Benchmark Insights

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Personalization, platforms, and data-designed offerings

The new generation of insurance

IBM **Institute for Business Value**

How IBM can help

Maturing markets, tight capital, increasing risk, and technologically sophisticated customers are just some of the pressures the insurance industry faces today. As a result, insurers have to work faster, more efficiently, and—above all—smarter. Those that do can thrive while others fail. Insurers need to be more nimble, innovative, and connected with their customers. The IBM Global Insurance team has reinvented itself, providing solutions to help clients meet the demands of today's insurance business. From enhanced customer service to greater efficiency in the back office and improved risk management, there's a smarter solution for you. For more information about IBM Insurance solutions, visit www.ibm.com/insurance.

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Key takeways

The changing face of insurance
The COVID-19 pandemic has accentuated consumer demand for a new generation of insurance characterized by personalization, convenience, transparency, and flexibility. To meet evolving customer needs, insurers need to redefine their relationship with data by embracing different types from new sources, while leveraging platform business models to innovate.

Capitalizing on the value of data
71% of insurers have data-centric products and services in their portfolios. However, many still lack cohesive strategies for what data is essential to own, when and what data is acceptable to use, and when it's advantageous to share it. For example, while 95% of insurers rely on third-party risk and customer data, only 45% are harnessing the power of real-time data.

The platform premium
Increasingly, insurers are turning to platform business models and extended ecosystem engagement for innovation. Participating in platforms opens doors to new types of products, which often meet needs that traditional products simply can't. Not only do platforms suit data-centric offerings, they also can lead to new revenue and faster times to market—and profitability.

Out of adversity comes opportunity

Insurance products and services have been tested on an unprecedented scale by the COVID-19 pandemic. In October 2020, Lloyd's of London anticipated that insurers may have to pay out as much as $100 billion on pandemic-related claims.[1] And this might be an underestimation. Courts have since ruled many contract exclusions invalid and reinstated claims, especially those made by small businesses.[2]

As the pandemic unfolded, customers were reminded about what is both vulnerable and precious to them, from health to wealth, property, business, and beyond. With customers emerging from this experience more attuned to their real insurance needs, demand for next-generation insurance, such as on-demand or usage-based products and parametric insurance, is rising.[3] Customers like paying only for what they use, or only when an insured item is in use, by "switching" protection on or off as needed.

Meanwhile, insurers have judiciously reviewed their portfolios to revise or withdraw products or services that cease to be viable. Some insurers have capitalized on the situation by rapidly launching niche products, such as coverage for working from home, private vehicles making deliveries, and shuttered businesses. Many insurers began offering support for customers and communities, ranging from premium rebates and free or enhanced coverage for health workers to funding the development of infectious disease treatments. They acted quickly and sought creative ways to help customers during the times that matter most.

Although the immediate COVID-19 crisis has diverted priority and capacity away from product development, insurers can begin positioning themselves now for improved customer engagement in the future.[4]

78% of insurers seek to improve customer engagement by developing products and services for platforms.

New offerings launched by **insurers involved in platforms yield 25% more revenue and 33% more premium** than those by other insurers.

Only 26% of insurers consider launching new products and services to be a significant differentiator in the marketplace.

Attracting and retaining customers depends on navigating the evolving customer landscape. Complexity drains customer engagement, as illustrated by the pandemic. Simpler insurance products and clear coverage descriptions can help build customers' trust and understanding.[5] Seeking personalized coverage, customers are expecting insurers to respond with a new generation of insurance centered on connecting with customers and limiting losses. Technological advances related to sensor capabilities, analytic insights, and data accessibility make it feasible to put data at the heart of products and services.

While data-dependent types of insurance like on-demand, usage-based, and parametric are not new, the emergence of new types of data and technologies has made them much more viable and relevant. For example, on-demand insurance lends itself to personalization and convenience, with customers purchasing coverage online whenever or wherever they choose and for specific possessions during specific timeframes. While usage-based coverage was a familiar option for travel, the evolution of telematics has made it an appealing alternative for automotive. And advances in data mining, machinery diagnostics, and monitoring systems enabled by AI have created new opportunities for parametric insurance, which is based on predefined triggers and predetermined indemnity.

Furthermore, data-centric products and services are a gateway to new business models based on insurance platforms and extended ecosystems (see "Insight: What is an insurance platform?"). For insurers, platform involvement can afford new capabilities and the ability to reach markets they couldn't otherwise easily reach. For customers, platforms can provide access to products typically sold "as-a-service," which tend to be more personalized and readily available through digital channels than traditional coverage products.

Developing products is an established pathway to customer acquisition and retention, revenue growth, and competitive advantage in crowded markets. However, only 26% of insurers recognize new products and services as significant differentiators in the marketplace, followed by 50% who deem them moderate differentiators, and 24% who attribute little or no benefit, suggesting that the potential to expand product portfolios remains largely untapped for the majority of insurers.[6]

Insights from new types of data can add value to existing offerings—and open doors to new ones.

How is the increasing shift toward utilizing platforms influencing the industry, particularly product and service development? Prior IBM Institute for Business Value (IBV) research established that insurance executives are strong proponents of a "build once for shared benefit" philosophy.[7] However, we wanted to dive deeper to uncover whether data and platforms are visibly changing portfolios, improving product and service development outcomes, and unlocking new possibilities. For answers, we surveyed nearly 600 insurance product development executives about platform participation, specifically its impact on development cost, speed, and effectiveness (for more information, see the "Research methodology" section).

Disrupting the status quo with data

Across industries, data remains a rich commodity. Organizations are taking advantage of the increasing availability of data, leveraging exponential technologies to disrupt traditional industry models. As they do, new business models based on platforms and associated ecosystems are emerging. A 2020 report projects that data monetization will become a $6.1 billion market by 2025 and demand from financial services will grow by 20% compared with 2020.[8]

Insurers are no strangers to data; it is the cornerstone of their age-old business model. However, they need to shift away from the legacy of purely using retrospective data and focus on utilizing real-time data to pursue new value for themselves. They now have, and have access to, vast amounts of data teeming with valuable insights for those capable of uncovering and acting on them.

Furthermore, many insurers have a traditional, albeit risk-averse, data mindset as evidenced by their reliance on traditional data and avoidance of emerging data sources. By looking at data with a single purpose in mind, defining it only by the reasons it was created, or associating it with single items or events, insurers can easily overlook its commercial potential. Moving beyond this mindset requires becoming comfortable with not always owning or controlling data but still benefiting from using it in highly transparent and appropriately agreed-upon ways to help close trust and engagement gaps with customers.

Insight: What is an insurance platform?

Insurance platforms are business models that create value by establishing the infrastructure to facilitate exchanges between two or more interdependent groups, such as platform owners and partners adding complementary services, infrastructure and software providers, and platform customers.

Modernizing data use for products and services

Modern use of data can add value to insurance products for both insurers and their customers. By sharing vehicle data with insurers, customers can be rewarded with lower premiums as carriers use that data to price products more competitively and profitably. Similarly, customers sharing health data with insurers via wearable devices or medical sensors can be rewarded for favorable behavior and health outcomes. For example, John Hancock, a major life insurer in North America, rewards life policyholders with premium savings and healthy lifestyle discounts in return for sharing fitness and dietary data.[9]

Although the majority of insurers do offer products and services designed around data, they are still in the process of establishing cohesive strategies for how and why to use data, which requires thinking about the types and sources of data they could, should, and would use for products and services. Many insurers seem uncomfortable using data they do not own or are not in control of, such as data provided by customers. This is understandable; using customer data is delicate territory.[10]

To uncover whether data strategies help or hinder insurers, we classified data as "static" or "dynamic" (see Figure 1). Static data is capable of informing products and services; however, it is dynamic data that can drive interpretation or actions.

Insurers rely on static data but make limited use of dynamic data with inherent context from emerging sources. At one end of a spectrum, 95% of insurers obtain data from third parties selling customer or risk data, whereas at the opposite end, only 45% of insurers use dynamic data from emerging sources such as telematics.[11]

Our research revealed that some property and casualty providers are using dynamic data – and reaping rewards: Providers leveraging data from sensors or monitoring devices were able to launch new services into the market at least 14% faster and reach profitability at least 20% sooner than those not using dynamic data (see Figure 2).[12]

Figure 1

From information to action

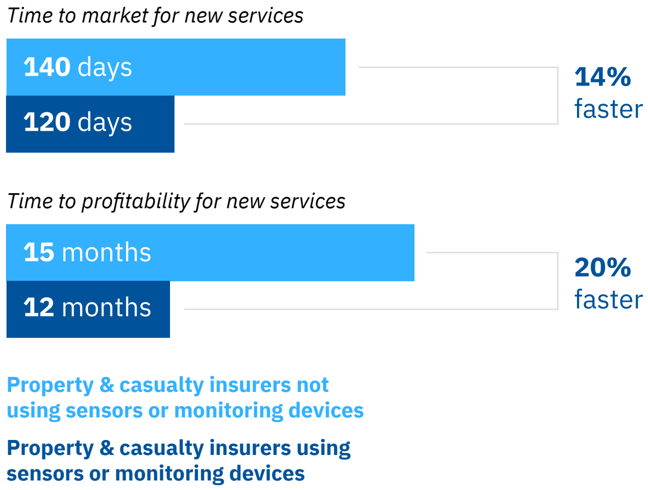
Static data informs, but dynamic data can elicit actions.

Static data	Dynamic data
– From traditional data sources	– From emerging data sources
– Predominately structured	– Predominately unstructured
– Historical	– Real-time
– Standalone	– Context dependent
Provides information	**Drives interpretation or action**

Figure 2

Data-driven speed

Real-time data helps accelerate speed to market and profitability.



Insurers can use real-time and unstructured customer data to better price offerings, benefitting both providers and customers.

Data obtained from sensors and devices is among the many types of dynamic data that can help insurers and customers work together to prevent losses and reduce claims (see Figure 3). Uncovering a deeper and wider range of data types from and about the subjects of insurance, such as people and objects, and coupling that information with contextual data is key to unlocking product potential. To radically modernize their use of data, insurers need to challenge their comfort in the safe havens of purchased data and embrace unstructured data.

Figure 3

Delving deeper into data

Dynamic data can enable more personalized offerings —and new revenue streams.

Property & Casualty and Liability

Static data examples

People data

- Attributes (such as gender or occupation)
- Preferences (such as lifestyle)
- History (such as insurance or convictions)
- Behavior (such as driving speed)

Asset/object data

- Origin (such as manufacturer or warranty)
- History (such as incidents or maintenance)
- Independent records (such as traffic flow or extreme weather)

Dynamic data examples

Context data (personal or asset)

- Temporal context (such as time-based behavior)
- Social media observations (such as assisting or undermining customers' preference, history, or activities)
- Object diagnostics (such as alerts or smart sensors)
- Usage patterns (such as time of day or season)
- Patterns analysis (such as traffic)
- Usage context (such as weather)

Life and Health

Static data examples

People data

- Attributes (such as gender or occupation)
- Preferences (such as alcohol consumption or smoking)
- History (such as family or insurance)
- Activities (such as exercise or restorative practices)

Health (asset) data

- Health (such as known conditions or impairments)
- Medication (such as vaccinations or therapeutics)
- Vital statistics (such as weight or body mass index)
- Medical interventions (such as pacemakers or prosthetics)
- Diet (such as food avoidance or allergies)

Dynamic data examples

Context data

- Physical and mental health diagnostics (such as blood or body tissue)
- Patterns analysis (such as climate or blood sugar)
- Life and work context (such as assisted living conditions or exposure to toxic substances)
- Temporal (such as time-based behavior)
- Social media observations (such as assisting or undermining customers' preferences, history, or activities)

Marsh: Mobility data and analytics power cheaper, more flexible coverage[13]

Marsh, a global leader in insurance broking and risk management, is a pioneer of innovative products focused on mobility, sharing, and trust, such as e-scooter rider liability policies and ride-sharing protection for users and drivers. Marsh partnered with AXA XL and Arity to cater to the surge in last-mile home deliveries triggered by COVID-19. The company launched an automotive liability solution for drivers making deliveries using private vehicles. A platform powered by telematics tracks active deliveries, enabling by-the-mile premiums. Customers pay only for the coverage they need, lowering cost and increasing flexibility at levels not possible with traditional commercial automotive coverage.

Platforms for growth and profitability

Platforms can open doors to a wider range of dynamic data and functional capabilities that might not be available in-house. According to a 2019 IBV report, 75% of insurance executives concurred that platform business models can unlock products and services not possible using other approaches. Furthermore, 64% were considering platforms to acquire or administer new product lines.[14] Fast-forward a year and 77% of insurers were developing products or services for platforms and offering 34% of their products and services on platforms.[15]

But the ultimate proof point for platforms is the ability to effectively close gaps to customers' needs. Insurers indicate that 17% of their portfolios are platform-related offerings that wouldn't be possible using other approaches.[16]

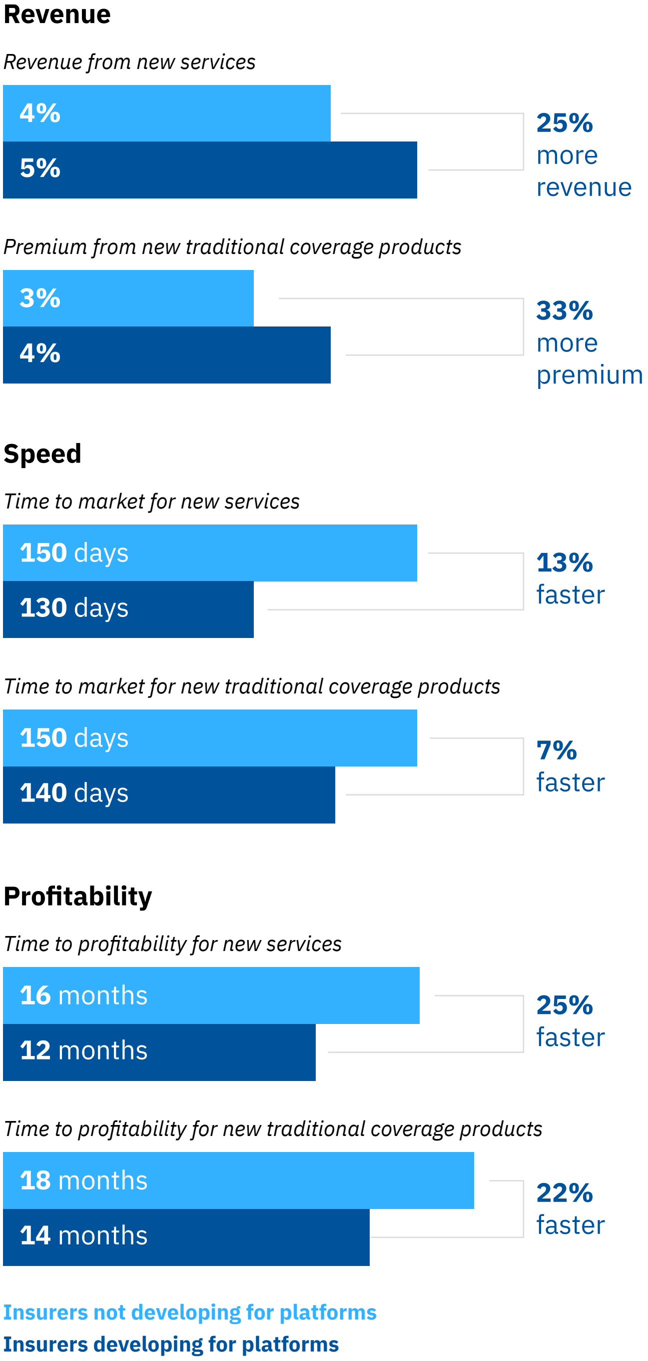
Platform participation and investments in platform-ready products can help insurers improve product and service development outcomes, notably revenue growth, speed to market and profitability, and feasibility of new offerings. Insurers developing platform-related products attribute 1 percentage point more premium and more revenue each to their recently launched offerings than those not developing for platforms.[17] They also move more rapidly from design to market launch, a difference of at least 20 days for services and 10 days for products, and reach profitability sooner, by at least 4 months (see Figure 4).[18]

Insurers developing platform-related products and services reach profitability at least 4 months sooner for new offerings compared to other providers.

Figure 4

Platform perks

Insurers developing platform offerings excel in new product revenue, development, and profitability



Tokio Marine Kiln: Using parametric insurance to protect hotel profits[19]

Tokio Marine Kiln, together with Lloyds of London, uses parametric modeling to make previously uninsurable hotel industry risks insurable. The first-of-a-kind policy protects hotels from lost profits caused by unforeseen market-level events, such as a virus outbreak or natural disaster. A hotel’s compensation is triggered when planned revenue per room, a key hotel industry metric, drops below an agreed level. Protecting hotel profitability has flow-on effects of stabilizing cash flow, simplifying contracting, and reducing exposure to contingent liabilities.

A new look for portfolios

Many insurers are expanding their portfolios, adding more services-oriented products and decreasing the dominance of traditional coverage products. Compared to three years ago, insurers offer 25% more services, such as roadside assistance, and only 20% more traditional products.[20]

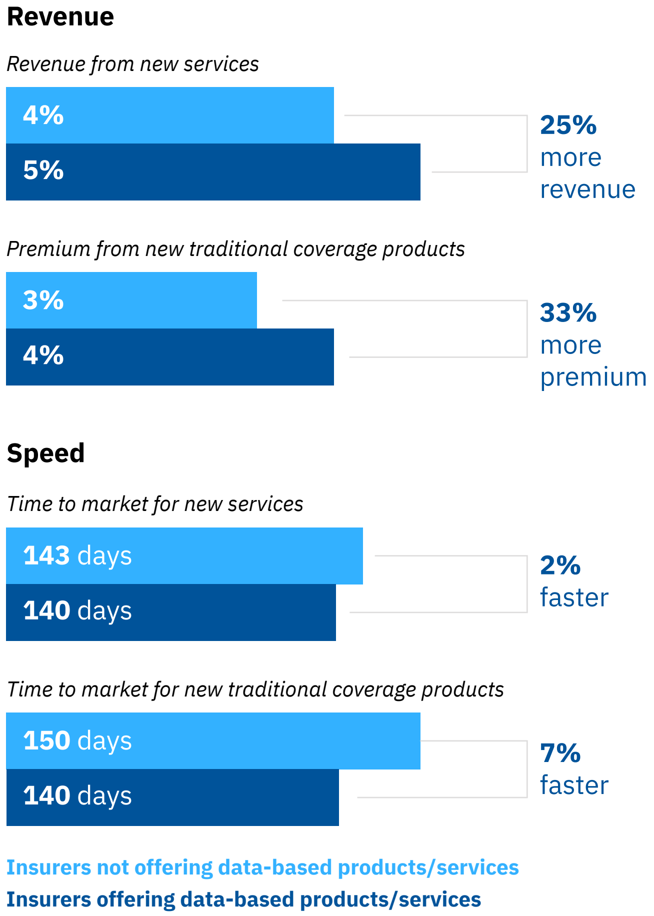
Services attract customers and carriers alike, with anything "as-a-service" usually synonymous with customer convenience and flexibility. Typically, services are developed faster and associated financial returns realized sooner, compared with traditional coverage products. Carriers typically take 140 days to launch a service, from project inception until services are ready for sale, which is at least 7% faster than launching a traditional coverage product. New services take 13 months or less to reach profitability, at least 7% faster than traditional coverage products.[21]

Our research shows that 71% of insurers have data-centric products and services in their portfolios. And these offerings tend to generate more of their income and be faster to market than those of insurers without data-based offerings: Their new products and services launched in the last 12 months yielded 25% more revenue and 33% more premium and had shorter development cycles, with products taking at least 7% less time to launch (see Figure 5).[22]

Figure 5

Growth at speed

Insurers with data-centric products are more effective at product development.

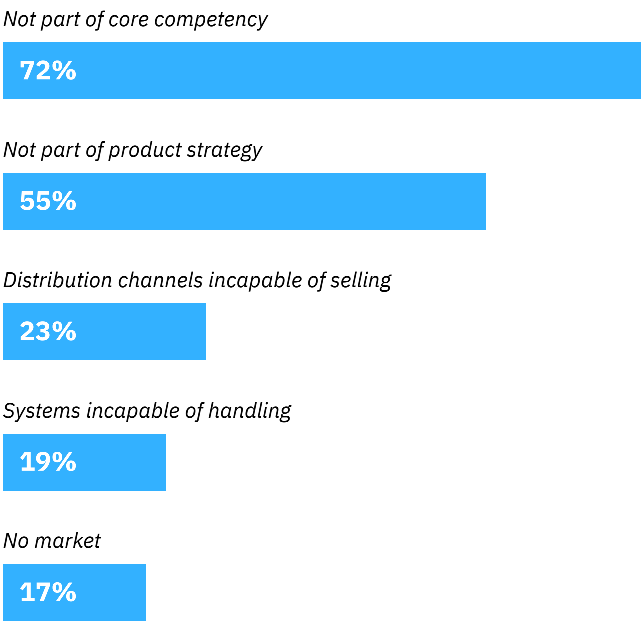


As to why 29% of insurers are not yet offering data-based products and services, most say such offerings are not compatible with their core competencies or part of their product strategies (see Figure 6).[23] Although these insurers may represent a characteristically risk-adverse corner of the industry, we believe they are putting *themselves* at risk of eroding competitiveness and failing to meet evolving customer expectations.

Figure 6

Why dodge data?

Most insurers without data-based offerings say they aren't part of their key capabilities or product plans.



Lloyds of London: Expediting first-of-a-kind products for platforms[24]

Lloyds of London, the world's biggest specialist insurance and reinsurance market, wants to be the world's most customer-centric digital insurance platform, making it as synonymous with the industry's future as it has been with its history for the last 335 years. In 2020, Lloyd's launched a $131 million Product Innovation Facility to expedite insurance product development. This collaboration facility focuses on developing cutting-edge offerings that better meet customers' contemporary needs. The facility's inaugural product launches have pioneered parametric profit protection for hoteliers and theft protection for digital cryptocurrency investors.

Action guide

Personalization, platforms, and data-designed offerings

Customers are primed to put data at the heart of their insurance, but insurers need to diversify their portfolios to match products and services to their needs. The data exists. The technology to use the data exists. This is what insurers can do to put them to use:

Leverage platform ecosystems

— Accept that today no organization can or should do or own everything. Determine your core competency, such as customer relationship or risk management, then look for partners with competencies, such as real-time data insights or analytical models, to elevate your core and best serve your customers.

— Look for accelerated innovation paths and ways that emerging technologies can be integrated with ease via platforms, by working with insurtechs, for example. Look at adjacent industries to find unmet insurance needs suited to platforms and determine how to access data in those industries.

Clarify roles and relationships between data and products

— Resolve data conflicts by clarifying the data types that are essential to own, acceptable to use, and advantageous to share or give away. Couple this with enterprise data governance to standardize data inputs, outputs, and access.

— Identify what underutilized data exists inside and outside your organization that could be better used to inform or activate data-based products and services.

Adopt a modern mindset toward data

— Evaluate legacy data sources to identify ways to reduce reliance on static data and employ more dynamic data. Look beyond the reasons the data was created and the items or events from which it originated.

— Embrace the role of insurer as a trusted advisor. Make changes to improve the transparency of your data sources, how the data is used, and the customer benefits of sharing data.

Research methodology

In cooperation with Oxford Economics, the IBM Institute for Business Value surveyed heads of product development for 593 insurers in early 2020. Our survey examined product and service development activities with a focus on platforms and data-based products. Insurers reported on property and casualty, liability, life, and health lines of business. Organizations varied in size, with 20% of survey respondents representing large insurers with gross written premium (GWP) over $1 billion. Unless otherwise stated, the values shown throughout this report are medians.

Related reports

Claiming the data premium: Insurance industry insights from the Global C-suite Study.
https://www.ibm.com/thought-leadership/institute-business-value/report/c-suite-insurance

Insurance on the platform: The positive impact on costs and revenues.
https://ibm.co/insurance-platforms

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