

The insurance industry can stand up and provide for people when they need it the most

Interview with **Virgil Soncutean**, CEO, Allianz-Tiriac Asigurari



Q: Romania has grown a lot in terms of the development of insurance services, but it is still at a low level. How far are we out of the insurance penetration potential in Romania?

Virgil Soncutean: The structure or the business mix of the Romanian insurance market is very unbalanced, with Motor insurance exceeding two thirds of total market. The insurance industry is therefore too dependent on the motor industry cycles, showing in this way a low degree of maturity.

As an industry, we can earn our resilience and power to fulfil the potential once the Motor insurance will amount to around one third of the total market, while other lines of insurance, e.g. Life, Health, Property and Liability become real growth engines for the market.

Indeed, the Romanian insurance market has grown over the last 5 years (except Q1 2018 when the market recorded a slight decrease). However, the growth rate has not exceeded the GDP growth rate, and therefore the insurance penetration on the Romanian GDP was rather stable at around 1,3%. And the situation is, unfortunately, similar to the last 25 years – the market is captive to its own structure (business mix) which is limiting the opportunity to unlock the growth potential and jump from 1, 3 % GDP penetration to 3-4% GDP penetration as recorded in eastern European countries. The western European countries are far away with over 6% GDP penetration.

Q: How will the Industrial Revolution 4.0 (IR 4.0) materially change the entire value chain of how insurance services are designed today in terms of price and form?

Virgil Soncutean: Lean, easy to trade with, simple choices for customers and fast response are the new principles redefining the entire value chain of an insurance company.

Today, customers are becoming better informed and demanding towards insurance services. The information asymmetry between customers and insurance companies is narrowing and that will make customer's demand more precise in terms of insurance needs. New risks are emerging - e.g. cyber risks and therefore new covers are growing in demand. The customers' lifestyle is changing as the new technologies and IoT are becoming more and more part of daily life. IR 4.0 can potentially influence both frequency and severity of events covered by insurance policies. For example, telematics solutions or sensors used in healthcare can potentially increase prevention and reduce the frequency of insured events, or smart homes to detect a malfunction or fire much faster allowing for early intervention with better damage control – all such effects will potentially reduce the frequency and severity of the events covered by insurance policies and this will potentially, for all good reasons, shape the covers and put pressure on tariffs from the customer's side.

"The traditional insurance, as we know it, is about

“Life insurance, Health insurance, Liability insurance and Property insurance are growing in awareness and demand for all good reasons.”



to change with a faster dynamic. New insurance territories will be more visible: assistance service for the complete customer experience, cyber, healthcare cost mutualisation to allow the low income population to benefit from insurance services, smart device insurance etc. In this New World, the insurance company cost discipline becomes a survival competence as the customers are demanding more value from insurance products putting pressure on each stage of the value chain of an insurance company.”

Q: What about the human force? What impact do you see?

Virgil Soncutean: It depends on time horizon. Within the next 10 years’ time, human force will remain an essential factor for success in the insurance industry, despite the huge potential to simplify and automatize processes, and to use AI to build scientific models to compile big data and to capture more from reality.

Except commodity insurance products, human force will remain the essence for success in the development of the insurance industry. There will be a continuous need for human experience & expertise in underwriting and claims so that decision calls and actions are made. Overall, the human force will become better equipped to perform in a more efficient and effective manner.

As a society, we have survived and adapted to the

first 3 industrial revolutions with an unemployment ratio not necessarily affected in a negative way. I therefore believe it will require an adaptation effort as I expect three types of consequences in the work force: some jobs will disappear, other jobs will be transformed and new jobs will be created, ones we are not even thinking about right now will appear as well.

Overall, the commodity business of the insurance industry will be radically shaped by the IR 4.0 and human interaction will be reduced. The non-commodity lines of business will need a better equipped and trained human force to succeed.

Q: What are the jobs that in the past you wouldn’t have considered to become so valuable, but they did?

Virgil Soncutean: Customer experience designer, project manager, change management leader, digital marketer, service design thinking specialist and data miner.

Q: What characteristics of the new employee are most important today?

Virgil Soncutean: Digital native, adaptability and willingness to change and a customer oriented attitude.

Q: In terms of insurance products, what are the products or covers that the company will need to focus on in the near future, in order to secure their business and their human force?

Virgil Soncutean: The recent surveys on the customer’s behaviour are showing that Life insurance, Health insurance, Liability insurance and Property insurance are growing in awareness and demand for all good reasons.

Q: Are the companies aware of the new risks that they are exposed to?

Virgil Soncutean: Yes. The companies are becoming more aware but starting from a low base.

Q: The new trends show that people are paying more attention to life and health protection. Do they prefer to pay this protection individually or for it to be provided by their employers as an incentive?

Virgil Soncutean: Both cases apply. In Allianz – Tiriac, the sales of employee benefits products bought by companies for their employees are growing by 50% per year, while individual products

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are growing by more than 100% per year, but the individual products started 5 years later than group products, so their base is still marginally small.

Q: Advanced developments in medical technology will have implications on longevity. What are their implications in how we finance our lives through Life & Health insurance and pension?

Virgil Soncutean: The demographic trends are already putting pressure on social security and public pension budgets and this pressure will increase. The life expectancy is increasing as we speak; therefore the need to finance the same quality of life over a longer period of time with lower expectations in terms of government support is widening the financial protection gap.

This protection gap is not only creating an opportunity, but an urgent need to use insurance products to fill at least a part of this gap. Some events (positive or negative) in our lives require an amount of money which exceeds not only our savings accounts but also our entire capacity to save. For example: education of the children, natural catastrophes with impact on our belongings, critical illness, living too long or too short, living with disabilities, access to proper health care etc. can bankrupt a family or a business. And right here, the insurance industry can mutualize the cost and provide social value and real solutions to real problems. The insurance industry can stand up and provide for the people when they mostly need it.



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