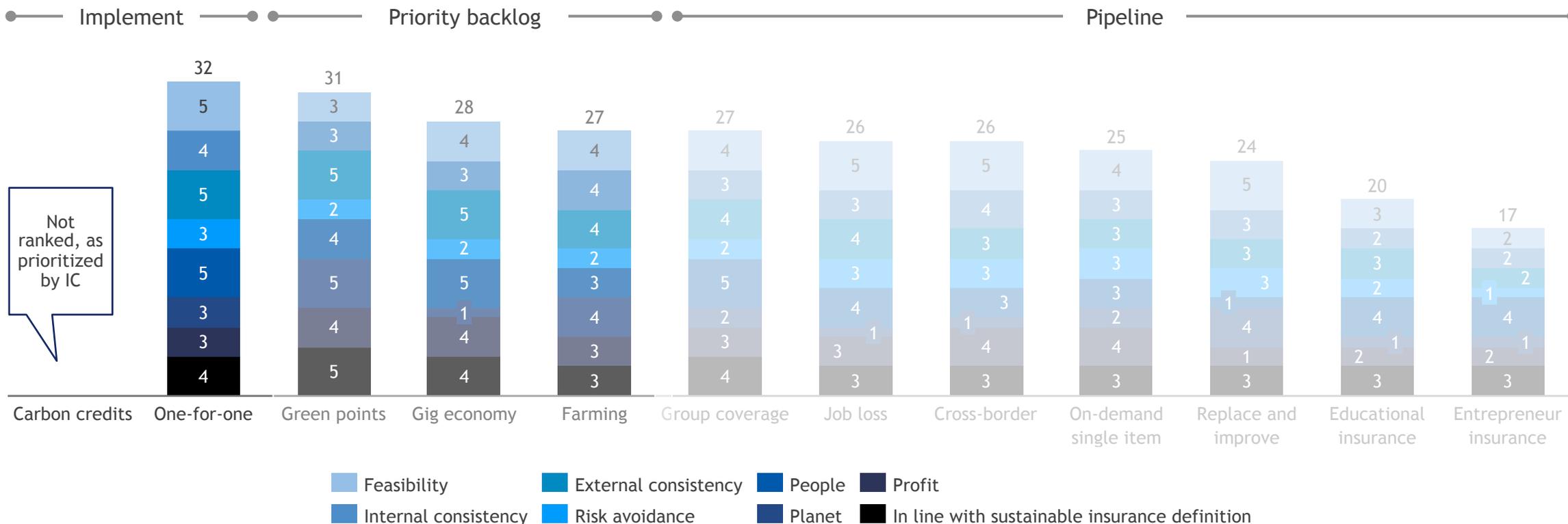
23 ideas have been thought of, but 11 have been discarded after initial screening



Prototype

Prepare favorite ideas and jointly discuss with IC

# Based on pre-defined criteria, one-for-one was selected as the most promising insurance product in addition to carbon credits



### Carbon credits...

... neutralize emissions by retail customers

... enable sustainable development among customers and beneficiaries

... tackle many SDG dimensions, depending on project

tbd

### One-for-one...

... helps reduce global coverage gap thus laying the foundation for growth

... creates more resistant communities

... tackles many SDG dimensions, depending on insurance product

tbd

1

Sustainable insurance

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**Idea 1: Carbon credits**

3

Idea 2: One-for-one

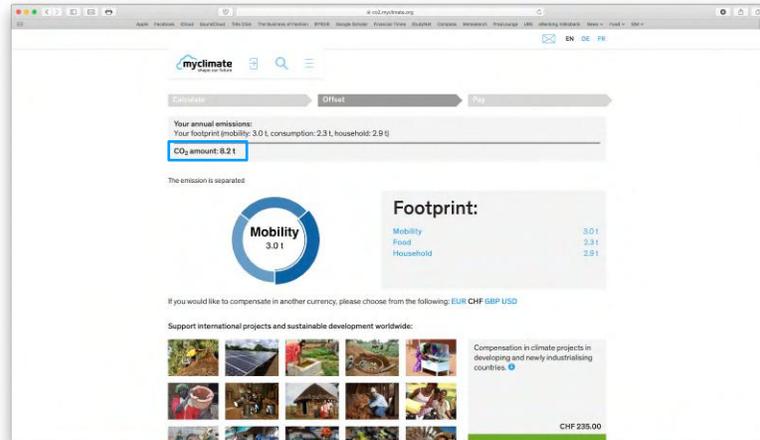
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Further considerations

Now, let's talk about carbon emissions:

1 Visit <https://www.myclimate.org> > **Compensate** > click **Footprint** to calculate your carbon footprint

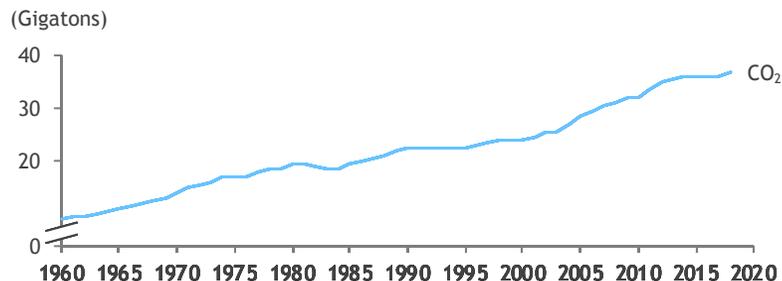
2 Note down your carbon footprint!



3 Participate in our Mentimeter (scan QR code)  
Code: 66 91 26



# Carbon credits enable retail customers to neutralize the carbon emissions underlying their purchased insurance product



Manmade carbon dioxide emissions have risen to 40bn tons annually



Only 46% of emissions absorbed by terrestrial and ocean biosphere



Globalizing society is putting pressure on our planet (e.g. global business travel, gig economy)

Carbon credits are of internal and external consistency



Sustainable insurance:



Mitigation of climate change



Ensuring future livability



Managing carbon emissions

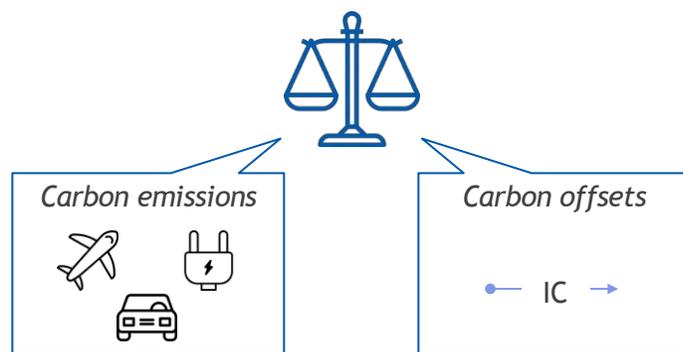


People Planet Profit

## Carbon credits allow retail insurance customers to offset their carbon emissions

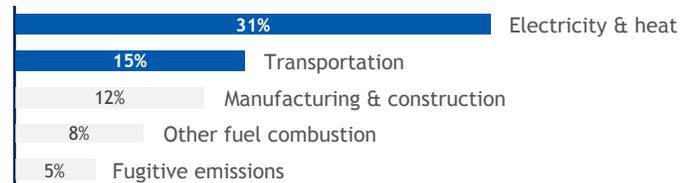
The carbon offset scheme enables retail insurance customers to invest in environmental projects to compensate for their emission of carbon dioxide and other greenhouse gases:

Carbon emissions = carbon offsets



- Retail customers purchasing a **travel**, and in a later step, **property and motor insurance** are able to directly offset their future emissions via IC
- IC matches carbon emissions with carbon offsets
- The carbon offset scheme will thereby **target to neutralize emissions in the areas of electricity & heat as well as transportation**, tackling the two main sources of manmade emissions

Sources of global manmade greenhouse gas emissions:



## Megatrends:



Global knowledge society

IC raises awareness and attention to the issue of carbon emissions<sup>1</sup>



Climate change

Carbon emissions are **neutralized**, thus actively contributing to climate change



Sustainability & global responsibility

Customers engage in **sustainable development** and their role as a **global citizen**

# Carbon credits target two main customer segments, but may enable further sales to adjacent segments

## Stakeholder groups demand proactivity in climate protection



- Paris Agreement; UN Sustainable Development Goals; climate activists (e.g. Greta Thunberg)
- UN Principles for Sustainable Insurance; competitor push into sustainability (e.g. Axa, Allianz); mobile on-demand insurance
- IC operates as a climate neutral business since 2014; trend towards sustainable investments

Two personas have been defined to describe two distinct target customer groups:

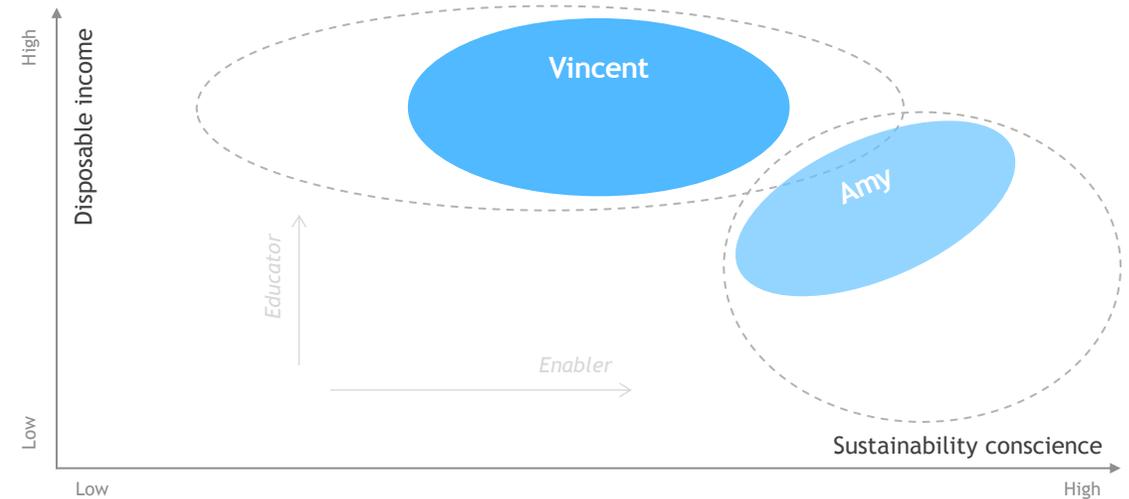
Vincent is 52 years old and lives in Central London with his wife and two children. He works for an international bank in a senior position. In his free time, he enjoys to drive up to the Lake District for fishing or to travel to Asia.



Amy is 24 years old and lives in a flatshare in the outskirts of London. She is a vegetarian. Having recently graduated, she now works as an accountant. While she does not own a car, she travels around the UK frequently by train to visit her friends.



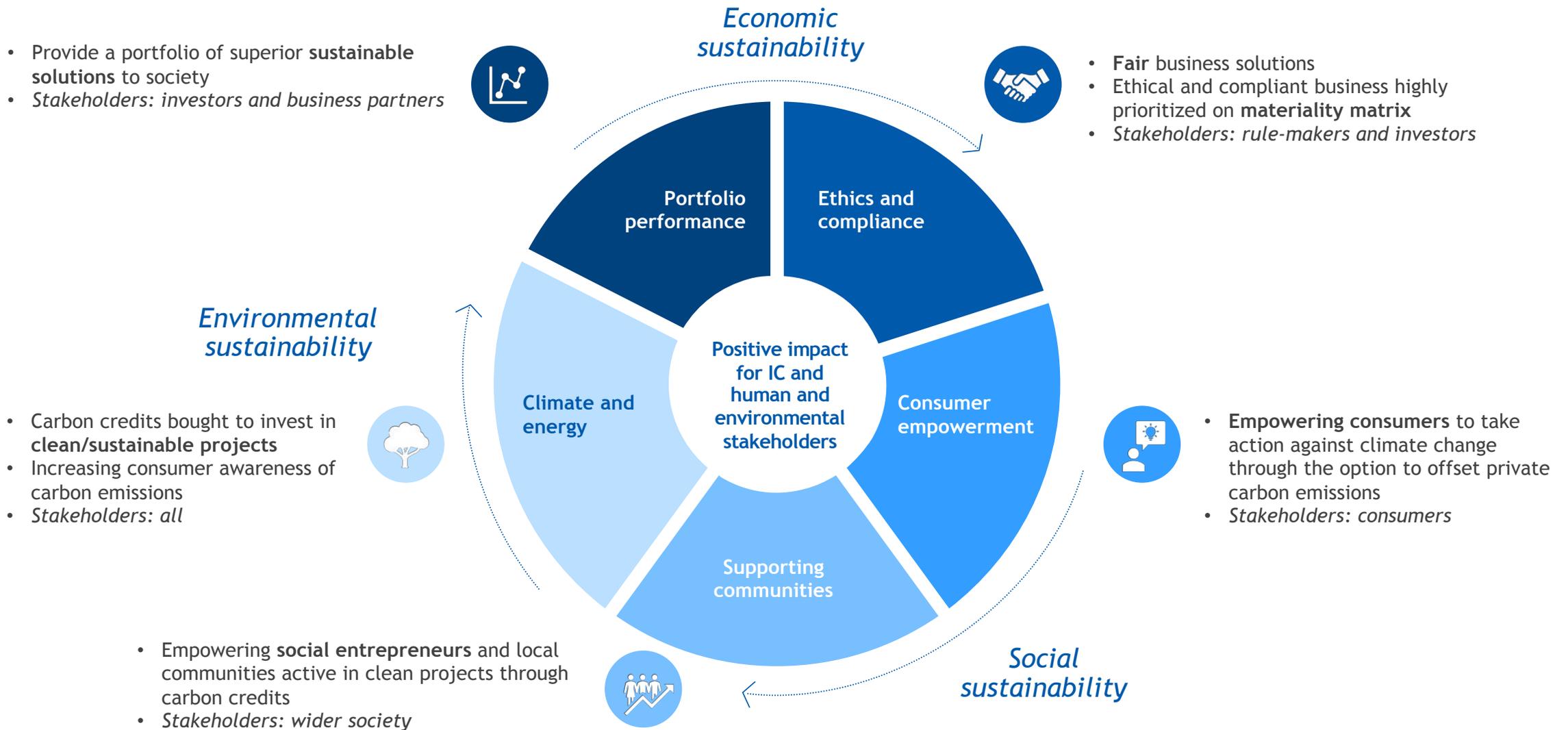
## Vincent and Amy represent the targeted customer segments



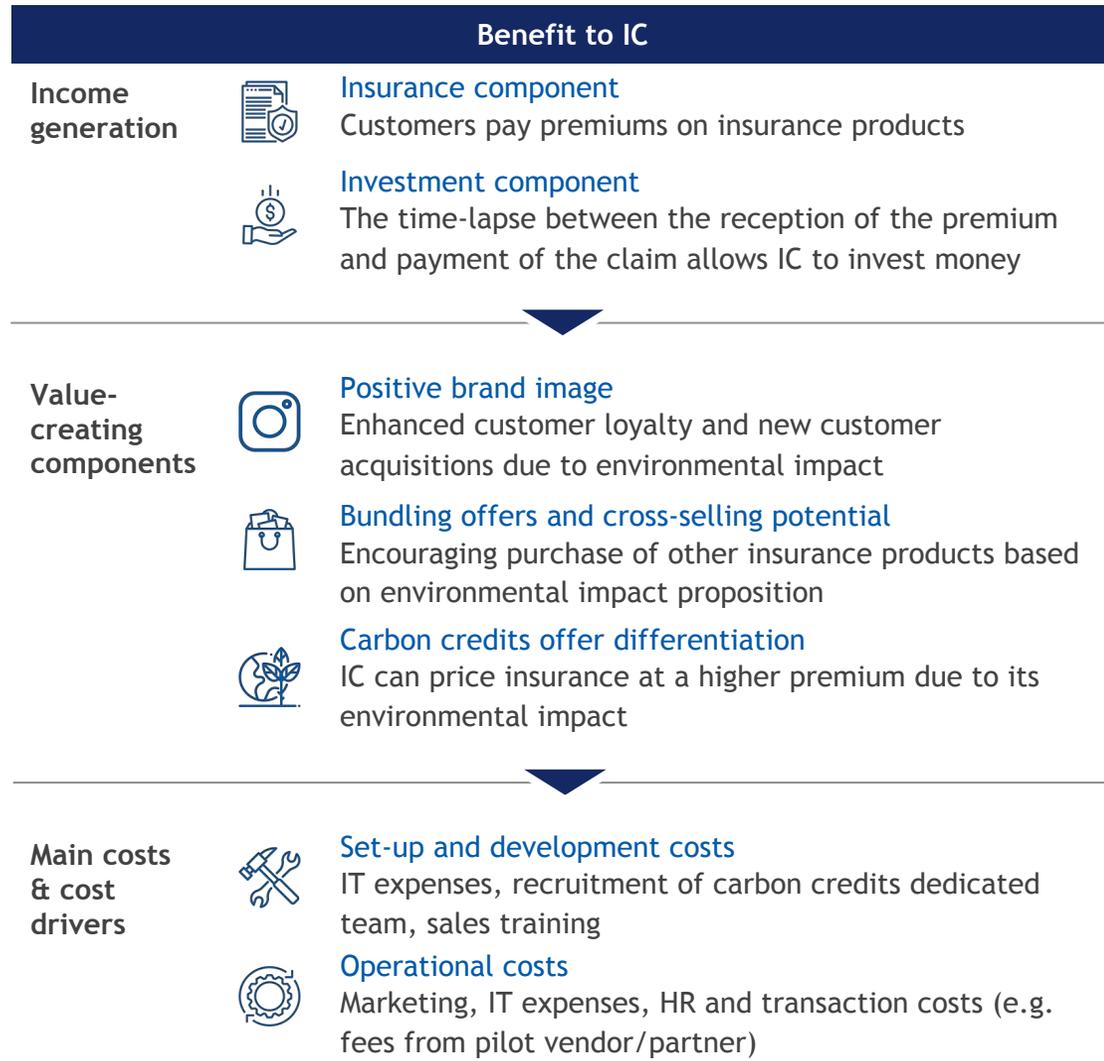
- While Vincent corresponds to IC's current target customer, Amy reflects Generation Y: she has grown up with the issue of sustainability and is an important customer segment of the future.
- Both Amy and Vincent reflect core segments; however, IC taking on the role of an **educator** could motivate more high-income individuals and as an **enabler** allow more sustainability-conscious individuals to offset their emissions
- While **56% would offset** their carbon travel emissions, target as well as adjacent customer segments must be engaged through the customer journey<sup>1</sup>:



# Carbon credits result in sustainable outcomes along economic, social and environmental dimensions



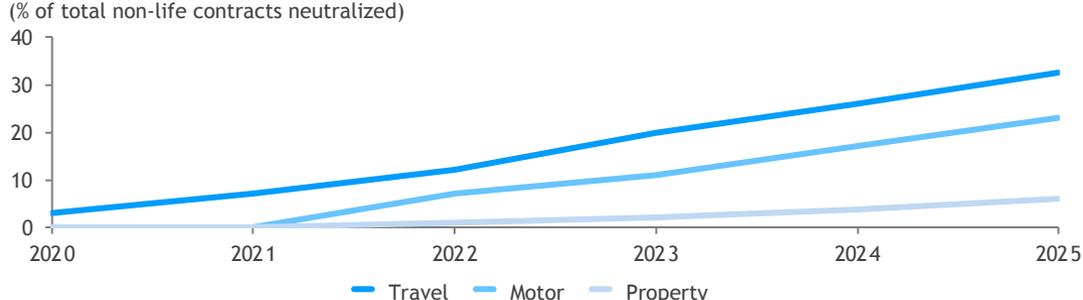
# While IC benefits from an elevated brand perception, customers entrust IC with their carbon credits in return for neutralizing their environmental impact



Benefit to retail insurance customer	
 <b>Trust</b> Premium offering, transparent and effective	
 <b>'Made by IC'</b> Value-added from IC's risk assessment and analytic capabilities	
 <b>Environmental impact</b> Customers can neutralize their carbon emissions	
 <b>Frequent point of contact</b> Monthly payments allow for frequent updates on beneficiaries	
 <b>Recommendation: Joint action</b> IC contributes 10% of carbon emissions of an insurance product in the first year <sup>1</sup>	

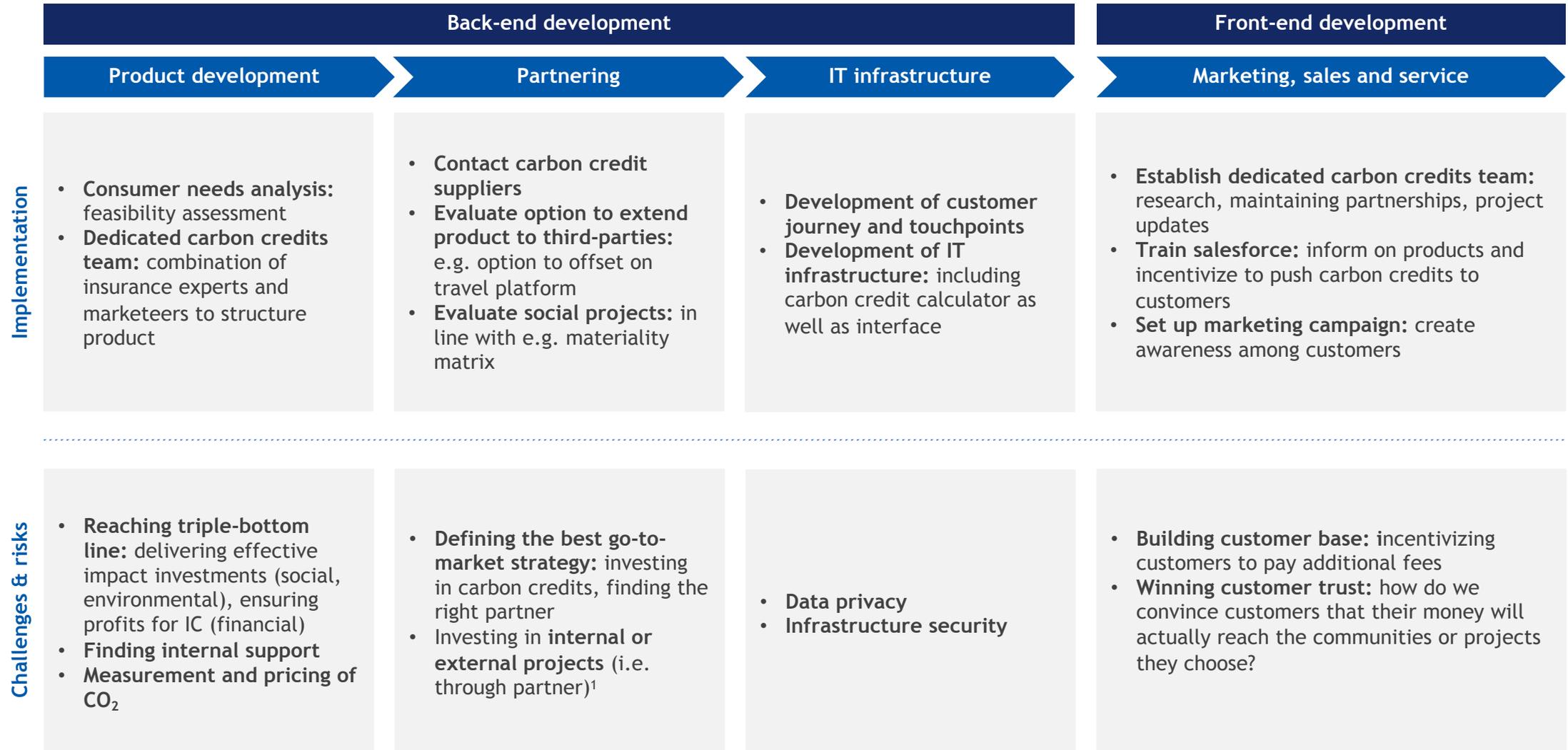
(% of total non-life contracts neutralized)



Year	Travel	Motor	Property
2020	2	0	0
2021	7	0	0
2022	12	8	1
2023	20	11	2
2024	27	16	3
2025	32	23	4

- The carbon offset scheme enables **32% of travel insurance contracts to be carbon neutral by 2025**
- Motor and property, introduced to the carbon offset scheme in 2022, will reach 17% and 4% respectively

# Both internal or external execution of carbon credits project require similar implementation steps along the back- and front-end



1

Sustainable insurance

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Idea 1: Carbon credits

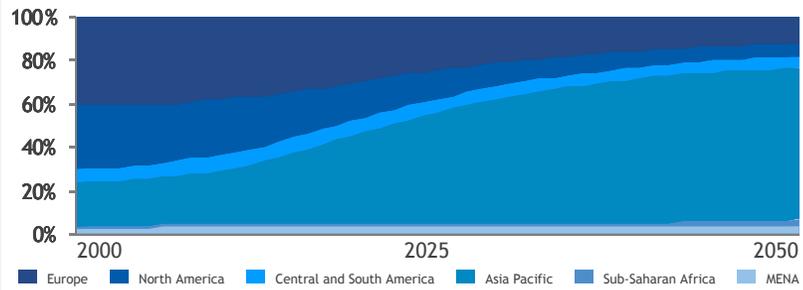
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**Idea 2: One-for-one**

4

Further considerations

# One-for-one insurance offers to subsidize insurance products in emerging economies thus tapping into a growing middle class



Size of **global middle class** will increase to **5.3bn** by 2030



**Asia-Pacific** will account for **66%** of population in this segment



**Deprived, lower and middle class** spend **\$8.0tn** annually, representing **83%** of total consumption

One-for-one insurance is of internal and external consistency



Sustainable insurance:



Elevation out of poverty



Subsidy of another individual



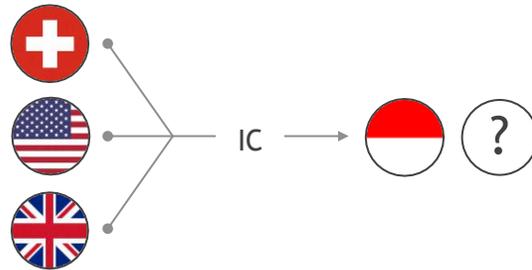
Risks insured, opportunities exploited



People Profit

## One-for-one insurance enables development and monetization in emerging economies

The one-for-one policy enables **retail insurance customers in developed nations** to help insure a life in the developing world:



*Despite insurance's significant growth in emerging markets (20% of global premiums in 2016), there are still protection gaps: individuals remain under- or uninsured*

One-for-one policy revenues from retail insurance customers will be used in two ways:

1

Educational activities to raise awareness concerning potential risks and prevention thereof

2

Subsidy of local insurance product to individual in emerging economy

Value

- Understanding of and **demand** for future insurance products
- Recognition of **value** of insurance product as it is partly financed by the individual

## Megatrends:



Global knowledge society

Knowledge of insurance **functionality and value** as key to making **informed decision**



Scarcity of resources

**Uninsured risk** may drag households **back into poverty**



Sustainability & global responsibility

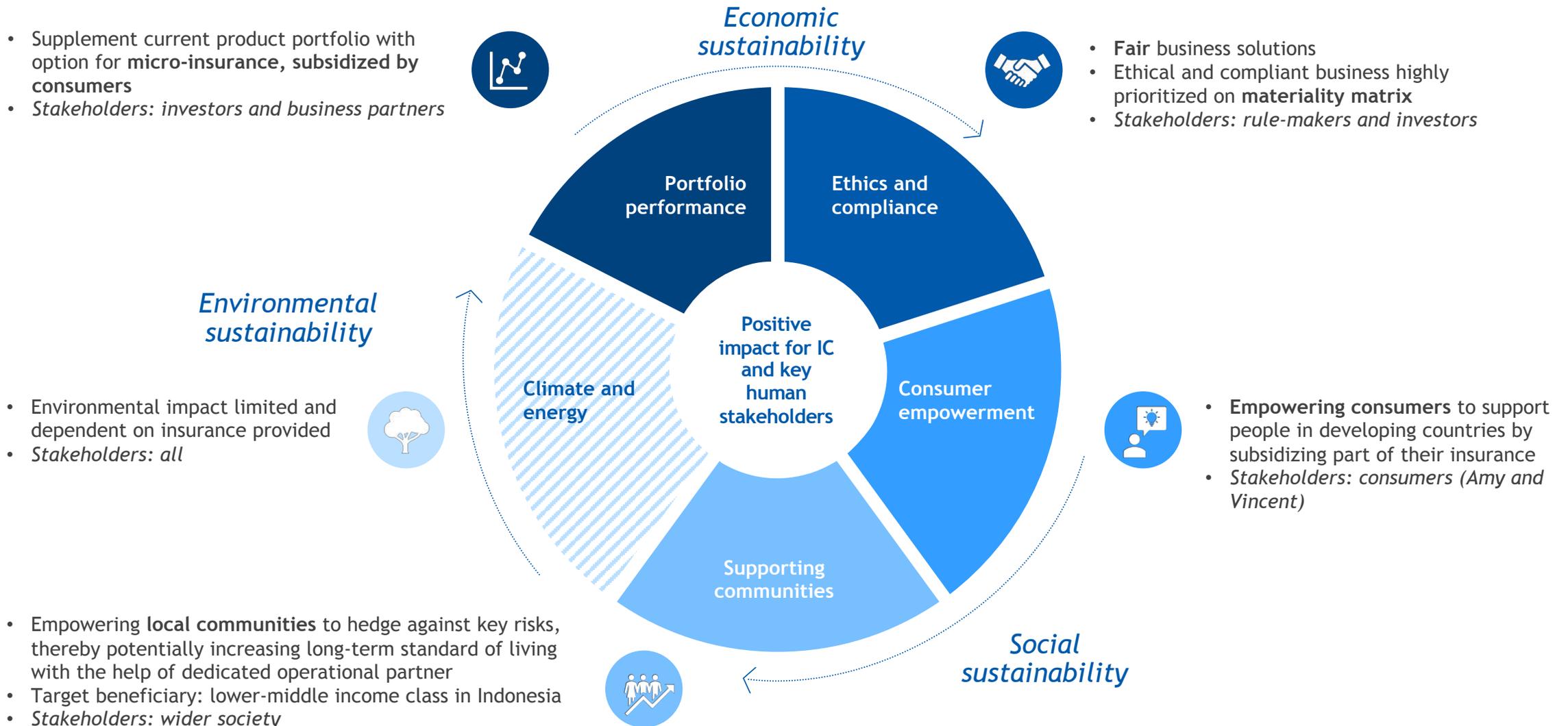
Enabling **global human development**



Globalization & future markets

**Protection gap** in emerging markets indicates **untapped potential**

# One-for-one insurance results in sustainable outcomes along economic and social dimensions



# The multiple commercial opportunities of one-for-one insurance bring value to customers in both developed and developing economies

## Benefit to IC

### Value-creating components



#### Priming customer base

Customer base expected to increase due to rapid growth of middle class in receiving countries



#### Market knowledge

Valuable insights into potential new consumer markets through microinsurance partner



#### One-for-one offers differentiation

IC can price insurance at a higher premium due to its social impact



#### Positive brand image

Enhanced customer loyalty and new customer acquisitions due to social impact

### Main costs & cost drivers



#### Set-up and development costs

IT expenses, recruitment of one-for-one dedicated team, sales training



#### Operational costs

Marketing, IT expenses, HR and transaction costs (e.g. fees from partner)

## Benefit to retail insurance customer



#### Trust

Premium offering, transparent and effective



#### 'Made by IC'

Value-added from IC's risk assessment and analytic capabilities



#### Subsidized product

Helping an individual who initially cannot afford an insurance product without depleting its value



#### Targeted impact

Subsidizing individuals in countries that IC customer is connected to

## Benefit to beneficiary



#### Education

Knowledge about risks and the need to insure these



#### Enablement

Gaining access to insurance products



#### Empowerment

Betterment of standard of living through risk mitigation

1

Sustainable insurance

2

Idea 1: Carbon credits

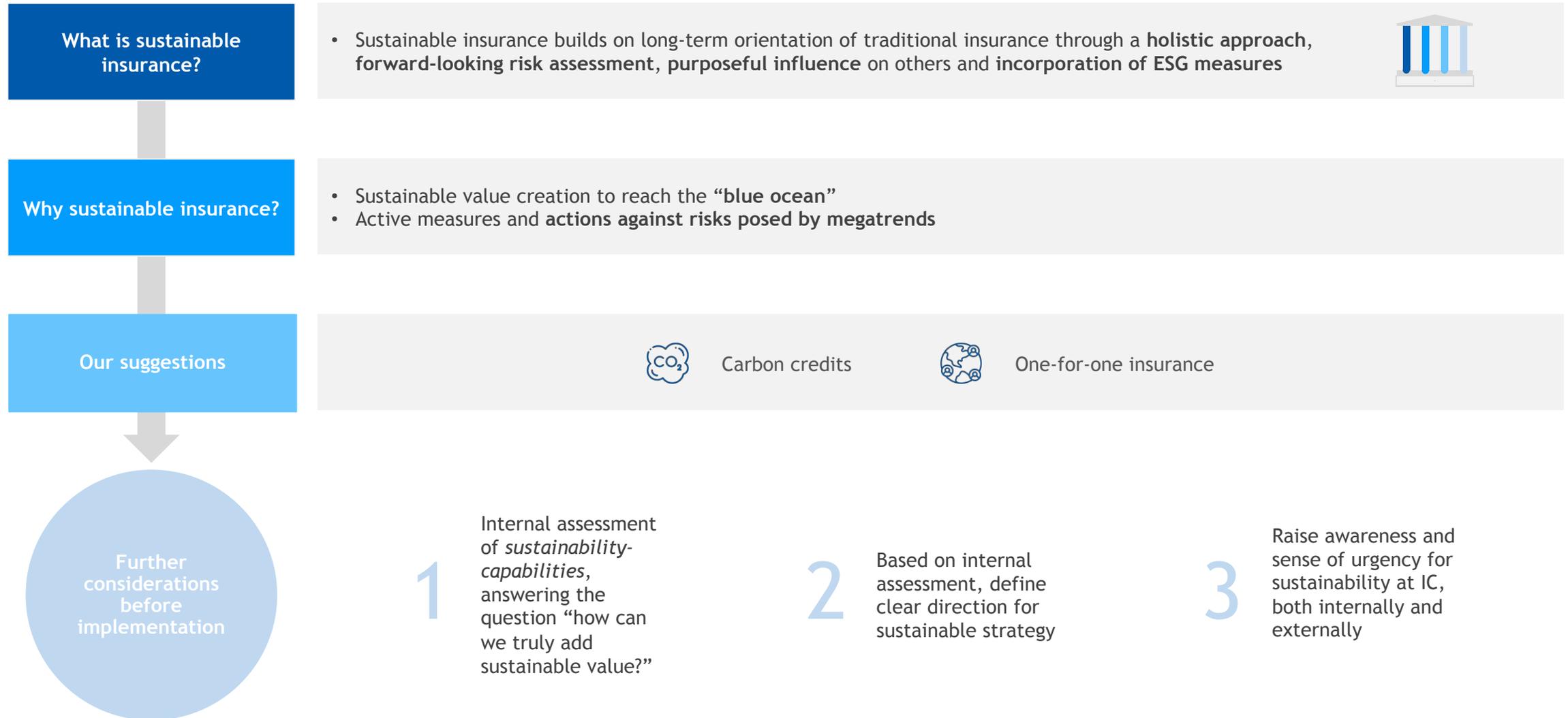
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Idea 2: One-for-one

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**Further considerations**

# Thank you for your attention; any questions?



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# Appendix

# Macro-economic factors are challenging the insurance business

## Political

- Paris Agreement
- State pensions are under pressure
- On-going trade war between USA and China

## Economic

- Highly competitive insurance market
- ESG funds growing in popularity
- Increasing disparity, but individuals in poorer states also need to protect themselves
- Economically challenging to price EVs, solar, wind etc.

## Social

- Emerging middle class
- Protection gaps: access, price affordability, moral hazard
- Automation and digitalization as human substitution
- Refugee crisis
- Mental health
- Activism for joint causes

## Technological

- Sensors, trackers and telematics e.g. Fitbit for life insurance
- Alternative drive and autonomous driving
- Renewable energy sources
- Digitalization (especially digitally enabled services and sales channels)
- Rise of platform businesses

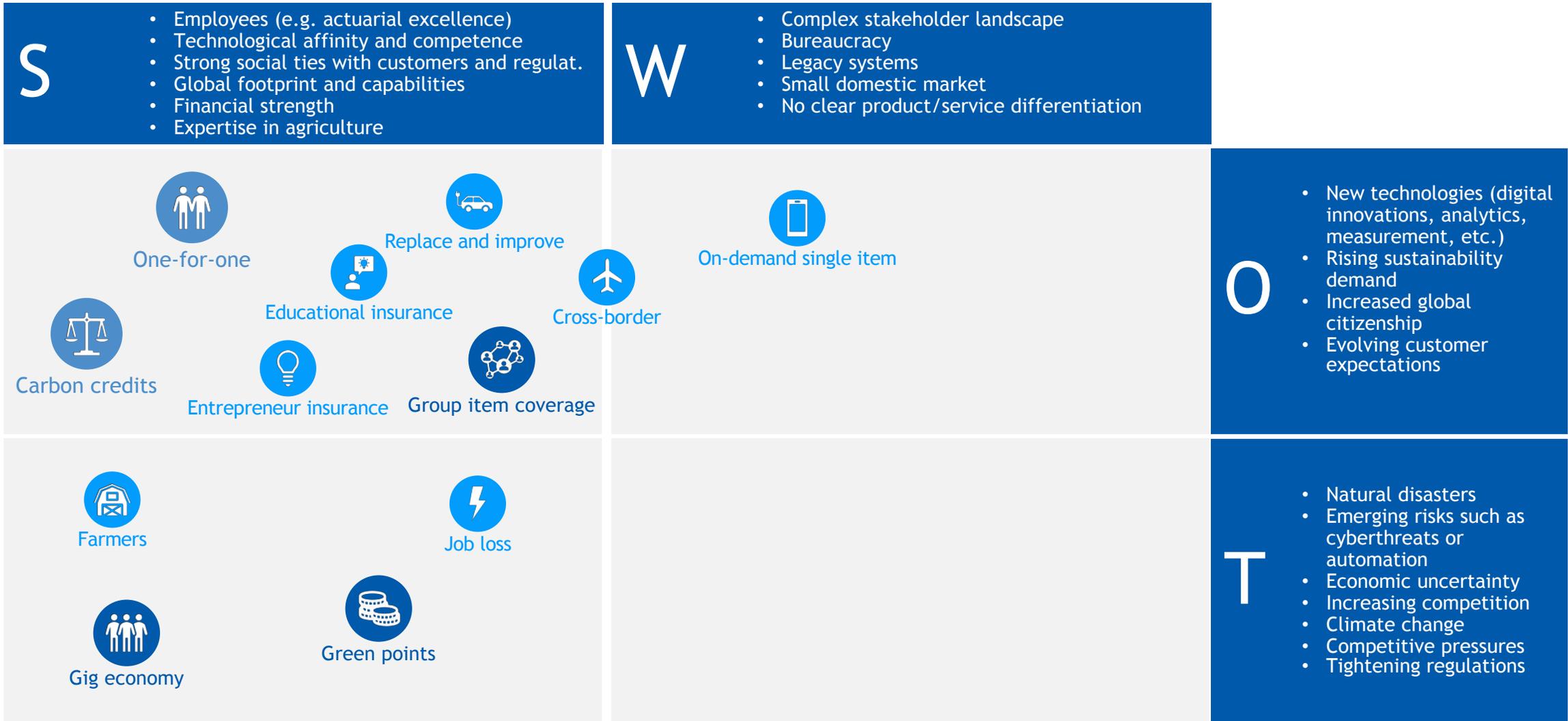
## Legal

- Data protection is becoming increasingly relevant together with the ethics behind it
- Tightening financial regulations

## Environmental

- Climate change and recent consciousness inspired by Greta Thunberg
- Natural disasters
- Rising recognition for sustainability
- Insurability risk

# IC possesses vital strengths that allow it to respond effectively to emerging opportunities and threats



# Overview of other ideas that could be implemented in the future



## Green points

- Who?** All retail customers mainly in developed countries with high SDG awareness
- What?** Cross-industry rewards system is introduced in cooperation with other companies in order to systematically drive sustainability



## Gig economy

- Who?** Freelancers using online platforms to find temporary work
- What?** Ensures certain level of income in case of temporary disability, platform issues, IGA<sup>1</sup> issues, etc.



## Group item coverage

- Who?** Apartment buildings, flat mates, friends, families
- What?** Fair insurance of jointly owned things that allocates premiums based on individual risk and usage profiles e.g. appliances, cars, etc.



## Job loss

- Who?** Employees endangered due to automation, trade wars, etc.
- What?** Insure against specific job loss reasons to maintain standard of living beyond welfare (+re-skilling)



## Cross-border

- Who?** Business travelers, digital nomads, globetrotters, etc.
- What?** On-demand travel package (e.g. travel, item, etc.) that includes concierge and local assistance



## Farmers

- Who?** Professional farmers and their families
- What?** Insurance against price volatility for sustainably grown crops (resource efficient, tech use etc.)



## On-demand single item

- Who?** Young to middle aged retail customers in developed countries
- What?** Rise in expensive gadgets fuels the need to insure them in risky situations e.g. phone at concert



## Replace and improve

- Who?** Middle aged, elderly as well as lower-income segments
- What?** After a claim, underlying vehicle, item or property is replaced with “greener version”



## Educational insurance

- Who?** Financially vulnerable parent with children in education
- What?** Parents can insure their children’s education in case of personal inability to finance it



## Entrepreneur insurance

- Who?** Entrepreneurs in markets with illiquid capital markets
- What?** Many founders are personally liable as Ltd. is more expensive; insurance against personal liability

# Country choices

## Giver countries

	GDP per capita (2017, in USD)	Insurance market size (2017, in bUSD)	Expected market growth (CAGR 2017 - 2022)	SDG index (2018)	Life vs non-life segment (2017, in %)	IC retail insurance offer*
<b>CH</b>	<b>80,190</b>	<b>58</b>	<b>1.80%</b>	<b>80</b>	<b>52/48</b>	<b>T, M, P, L</b>
USA	59,930	1,377	2.30%	73	60/40	M, P, L
<b>UK</b>	<b>39,720</b>	<b>283</b>	<b>1.20%</b>	<b>79</b>	<b>67/33</b>	<b>T, M, P, L</b>
France	38,475	241	0.80%	81	64/36	n/a
DE	44,470	222	1.60%	82	44/56	T, M, P, L
Japan	38,430	419	1,70%	78	72/28	T, M, P, L

## Receiver countries

	GDP per capita (2017, in USD)	Infrastructure quality index (2018)	Population size (2017, in million hab.)	GDP growth rate (2017)	Governance index (2017)
<b>Indonesia</b>	<b>3,850</b>	<b>67</b>	<b>264</b>	<b>5.1%</b>	<b>55</b>
Brazil	9,820	64	210	1.1%	42
Malaysia	9,945	78	32	4.7%	77
Mexico	8,900	73	130	1.9%	52

# We have identified three ways to offer clients the opportunity to offset carbon emissions; direct 'investment' in clean projects and social enterprises is most transparent

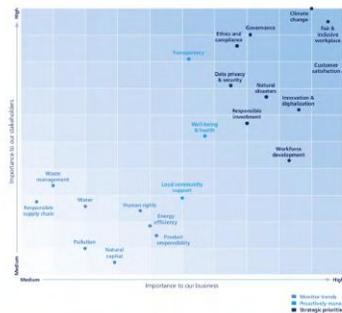
## Carbon exchanges



### Example

- Opportunity to buy carbon credits on an online exchange

### Materiality matrix



- No clear priority can be indicated on the materiality matrix as there is no clear or fixed insight whose carbon credits you are buying

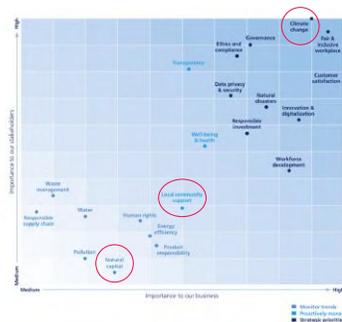
### Potential benefit to IC

- Easy way to buy carbon credits without having to do due diligence on projects or entrepreneurs

## Clean projects



- Assists in offsetting carbon emissions in Amazon rainforest projects



- Climate change
- Local community support
- Natural capital

- Conservation of rainforests important in combatting climate change
- Effects of climate change may lead to increased losses due to e.g. natural disasters
- Potential to invest in e.g. own flood resilience projects in the future

## Social enterprises



- Producer of clean drinking water filters in Guatemala
- Alternative to boiling water (which uses wood), resulting in a reduction of carbon emissions



- Health and well-being
- Local community support
- Water

- Creating goodwill with local communities and thus potential to sell insurance to these communities once they have reached a certain wealth level

# Creating touchpoints across the entire customer journey enables IC to obtain new and repeat business while building credibility

- **Direct engagement** with existing customers (e.g. mail, study, cold-calling)
- **Omni-channel marketing** to potential customers

- **Opt-in or pop-up** option to offset carbon<sup>1</sup> while customers purchases travel insurance via IC eCommerce platform
- Due to trends of rising convenience and mobile insurance, IC should consider to create purchasing **App** in which also more of the customer journey regarding carbon credits could be integrated



- Creating a **momentum** through email updates
- **Online form** encourages re-purchase
- Provision of **recurring contributions** by IC (?)
- Engage customers as active marketers: **word-of-mouth** both online and offline
- **Active marketing of success** (rates) on social media platforms and IC website

Awareness

Evaluation

Purchase

Usage

Advocacy

Repurchase

- IC as a **credible and reliable partner for information** (i.e. both objective and subjective research material)
- Availability of a **chatbot** to ease decision-making

- **Confirmation of cause** through email
- Potential to sign up to **newsletter** to keep up-to-date with own beneficiary cause, but also with potential new additions
- **Social media** coverage