Drive differentiating value and fill critical gaps with a platform strategy

To remain viable, insurers need the disruptive opportunities and the future-ready efficiency made possible by a digital platform.
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frequent customer interactions and more insight and position on risk. Increasingly, competitive ecosystems are better connected to risk.

Meanwhile, core insurance systems and the surrounding management of processes and data have been a thorn in the side of insurers trying to connect with such ecosystems. The average insurer has eleven policy administration systems in place. Data is locked up in legacy silos, difficult to analyze and hard to bring together into a customer portfolio view, let alone into a strong risk experience. And costs of maintaining such systems creep up every year. So even forward-thinking insurers looking to drive an ecosystem are limited by legacy systems and processes that aren’t digital.

There’s too much friction in building insurance systems. Traditional core application approaches struggle to solve this problem. Moving to a monolithic core solution may sound like a good plan to build efficiency, but that alone does not provide the reach necessary to develop a true ecosystem. Core provider offerings in horizontal capabilities like AI, analytics, reporting and mobility inevitably force compromises. “Good enough” analytics, mobile interaction and AI isn’t really good enough for the ecosystem world.

Industry platforms represent a solution to this fundamental dilemma. Well-architected and developed platforms for insurance offer some key advantages over traditional systems. They can bring together everything necessary to develop true risk value: risk data and models plus the tools to connect those models to other providers, all integrated with the cloud scale and world-class security required to manage risk data, best-in-class enterprise management systems and core insurance operations. In a platform approach, insurers get the efficiency of a central core system and the differentiation of easy-to-compose customer experiences.
What does an industry platform do?

An industry platform is a set of vertically integrated technologies on which multiple partners can develop an ecosystem of shared value to an industry’s customers. With platforms today available via cloud and powered by Application Programming Interfaces (APIs), organizations can use self-service models and orchestration to quickly onboard partners and develop joint value propositions that individual companies would struggle to offer solo.

The industry platform model solves multiple critical issues in developing high value ecosystems. First, it handles the basics efficiently for insurers.

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“The failure to transition to a new approach explains the precarious situation that traditional businesses find themselves in. For pipeline firms, the writing is on the wall: Learn the new rules of strategy for a platform world, or begin planning your exit.”


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Insurers face new market pressures creating radical new opportunities

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Figure 1 – New market pressures for insurers
An insurance platform can scale up and down operations with end-to-end insurance functionality built in to the platform. Strong vertical platforms provide flexible underlying insurance product and data models, tested across a range of participants, to ensure coverage of a broad range of lines of business and future products and services. Platforms offer enterprise-class tools for optimization and process acceleration. And they can protect the sensitive information insurers hold by providing those operation in a secure, scalable cloud environment.

Industry platforms also offer built-in product innovation and customer engagement possibilities. A strong industry platform incorporates the digital tools necessary for strong customer engagement: AI, mobile and analytics. Insurers can compose differentiated experiences on top of a common efficient base. As the platform operator takes the platform operator takes on the integration responsibility, insurers can focus on building excellent risk experiences, leaving minutiae of application updates and maintenance to the platform provider.

Additionally, industry platforms should power agile and flexible operating models. A platform does not do much good if it is operated at fixed cost and charges a great deal of money up front – that hampers the innovation capabilities of an ecosystem. An as-a-service model will reduce both IT investment costs and risk. Moving away from legacy IT spending helps businesses shift capital expenditure (CapEx) to operational (OpEx) cost models. Without such capabilities, insurers are vulnerable to nimble insurtech disruption models that don’t drag high legacy costs with them.

Industry platforms can provide ongoing economic benefits to all participants. They provide a market framework for multiple participants to exchange mutually-agreed value. Insurtechs and insurers can work together to build distinctive models that solve risk problems in new ways. As the models proliferate, the platform reaches a critical mass of participants that individual organizations cannot match. This helps both insurers and insurtechs achieve quick and low cost of entry to risk markets.

Over time, as more insurers and other providers join a platform, more capabilities become available to the benefit of all participants. The AI, mobile, and interaction tools from participants provide opportunities for differentiation “sizzle.” The large group of insurers on a common core provide economy of scale “steak.”

Industry platforms can drive one more key economic benefit: lower compliance costs for all. It can be difficult for individual participants to adapt to new regulations, and legacy systems come with compatibility and integration issues that require costly, labor-intensive workarounds for storage and upkeep. Platforms spread out the continuous re-programming costs for functions such as regulatory compliance across the participants, markedly improving economics.
Drive differentiating value instead of diminishing value

In traditional insurance models, insurers spend a lot on activities that don’t really provide differentiating value to customers. Legacy IT and back-office work processes are inherently inefficient due to high maintenance costs and eroding customer bases. Yet investment in such areas remains high, short-changing technologies and activities that drive differentiation.

And the costs of “table stakes” operations and IT are only going up. IT provisioning costs for on-premises systems will continue to outgrow cloud systems, as cloud continues to improve in resource utilization relative to local solutions.

Security will become an increasingly high-cost proposition as well. Liability for security issues will continue to climb: A 2017 benchmark study* sponsored by IBM Security measured the average cost of a data breach at $3.62 million. The study showed that companies are experiencing larger breaches, mainly through malicious attacks and system glitches. As security burdens rise and regulators increase scrutiny, smaller insurers will struggle to provide adequate security coverage.

Technology trends around cloud, connectivity and AI have flipped the value opportunities for insurers. High-value investment areas offer insurers the chance to turn the tables and build risk partnerships. Graphic 2 (Shift to differentiation focus) illustrates high-potential opportunities that deliver the risk value insurers need for competitive differentiation.

Form relevant ecosystem partnerships with ease

The industry platform model enables new partnerships in digital ecosystems, as the tools to interface with other enterprises, securely and at scale, can be integrated in the platform. Ecosystem partners might include employers, employees, business partners, suppliers, data providers and many other stakeholders.

Figure 2 – Shift to differentiation focus
“Insurers can play multiple roles in an ecosystem. For example, the personal-mobility ecosystem offers a range of opportunities to expand into areas such as vehicle purchase and maintenance management, ride-sharing, carpooling, traffic.”


**Add value to risk customers**

AI, mobile and IoT provide opportunities to create engaging products and services based on timely, deep customer insights. They can determine the best way to match a product with an individual’s perception of risk and insurance, and explain risk in ways that match temperament and behavior. Artificial intelligence (AI) and empathic bots help improve customer experience and continually optimize improvement. These features integrated into a platform make possible product innovation and services and delivery models that attract and retain customers at the point of risk.

**Make smarter risk decisions**

An industry platform can also offer capabilities to improve the precision of risk decisions. AI systems are being developed today to improve decision making at several points in the insurance value chain, including underwriting, claims, legal, regulatory and fraud. The high degree of data integration offered by an industry platform can power AI and predictive analytics that provide insights to precisely price risk services, offer risk mitigation advice and stop fraudulent payments before they happen. Automation makes it possible to replace repeatable processes with software scripts, optimizing operations and enabling humans to focus on truly adding operational value.

**Case study: IBM, MetLife and Majesco build the first instance of the IBM Insurance Platform**

Insurance platforms are best developed jointly by technology and insurance industry experts. For that reason, the IBM Insurance Platform has been built from the ground up with insurance client involvement. IBM has intentionally focused on key markets with the right combinations of players to develop quickly. IBM looks for a line-of-business need, a large customer with interest and focus, and a core application provider with functional depth and readiness to provide the SaaS and cloud model required for platform integration.

**IBM delivers a platform for group insurance benefits**

MetLife and Majesco partner with IBM to create an insurance platform for now and the future

Built in collaboration with MetLife and Majesco, the IBM Insurance Platform initially focuses on end-to-end core processing for group benefits in North America.

IBM works with 95% of the world’s top insurers. By combining insights from those engagements with MetLife’s deep industry expertise, the IBM Insurance Platform helps carriers better harness their expansive data sets. It is designed so that insurers can improve product mix and customer experience on top of efficient, flexible operations. Delivered as a service on the IBM Cloud, the platform also helps reduce IT infrastructure and maintenance costs.
IBM announced the first instance of the IBM Insurance Platform, for the group benefits market in North America, with relevant partners in industry leader MetLife and core application provider Majesco. The platform being developed with these key partners unifies several key elements in a cloud-based, industry-as-a-service platform for MetLife and other insurer participants. Graphic 3 shows the platform overview. Some significant features include:

- Core operational applications for underwriting, policy administration, claims and billing
- Underlying compute platform provisioning: cloud, security and DevOps
- Digital front-end assets to provide base interface to employers, employees and brokers
- Interoperability with enterprise-level AI, analytics, regulatory and reporting services
- Interconnection with third-party providers of data, services and connected functions like CRM
Why the IBM Insurance Platform is unique
The IBM Insurance Platform offers unique value to customers over other platform-like approaches. Several key benefits include vertical integration in a single system, market differentiation opportunities, variable expense market entry and a solid, reliable technical base.

Vertical integration – a single system
The IBM Insurance Platform addresses all aspects of IT provision of insurance operations. The platform encompasses all hardware, software, services and partner integration necessary to provide “insurance in a box” as a single unified service for platform customers.

Market differentiation
One of the problems faced by insurers who adopt common core solutions is the inability to differentiate from others with the same system. Insurers can differentiate on the IBM Insurance Platform with the wealth of features IBM has integrated into the platform. AI based on IBM Watson, best-in-class analytics and data tools, cross-platform mobility, and marketing insights and management are all provided as composable business services. IBM also offers a robust partner ecosystem, with access to digital communities, marketing tools and experts. Platform participants can quickly build cross-domain experiences that provide unique risk value.

Fast, variable-expense market entry
IBM Cloud provides the means to respond to marketplace changes quickly. It supports variable and simplified provisioning and consumption-based pricing, and is security-rich. The IBM Insurance Platform consumption-based model enables “pay-by-the-drink” core insurance provisioning. This powers exploration of new business models. If the model is successful it will scale up quickly; if not, sunk costs are minimized. And IBM Cloud makes this easily scalable to grow with the organization. Expand or shrink products and services as needed, both technically and financially.

“Most successful platforms launch with a single type of interaction that generates high value even if, at first, low volume. They then move into adjacent markets or adjacent types of interactions, increasing both value and volume.”

Rock-solid technical base
Because the IBM Insurance Platform is built on IBM Cloud, technology problems are taken off the platform participants’ plate. Scalability is built in.

IBM Security covers the data. Insurance data can be localized in relevant regulatory jurisdictions. And maintenance of applications and interfaces is built in to the platform subscription. There’s no hardware to maintain or provision.

Many IT and systems providers are talking about platform models these days, but there are some important distinctions to look for. Ideally, platform models should be pre-integrated, consolidated and single-provider-led. Most don’t have advanced AI technologies, some of which are unique to IBM. And most don’t offer true as-a-service delivery and consumption-based pricing. IBM’s level of integration and backing make the IBM Insurance Platform a game-changer.

“The IBM Insurance Platform is a first example for the insurance industry of how cloud, cognitive solutions, and industry specific insights can come together to change the game. Cloud and consumption-based models free up capital invested in expensive legacy systems and give insurers the business flexibility to scale up businesses rapidly to take advantage of new market opportunities. Insurers can also realize significant savings over time as back-office innovation costs and functionality are shared among platform participants and third-party partners.”

For more information
To learn more about the IBM Insurance Platform, visit ibm.co/2EvGnca. To speak with an expert, contact Noel Garry, Global Offering Manager, IBM Insurance Platforms at NOEGARRY@ie.ibm.com.

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