IBM Global Business Services
Executive Report

Insurance

IBM Institute for Business Value

Winning strategies for insurers

How industry leaders are excelling outside the comfort zone

Serving the insurance customer of the future

Maturing markets, tight capital, increasing risk: these are just some of the pressures facing the insurance industry today. Faced with a host of challenges from technologically sophisticated customers to a demanding financial climate, insurers have to work faster, more efficiently and above all smarter. Those that do will survive; those that don't will fail. This is why the customer strategies of the past — endlessly swapping disloyal and dissatisfied customers by competing over rates alone — will not satisfy these savvy consumers and will not lead to sustainable retention or significant growth. To meet these and other challenges, insurers will have to be more nimble, more innovative and better able to communicate with their customers, internally and within the industry. The IBM Global Insurance practice reinvents itself to provide solutions to help clients meet the demands of today's insurance business with smarter solutions. From improved customer service, to more efficiency in the back-office and better risk management, there's a smarter solution for you.

By Christian Bieck and Andrea Cornelius

As the world changes around them, many insurers are struggling to be profitable. A combination of disruptive forces—some economic, some societal, some technological—is shaking up the insurance industry comfort zone. Yet some leading insurers manage to stay ahead of the pack, but how? Based on interviews with a range of insurance companies globally, we find that insurance leaders differentiate themselves across four strategic dimensions: customers, interactions, services and structures. Forward-thinking industry executives will assess the importance of each dimension to their own businesses and design a customized, innovative strategy that adapts well to ongoing change.

72% of industry leaders we surveyed use social media to communicate with customers to a considerable degree, almost twice as much as non-leaders.

83% of insurance leaders view specialization as important for strategic choices versus just 56 percent of non-leaders.

50% more invested by leaders in IT to better leverage investments in other business domains.

Executive summary

For a long time, the insurance industry has led a sheltered existence. Due to tight regulation and strict solvency requirements in most markets, bankruptcies are rare. Currently, there are more than 10,000 insurers globally and when insurers do leave the market, it is mostly due to mergers and acquisitions. Even then, the brand often stays in place, including sales channels and back-end infrastructures, leaving the new, bigger insurer with a cumbersome legacy. Insurance has always tended to be a seller's market; some deregulatory measures have increased competition somewhat, but overall, insurers seldom had to fear for their profits—and even less for their survival.

This comfortable situation is changing. In the recent past, a multitude of disruptive forces has altered the landscape: economic forces such as globalization and the financial crisis of 2008; technological forces which ubiquitously connect and inform individuals and organizations; and societal forces that include changing demographics and increasing democratization worldwide. Their combined effect currently leaves many insurers struggling to grow or stay profitable.

Research methodology

For this study we analyzed the 73 largest insurance markets with a total premium volume of US$4.5 trillion in 2011, which represents 99 percent of global insurance premiums. After correcting for the Consumer Price Index and exchange rate fluctuations, we determined (real) market growth rates and insurance penetration rate as measures for growth and maturity of these markets. For growth rates, the time frame 2008-2011 was chosen to avoid the potential distortions of the financial crisis of 2008.[1]

Using the weighted average rates as division points (0.45 percent real CAGR, 4.7 percent penetration), we defined four market types (see Figure 1):

- Type I: Low growth, low maturity
- Type II: High growth, low maturity
- Type III: High growth, high maturity
- Type IV: Low growth, high maturity.

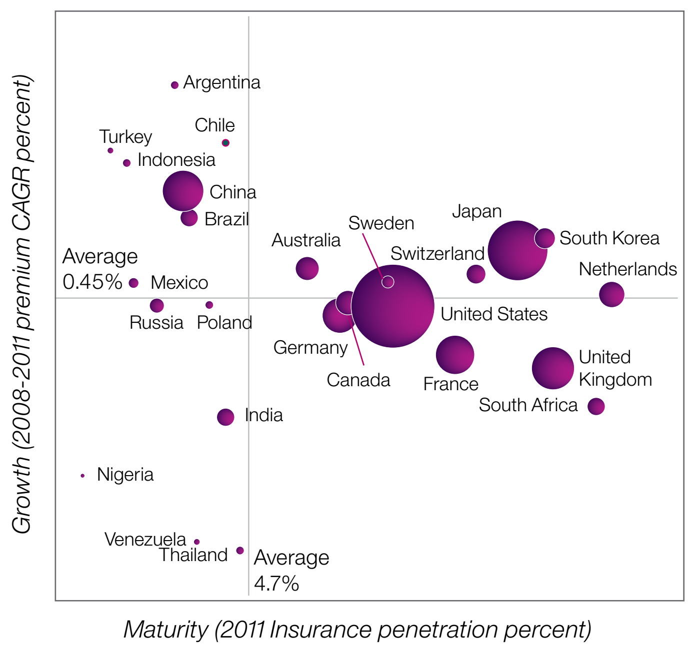
For each of these types, approximately 20 insurers were selected and interviewed from 6 to 7 representative countries, for a total of 80 insurers. The cumulative insurance premium of the selected countries was 86 percent of global premiums. Structured and scripted interviews were conducted via telephone by an external agency with strategy research background. Interviewees were executives with intimate knowledge of the carrier's strategy; 70 percent of these either manage or are directly involved with their corporate strategy teams.

The interviewed insurers were defined as leaders in their markets by two key performance indicators:

- "Growth leaders" had a 3-year CAGR at least five points higher than the market CAGR (excluding M&A)
- "Profit leaders" are in the top two quartiles in return on assets (net income as a percentage of total assets)[2] over the same period.

As the results for growth leaders and profit leaders turned out to be fairly similar, in the following analysis we will be generally be simply referring to "overall leaders," that is, respondents who belong to both leader categories.

Both life and property & casualty (P&C) insurers were interviewed. Because many of the interviewed companies are multi-line, no separate analysis was done for these sub-industries.



Sources: Swiss Re Sigma 2002-2012, International Monetary Fund, Institute for Busines Value analysis.

Figure 1: **We divided all insurance markets into four types by growth and maturity.**

Yet even in this environment, how are some insurers managing to stay ahead? What overall strategies do industry leaders follow? Are there strategic elements that distinguish the leaders from non-leaders? And how are they related to the type of market they operate in? To answer these questions and identify common elements of successful strategies, we interviewed senior executives from 80 insurers operating around the globe.

Our analysis of the study findings show that leading insurers excel in four strategic dimensions:

- **Customers**. They plan for the customers of the future—not of the past
- **Interactions**. They integrate interactions across all channels including social media
- **Services**. They offer broad insurance services, looking beyond simple coverage products
- **Structures**. They proactively invest in flexible structures instead reacting to market or regulatory pressures.

The growth challenge

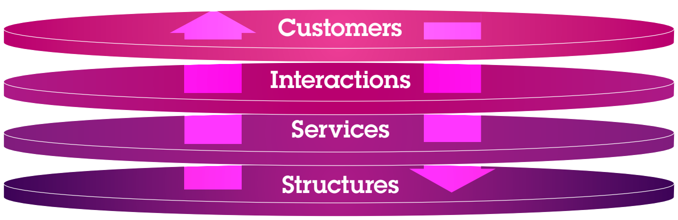
The global financial crisis of 2008 marked a turning point in how insurers viewed their market strategies. Reduced customer spending caused a sharp drop in premium growth, from a global average real premium CAGR of 3.6 percent for 2001-2008 to 0.45 percent for 2008-2011.[3] Profitability, while slightly recovering, is still well below pre-crisis levels both for life and property & casualty (P&C). For the latter, underwriting results have improved, but continuing low interest rates, both nominal and real, are leading to depressed results: investment income 2011 was 9 percent, down from almost 12 percent in 2007.[4]

For insurers, the economic fundamentals are not expected to improve anytime soon. According to the IMF, "real [interest] rates are likely to remain relatively low in the medium term, even when output gaps are eventually closed."[5] In advanced economies, secular stagnation—a prolonged period of low growth—is a real concern.[6] Despite expansive monetary policies in most, some advanced countries are seeing actual deflation.[7]

In addition to the economic challenges, insurers are facing other changes that impact their strategies. As we demonstrated in our latest study "Digital Reinvention: Trust, transparency and technology in the insurance world of tomorrow," changing customer behavior and fairly new technological forces—the social media explosion, the mobile revolution, business analytics and cloud enablement—will drive drastic changes in the economy: value chains will fragment, industries will converge and new ecosystems will emerge.[8] These will ultimately lead insurers away from the classical organization-centric, product-driven model that most still follow and move them toward the everyone-to-everyone (E2E) economy. The E2E economy is based on a high level of collaboration and connectedness among economic actors, including insurers and their customers. Customers expect multi-modal and multidirectional interaction with a business relationship that is characterized by high levels of transparency, convenience and value.

To round off the list of challenges, we are seeing the demographic change of an aging population, specifically in the mature markets. This will affect both insurers' customer sets and their abilities to attract and retain the necessary talent and skills. Aging and complex legacy systems, often acquired through mergers, inhibit back-office flexibility. And last, regulations concerning transparency, privacy and solvency provide their own to-do list for the industry.

How do leading insurers strategically manage this wide range of forces affecting the industry? To systematically approach this question, we grouped the forces and leaders' responses to them into four dimensions: customers, interactions, services and structures (see Figure 2).



Customers
- Growing empowerment and interconnection
- Growing demand for "best deal on value" (not only price)
- Cross-industry competition for customer data and insight
- Growing demand for transparency

Interactions
- Increasing number of sales channels — parallel and intersecting
- New types and culture of collaboration
- Increasing regulatory influence on privacy

Services
- New and broader service offerings beyond classical coverage
- Sophisticated competition from other industries (e.g. automotive, retail, banks)
- Increasing regulatory influence on quality and payments of advisory services (fee-based and subscription-based)

Structures
- Complex and siloed legacy systems, processes and organizations
- Limited availability of insurance experts
- Increasing impact of local / regional regulation on costs and business model

Source: IBM Institute for Business Value analysis.

Figure 2: **The forces of change are impacting four major dimensions.**

These four dimensions overlap and influence each other. For example, insurance companies classically viewed their intermediaries as one of the *customer* sets they served, while consumers view them as one of many *interactions* with their insurer. At the same time, the advice and after-sales help that intermediaries provide is part of insurance *services*. In the following sections, we will show how leading insurers cope with the forces of change.

Dealing with the challenges in four dimensions

Customers: Planning for the customer of the future

As companies in many industries are starting to recognize, today's customers are becoming increasingly empowered, both in mature markets and developing markets.[9]

When consumers become empowered, the strategy of offering undifferentiated, one-size-fit-all coverages becomes strategically unviable outside of a few commoditized products. Insurers must understand customer behaviors, needs and demands to tailor their offerings to this new and discerning customer set.

Insurers—leaders and non-leaders alike—already tend to understand this, but leaders have a stronger focus. Eighty-eight percent of surveyed insurers rated "changes in customer behavior and demands" as "important" or "very important" (that is, a score of 4 or 5 respectively, on a scale of 1 to 5) in their strategic considerations—a quite obvious answer given that "customer centricity" is one of the main themes insurers are talking about. But only 35 percent of non-leaders rated "changes in customer behavior and demands" as very important compared to 50 percent of overall leaders (the insurers that belong to both leader categories).

Similarly, leaders have a stronger eye on changing demographics. Fifty percent of overall leaders view demographic factors as very important, compared to only 29 percent of non-leaders. Leaders understand that customer empowerment is here to stay; they focus and aim to understand "Millennials," the customers of the future. Leaders record detailed customer-related data to determine the needs of future customers 24 percent more than non-leaders. They also analyze these data to understand customers by type 35 percent more than non-leaders.

Figure 3 shows an example of these customer types. It is a psychographic segmentation, that is, a segmentation based on customer attitudes, behaviors and needs that allows much greater predictive accuracy than a demographic model.[10] For example, when predicting channel selection behavior, accuracy is quadrupled compared to a purely age-based segmentation (55 percent accuracy versus 13 percent). Insurance leaders with detailed data on customer needs and behaviors can optimize the model even further, allowing them to tailor the other strategic dimensions, mainly interactions and services, to the specific customer sets they want to reach.

Looking more closely at Figure 3, the two middle segments represent the "classical" insurance customers. Both segments are declining in the millennial generation. Leaders with customer analytics capabilities understand this and shift their focus toward the growing segments. As we will discuss in the following sections, these segments are looking for different ways of interacting with insurers, and for different types of products and services—again necessitating different capabilities to serve them well.

Attitude Cluster	Security-oriented individualist	Demanding support-seeker	Loyal quality-seeker	Price-oriented minimalist	Support-seeking skeptic	Informed optimizer
Key theme	"I know what I want and organize myself"	"I need personal advice"	"I trust my insurer and remain a loyal customer"	"I do not like insurers — make it cheap and stay away"	"I need advice but prefer to keep my distance from insurers"	"I take time to research to find the best"
Percent of all respondents	16%	15%	17%	15%	23%	15%
Percent of baby boomer generation	16%	11%	20%	21%	20%	13%
Percent of millennial generation	16%	16%	16%	10%	26%	16%
Change	no change	growing	declining	strongly declining	strongly growing	growing

Note: Due to rounding, the percentage total of rows may not equal 100 percent.
Source: IBM Institute for Business Value survey data 2013. n=17,594.

Figure 3: **Determining customer attitudes, behaviors and needs allows a better understanding of customers than using demographics.**

To be successful in the customer dimension, what do you need to do, where do you start, and how do you get it done?

- **Listen to customers and learn from them.** Customer behavior is changing faster than ever. Listen at all available touchpoints, validate, store and analyze. Leverage real-world customer event knowledge to round out customer understanding.
- **Move past traditional segmentation.** Many insurers have to deal with historically grown information silos. The first step is bridging these silos on a quick-win basis, for example, when targeting new customers with a specific product or service. From there, build an enterprise customer view that allows deep analytics and behavior-based segmentation.
- **Treat each customer as an individual.** Consider starting by appointing an executive who has the goal of maintaining a single customer view across the organization with corresponding competencies. To get there, use advanced analytics technology and combine with smart interactions.

Two important factors to consider are transparency and privacy. Customers are willing to trade privacy to gain better premiums, convenience, security or better service — to a degree. Transparency when collecting customer data is important; most customers across all age groups need to maintain a feeling of control over their data. There is no faster way to lose customer trust than by indiscriminately collecting data without customers' knowledge, even without misusing it.

Interactions: Interacting anytime and anywhere

As industries move toward the E2E economy characterized by a high level of collaboration and connectedness among economic actors, we already see this shift toward E2E interaction in our latest insurance study data. Specifically, there is a widening gap in the interaction points used for different phases of the insurance purchasing process. To buy insurance, customers still mostly use personal interaction points, such as agents, brokers or direct telephone contact 69 percent of the time, a rate that is virtually unchanged from 2010. In contrast, for information gathering and quoting, customers use more different interaction points, and do not necessarily search where they purchase, with a 18 percent shift away from personal interactions toward those that are web-, mobile- and social media-based.[12]

This finding has strategic implications for insurers relying on classical distribution models. In the study "Insurers, intermediaries and interactions", where we interviewed more than 10,000 agents, brokers and customers, we recommended that insurers and intermediaries move away from the traditional relationship of supplier-seller or provider-customer toward a partnership-based bond, recognizing the intermediary as one of many, albeit special, interaction points that customers use.[13]

Case study: Generali Versicherung — Real-time customer segmentation analytics[11]

Generali Versicherung is one of the largest all-lines insurers in Germany, providing life, health and P&C insurance to 13.5 million customers along with a full range of financial services products.

Its distribution strategy relies on a multi-brand, multi-channel approach with strong emphasis on personal interaction through internal agents, external brokers and banks. To improve service, increase productivity, boost revenues and lower costs, Generali Versicherung aimed to support these interaction points by consolidating its legacy sales applications, providing single-interface web-based access, and the ability to segment customer target groups in real time.

These new analytical capabilities which went live in 2013 allow sellers and other users to quickly access relevant segmentation information. They can take advantage of more than 200 predefined queries; access is device-independent, allowing the use of laptops, tablets and smartphones to get access to customer insights anytime and anyplace.

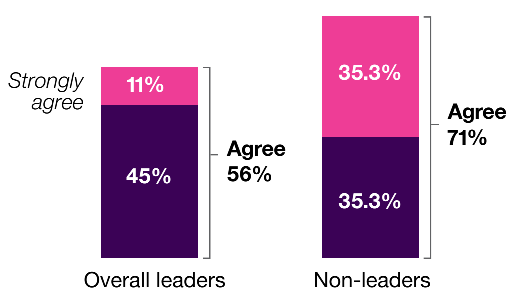
Generali Versicherung's analytics solution not only improves seller productivity and sales opportunities, it also raises customer satisfaction overall by increasing the marketing focus – the right information gets to the right customer at the right time.

According to our current analysis, leading insurers are starting to make this strategic shift, as we can see in Figure 4. Instead of treating intermediaries as customers, they are starting to treat them as partners: only about one-tenth of overall leaders strongly agree that intermediaries should be treated as customers, compared to about a third of non-leaders.

This trend is the same in all four market types defined in the study, with a slightly larger overall focus on intermediaries in lower-growth and lower-maturity markets.

So what interactions are leading insurers relying on? As many as possible: 61 percent of overall leaders believe focusing on multi-channel access, and specifically social media, will increase customer interaction. Twenty-two percent rate the expected amount of increase as "very much," compared to 15 percent of non-leaders.

Will the intermediary be an important customer in the next 5 years?



Source: IBM Institute for Business Value survey data 2013, n=80

Figure 4: **Leaders are starting to move away from treating intermediaries as customers.**

Leaders follow this conviction in the power of social media by interacting accordingly. Seventy-two percent of overall leaders use social media to communicate with customers to a considerable degree, almost twice as much as non-leaders (41 percent). They follow this up by monitoring company reputation on social media (72 versus 50 percent) and they strongly advertise corporate social responsibility policies (89 versus 65 percent).

In the long run, stronger customer interaction will mean involving the customer more in business. Looking beyond the insurance industry, our recent study of more than 4,000 C-Suite executives showed that outperforming companies collaborate with their customers 54 percent more than underperformers. Interestingly, the 39 percent of underperformers across all industries who collaborated were still a few percentage points more than the insurance industry's 33 percent average.[14]

So how do insurers need to start to make interactions work?

- **Allow access to be seamless.** Customers expect consistent access. Start by being "channel-agnostic" in terms of both handling information and branding. In some cases, you will want to introduce or keep channel-specific products or services—in this case, the customers should be able understand the difference and ideally, the rationale behind it. Avoid channel silos.
- **Collaborate with customer advocates.** As usual, the "fail fast, fail well" approach works best here. Test with small groups of customers and select interactions to co-create individualized products. When going broader, build on existing customer bonds, ideally with influencers and advocates.
- **Manage your brand to create customer centricity.** Use social channels and other interactions to listen to and understand customer reactions. On this basis, quick feedback-based reaction cycles with real modification of company behavior and policies can help to create true customer-centricity.

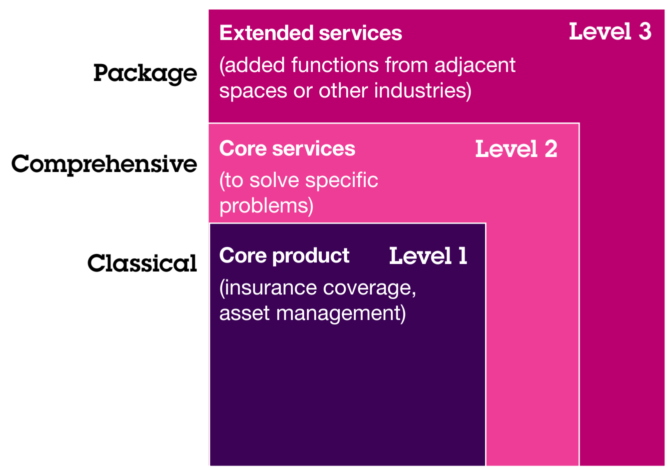
Case study: Security First Insurance—Managing social media inquiries during disaster response[15]

Florida-based insurer Security First Insurance — one of the state's largest, offering coverage to almost 180,000 Florida residents — faced the issue that after a natural disaster, such as a hurricane, customers are increasingly turning to non-traditional means of communicating with their insurer, e.g., smartphones and social media, especially when other communication channels are down. The carrier recognized the challenges created by the widespread use of social media in a disaster and wondered how it would be able to efficiently respond if thousands of people reached out to the company in a short period of time via social media (and outside of the company's traditional business channels) for help after a hurricane.

Using a combined content management and analytics solution, Security First Insurance co-developed a platform that integrates social media technology and email communication into a single interface, making it easier and faster for the company to assist customers following a storm. The platform is able to detect the tone and sentiment of each message and prioritize and route it to the correct employee, expediting the recovery process and enabling Security First Insurance to effectively manage a high volume of requests the company anticipates it will receive after a hurricane, improving its post-disaster customer response time.

Services: Reinventing insurance services

In the E2E economy, the insurance services that customers will be looking for—the insurance products of the future—are likely to look different from the classical core insurance product. Most customers will care less about the coverage itself, and more about services that fit their specific needs. This means that insurers have to change their offerings to match customer expectations. Some customers want a basic, classical coverage product, others a more complex solution to a problem, while still others are looking for extended services that include a risk coverage component (see Figure 5).



Sources: Haller, Matthias and Walter Ackermann: „Versicherungswirtschaft — kundenorientiert“. Verlag des Schweizerischen Kaufmännischen Verbandes. Zurich. 1992.; IBM Institute for Business Value analysis.

Figure 5: **Levels of products and services in insurance.**

This hierarchy is illustrated in Figure 5. As examples, the level 1 product could be classical simple mass market auto insurance covering against damage by third parties or theft, or in the case of life insurance, a simple term or endowment insurance. On level 2, layers of individualization, advice and/or loss management can be added. For auto, this could be usage-based car insurance with natural restitution loss adjustment services.[16] For life, it can mean tying together a mortgage with endowment insurance, with the latter used to pay back the former when the insurance matures.

Within an E2E ecosystem, level 3 extended services would be the norm. For auto, the extended function could be "personal mobility," which could include a car and everything that allows getting from point A to point B in the customer's preferred way. Risk coverage would be a part of the package, without the buyer having to take care of insurance separately. A life insurance example could be "personal finance," such as advice and coverage of a package of "life risks" from marriage through job loss to retirement and death.

How are insurers doing so far in this transition? In short: not as strongly as in the other three dimensions. All carriers we surveyed recognize customer service quality as their main strategic impact factor—90 percent of all respondents rate it at least as "important." To make higher level services work, insurers need to expand upon two capabilities: collaboration, especially with external partners, and specialization, not only in terms of services but also with regard to customers and market segments.

Collaboration is expanding across all organizations. While 48 percent of insurers have strong collaboration with external partners today, 84 percent plan to have it in the next 3-5 years.[17] Specialization is more of a differentiator. Eighty-three percent of overall leaders view it as important for their strategic choices, compared to only 56 percent of non-leaders. Leaders recognize that "one size does not fit all."

Overall leaders invest more than non-leaders in both product and services offerings (94 percent versus 76 percent), and in customer support services (89 percent versus 79 percent). The strongest services focus area for leaders in P&C insurance that we can see in our data is claims management—not surprising, given the effect an improvement in claims cost and claims payments can have on the bottom line. For leaders, the basics of claims and claims systems are a given. Instead, 61 percent focus on advanced claims analytics (versus 50 percent of non-leaders) to improve their claims handling, as they aim for a hassle-free claims process that leads to higher customer satisfaction.

What are the first steps toward the services of the future?

- **Redefine insurance as a service.** Instead of selling insurance with fixed term and premium, insurance as a service means flexible and proactive coverage at the point of risk. As this is strongly individualized, start by implementing the improved customer collaboration from the previous section. To make it work, you will to need enable building-block products that combine classical and extended elements.
- **Prevent losses instead of adjudicating claims.** Ongoing risk mitigation services, such as home intrusion prevention, are based on connectivity and instrumentation. Start by building partnerships with external providers in adjacent domains to create or join connected ecosystems that allow this service.
- **When losses do happen, handle claims smarter and faster.** A loss situation is the moment of truth for customers and usually unpleasant. Trust your customers so they can trust you; fraud detection should be a safeguard for customers without adding hassle to the claims process. Smarter and faster claims mean a higher degree of automation, for example via repair networks, which again utilize external partnerships.

Case study: HUK-COBURG — Authorized car repair net[18]

With more than 10 million customers, HUK-COBURG is the leading German insurance company for private households. As a mutual insurer with a largely direct distribution model, HUK-COBURG's differentiators are high-quality services with a good price-performance ratio.

One key component is HUK-COBURG's network of authorized car repair shops to help ensure high quality claims management. This is leveraged in specific products which offering additional discounts for a customer who uses the authorized shops. An analytics solution helps HUK-COBURG manage the service requests, detect patterns in damage reports and identify recurring problems. It also supports the customer service center to deliver quality service and maintain customer satisfaction.

In comparative rankings by customers, HUK-COBURG's repair net system is well received.[19] In the near future, the company plans to extend services leveraging the repair net.

Structures: Creating flexible structures

The last strategic dimension, structures, is the most diverse. It is the infrastructure dimension of an insurer, from both inside and outside perspectives. Internally, structures encompass physical, operational and resource assets such as systems, processes, organization and skills. Externally, it entails the rules and regulations, market and economic climate under which the insurer operates.

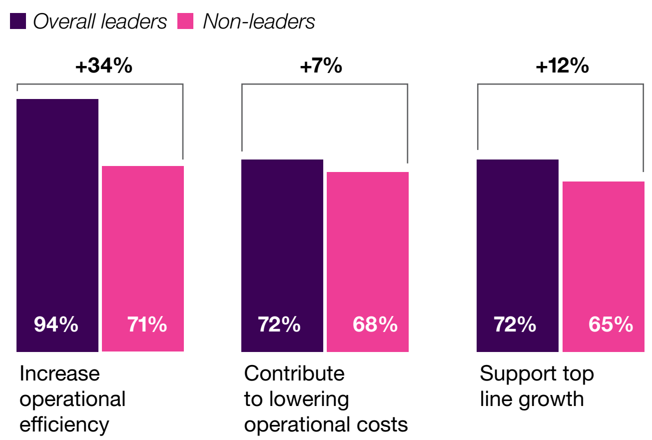
The IBM Institute for Business Value's decade-spanning C-Suite Study series notes an overall trend toward a growth-based use of internal structures. Back in 2004, the focus was still very much on cost.[20] By 2013, this had shifted: 10 percent fewer insurance CEOs, for example, named cost reduction as their strategic focus over the next three years. Instead their strategy was moving to embracing new technologies (up 16 percent), changing the current business model (up 26 percent) and reinventing customer relationships (cited by 42 percent).[21]

An inhibitor in this shift is the legacy burden that many insurers carry. Often, a leader can be distinguished by how this legacy is addressed. In a 2009 IBM study, we found that leading insurers were less constrained by core systems and infrastructure issues. They rated the performance of these systems up to a quarter higher than the average insurer even as they placed less importance on them.[22]

The decreasing worry that leaders have about their core systems can be seen when they spend their available investment budget (which, overall, is still growing). For both growth and profit leaders, the budget split between core insurance and supporting capabilities is roughly 50-50, while for non-leaders it is a 57-43 ratio. Because the performance of their core systems is superior, 83 percent of leaders judge it as important to invest in supporting capabilities, versus 68 percent of non-leaders. They feel this improves other functions and at the same time lowers operational cost (83 percent versus 62 percent of non-leaders).

Leaders and non-leaders alike are confident that their current IT environment can handle market and regulatory requirements over the next five years (78 percent of overall leaders, 71 percent of non-leaders). Yet leaders strategically and proactively invest up to 50 percent more often in IT to better leverage their investments in other business domains (77 percent versus 53 percent).

As in the other three dimensions, one of the key differentiators between leaders and non-leaders is the use of analytics. As Figure 6 shows, the most-cited reason for investing in advanced analytics in the structures dimension is to increase operational efficiency (94 percent of leaders versus 71 percent of non-leaders).



Source: IBM Institute for Business Value survey data 2013, n=80

Figure 6: **Leaders see advanced analytics as highly important to their businesses.**

Leaders are just as proactive in making external structure investments. Seventy-seven percent of non-leaders wait for regulatory changes and then try to leverage them (versus 56 percent of leaders who wait). And 61 percent of leaders anticipate the impact of market and regulatory changes on their companies (versus 53 percent of non-leaders) and then prepare for these changes (89 percent versus 71 of non-leaders).

To be successful in the customer dimension, what do insurers need to do?

- **Decrease the burden of legacy.** Most insurers will need to do this, at least to some extent. Start by identifying replicable core functions. Depending on its complexity, legacy transformation may not be quickly handled. Start by flexibilizing core systems through componentization, adaptable service-oriented architectures and the use of Cloud.
- **Simplify your business processes.** Simpler and more efficient processes should lead to agility gains. Identify key processes that can make you more agile. A multi-tier model is often the way to go: using highly automated straight-through processing where possible and delegating tasks to competency centers where necessary.
- **Proactively manage your market.** Understand regulatory and skills constraints in your markets. Plan investments early and strategically so that when regulation changes or is delayed, only the details need to be adapted.

Case study: Nationwide Insurance — Data center virtualization[23]

Nationwide Mutual Insurance Company is one of the largest insurers and financial services providers in the United States. Nationwide wanted to retain its position as a leader in a competitive industry by increasing agility and the ability to innovate, but its legacy IT infrastructure was holding it back. It was using a wide array of more than 4,500 physical servers in a distributed landscape across various platforms. These servers were consuming large amounts of floor space, energy and human resources, with server utilization under 15 percent and very high costs.

To address these issues, starting in 2008 Nationwide moved most of its IT infrastructure to a private cloud solution based on virtualized and efficient high-end servers running Linux. The result was an enormous gain in flexibility and maneuverability for the carrier: more than 60 percent of its original servers were virtualized — and average utilization increased to 70 percent. Nationwide achieved an 80 percent reduction in power, cooling and floor space requirements, even as its application landscape grew considerably. Cumulative cost savings over the course of the four year project have been US$46 million.

Since 2013, the company sees 30 percent annual growth in computing requirements, practically all handled through the provisioning of new virtual servers on the existing mainframe footprint.

Strategic archetypes help to shape winning strategies

Leading insurers combine elements from each of the four strategic dimensions—customers, interactions, services and structures—into a coherent overall strategy that fits their company and their market. What combination of elements work, and in which markets? From our data on leading insurers, we derived five of these combinations that we call "strategic archetypes":

- Market developer
- Customer attractor
- Price competitor
- Quality competitor
- Specialist.[24]

Each strategic archetype builds a set of capabilities by emphasizing the four strategic dimensions in different ways and to different degrees (see Figure 7). By definition, the archetypes will not work equally well in all markets. For example, while finding the right price to charge is important everywhere, a price competitor strategy makes little sense in a young market with low growth where the market must first be nurtured to start using insurance. In the following sections, we highlight how the archetypes use the dimensions and in which markets they are likely to work best.

Market developer

The capability focus of the Market developer archetype is on the structures and interactions dimensions. The goal is to expand the customer base, that is, it is not (yet) necessary to differentiate between the various psychographic customer types. Still, setting the foundations to be able to identify them via analytics by collecting the relevant information would be beneficial when the market matures. The market developer archetype will typically be utilized in the low maturity markets, Types I and II.

Structurally, the focus will be on building or refining the physical infrastructure capabilities. Flexibility is key; whether the insurer is an incumbent or new entrant, a virtualized approach like that in the Nationwide case study can offer the speed to change course quickly. If needed, it can also help bridge skills gaps by bringing in underwriting or other insurance skills virtually until local resources can be adequately trained. Flexibility is also the basis for the services approach: from micro-insurance in very low-penetration markets to highly standardized building block products elsewhere. Being able to react, scale up and change quickly without making substantial extra investments is necessary for strong growth and profitability.

Strategic archetype	Dimensions			
	Customers	Interactions	Services	Structures
Market developer	Low importance	Very high importance	Low importance	Very high importance
Customer attractor	Medium importance	Very high importance	Medium importance	Medium importance
Price competitor	Medium importance	Very high importance	Medium importance	Very high importance
Quality competitor	Very high importance	High importance	Very high importance	High importance
Specialist	**Varies**			

Low importance *Medium importance* *High importance* *Very high importance*

Source: IBM Institute for Business Value analysis.

Figure 7: **Each archetype needs to focus on the strategic dimensions in different ways.**

For interactions, strong partnerships will be important. Depending on internet penetration in the market, a pure online approach could work. Still, in low-penetration markets, insurance as a product is relatively unknown. So, a distribution network through local banks, retailers and other persons of trust as intermediaries could jumpstart customer base expansion. Another important use of online (especially mobile telecommunication) and social media is as a tool for brand recognition, tying the insurer's name to safety and security.

Customer attractor

The key feature of the Customer attractor archetype is accessibility. It is best for high-growth markets, Types II and III that already have a high-growth base of easy-to-reach customers who are already engaged. To further expand in line with the market, insurers need to be accessible to other customer groups and the main focus dimension will be interactions. Any interaction point for which the infrastructure is available in the market is an option; however, a coherent plan to broaden multi-channel accessibility is essential. With haphazard channel growth like we often saw at the beginning of the Internet era, there is a risk of running into inconsistent interactions and branding, which likely will mean potentially costly consolidation of newly built legacy after market growth slows down. As with the developer archetype, interaction partnerships can help, although in this case they need to be technologically well-integrated to cope with the speed of growth. Social media will serve as brand enabler and information carrier.

As with Market developers, any customer segment is targetable but early analytics should be a priority, again to avoid potentially costly consolidation later. Services will still be low-to-medium complexity, that is, level 1 coverages and simple level 2 services. To optimize accessibility, systems and processes need to be flexible and available 24/7.

Price competitor

The Price competitor archetype strategy is highly technology- and efficiency-focused. It is found in high-maturity markets, especially when growth is low or declining. The main focus dimensions are again structures and interactions. The Price competitor strategy needs to be based on superior rating and underwriting performance, and efficient cost structures. Logically, only one insurer can have the lowest price, so good competitor intelligence is essential to identify and avoid highly competitive market segments.

Structural needs include highly automated processes and systems that are integrated front-to-back. A price strategy will not work well with several parallel infrastructures, such as those after a merger, so consolidate systems first. "Flexibilization"—enhancing the flexibility of services and service processes– through Cloud is a good option here. Products are standardized, either level 1 or 2, with granular pricing. Claims services, repair and replacement networks are again standardized to keep costs low and service turnaround quick. This will appeal to the main target customer psychographic, the price-oriented minimalist. Informed optimizers can work as a target psychographic too, as they prefer more strongly individualized packages going into level 3. A price competitor archetype would provide risk coverage in the ecosystem, directly or as white label, for example, in a usage-based insurance model.

For interactions, focus will be on low cost, with preference for technology-based interaction points—direct web for information and sales, and with as much mobile access as possible.

Quality competitor

The quality competitor archetype is the most flexible in terms of differentiation, which is probably why most insurers — especially in mature markets—aspire to this archetype. Still, a tight strategic focus is needed to reach the quality levels that would differentiate in the market, with the main dimensions being customers and services.

The quality focus can vary, branching into convenience, transparency, high value or a combination of these. Target customer sets will vary depending on the exact focus, with the majority falling into the demanding support-seeker and loyal quality-seeker segments. These customers prefer personal interaction, which can be through intermediaries, or through more strongly personalized remote interactions such as call centers or video chat. Individualized services are a strong differentiating factor. Advanced analytics are very important to gain customer recognition, their stated preferences and their unstated, but likely needs. As with the price competitor archetype, a tight front-to-back integration is necessary, but not as an efficiency measure in this case. Rather, it is required for consistency of information and service across interaction points.

On the structures side, you will need a high level of skills to maintain quality for advice, underwriting, services development and other areas. In mature markets with skills shortages, consider supplementing these skills with expert cognitive computing systems to raise speed and quality of response. System and processes need to be up-to-date, but can live with a moderate level of inefficiencies as long as customer quality standards are met.

Specialist

The specialist, or niche, archetype is a special case in that it can be used instead of, or in addition to, one of the four others. Roughly 80 percent of the leaders across all market types in our survey considered niche strategy an important strategic factor.

The options as a specialist are too wide to enumerate here. As the name implies, an insurer operating within the specialist archetype will typically specialize efforts in one or several of the four dimensions. For example, it could focus on specific customer segments such as the skeptical support-seeker who likes advice from and sharing with peer groups, which would mean gearing interactions toward communities and social media, and maybe using customer advocates. Specialists will often focus on niche products and services which might require special skills.

As with the price competitor archetype, specialists generally lack the capability to cross-subsidize and so have less room for error in terms of cost, making efficient and up-to-date structures a high priority.

Where to start

Leading insurers have common traits across the dimensions that strategically differentiate them. In addition to the winning capabilities underlined in each of the dimension descriptions, these traits are natural starting points for insurers who are willing to catch up. Important first steps include:

- **Commit to an archetype**. Surprisingly, many insurers lack a clear and coherent initial strategy. How do you plan to compete? Do you currently have the capabilities to do that—and if not, how will you acquire them? For example, if your planned archetype is quality competitor, do you have the underlying interactions or services with which to differentiate? Don't try to be everything to everybody. Decide on an archetype that fits your market type and is reasonably achievable with the available skills and capabilities.
- **Invest in analytics**. All archetypes can benefit from using business analytics to some degree, and in the mature markets it is essential. Analytics can help you identify and understand customers, improve interaction quality, help define new services by creating real-time feedback loops with customer needs, and improve both the claims experience for customers and claims results for insurers. Next, consider expanding toward Big Data tools to deepen customer understanding and capture the millennial customer of the future.
- **Think ahead**. Even if you are satisfied with being a fast follower, the speed of change in the insurance industry is increasing, making being proactive a necessary trait. Leaders can be proactive because they have created structural flexibility that makes taking quick, early action self-reinforcing. Start by streamlining internal processes and creating external networks that you can use later to focus on your core capabilities, allowing you to find your niche in the E2E ecosystem.

On top of these points, it is important—and often difficult for insurers—to cultivate an innovative mindset across the enterprise. Flexibility comes from trying things and being allowed to fail, as long as the experience offers insight into what to tweak next for better results. Over time, being innovative and flexible can help insurers find the winning strategies for their companies.

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Related IBM publications

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