AMAZON: threat or opportunity for the insurance and financial companies?

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Some facts are objective: consumers need immediate and customized attention, as people have less and less disposable time, and Amazon is the point of reference when talking about customer experience: transparency and clear communication. Furthermore, Amazon is a "place" where a customer can rapidly find any product and any service. Nevertheless, people need banking services and life and P&C insurances.

Does this mean that Amazon can be a threat for the insurance and financial industry? Or is it an opportunity to form a strategic alliance? This article tries to give these questions an answer, both looking at what happened in the past and gathering some insights from the web: the latter analysis has been conducted by Barbara Galli, Director at Doxa and author of the book "Web Listening. Conoscere per agire"[1].

For what concerns the bank industry, Amazon already offers a credit card (co-branded with Jp Morgan) and a service, called "AmazonPay", to pay on third party websites though the Amazon Account; in the US, a service called "Amazon monthly payment" is available to split the outgo into installments. In addition to that, Amazon is currently designing with Jp Morgan and Capital One Financial a financial product, similar to a cash account, in order to both reduce the transaction fees paid to credit card companies (e.g. Visa/MasterCard) and to collect information about the financial position and purchasing behaviors of its customers. Is Amazon trying to replace the banks?

First of all, we must recall that it would not be the first time for a corporation to try to acquire banking licenses: in the past, Walmart was stopped more than once by lawmakers and banking groups (1999 in Oklahoma and 2006 in Utah). Looking at the Amazon case, it seems that their strategy has more to do with enabling people to get theirs goods faster, smoothing the selling process, rather than to be a business to make money out of. Nevertheless, banks should worry as they are losing their cross selling opportunities. Amazon is not the only example where customers can skip the bank in the selling process: for instance, also IKEA is offering lending services, like many other retailers.

For what concerns the insurance industry, Amazon has already made some moves too. In 2016, the US-based retail giant has cooperated with Liberty Mutual, one of the largest diversified auto and home insurer in the US, enabling their consumers to navigate the insurance process by using their voice. This was possible thanks to Alexa, the voice service that allows customers to interact with devices in a more intuitive way: customers can access via vocal commands an insurance glossary, or can find a nearby agent to get a quote.

In 2017, Amazon has partnered with The Warranty Group to launch in the UK a P&C insurance policy, called Amazon Protect, to cover against accidental damages, malfunctions or thefts of goods bought on its ecommerce platform. Finally, in 2018, Amazon has entered the US employee healthcare market, collaborating with JP Morgan and Berkshire Hathaway to create a healthcare company with the aim of cutting costs and improving services for their US employees. It seems that Amazon wants to look overseas too, having already recruited insurance professionals in London to join a new team focused on the insurance market of the UK, Germany, France, Italy and Spain.

According to some rumors, dated beginning of 2018, Amazon was considering to use India as a test lab for expanding its insurance operations, investing in the insurtech Acko (provider of online insurance products). Such an operation would give Amazon the possibility of a huge expansion opportunity: nowadays only 3% of insurances are bought online, but this percentage is expected to skyrocket as India's young population attains financial maturity – like it happened in China.

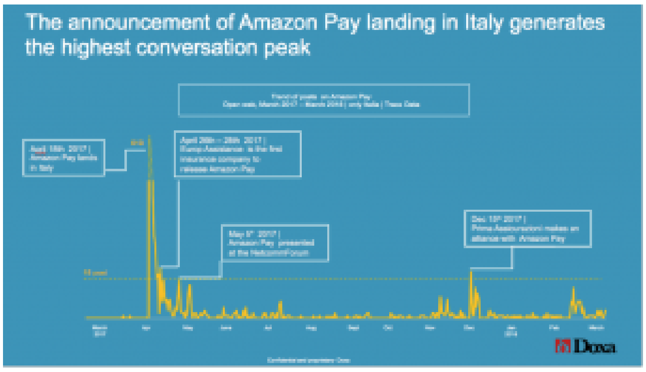
The important question is: can Amazon really supersede the insurance companies? Advisory practices need to serve both preferences: those who like traditional face to face and those who like the digital market. Currently, most life insurance sales occur when an agent engages in discussion about very personal issues, making people think about their deaths, sometimes without promising any immediate reward – probably the empathy of a human being can be crucial in this type of transactions.

On the other hand, it is indubitably that the current customer experience in purchasing an insurance policy can be improved: sometimes customers suffer a lack of understanding of the policies (pricing, exclusions, guarantees) together with an inefficient processing and products that are mostly commoditized (for both life and P&C insurances). Insurers should personalize products and provide transparency, demonstrating excellence in on-demand distribution. Amazon can be the opportunity to form a strategic alliance, acting as an aggregator and generating synergies for cross selling, though the functions "customers who bought this also bought…" or "customers who viewed this also viewed…" (e.g. goods for babies and life insurance for the parents or furniture for a new house and a fire P&C policy); user reviews could instill a sense of trust among the customers.

One question remains open: would customers buy insurance policies from Amazon? Some insights to answer this question can be found in the web. A quick web listening exploration has been run on what has been discussed, setting queries on the topics mentioned above

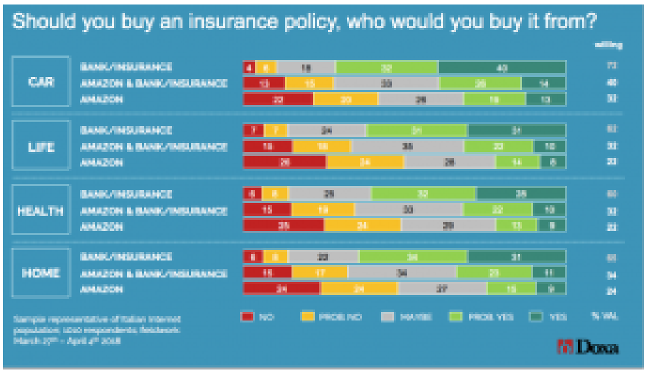
- Amazon pay
- Amazon and the insurance market
- Amazon, JP Morgan and bank accounts
- Amazon and Liberty mutuals
- Amazon and Acko
- Amazon and the warranty Group

Furthermore, the general feeling of the Italian customers about this major player entering a new marker has been analysed. The topics treated are not “trending” yet: there are about 1620 posts published during the last year on the open web [2], almost all related to “Amazon pay” (1451); the number dramatically decreases when it comes to more specific issues as “Amazon, JP Morgan and bank accounts” (114) or “Amazon and the insurance market” (51), nearly no conversations on the other topics. As shown by the peaks of conversations registered, the curiosity and attention level is high when linked to major news and events (e.g. Amazon Pay introduced in Italy, Europe Assistance releases Amazon Pay and Prima Assicurazioni forms an alliance with Amazon Pay).

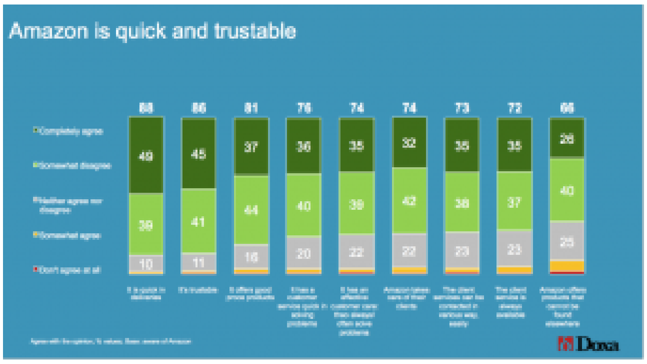


Among the top engaging posts, those of Quixa and Wired dominate the web: the former refers to the promo of receiving a 50 Euro coupon when purchasing/renewing a Quixa insurance policy paying by Amazon Pay (770 interactions, 15 shares); the latter, dated April 2017, announces that digital payments attract the multinational corporation Wired (140 interactions, 34 shares).

The level and topics of conversations gathered above do not allow yet for a proper sentiment analysis, but a survey run on the Italian online population gives a clear indication on their feeling about Amazon becoming an insurance player. Though the level of credibility of banks and insurance companies is still higher, the Italian surfers are open to consider Amazon as a valuable player: 32% are willing (surely + probably) to subscribe a car insurance with Amazon and the percentage increases to 40% when Amazon partners with a “traditional” player (insurance company /bank). Figures are not that distant (roughly 10 p.p. less) when the underlying considered is a Life/Health insurance. In both cases, the latter counts for roughly half of the total population willing to buy an insurance policy. [3]



To catch opportunities and anticipate trends, the insurance companies should keep one ear open by the mean of prompted surveys and web listening, identifying the most proper way to offer their proposition by a distinctive communication, in each territory, be it social or not. As to Amazon, looking at its brand image, one thing is sure: it meets trust, quality and service expectations, a good starting point to be leveraged [4]



Bibliography

[1] https://www.linkedin.com/feed/update/urn:li:activity:6376753915790192640

[2] data retrieved from the crawling platform Tracx ; dedicated queries; Doxa courtesy. Web listening from March 2017 to March 2018, open web (social properties excluded); Focus: Italy, conversations in Italian

[3] Sample representative of Italian Internet population; 1010 respondents; fieldwork: march 27th – April 4th 2018

[4] Sample representative of Italian Internet population; 1010 respondents; fieldwork: march 27th – April 4th 2018

ECB on the 9th surveillance programme in Spain

17/04/2018 17:19

The European Commission (EC) and the European Central Bank (ECB) reported on the ninth surveillance program in Spain at the beginning of last week . The staff reported a satisfactory and persistent economic growth in all economic sectors, particularly in the banking sector.

This sector benefits from an increased, comfortable level of liquidity and enjoys continuous profitability, with some financial institutions being also able to increase the amount of debt securities issued. Core and non-core capital instruments contributed to keep capital buffers at a safe level, and helped in reducing the aggregate amount of NPL in banks' balance sheets.Namely, the NPL ratio for Spanish banks (including cross-borders activity) moved down to the EU average. Financial institutions further improved their business models, and increased their capability of supplying new loans to the economy.

Threats are represented by the high level of private and public debt, as well as by the high unemployment rate. Since the country is currently enjoying an expansion pahse, European authorities suggests the Spanish government to profit from this favourable situation to pursue fiscal consolidation and also to reduce the level of debt among all sectors.

It will be important that Spain puts in place policy efforts to ensure a durable growth path and achieve higher productivity growth. This includes steps to continue reducing unemployment, make the labour market more inclusive, improve the business environment and enhance the innovation capacity of the economy.

Statement by the staff of the European Commission and the European Central Bank following the ninth post-programme surveillance visit to Spain (HTML)

Basel committee complements the SA-CCR approach for counterparty risk

17/04/2018 16:54

The Basel Committee's final standard on *The standardised approach for measuring counterparty credit risk exposures (SA-CCR)* includes a comprehensive, non-modelled approach for measuring counterparty credit risk associated with OTC derivatives, exchange-traded derivatives, and long settlement transactions. The Committee's objective was to develop a risk sensitive methodology able to better discriminate between margined and unmargined trades, and providing more meaningful recognition of netting benefits.

The SA-CCR limits the need for discretion by national authorities, minimizes the use of banks' internal estimates, and avoids undue complexity by drawing upon prudential approaches already available in the capital framework. It has been calibrated to reflect the level of volatilities observed over the recent stress period, while also giving regard to incentives for centralised clearing of derivative transactions.

The SA-CCR retains the same general structure as that used in the Current Exposure Method (CEM), consisting of two key regulatory components: replacement cost and potential future exposure. An alpha factor is applied to the sum of these components in arriving at the exposure at default (EAD). The EAD is multiplied by the risk weight of a given counterparty in accordance with either the Standardised or Internal Ratings-Based approaches for credit risk to calculate the corresponding capital requirement.

A first consultive document was published in June 2013, followed by a joint quantitative impact study (JQIS) aimed at assessing the capital impact of the methodology. After giving due consideration to the feedback received from respondents to the consultative paper and the results of the JQIS, the Committee made a number of the adjustments to the proposed methodology prior to finalising the SA-CCR. These include:

- increased specificity regarding the application of the approach to complex instruments;
- the introduction of a supervisory measure of duration for interest rate and credit derivative exposures;
- removal of the one-year trade maturity floor for unmargined trades and the addition of a formula to scale down the maturity factor for any such trades with remaining maturities less than one year;
- the inclusion of a supervisory option pricing formula to estimate the supervisory delta for options;
- a cap on the measured exposure for margined transactions to mitigate distortions arising from high threshold values in some margining agreements; and
- adjustments to the calibration of the approach with respect to foreign exchange, credit and some commodity derivatives.

The standardised approach for measuring counterparty credit risk exposures (PDF)

IOSCO: Harmonisation of critical OTC derivatives data elements

17/04/2018 16:20

The International Organization of Securities Commisions (IOSCO) issued a report providing technical guidances to regulatory authorities, in order to assess definitions and formats of a set of OTC derivatives which are reported to trade repositories.

Specifically, the report provides the guidelines for harmonizing data elements concerning these transactions, that is, of settlement dates, counterparties, collaterals and so on. The report is presented as *"jurisdiction-agnostic"*, in the sense that it aims at taking account of any relevant international regulatory standard but it does not provide thorough definitions of the methodologies to apply to data in order to reach a sufficient harmonization level.

Harmonised critical data elements can facilitate global aggregation of data, so that the international authorities can use them to build a cross-border overview of the aggregate OTC market, and favour international amendments contrating the propagation of systemic-type risks. Details can be found in the original report:

Harmonisation of critical OTC derivatives data elements (PDF)

Christine Lagarde and the benefits of crypto-assets

17/04/2018 15:50

The International Monetary Fund (IMF) managing director Christine Lagarde approached the topic of crypto assets for the second time within a few weeks. One month ago, she expressed the possible drawbacks of crypto currencies market, focusing on the potential use for money laundering and the financing of terrorism (link below). Today, the intention was to disclose the bright side of crypto assets market, disentangling all benefits that these brand new financial products might bring about.

First of all, the number of cryptocurrencies available is doomed to decrease, thus we must focus on the crypto-assets which will mostly fit customers'demand and thus survive this market's "natural" selection process. Secondly, she suggests policy makers to *"keep an open mind"* and to address their efforts towards a regulatory framework *" that minimizes risks while allowing the creative process to bear fruit"*.

Before crypto-assets can earn a relevant place among the big changes in financial activities of this last century, they must earn the confidence of the public, and this confidence comes along with the support of authorities and consumers themselves. In this sense, international cooperation is fundamental , as crypto-assets know no boundaries: the consensus among regulatory authorities becomes then mandatory.

Furtherly, although the need of brokers and intermediaries will remain, crypto assets can promote a more diversified financial structure, and a more balanced relationship between centralized and decentralized service providers. This could enhance the capability of the financial systems to resist large shocks. We must however not forget that crypto assets might magnify the risks in trading leveraged products. In case the crypto-market ingests mainstream financial products, this threat will manifest in a faster transmission of financial shocks to all market segments.

"There should be systemic risk assessment and timely policy responses, as well as measures to protect consumers, investors, and market integrity" she continues, although the regulatory agenda must not discourage innovation, but instead learn from it. This includes also the possibility of letting central banks develop their own crypto-currencies, and use Distributer Ledger Technolgy (DLT) to increase the efficiency of financial markets. This last proposal has already been made by the Australian Securities Exchange, to manage clearing and settlement of transactions.

An Even-handed Approach to Crypto-Assets (HTML)

Addressing the Dark Side of the Crypto World (HTML)