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EVOLVE TO THRIVE IN THE EMERGING INSURANCE ECOSYSTEM

INSURERS' BUSINESS MODELS MUST ADAPT TO A COLLABORATIVE DIGITAL ECONOMY

Most successful companies no longer work as isolated organizations, but rather as part of an ecosystem-driven digital economy. This new business model, based on digital platforms and networked systems, blurs the boundaries of different industries.

From personal transport and leisure travel to healthcare and retail, platform-based companies are reshaping traditional industries, breaking apart old value chains and reassembling them into customer-focused digital ecosystems. The question that every insurance carrier must answer is where it will fit into these emerging ecosystems.

Consider the rise of players such as Uber and Airbnb, who have built their entire businesses on a platform model where they aggregate new forms of supply and demand at a single point of access. Rather than offering simple products and services, many of them are forming and orchestrating ecosystems that bring together products and companies from numerous sectors and that give customers access to living solutions for a range of everyday needs.

Apple, for one, branched from selling hardware and operating systems to offering a platform on top of which it and ecosystem partners could build apps and services. These range from media and entertainment to productivity tools, financial services, healthcare and home automation.

These new business models are forcing incumbents across industries to embrace the same way of thinking, and insurers aren't exempt. To remain relevant as the world moves from products to platforms and from linear supply chains to complex ecosystems, insurance carriers must seize the opportunity to begin to build a new digital value chain.

PLATFORMS VS ECOSYSTEMS

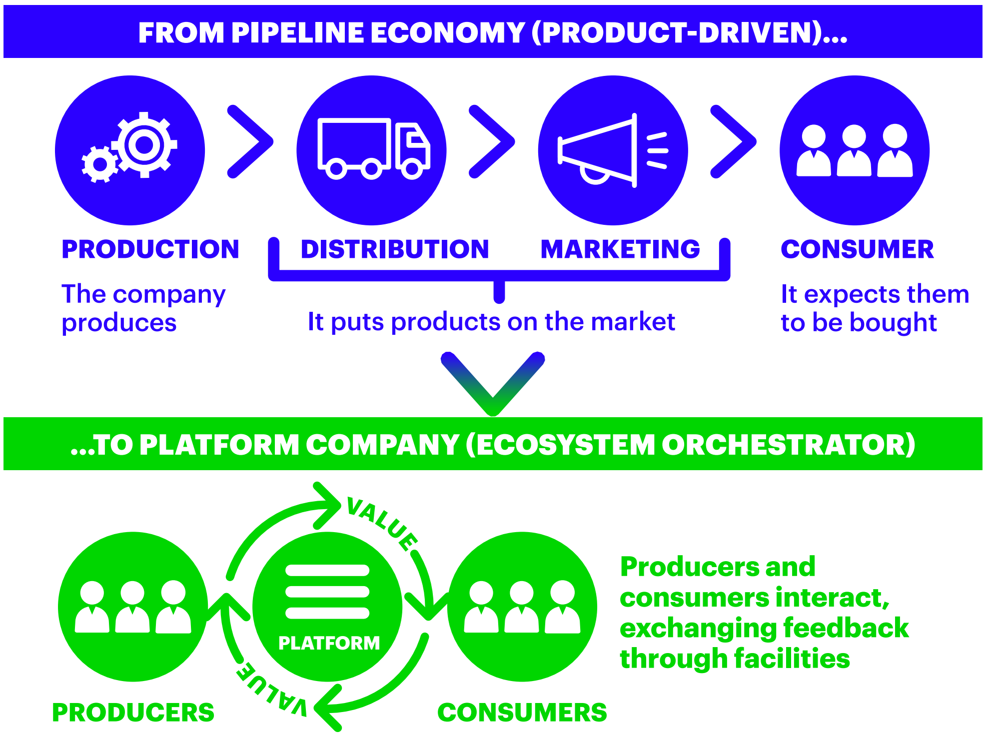
DIGITAL PLATFORMS

- Combine technical architecture, governance, and services to enable the rapid creation of applications
- Are built on open standards, facilitating easy sharing of data between companies, consumers and other parties
- Create value through the network effect and make it possible for ecosystems to form

DIGITAL ECOSYSTEMS

- Are a constellation of products, organizations and people aggregated on a digital platform
- See players across industry clusters collaborate to build new products, services and customer experiences on digital platforms
- Typically bring goods and services together into a customer-centric lifestyle or commercial offering
- Sell outcomes, such as access to safe transport, rather than fragmented products, such as automobiles, service plans and insurance cover

Those that get it right will be able to access massive pools of new customers, embed their brands deeper into customers' everyday lives and create powerful new experiences for consumers and commercial customers. Those that don't, risk finding themselves excluded from the ecosystems that will own the customer relationships of the future.



76% of insurers agree that their competitive advantage will be determined not by their organization alone, but by the strength of the partners and ecosystem they choose.[1]

THE CONNECTED CUSTOMER'S SEARCH FOR A BETTER INSURANCE EXPERIENCE

THE CUSTOMER JOURNEY IS CONTINUOUS AND DYNAMIC ACROSS ALL CHANNELS. INSURANCE COMPANIES MUST ADAPT TO THE RISE OF THE NON-STOP CUSTOMER.

Consumer behaviour and the competitive environment are changing at unprecedented speed. Today, platform-enabled ecosystems deliver everything from home shopping, home automation and media streaming (Amazon and partners) to curated travel experiences (the Airbnb community) as on-demand services.

As consumers interact with platform-driven brands such as Apple, Uber and Amazon and their ecosystems, their expectations about insurance change. They expect services to become simpler and more seamless, personalized, convenient and frequent.

The insurance market hasn't kept pace with these new customer demands. This creates openings that companies from industries such as home automation and transport as well as digital players (including a new breed of fintech and insurtech startups) are ready to exploit. Such competitors are finding a market that is increasingly open to their overtures.

The combination of changing customer expectations and new competition puts a significant portion of insurers' traditional revenue at risk; in addition, platform brands and ecosystem orchestrators could potentially take control of the sales and service interface with the customer as well as the customer data. Facing this level of new competition, insurers must carve out a new role for themselves.

Accenture research (2017) finds that 29 percent of consumers would consider buying insurance from online providers such as Google or Amazon, while 38 percent would consider buying it from a home service provider. These numbers have increased significantly since we last did this consumer study in 2013.[2]

Selling insurance alongside other products and services—travel, cars, big-ticket consumer electronics—is not a new idea. But platforms enable companies to sell more complex offerings, enhance and personalize the experience in new ways, and reach scale that was not possible in the past. This promises to change both the economics and the experience of insurance distribution.

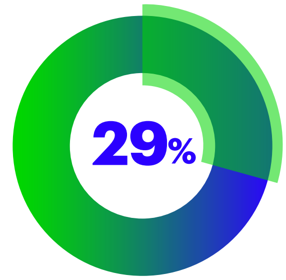
Already, we're seeing insurtechs, digital companies and non-traditional competitors use Internet of Things (IoT) interfaces, artificial intelligence, and big data to deliver a more personal, everyday experience to customers. In some cases, it makes sense for insurance carriers to embed themselves in these ecosystems and use their platforms.

Chubb, for instance, has partnered with Suning to distribute insurance products via the Chinese online retailer's 230-million-strong e-commerce customer network.[3] And PassportCard, an Israeli financial firm, provides a solution that allows other brands to sell travel insurance in real-time.

There's no claims process and no paperwork since expenses are disbursed using a prepaid debit card. As the back-end provider, the platform owner takes care of claim handling, card distribution and card top-ups. Allianz in Germany and Canada has partnered with PassportCard to offer simple insurance to its customers.[4]

Elsewhere, insurers are starting to leverage platforms such as Amazon's Alexa, and their surrounding ecosystems, to access new customers or create new customer experiences. Aviva in the UK and Liberty Mutual Insurance in the US have both launched 'skills' (the Amazon term for apps and services on Alexa) for Amazon's Echo voice-activated device. Consumers can ask the devices natural language questions about insurance; it's not hard to imagine this becoming, in time, a new sales channel.[5, 6]

Consumers are also open to partnering with their insurers in new ways, creating the possibility of insurers themselves becoming ecosystem orchestrators. Forty-four percent of respondents in our research say it is important that insurers provide personalized advice on becoming and staying healthy; 56 percent want insurers to provide personalized advice that reduces the risk of loss or injury.[7]



of consumers would consider buying insurance from an online provider.

Accenture, with the World Economic Forum, estimates
digital transformation will generate $100 trillion in value over the next decade.
Two-thirds of this value will be enabled through platform capabilities.

UNICORNS OR DRAGONS

WHO WILL RULE THE INSURANCE ECOSYSTEM OF THE FUTURE?

INSURANCE CARRIERS NEED A PLATFORM STRATEGY, REGARDLESS OF WHETHER THEY OPERATE THEIR OWN PLATFORM OR PARTICIPATE IN THAT OF A THIRD PARTY.

The race is on between industry incumbents and tech startups to define the digital ecosystems of the future. For now, it's the digital brands such as Apple and Amazon that are in the lead. However, large companies in most industries are beginning to contemplate platform-based business models as well as their place in the future ecosystem. In insurance, 76 percent of executives agree that organizations will act as a unified ecosystem rather than as separate entities within five years.[8]

There is a surge of investment, including venture capital and acquisitions, going into the next wave of platform companies—as many as 70 percent of unicorns are platform companies.[9] Accenture estimates that between 2010 and 2015, digital platforms attracted around $20 billion in investment in more than 1,000 deals.[10]

Insurtech, meanwhile, has emerged as a vibrant segment of the fintech market. In 2016, the number of deals involving insurance tech startups climbed 42 percent to more than 170, with a total value of $1,7 billion. This marks the second consecutive year in which investment dollars to insurance technology startups topped $1 billion.[11] As these organizations—and companies such as automakers, makers of IoT devices, and others—start to build their ecosystems, insurers must decide where they will play.

To avoid being left in the cold, insurers must choose how they will participate in the ecosystem: join an existing ecosystem to leverage the platforms offered by other parties, launch a platform of their own, or a combination of these strategies.

PLUG INTO OTHER PLATFORMS AND THEIR ECOSYSTEMS

Insurers can use APIs to embed their products into other platforms, customer ecosystems and shopping experiences such as those of social platforms, travel sites and retailers. This is a good way to secure access to new customer pools quickly and cost-effectively; it can also open opportunities such as selling on-demand small-ticket insurance in a scalable manner.

AXA, for example, has bought a stake in and secured a distribution agreement with simplesurance—software that integrates into online stores' checkout process, allowing customers to buy product insurance with a click.[12]

Joining another ecosystem can give insurers rapid access to new customer bases and improve their customer experience. However, it may mean that they lose some control over the customer interface and relationship because they are leveraging another organization's brand and touchpoints.

Another risk for carriers when they join an ecosystem and platform is that they may find themselves competing only on price and terms rather than on brand value and customer satisfaction. For example, a platform operator may aggregate insurance offerings from several insurers and allow customers to make real-time price comparisons.

OWN A PLATFORM AND ORCHESTRATE AN ECOSYSTEM

Creating their own ecosystem (e.g. for health services or real estate) can give insurance carriers the ability to expand into new markets and create compelling new customer experiences. It can also allow them to add more value for customers and monetize their customer relationships by offering third-party services as part of their extended offering.

Insurers could aggregate and offer value-added products and services that cater to a wide range of financial and lifestyle needs on their own digital platforms. They could partner with other financial services firms, healthcare companies, automakers, and more to provide high-touch, personalized lifestyle and financial services.

They might, for instance, assist customers with moving to a new city, starting a family, or improving their lifestyle. Discovery in South Africa, for example, orchestrates a health and lifestyle ecosystem that harnesses rewards and services from fitness clubs, retailers, travel companies and cinemas.

We're also seeing auto insurers think beyond insurance. Allianz, for example, has for years sold car insurance through dealers in Germany and plans to roll this distribution model out in other countries. Through its Allianz X company builder, it has now created a used-vehicle intermediary platform called abracar.[13]

In Germany, abracar sells your car on your behalf. If you're a buyer, abracar can provide you with warranty cover from Allianz and with financing from partners such as Santander Bank. Thus, the platform generates revenues from vehicle sales commissions as well as cross-sell opportunities for Allianz's traditional insurance business. HUK-Coburg, also in Germany, has launched an online venture called Autowelt to sell high-quality used cars, with the purpose of capturing insurance sales.[14]

Being in control of the platform and orchestrating the ecosystem will enable the carrier to differentiate itself and compete based on the strength of its customer relationship and the value it adds—not just on price. But the costs of building a platform from scratch are significant and the challenges of creating the scale and volumes necessary for success are substantial.

Insurers that want to build their own platforms and orchestrate the ecosystem will face high barriers—they will need to attract customers and lure in strong partners. The window of opportunity is also closing as companies across a range of segments try to establish themselves as the platform providers and ecosystem orchestrators of choice.

THE HYBRID APPROACH

In practice, most insurers will pursue different strategies for different lines of business or different market segments. They could develop their own ecosystem for lines of business or geographies where they have a strong consumer-facing brand and a proprietary, advice-led distribution channel, and leverage other ecosystems for products that are highly commoditized or to extend their reach into new markets.

A key element in a successful hybrid strategy is establishing cross-selling and advisory customer journeys that span multiple ecosystems and touch points, allowing the insurer to capture new clients, engage with them and develop deeper, longer-term customer relationships.

Far-sighted insurers are already exploring where they should fit in the ecosystem—and 94 percent of carriers acknowledge that it is critical to their success to adopt a platform-based business model and engage in ecosystems with digital partners.[15]

75%

of insurance executives agree that digital ecosystems are having a noticeable or transformative effect on the insurance sector.[16]

70%

of insurers agree that ecosystems are creating an environment for otherwise unlikely partners or "strange bedfellows". [17]

PLATFORM PLAYS

RUN AN ECOSYSTEM

A home insurance company creates a homeowners' platform. It orchestrates an ecosystem that offers its household insurance and risk products, alongside partners' home services such as home automation, security and mortgages.

LEVERAGE ANOTHER COMPANY'S ECOSYSTEM

A commercial insurance company partners with a security-as-a-service provider that orchestrates a cyber-risk ecosystem on its platform. The cloud provider's ecosystem offers other third-party services such as legal consulting and reputation management.

HYBRID APPROACH

A life insurer builds a health and lifestyle platform and ecosystem of its own, while also offering its product on platforms that serve workplace benefits to employees at corporate customers.

ECOSYSTEM POWER PLAYS BEGIN

Some leading insurers are already putting ecosystem thinking to work. One example is a global strategic partnership between AXA, Alibaba and Ant Financial Services. AXA will provide tailored insurance products for retail and commercial customers on Alibaba's ecommerce platforms as well as travel insurance for Chinese Ant Financial Services customers traveling overseas.[18]

Everyday risk coaches like Discovery, Aetna and John Hancock help customers improve their personal and financial wellness and reduce the risk of loss or injury, whether behind the wheel, in the home, at work, or through the adoption of healthier habits and lifestyles. Some might develop their own platforms; others might leverage an open platform such as the Neosperience Cloud, an AI and IoT-powered platform which insurers can use to develop personalized and context-aware services for their customers.[19]

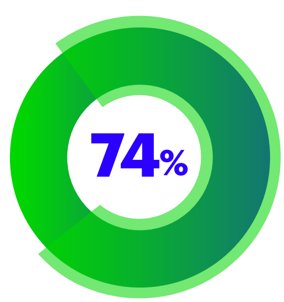
South African insurance group, Discovery, has turned an incentive-based wellness program called Vitality into a revenue-generating platform by providing the intellectual property to other carriers.[20] Discovery tracks health and lifestyle data by means of wearables and mobile apps. With a foundation based on actuarial science and behavioral economics theory, the platform aims to reduce health care costs in both the short and the long term.

John Hancock in the US is one example of another insurer leveraging the Vitality wellness platform. Policyholders can save on their premiums and earn rewards by taking small steps to healthy living, like walking, exercising or getting regular check-ups. There are discounts for those who track their activities and share the data with the insurer via fitness wearables.[21]

Insurers are also partnering with companies in other industries and with digital companies to expand their reach. One example is General Motors, which no longer considers itself only an automaker, but also a transportation platform and ecosystem play. Last year, GM invested $500 million into ride-share platform Lyft and launched the Express Drive service. Embedded in the program is auto liability insurance for when the driver is working and personal auto cover for when he is not.[22]

GM's OnStar subsidiary offers emergency, security, navigation, connections and vehicle manager services with its Chevrolet, Buick, GMC, Cadillac, Opel and Vauxhall models. Drivers can use the OnStar Smart Driver app to get feedback about their driving behavior and develop better driving skills.[23] Those that opt in for this telematics program can share data with participating insurance companies—these currently include Progressive, Liberty Mutual and Nationwide. Good driving behavior can lead to potential savings of up to 30 percent on car insurance.

Nest, owned by Google, is creating a smart-home ecosystem that revolves around its apps and smoke detectors, cameras, thermostats and other devices. In addition to working with other connected-home product providers, it is also establishing close ties with insurers such as John Lewis Insurance in the UK and Liberty Mutual in the US. With customers' permission, Nest will let their insurer know Nest Protect is installed and working, in exchange for incentives like premium discounts.



of insurers say digital ecosystems are altering or transforming how the industry delivers value.[24]

DEFINING YOUR ROLE IN TOMORROW'S INSURANCE ECOSYSTEM

Together with ecosystem partners, carriers can drive more sales, deliver better customer experiences and even provide everyday coaching and information that help customers to stay safe and better protect their assets.

WE SEE FIVE STEPS TO SUCCESS:

1 Evaluate how your customers' needs are met today over the lifecycle of events (e.g. birth, buy a car, start a new job) and how that will change by 2022. Remember that life events such as buying a car or a home, or giving birth to a child, create a risk management and insurance need. If you're on an auto-trading platform or a healthcare platform, you'll have access to data that will help you capture customers.

2 Determine how your insurance products and services should be clustered with other products and services for a complete living service that answers the customer's needs. Could home and life cover form a valuable offering on a platform for wedding planners, for example?

3 Build a partner and platform strategy to get collaboration going with the right partners. Understand the roles, capabilities and strategies of each partner and build barriers to entry for competitors.

4 Develop business models based on your vision, strategic orientation, investment focus and operating model. These models should be based on highly efficient insurance platforms, easy-to-use interfaces with other players (APIs), and superior analytics capabilities that enable you to understand risk as well as match demand and supply. Define the key performance indicators, skills and governance that will underpin your target concepts.

5 Develop a roadmap for rollout and create investment business cases for the business models. You could adopt a portfolio approach to spread risk—testing different concepts (such as developing your own platform and joining select others as a partner) and collaborating with different partners.

FOUR SUCCESS FACTORS FOR INSURANCE PLATFORMS AND ECOSYSTEMS

THE RIGHT VALUE PROPOSITION	Developing value propositions that address customers' changing expectations starts with the carrier understanding what role it wishes to occupy in the ecosystem as well as how being part of a wider ecosystem will benefit it. Carriers should evaluate customers' service needs during specific life events and decide which role to play in each.
EMBRACING 'COOPETITION'	Ecosystems demand new ways of thinking. Insurers may need to pool data with ecosystem partners to create living services built around the customer's needs. They may need to embrace the principle of coopetition, in the same way as companies in the platform space already have. Just as Amazon both competes with Netflix in the video streaming market and allows its apps to run on its devices, insurers may find themselves partnering with traditional rivals.
MOVING EARLY TO SECURE ADVANTAGE	It is likely that only a few ecosystems will dominate industries such as healthcare, transport and home automation. That means insurers should move early to secure the most desirable partners, embed themselves in the best platforms, and help to define the ecosystem in its formative stages.
DISTRIBUTING RISKS ACROSS A PORTFOLIO	Since the outcomes and winners are uncertain, insurers should distribute risks across a portfolio to increase the likelihood of success. This might mean spreading bets between backing insurtechs, partnering with existing platform owners, and forging joint ventures with partners such as Internet of Things device makers or auto manufacturers.

THE FIVE Cs OF THE PLATFORM ECONOMY

THE PRIMARY PILLARS OF A PLATFORM COMPANY				
CONVENIENCE	**COMMUNITY**	**COLLABORATION**	**CURATION**	**CONNECTION**
Relevance Digital distribution Extended offer Customer experience	Social interactions Peer2peer Data sharing	Partnership Open innovation culture Crowdsourcing	Data protection Legitimacy 360° assistance	Things Digital network Omni channel Technology

DECISIVE ACTION NEEDED TO SECURE THE BEST ECOSYSTEM OPPORTUNITIES

Each insurance carrier must define its role in the platform-based ecosystems of the future. Will it be the brand leading the ecosystem, or will it leverage another organization's platform? There is room for both approaches, but it is important for insurance carriers to act decisively to ensure they are not locked out of the best market opportunities in the future.

Every insurer needs an ecosystem strategy to move forward, one that prepares it for a future where it is not involved in just a single ecosystem, but many. How it selects and fosters the right ecosystems for its business goals will define prospects for the future: competitive advantage depends on the strength of the partners and ecosystems it chooses and its plans to help them grow.

Insurers and the ecosystems they form part of can help solve social and economic challenges beyond the bottom line. Consider the example of Aetna, the US health insurer. It is coordinating efforts in US cities and counties to address challenges such as education, housing, transportation and access to fresh food, all of which can improve people's health.[25]

Rather than looking at the world through the prism of health payments, it is asking how government, business and people can work together to reduce the cost of health care. When such grand ideas marshal today's digital technology, profits and efficiencies are not the only potential gains. It can also be about helping improve the quality of human life, to the benefit of everyone in the ecosystem.

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