WHITE PAPER.

Insurers and the ecosystem imperative

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It's a roller coaster time for CIOs and other insurance technology leaders. Their industry is in the midst of a digital revolution. Many are replacing legacy systems with modern platforms for processes such as sales and policy administration to manage increasing digital demands.

But might the firm be rolling out tomorrow's legacy system? In this white paper, we argue that the answer depends on whether insurers have embraced the implications of emerging insurer "ecosystems" – networks of providers that co-create value for the end customer.

The call for collaboration

IT executives can benefit greatly by preparing their firms to work effectively within ecosystems. Advantages for the company include:

- Developing new digital value propositions and engagement styles centred on the consumer
- Orchestrating third-party processes and services to complement the insurer's real strengths in the value network
- Embedding new modes of sales and distribution, e.g., within non-insurer platforms

For technology leaders themselves, the right ecosystem strategy will transform their role. Many say they spend too much time fire-fighting and tackling tactical issues in diverse areas when they should be enabling business growth and innovation. By focusing on what their firm does best and collaborating with providers of complementary services within a value network, technology leaders can make a stronger overall impact.

Ecosystems: Just another buzzword?

"Ecosystem" is a consultancy buzzword, but it usefully describes the closely interacting communities of industry partners and consumers that are revolutionizing marketplaces.[1] Insurers are late to the party: McKinsey says that "seven of the ten largest companies by market capitalization are ecosystem players" including Alibaba, Amazon and Facebook.[2]

Many of these existing ecosystems are based around proprietary technology platforms but non-proprietary ecosystems are also starting to permeate global industries, focusing on themes such as "wellness", "mobility", "home", "wealth" and so on. For example:

- The wellness ecosystem includes insurers but extends to health monitoring, exercise monitoring and incentives, nutrition, access to medical services and so on
- The mobility ecosystem is likely to embrace electric car manufacturers, technology platforms such as Amazon and Uber, connected car emergency and assistance providers, and insurers

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One key point is that within each ecosystem separate activities can be joined up to create a new compelling customer proposition. One well-known example is the emphasis placed by South African health insurer Discovery on behavioural change and exercise, turning its insurance offering into a nascent "wellness" ecosystem.[3]

Ecosystems are manifesting themselves in different ways: some disrupt by connecting providers directly to consumers (e.g., Uber). Others are connected creative environments (app stores), or networks of service providers (e.g., emerging "wellness" providers), perhaps orchestrated by one or more platforms.

And the technologies that accompany them have non-trivial implications for insurers. For example, in a world of sensor-protected vehicles, homes and lifestyles, accidents will be minimized. Driverless vehicles might be insured as a fleet by vehicle suppliers rather than by individuals.

But insurers can respond by offering new ecosystem services, e.g., playing a bigger part in reducing physical risk, handling emergencies, and solving consumer problems such as adopting the right lifestyle and accessing the right medical care. To do so, they will need to be part of the wider consumer-oriented ecosystem and avoid being left on the sidelines.

Not all insurers will want to become the principal orchestrator of an emerging ecosystem. Many will stick to providing financial protection for ecosystem participants. But these insurers will still need to embed themselves in the ecosystem in order to access distribution networks, ease customer journeys, and improve event-driven processing speeds. Whatever the insurer's role in an ecosystem, the ability to "hold hands" digitally with customers, service partners and distribution partners will be critical to survival.

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Consumers at the heart of ecosystems

Consumers lie at the heart of the new ecosystems. Most fundamentally, consumers will be able to focus time and resources on the service they really want. For example, they might want "mobility" rather than car ownership; "wellness" rather than health-related payouts; "home security" rather than home insurance.

Rather than just being "sold to" once a year customers willing to provide real-time information about their behaviours and risks will enable insurers to provide tailored products and services as part of a continuing dialogue. Consumers indeed already expect to be able to interact with their providers whenever they want online and, increasingly, on their mobiles.

The consumer gains in terms of convenience, flexibility, and speed of turnaround. Meanwhile, providers get to know and understand consumers better using efficient engagement technologies including artificial intelligence (AI) interfaces and robo-advisors. Some insurers will be able to create a much closer, symbiotic relationship with their customers.

But customers won't stay still. Firms within an ecosystem will have to continually re-engineer business processes around evolving customer needs, simplified customer journeys, and new engagement technologies. Insurers will need to experiment, innovate, test and abandon in ways that may prove impossible for insurers dependent on outmoded legacy systems (because change is so expensive and slow).

Process ecosystems

Industry-scale ecosystems are not the only kind of ecosystems. Intense, co-dependent, data-driven relationships – ecosystems of a kind – are developing at the level of specific business processes such as customer analytics.

In the case of insurers, for example, we can see emerging processing ecosystems for customer and risk analytics including new machine learning and artificial intelligence firms, and a greater use of external "big data". AI-driven claims processes are another example of companies working with each other and the consumer to revolutionize a process. Insurer processing partnerships are fast becoming more diverse in terms of geography, type of firm, numbers of service providers, and links to the Internet of Things.

Ecosystems remove as well as create imperatives. Above all, an ecosystem perspective helps avoid the trap of trying to be "best at everything". Tomorrow's winners may be those that are best at working cooperatively with those third parties who confer the greatest data, analytical, processing and distribution advantages.

In turn, this cooperation will increasingly be underpinned by cloud strategies, APIs, microservices and other integrative technologies. For their part, vendors of processing platforms need to take an active role in enabling ecosystems: in the not-too-distant future, buying into a burgeoning ecosystem that offers insurers easy connectivity to specialist suppliers may be a key reason for selecting a particular platform.

In some business lines, insurance value chains may loosen and reassemble, e.g., with the insurer giving up the marketing function to a partner or focusing on marketing while pushing commoditized backroom processes to third parties. Processes will be reshaped one day and, perhaps, unplugged the next. Technology leaders must prepare their firm to play to its strengths.

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Ecosystem imperatives

Insurer ecosystems are still emerging, but new imperatives are already evident:

- In the old business world, relationships could be forged using an annual paper contract and hardwired over time with difficult-to-alter systems. In the ecosystem world, the ability to forge digital connections quickly with multiple systems, distribution platforms and insurer service providers is paramount.
- With connections established, the fast exchange and processing of internal and external data will underpin the evolution of new products and services.
- It will become impossible to be the best at every part of every process. To do so the insurer would need to beat not just other insurers but all kinds of service provider across all industries. Machine learning, for example, is a cross-industry skill. The idea of a sealed and perfectible set of internal business processes – however well integrated – is old hat.
- Turning regulator-compliant flows of data into new products and services will be critical, putting a premium on data engineering, process innovation and process flexibility.
- Importantly, the new ecosystems will continue to evolve. Insurers cannot guess the outcome any more than they could have picked the winner of the search engine or mobile phone wars. Insurers will need to integrate and continually adapt offerings within multiple ecosystems.
- This consumer-centred environment won't be kind to firms that rely on inflexible, sealed systems. Technology leaders must make it radically easier to connect to consumers, third-party platforms, new services and distributors.

At the extreme, insurers may swing away from licensed enterprise software systems that are difficult to extend towards self-engineered platforms built around the industry's most flexible and best-performing components or software-as-a-service (SaaS) offerings. Self-engineered module-based approaches are designed around connectivity and adaptivity. Inherently future-proofed, they can be mixed and matched to take advantage of the latest emerging technologies and market opportunities.

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Key Ecosystem Elements

Sharing – ease of exchanging regulator-compliant data, information and services

Partnerships – rapid formation of digital partnerships based on system integration

Orchestration – ability to control and coordinate business processes across different systems

Experience – effectively integrating capabilities within platforms and channels for a seamless customer experience

Flexibility – ease of reshaping products and processes to adjust to customer needs

Automation – accelerate core processes for rapid response to requests and events

Discovery – "test and learn" product and service innovation

Conclusion: Fire-fighter or strategic enabler?

Today's technology leaders say they spend too much time on meetings, firefighting, compliance, and tactical operational issues, and too little on strategic innovation and growth. It's not their fault: they are coping with a fast-changing environment using slow-to-alter technologies.

The prospect of an ecosystem world is good news for technology leaders thinking two steps ahead:

- The first step, well understood by most insurers, is to replace a patchwork of disjointed systems and workarounds with modern integrated processes, systems of record and centrally held data. This is the "table stakes" foundation for automated digital workflows.
- The second step is to make sure the new processing platform can swiftly hook into new distribution partners, emerging consumer-centred ecosystems, and processing ecosystems, e.g., through microservices, APIs, and the easy reconfiguration of products and business processes.

Increasingly, it is this second step that will define how well technology supports the firm as ecosystems develop. Interestingly, it offers CIOs and other technology leaders a real chance to shift their role from tactical fire-fighter to strategic enabler.

The journey towards an ecosystem model

- Old technology
- Disjointed systems
- Data silos, manual workarounds

- Modern technology
- Integrated internal digital processes
- Centralized data

- Connectivity to customers and third-party platforms
- Modular (easy to extend and redesign)
- Agile (easy for businesses to alter products and features)

INWARDS LOOKING OUTWARDS LOOKING

What Do Industry Thinkers Say About Ecosystems?

"Ecosystems will account for 30 percent of global revenues by 2025."

Tanguy Catlin et al., McKinsey, Insurance Beyond Digital, January 2018: https://www.mckinsey.com/industries/financial-services/our-insights/insurance-beyond-digital-therise-of-ecosystems-and-platforms

"The traditional players must now curate, co-create and partner to see continued success... they cannot continue to be all things to all people."

Chris Skinner's Blog, The Future Financial World is Here, August 2018: https://thefinanser.com/2018/08/future-financialworld.html/

"Today's insurers must adapt to a collaborative digital economy in which there are no industry boundaries, organizations sell outcomes rather than products, and competitors pool data to better meet customer needs."

Michael Costonis, 14 August 2017, The Future of Insurance: Platforms and Ecosystems: https://financialservicesblog.accenture.com/the-future-of-insuranceplatforms-and-ecosystems

References

[1] The term ecosystem was first used by pioneer British ecologist Arthur Tansley in 1935 to denote a particular ecological unit, i.e., a physical system made up of both organisms and inorganic components and their interactions.

[2] See Tanguy Catlin et al., Insurance Beyond Digital: The Rise of Ecosystems and Platforms, January 2018: https://www.mckinsey.com/industries/financialservices/our-insights/insurance-beyond-digitalthe-rise-of-ecosystems-and-platforms

[3] For example, see Roger Peverelli and Reggy de Feniks, "Discovery is All About Ecosystems. Ecosystems are all about discovery", Digital Insurance Agenda, 2 August 2018: http://www.digitalinsuranceagenda.com/268/discovery-is-all-about-ecosystems-ecosystems-areall-about-discovery/

About Fadata

Fadata is a leading provider of software solutions for insurance companies globally. We are on a mission to empower the insurance industry to drive customer engagement, innovation and business value. Together with our customers, we are on a journey to build the future of insurance and impact millions of people's lives every day.

Fadata has clients in over 30 countries across the globe. Headquartered in Munich, with international offices in more than 5 European cities, Fadata is backed by Private Equity Riverside and Lowell Minnick.

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