Research Insights

Becoming a risk concierge

From insurance provider to customer companion

IBM Institute for Business Value

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How IBM can help

Maturing markets, tight capital, increasing risk, new market entrants, 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 to address customer needs. Those that do can thrive while others struggle. Smarter insurance means being more innovative, being more connected with customers, and moving beyond risk remediation to risk mitigation and partnership.

The IBM Global Insurance team helps meet these challenges by providing solutions that bring risk partnership to reality. From enhanced customer service to greater efficiency in the back office and improved risk management, there's a smarter insurance solution for you. For more information about IBM Insurance solutions, visit www.ibm.com/insurance.

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Key takeaways

A "risk concierge" model helps boost business value

Insurance customers are starting to seek insurers who act as a "risk concierge." These insurers go beyond selling traditional products. Instead, they take care of the details of risk for customers. We find that insurers already investing meaningfully in such capabilities have 3 times higher growth rates and see annual revenue benefits totaling hundreds of millions of dollars.

A customer focus enables a virtuous cycle

A risk concierge not only better understands customers and risks, but can better target insurer capabilities against those risks in ways that resonate with customers. This can lead to business results that justify even more customer-focused investments—building true competitive advantage for insurers and a moat against new market entrants. Emerging risk concierges spend 52% of their technology investments on customer-focused capabilities, and they're 35% better at understanding customer preferences.

Cloud and AI make the risk concierge concept possible

Making the risk concierge concept work requires a strong architectural base across cloud, artificial intelligence (AI), and connected technologies such as the Internet of Things (IoT). Coupled with open standards, this helps reduce technical debt and legacy lock-in that have been plaguing the industry for decades.

The risk concierge at your service

As COVID-19 has altered the business landscape, digital adaptability has moved from nice-to-have to must-have. As early as September 2020, almost 60% of business leaders across industries said they had already accelerated their companies' digital transformation initiatives during the pandemic.[1] Insurers have been fast to act, with 95% of insurance executives reporting acceleration of their initiatives, and 90% reporting completion of digital initiatives that had previously encountered resistance.[2]

For years, many insurers simply equated digital transformation with "paperless." In 2018, 2 years before the pandemic, only 12% of insurance executives reported prioritizing true digital transformation—moving toward fully digitized data and processes, with intelligent workflows spanning systems across the insurer and ecosystem partners. Remarkably, by 2022, this number is expected to jump to 64%.[3]

Insurers have clearly recognized that simply digitizing existing processes is not enough. Insurers are deploying broader products, quickly entering new lines of business, and offering more advice and service. Digitization powers not just new distribution, but entirely new classes of risk product.

Perspective: What is a risk concierge?

A hotel concierge assists with personal matters such as making travel arrangements, recommending places to go, and running errands. A risk concierge provides similar services—but in the context of risk. Instead of just selling products, a risk concierge makes recommendations; schedules risk-related appointments, such as health or auto checkups, and household risk assessments; takes care of the details; and addresses customer risk holistically.

As insurers broaden their portfolios, they are becoming more like concierges—helpful resources, knowledgeable across a wide range of risks, who not only can make recommendations but can provide hard-to-duplicate personal risk advice and services.

Customers increasingly value this tailored approach, and more forward-thinking insurers are capitalizing on it. For example, it has helped Chinese insurer Ping An catapult to its position as the world's most valuable financial brand and to #16 on the most recent Fortune Global 500 list (see "Digital transformation at Ping An").[4]

To describe insurers embracing this experiential approach, we use the term "risk concierge" (see "Perspective: What is a risk concierge?"). To examine the concept further—which roles it can fulfill, which capabilities it needs, and what customers expect of it—we surveyed 1,000 insurance executives and more than 9,000 insurance customers globally (see "Research methodology").

A risk concierge finds out what customers want and provides what they need.

We found that insurers do not fully meet customers' wants, needs, and expectations. Leading insurers, though, are developing a more tailored approach, investing more than half their IT spend in customer-facing technologies and capabilities. These investments pay off both quantitatively and qualitatively, with up to 3 times higher growth rates, better customer understanding, and better customer satisfaction.

In top-tier hotels, guests expect concierge service as a given. Insurers looking to capture value likewise can provide risk concierge features as a basic offering. Just as some hotels compete on price, a lower-quality strategy can be viable for insurers, but this runs the risk of a race to the bottom on pricing of commodity insurance products. Insurers that differentiate themselves with quality should be better positioned to thrive amid pressure from well-capitalized, low-cost new market entrants.

Proliferating products

Retaining longtime customers and attracting new ones economically are essential in an insurance industry with high acquisition costs and intangible products. This will further intensify as mature-market populations age and emerging-market customers grow more sophisticated in their risk needs. Retention rates are a perennial issue: In our executive survey, respondents report an average retention rate of 77%, consistent with OECD data ranging from 70% to 96%.[5]

As a result, insurers increasingly are looking to offer more than just paying for claims after the fact. They are also moving beyond simply running their existing processes more efficiently. As one executive told us, "We are no longer focused on products. For us, it is all about risk experiences."

Risk experiences are the foundation of the risk concierge concept. How do insurers help customers with risk in their daily lives? More than 60% of our respondents agree both that the industry needs to take on additional risk-related roles and that their own organization plans to do so. These roles include offering risk education (pro bono via affinity groups, online via calculators and AI, or as a consulting service), helping people mitigate simpler risks like property damages, and actively improving and protecting health and wealth—life risks in the wider sense.

A concierge is not about direct selling. Instead, it's about finding out what customers want, providing what they need, and explaining that in terms that resonate with them—ensuring an excellent overall experience.

60% of insurer respondents expect nontraditional products and services to eventually generate revenue on par with existing, traditional products.

Offering a broad range of products and services beyond the staple insurance coverages like auto and term life is becoming table stakes. Most of our insurer respondents have been at least dabbling in nontraditional products, from behavior-based insurance to micro-risk and risk-adjacent products (see Figure 1). At least 21 of the 27 product variations we included in our survey were offered or evaluated by more than half of our insurer survey group, and about 80% offer 15 or more.

Insurers seem to understand that simply pushing fixed products in the traditional way is not going to build a strong enough customer relationship long term. Even "category killer" specialists like the large online auto insurers are rapidly diversifying lines and coverages. At least 60% of insurer respondents expect nontraditional products and services to eventually generate revenue on par with existing, traditional products. About a quarter say those traditional products will be replaced.

Insurance customers seem very open to meeting insurers on this new playing field. Almost half of our customer respondents say they would be willing to try new insurance products and services. And while insurers often cite data privacy as a concern, customers are increasingly open to sharing data in exchange for nontraditional products. While a year ago about 45% of respondents agreed that "the less data insurers kept about them, the better," this number shrank to 35% in our latest research.[6]

Even our most reluctant respondents, ages 30 to 55, seem quite willing to share their data as long as they get a better service in return. Judging from our insurer responses on technology investment, however, this may be easier said than done.

Figure 1

Off the beaten path

Beyond the standard offers, many insurers are dabbling in nontraditional products.

Usage-based insurance

- Pay as/how you drive
- Pay as you travel

Short-term or micro risk

- One-day event
- Hole in one

Health and wealth

- Health consulting
- Wealth management

Risk adjacent

- Preventive maintenance
- Smart home services

Complexity in every corner

The IT landscape of a typical medium-large to large insurer is highly complex. Insurer technical debt—that is, the increasing cost of deferring application and systems modernization—is a real roadblock. Insurers often have added brands and lines of business inorganically and years later have not integrated their supporting systems.

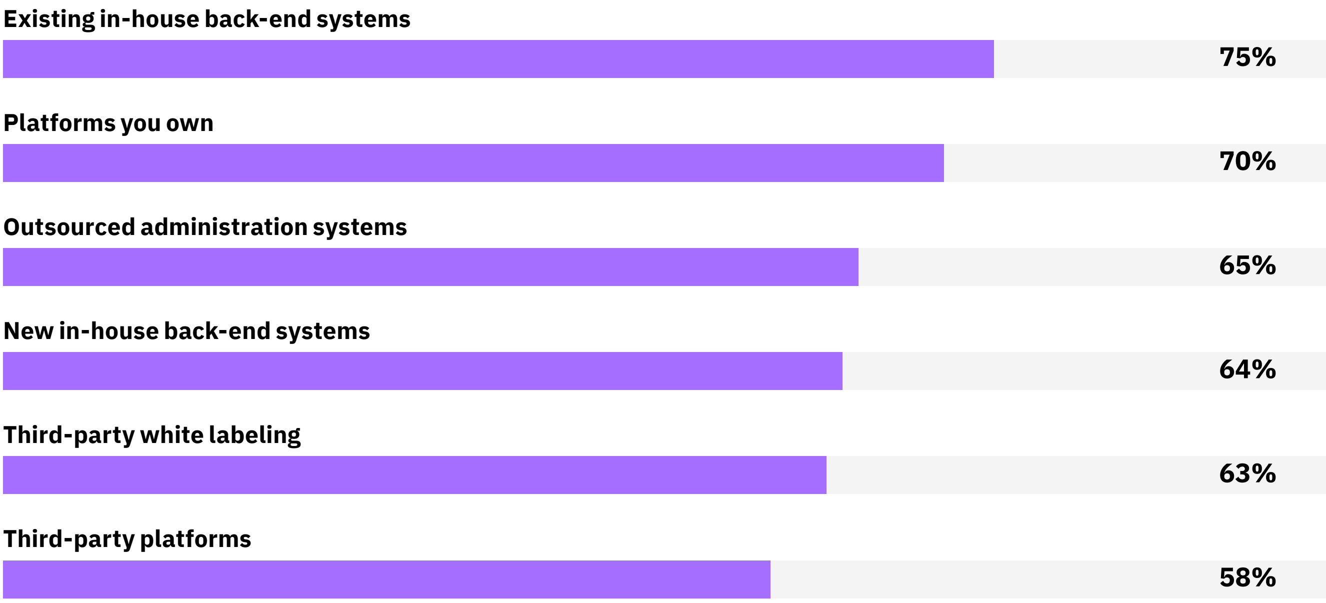
This makes it difficult to get a 360-degree view of the customer—never mind providing an optimal claims experience or tailored risk advice. Even when adding new products, insurers cite the most relevant IT capability as existing backend systems and platforms (see Figure 2).

Given the technical debt embedded in those key systems, fitting yet another round of new products into the mix seems like wishful thinking.

Figure 2

Living with legacies

Insurers plan to rely heavily on their existing systems to administer nontraditional products and services.



Q: How relevant will the following be for your organization’s administration of nontraditional products and services over the next 3 years?

Requirements complexity is also an issue, with many insurers well off-target in their risk experience plans compared to customer expectations. When asked to prioritize efforts to communicate with younger customers (under age 30), insurers rank the sales touchpoints kiosk and intermediaries as first and second, respectively. Young customers, however, picked those two channels last, instead preferring full-service apps, or non-selling direct outreach via affinity and community groups (see Figure 3).

Clearly, many young customers (44%) prefer to organize insurance matters themselves, compared to only 26% who want to delegate to the insurer's preferred advisor channel. Also, many young customers (39%) are content to buy insurance directly without seeking personal advice, versus 27% who want that input.

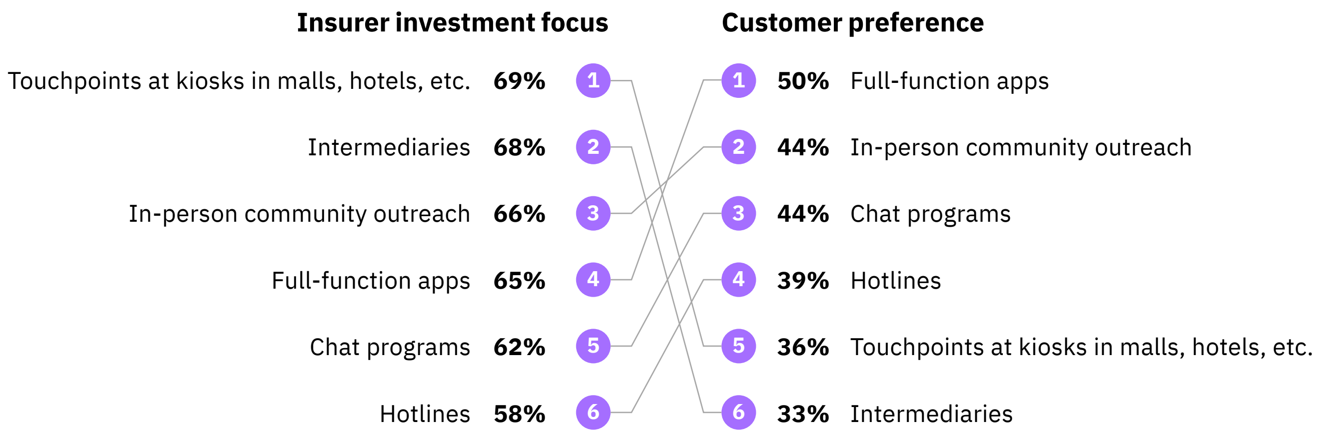
In follow-up interviews, many younger customers said, "I prefer to do everything using my phone." But insurers seem to focus instead on channels they're most familiar with. Talking with traditional distributors is easier for insurance IT shops than providing a quality customer experience on a 5-inch screen.

Insurers spreading investment across different touchpoints than consumers prefer indicates a huge misallocation of resources. While insurers might argue that traditional touchpoint investment will help them reach their older clientele, our data do not bear that out. Customers between ages 30 and 55 place even less importance on insurers' #1 and #2 touchpoints, instead showing a similar preference order as the younger cohort—with even more not seeking advice and preferring not to delegate insurance matters. Customers 55 and older say they prefer to be left alone altogether.

Figure 3

Cross purposes

Insurers' communication channels for next-gen customers don't line up with customer preferences.



For insurers, incumbency is no protection against the digital giants.

Technology ties it together

"If I had asked people what they wanted, they would have said faster horses." This quote, famously attributed to Henry Ford, is often cited when executives' views do not match data on customers' wishes.[7]

But context matters: Ford was forging technologies that customers didn't yet understand and innovating products customers didn't yet know they needed. Insurers who prioritize traditional channels are holding on to their horses, while their customers are moving on to new modes of transportation that offer greater convenience and features.

The risk concierge concept moves insurers to a new, more defensible position as holistic risk partners. This approach can blend old products and new. A risk concierge does not just create a piecemeal list of appetizing insurance point products, but integrates them with advice, digital channels, marketing, sales, and even ecosystem partners in other industries to provide a unified risk experience.

While risk concierge support needs to be personalized and specific to the customer, it doesn't need to be tied to a particular person or role on the insurer side. Indeed, our survey data suggest that customers of the future would prefer the digital personalization approach. Yet this does not mean getting rid of the intermediary.

Instead, the risk concierge broker or agent becomes the orchestra conductor—not a sales agent, but a trusted advisor and troubleshooter, with insight across the customer's entire risk portfolio and the right risk tools at hand for virtually all situations. Ideally, insurers can combine what they already are good at—customer-facing services at scale and powerful operational systems—with new and innovative risk experiences.

To make this shift, insurers need the right technologies and architectures. Integrating new products and experiences at speed across organizational and IT boundaries will require a flexible IT approach that avoids technical lock-in.

Unfortunately, insurers are well behind other industries when it comes to cross-industry solutions and standards. Banks, for example, face similar data and product pressures as insurers, but they can pattern cross-organization architecture after the Banking Industry Architecture Network (BIAN).[8] Compared to banks, insurers have a broader range of products, risk options, and partnerships—and will need to develop open industry architecture to match. Insurers will also need to invest in risk interoperability standards, similar to how the US-based account integration service Yodlee can enable cross-bank transaction integration.[9]

Most important, though, is getting the internal integration right. Too many insurers are attempting to be digital fast followers, simply partnering with a handful of insurtechs or buying one and not realizing synergies. These strategies create the appearance of progress but lack the underlying customer connection that will make them scalable.

Compare this to online providers like Amazon and Tencent that already have strong customer connections and partnership-friendly architectures. These providers are increasingly foraying into the insurance business: Amazon is offering protection in the US (small business liability) and India (auto), while Tencent's subsidiary WeChat has been offering various coverage products in China via its insurance platform, WeSure, for several years already.[10]

For insurers, incumbency is no protection against these digital giants. Adopting a risk concierge approach, with integrated, holistic risk experiences and "sticky" partnerships, leverages insurer risk expertise to counter the online providers.

Becoming customer-focused leaders

We already know from several IBM Institute for Business Value (IBV) studies the *technologies* in which insurers are investing. In 2021, the 3 technologies insurers believe will provide the most business value are IoT, cloud computing (public, private, and hybrid), and AI (with machine learning).[11]

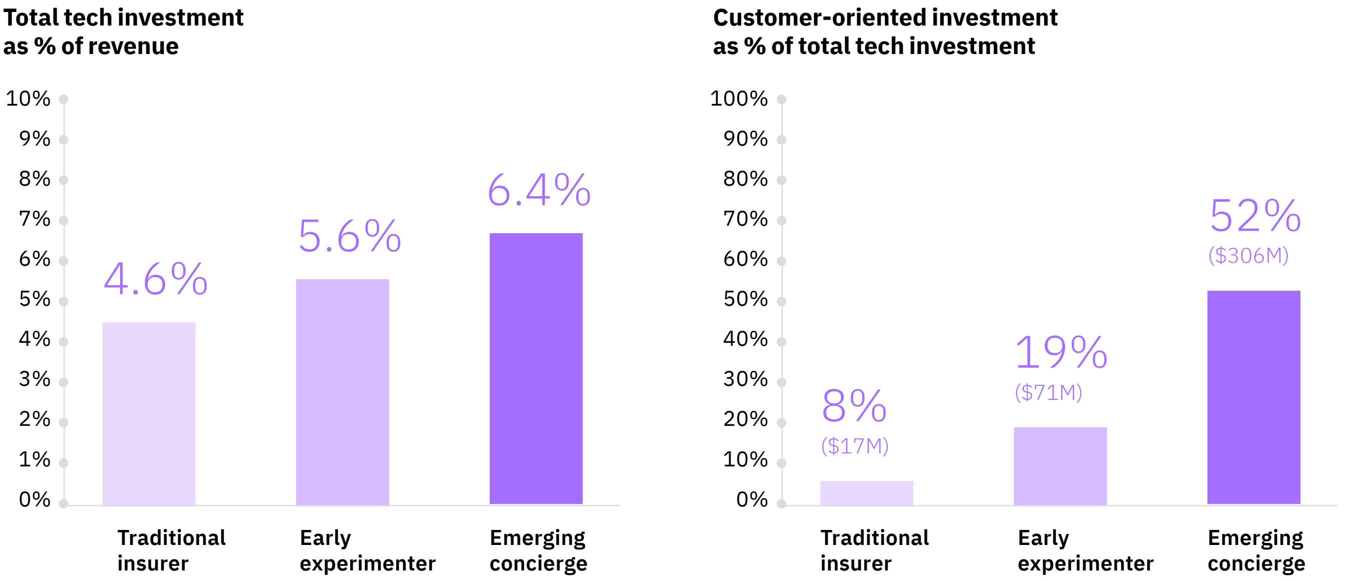
For the current study, we wanted to know the *capabilities* in which insurers are placing their technology investments. It turns out that some insurers are significantly out-investing their peers, as a percentage of total revenue, in technology overall and in customer-focused capabilities (see Figure 4 and "Research Methodology").

Investments in capabilities involve personalizing relationships, individualizing products, and interacting at the point of risk consideration, such as Allianz's automatic offer of trip insurance to American Airlines customers.[12] Such investments correlate with important insurer metrics: revenue growth, customer retention, and customer satisfaction (see Figure 5).

Figure 4

Putting the customer first

Emerging risk concierges invest significant sums in customer-focused technology capabilities.

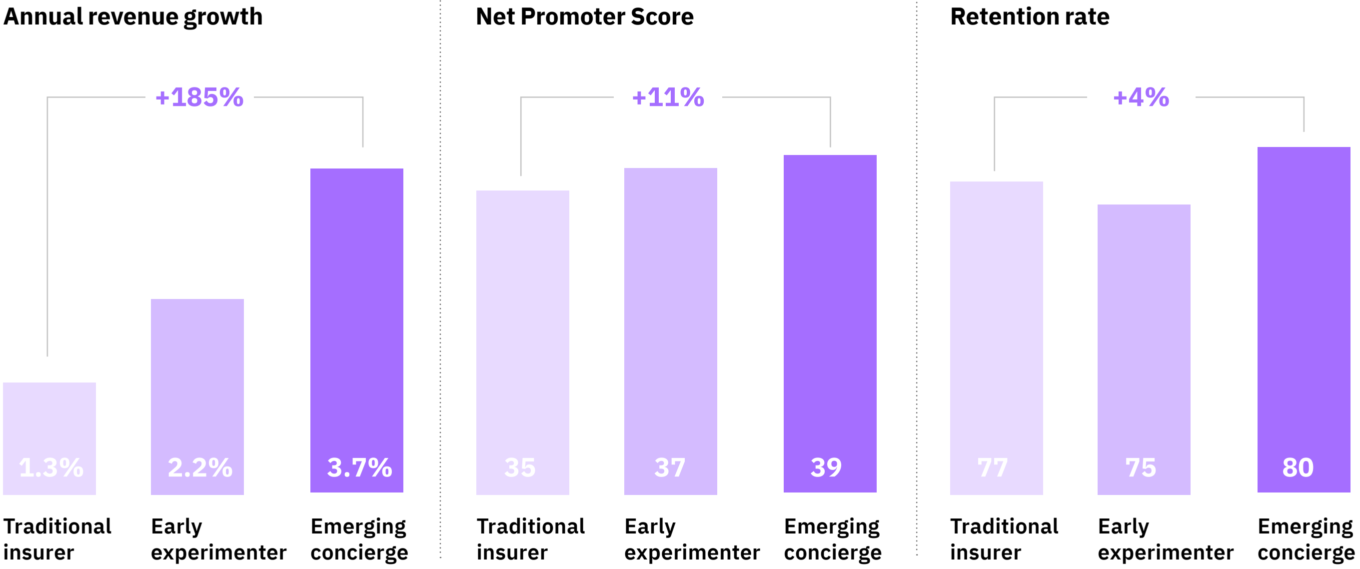


Emerging risk concierges see almost half a billion dollars more in annual revenue.

Figure 5

Markers of success

Emerging risk concierges have higher growth and customer satisfaction—and thus less churn.



The result: measurable dollar advantages. The high-investing emerging concierge group's 4% higher retention rate, compared to low-investing traditional insurers, translates to about $220 million more in retained premiums per year. Add to that the $240 million higher revenue growth, and it equals almost half a billion dollars more in annual revenue.

Maybe even more importantly, emerging concierges seem to be using the increased customer-focused capabilities to get at least somewhat closer to the customer. For example, when looking at communication with next-gen customers, the gap between insurers' communication priorities and customers' preferences was still noticeable, but emerging concierges closed the gap by an average of 35%. We found a similar pattern in several other survey questions about insurers' appeal and customers' buying motivation.

In all cases, emerging concierges are closer to the mark on customer understanding—which should be the point of investing in customer-focused capabilities, after all.

By embracing the risk concierge concept, insurers can potentially disrupt the insurance industry.

Emerging concierges also show better awareness of the challenges they face. They cite more barriers to implementing nontraditional products and services than traditional and early-experimenter insurers (see Figure 6). They also often cite insufficient technology investment, even though they spend much more than others on technology.

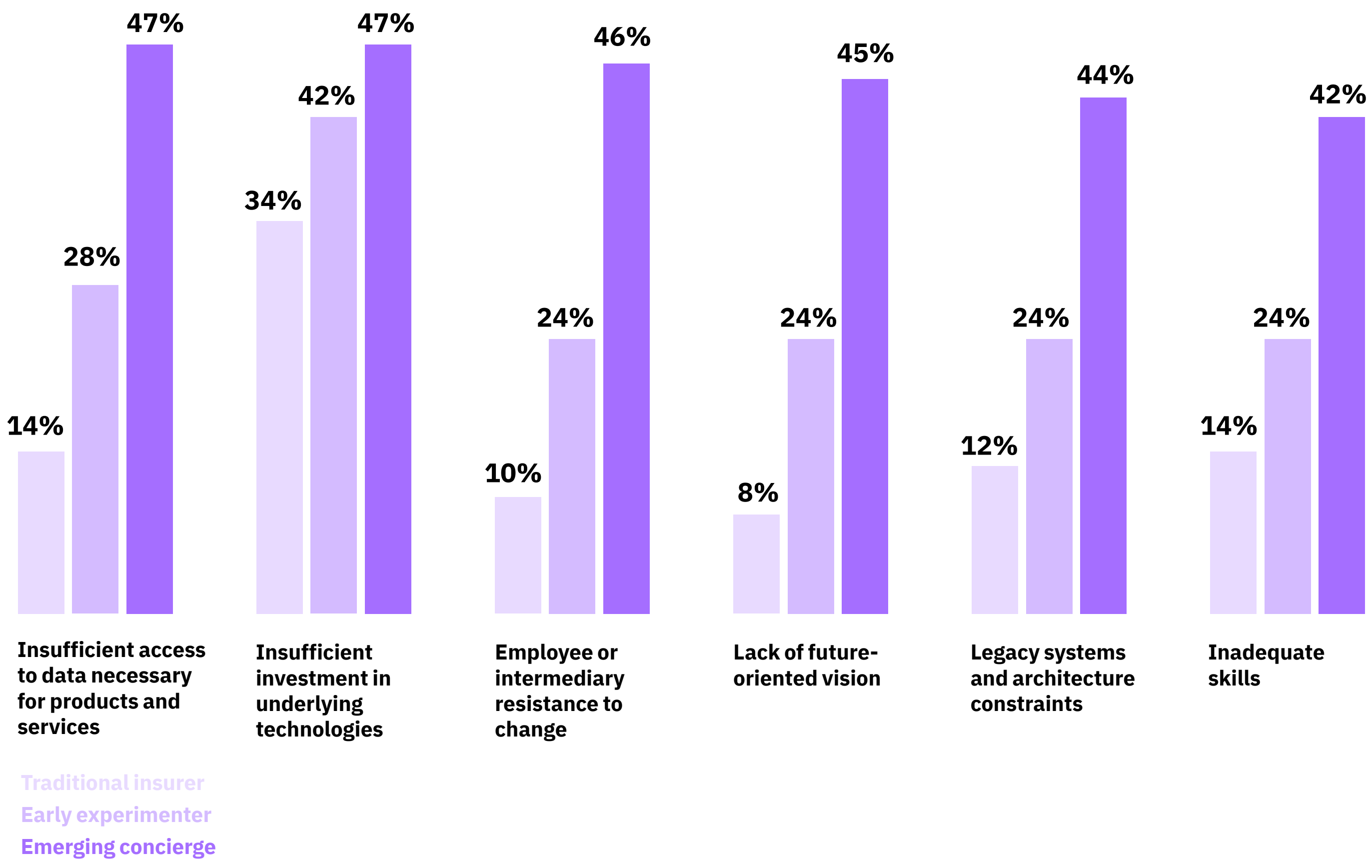
Emerging concierges appear to see clear value in customer-facing technology. This can create a virtuous cycle: Removing the barriers—increasing stakeholder buy-in, cleaning up technical debt, and improving data access and quality—could generate even more investment in capabilities, gaining even more benefits.

By embracing the risk concierge concept, insurers can potentially disrupt the insurance industry.

Figure 6

Spotting the hurdles ahead

Emerging risk concierges have a better grasp of the barriers to nontraditional products and services.



The right mix

We know which technologies insurers are investing in: IoT, cloud, and AI. How can they make these technologies customer focused—unlocking value in the short term and avoiding the creation of new legacies with high technical debt?

In the following, we discuss 3 paths: digital connectivity, hybrid cloud, and ecosystems built through partnerships. These paths are not mutually exclusive; risk concierges will seek to optimize all 3. As the case of Ping An shows, this can reap huge rewards (see "Digital transformation at Ping An").

Digital connectivity

In our customer survey, we asked respondents from which non-insurers they would consider buying risk products. For next-gen customers, the number one answer, perhaps unsurprisingly, is online service providers such as Amazon, Google, or Alibaba. The top 3 reasons given for this choice: They're easier to reach, their products and services are easier to understand, and they're faster than insurers. In short, these organizations provide the customer with superior digital connectivity.

Next-gen customers prefer connecting via full-function apps and chat services. Full-function implies that users can trigger any interaction with the insurer they want—even those, such as cancellations, that usually require jumping through hoops. Additionally, full-function can mean integrating location-based services such as tracking to allow usage-based insurance (UBI) products and linking smart IoT devices to allow risk-adjacent services such as preventive maintenance and services in the smart home.

Connectivity alone is great, but augmented with AI, it becomes a powerful tool for increasing customer satisfaction. As a recent IBV study showed, insurers that integrated AI into various steps of the customer journey saw a significant increase in customer satisfaction, as measured by NPS and retention rate.[13]

Digital transformation at Ping An[14]

Ping An is China's largest insurer—with $110 billion in premiums written. It's the most valuable financial brand globally, and it's the second-highest insurer (behind Berkshire Hathaway) on the Fortune Global 500 list, ranking 16th overall.[15]

Almost a decade ago, Ping An started adopting an all-encompassing digital transformation approach that it calls a "technology-powered business transformation." The company invests 1% of its annual revenue in research and development, above and beyond its normal technology investment. That's roughly 10% of its annual profit.

In 2012, Ping An moved all its systems to the cloud. This gave it unprecedented flexibility to scale and create new offerings and even brands on fairly short notice—from healthcare and auto services all the way to a smart city, with the city of Shenzhen using Ping An-provided technology for congestion management.

Ping An prides itself on being extremely connected and fast. In auto insurance, where it purports to have the lowest claims rate in the industry, AI capabilities cover 360 Chinese cities. The technology can predict where and when accidents are likely to happen, with Ping An's claims investigators arriving at the scene of an accident within 5 to 10 minutes, sometimes even before the police or ambulance. In most cases, drivers can just take pictures, as AI assesses the damage and determines liability.

While most of its technological capabilities are home-grown, Ping An partners extensively in its various brands and platforms. Its healthcare ecosystem, for example, which includes the platform Ping An Health, connects customers with doctors, hospitals, pharmacies, managed-care facilities, and many other healthcare providers.

The results of this technology-driven business approach have been impressive. The tech startup businesses contribute more than 16% of the group's profit. About two fifths of new customers come from Ping An's mobile apps. And Ping An has close to 500 million internet users and 200 million financial services customers.

Even the best risk concierge cannot go it alone.

A discussion of digital connectivity wouldn't be complete without addressing security concerns. Cyber risk remains among the top 3 business concerns globally in the Allianz Risk Barometer, outranked only by pandemic-related risks.[16]

While the digital connectivity risks of single applications can be mitigated by using standard multifactor identification methods, risk concierges must think more broadly. Risk concierge ecosystems can transcend traditional organizational and functional boundaries. This requires holistic security models like zero trust, a preventive approach that assumes malicious actors are already inside the walls, making security and trust operational variables.[17]

Just like with customer-focused capabilities, investment in these types of security capabilities creates a virtuous cycle. It can reduce cyber risk while at the same time helping to reduce cost and improve the organization's process efficiency overall.

Hybrid cloud

Utilizing cloud in the enterprise today is about much more than cutting costs. 77% of insurance executives in a recent IBV survey agreed that cloud computing would be a core technology that delivers desired business results.[18] In another study, 97% of enterprises across industries have piloted, implemented, or integrated cloud in their operations.[19] This study also found that, combined with digital transformation, investment in cloud—public, private, and especially hybrid for full flexibility—can generate up to 13 times greater benefits than cloud alone.[20]

In short, the business transformation required to become a risk concierge—with its capabilities to understand customers and offer them the best risk advice and service possible—can profit immensely from greater adoption of cloud capabilities.

How does cloud deliver these results? In sum, a cloud architecture increases operational agility and flexibility. Transitioning to cloud can quickly decrease the technical debt that has been afflicting insurers and impeding new products. It thus makes way for further streamlining and virtualizing of the insurance organization.

Ecosystems and partnering

By next year, 96% of insurance respondents expect to be significantly involved in platform business models, and 84% in business ecosystems, according to a recent IBV study.[21] At the same time, 69% plan significant partnering within the insurance industry, and 57% outside it. For all 4 of these activities, the COVID-19 pandemic has greatly accelerated participation, in most cases by several hundred percent.[22]

Even the best risk concierge cannot go it alone. Managing risk for its customers will require shared data and knowledge, the hallmark of business ecosystems.

Customer-focused technology leaders are beginning to recognize this. They are shifting their focus from existing back-end systems toward third-party platforms. If another insurer can offer a product more efficiently and with higher quality, why not take advantage?

Partnering within ecosystems can even provide benefits in the context of traditional products, specifically via embedded insurance. A customer could buy insurance as a byproduct of a daily experience. For example, if customers' incomes are over a certain level and they can run a mile under a certain time—as tracked by their smart watches—then an embedded insurance concept can allow them to purchase life insurance at a discounted rate.

Making it work

Overall technology strategy must integrate digital, hybrid cloud, and ecosystems. External data ecosystems must become enmeshed with the insurance ecosystem.

Connectivity makes the integration possible, with AI providing the intelligence and allowing high-level automation of the processes. And cloud provides the foundation, allowing access anytime, anywhere, and by anyone with the right privileges.

Access to data is key. While emerging concierges might worry they lack the data access to become a risk concierge, customer willingness to share data increases with the perceived benefits gained from sharing.[23] The role of a concierge is one of curation and advice, not necessarily data ownership. Letting customers keep data control can go a long way toward creating the trust necessary to gain data access—and to let risk concierges do their job.

Action guide

Becoming a risk concierge

The risk concierge views customers holistically in the context of their risk concerns, providing broad risk advice and solutions. Becoming a risk concierge requires an equally holistic approach, with the following strategies all deserving thought and attention:

Create a digital game plan

– *Design the digital business model around the customer.* Create the digital risk concierge experience for the customer. And consider all the constituents involved in the experience: traditional ones like direct writers, intermediaries, and claims adjusters, as well as partners in the broader ecosystem.

– *Unify data.* Make use of data already available in-house, and steer away from siloed, legacy operational-focused data warehouses toward open data platforms and governance that support customer-centric analytics.

– *Explore digital improvements in customer interaction.* Invite customers to share data. Provide clear benefits to data sharing, such as added-value offerings, and ensure sharing happens in an ethical, transparent, and easy way. Use the data to provide a more tailored experience at each interaction, increasing trust that can lead to more data sharing.

Build a technological foundation

– *Embrace cloud.* Invest in cloud—hybrid cloud in particular—to enable integration and connections. Invest and actively participate in platforms that can enable your organization to connect with partners, customers, and other stakeholders.

– *Apply open standards.* Join up with partners, both across the insurance industry and beyond, to create and apply shared and open standards and architectures, increasing interoperability of future systems and decreasing technical debt.

– *Address cyber risk holistically.* Enhance your cybersecurity capabilities with concepts such as zero trust security as you extend your digital acceleration and engage ecosystem partners to enable collaboration, co-creation, and sharing of relevant data and insights.

Optimize the insurance core

– *Foster an agile enterprise organization and culture.* Prioritize customers and their needs over organizational red tape. Whether creating new systems or maintaining existing ones, utilize open standards to avoid lock-in. Hire and train the right talent that can envision, design, execute, and continuously optimize the risk concierge experience.

– *Consolidate existing systems*. Make applications cloud ready using service-oriented architecture. Adjust internal application development to switch to this platform-compatible paradigm as a software-as-a-service (SaaS) provider. Embrace the internal disruption as an opportunity to improve flexibility even further.

– *Implement intelligent workflows.* Leverage exponential technologies, such as IoT, AI, automation, and straight-through processing (STP), to align the front-end experience with back-end systems. Supply experience management with technology based on AI and cloud to facilitate, orchestrate, execute, and measure.

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Research methodology

In cooperation with Oxford Economics, the IBM Institute for Business Value (IBV) surveyed 1,000 C-level insurance executives in 35 countries in July and August 2021. Participants were asked a range of questions about various aspects of nontraditional risk roles, offerings, capabilities, and customer relationships.

Insurers were grouped according to their investments in each of 3 customer-focused capabilities: personalization, product individualization, and the ability to close at the point of risk. We call those in the top quartile in all 3 “emerging concierges” (14.4% of all respondents), those in the bottom half in all 3 “traditional insurers” (38.9%), and the rest (46.7%) “early experimenters.”

In the same July to August 2021 timeframe, we also surveyed 9,093 insurance customers in 10 countries, with a minimum of 900 respondents in each country: Australia, Canada, China, France, Germany, India, Japan, the Netherlands, UK, and US. We asked customers questions similar to the ones for insurance executives.

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