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The new face of insurance

How platforms can modernize and transform insurance

IBM Institute for Business Value

Insurers look to the future

Changing market dynamics and the growing impact of insurance technology startups called insurtechs are forcing traditional insurers to move from a product focus to a customer-centric philosophy. As insurers examine new business, operating and organizational models, industry leaders are embracing insurtechs rather than competing against them. But inflexible existing systems hobble the ability of many insurers to move forward. Insurance companies need agile platforms, technologies and tools to move successfully into the future.

Adapting to a changing marketplace

For most people, insurance has long been characterized by standardized products and minimal engagement. Many people simply buy car insurance, for example, and hope they never get into an accident or have to file a claim. But technologies employing artificial intelligence (AI), the Internet of Things (IoT), blockchain and cloud can fundamentally transform how policyholders engage with insurance and insurers. Thanks to technology, deeply personalized engagement can be affordable and scalable.

To address new customer needs, some insurers are moving toward broad, customer-centric ecosystems that aggregate insurance and non-insurance services across multiple domains including health, wellness, travel

and transportation. The proliferation of usage-based services, such as hourly car insurance, mobile microinsurance and hotel-rental coverage also reflects the shift away from traditional risk-calculating insurance product lines and organizations toward richer and more personalized options.

As instigators of many of these changes, insurtechs have become a crucial source of innovation for the global insurance industry. Insurers that don't embrace the power of insurtechs may find themselves threatened not only by insurtechs themselves, but also from entrepreneurial insurers that employ insurtech services.

Tapping into insurtech innovation can help traditional insurers expand offerings and deepen policyholder engagement across channels, geographical areas and lines of business. And many insurers have recognized these imperatives. In 2016, for example, deals between insurance businesses and insurance tech startups rose 42 percent on a year-over-year basis.¹ And more than 30 percent of global insurance customers reported using insurtechs exclusively or in combination with incumbent firms to fulfill their insurance needs, including nontraditional offerings such as personal risk management, microproducts and insurance-as-a-service.² According to a recent IBM Institute for Business Value study, 81 percent of outperforming insurance businesses in terms of overall size of premium written and profitability have either invested in or are working with insurtechs.³

Working with insurtechs

In addition to providing potentially lucrative investment opportunities, engaging with insurtechs can help traditional insurers reduce hurdles related to taking innovative new ideas from concept to reality. Implementing new products and services often isn't cost-effective for traditional insurers. But by partnering with insurtechs, insurers can act as integrators of innovation, creating and showcasing bundles of specialized applications for the benefit of customers.

Embracing the platform business model

Taking insurance from a product orientation to a client-centric model can be facilitated by transitioning from traditional to platform business models. Because platforms enable connections between producers and consumers directly, they enable organizations to reduce constraints to growth, and generate higher profits. By providing innovative services to customers through new channels, new digital offerings, in turn, also can provide insurers with new insights into the customers they serve.

A platform business model is one that:

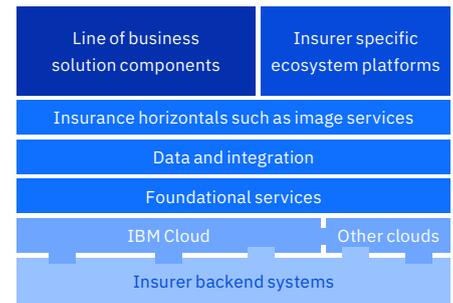
- Provides an environment in which parties can connect, interact and collaborate
- Offers opportunities for product and service integration and personalization
- Supports accelerated innovation.

Successful business platforms are made up of ecosystems of complementary products and services that address common problems or opportunities for a broad spectrum of consumers. Interfaces that allow enhancements to the platform are open, standards-based and help to build trust between parties and across the ecosystem. A few examples of the platform business model in other industries include Uber, Airbnb, YouTube and eBay. But unlike these organizations, insurance platforms have an added layer of complexity because they must integrate existing back-end systems. Although challenging, insurance ecosystems can offer an opportunity to differentiate.

According to the 2018 IBM Institute for Business Value C-suite Study, organizations across every industry are now investing in platforms. Of those with a strategy designed to disrupt, 57 percent are builders or owners of a platform business model.⁴ Although only 7 percent of Insurance CxOs surveyed currently operate platforms, 26 percent are experimenting with the concept and 21 percent intend to reallocate capital to build or expand platforms.⁵ In every industry, organizations are investing in platforms, and the IBM Institute for Business Value estimates indicate that capital reallocation toward this business model could approach USD 1.2 trillion in the next 2 to 3 years.⁶

Whether or not insurance organizations ultimately choose to operate or participate in new platform business models, they are increasingly likely to be competing with them. As platforms proliferate, every industry seems likely to experience what's often been called the Amazon effect: the endless evolution and disruption of its markets. The choice of whether to own or participate in a platform, or do both, isn't something organizations should postpone. Insurers that opt not to participate in a platform will either miss out on the complementary services the platform provides or will have to supply those services themselves, which may prove difficult or impossible.

Figure 1
The open insurance platform



MetLife creates a platform for group benefits carriers

MetLife and IBM collaborated to create an insurance platform designed specifically for group benefits carriers. The new platform includes core insurance capability on cloud, a digital front end, and added content to enable an enterprise-ready solution. The platform transforms how MetLife sells, underwrites, quotes, services and maintains group benefits.⁷

Creating an open platform

A business platform has a platform owner that provides the underlying infrastructure with complementary organizations, such as suppliers, acting to create a larger ecosystem. Consumers are inclined to purchase services within the insurance platform because of the diversity of offers, the levels of service and the low cost.

In implementing a platform business model, the platform operator must do three things well:

- *Create value from reciprocity.* Adopt a deeply collaborative approach that spans an ecosystem to create win-win propositions.
- *Capitalize on data.* Cultivate and orchestrate data as their most important asset to hone performance and the capacity for continuous change.
- *Commit to innovation.* Reallocate capital and resources from defending markets to innovating in new ones.

An insurance platform requires a stable architecture and strong governance that allows secure interactions across all partners in the

ecosystem. This type of modular setup allows the integration of necessary building blocks based on current needs. A development platform for the insurance industry would require these features:

- Automated, agile “build and deploy” processes with the ability to constantly update the software weekly.
- Access to and use of data for personalization and optimization of products and services.
- Co-creation and joint development with an open and “ready-to-use” environment that has a flexible composition of service packages.
- The ability to incorporate a network of partners so the respective strengths of individual service offerings can be bundled.
- Streamlined integration with minimal setup and scaling challenges through provision of ready-to-use adapters
- Compliance with high security standards, including encryption, authentication and backup procedures.

Reinvent or die

To meet today's challenges, insurers need to look at ways to increase agility and innovation, so they can better engage with their customers. Traditional insurers need to capitalize on their innate capabilities, such as risk management, and combine them with the flexibility and speed inherent in platforms. Doing so will, for example, allow them to move from simply offering coverage after damage is done to also offering risk advice and complementary services. A platform might be owned by one or more insurance companies or be set up as a joint venture between an insurer and a technology platform provider. Because platforms are typically open, they attract new participants who can further enhance overall client value.

Insurers can look to examples in other industries. But to implement these new ideas, insurers will need to invest in systems capable of handling new demands. As you look into the potential of the platform business model in insurance, consider these questions:

- Is the technology base of your platform open and secure, and is it clear how platform participants own their data?
- What joint value proposition will help protect your clients' interests?
- Is the platform flexible enough to be easily accessed and able to grow and scale within current and future legal and regulatory environments?

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Notes and sources

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