APU INSIGHTS
Product of APU Commercial Information Services LLC

Digital Ecosystems in Insurance Industry

Winning by unlocking the value of Digital Ecosystems

SMART IDEA & PRACTICE

SMART PAPERS

INDEX

I Introduction

1 **Key Stages of Evolution for Digital Ecosystems and Key Reasons for the Emergence of Digital Ecosystems**

- *3 Key Stages of Evolution for Digital Ecosystems*
- *7 Key Reasons for the Emergence of Digital Ecosystems*

2 **Types of Digital Ecosystems and Strategic Pillars of Success**

- *Top 3 Types of Digital Ecosystems affecting the Insurance Industry*
- *6 Success Factors for Digital Ecosystems*
- *3 Steps for Building a Digital Ecosystem*

3 **Benefits and Use Cases of Digital Ecosystems**

- *4 Benefits of Digital Ecosystems*
- *3 Use Cases of Digital Ecosystems*

C Conclusion


WATCH DIGITAL FUTURES VIDEO

DIGITAL FUTURES

DIGITAL FUTURES is an online content publication platform catering for technology business leaders, decision makers and users, by sourcing and sharing valuable information and best practices in connection to the latest emerging technologies trends and market developments that leverage capabilities and contribute towards enhanced enterprise-wide performance.

WATCH VIDEO

LEARN MORE

INTRODUCTION

Digitization has revolutionized value creation, including in the re/insurance industry, within and through businesses and sectors. The rise of digital ecosystems has resulted from continued technological innovations in recent years. Consumers connect across online and offline business networks that assist each other through their respective resources to provide greater economic benefits achieved by autonomous activities. The trends and associated challenges posed by digital ecosystems are changing risk markets irrevocably, affecting both the insurance value chain itself and the business world in which re/insurers operate.

Most successful business models today are leading players in the digital ecosystem: Alibaba, Google, Amazon, Apple, Facebook, Microsoft, Ping An and Tencent. Such ecosystems have grown rapidly because they are underpinned by technologies that have developed and coalesced to lower coordination costs. Semiconductors have allowed cheap and abundant computing and rapid internet connectivity, while omnipresent sensors are being developed by the Internet of Things (IoT). Simultaneously, Big Data applications are capable of generating huge amounts of information, and machine intelligence enables both structured and unstructured data to be processed and analyzed in order to provide valuable business insights.

Most ecosystems begin as simple digital markets. Some have recently moved across sector boundaries to create larger ecosystems that include several service families. For example, B2C mobility players have extended into complex B2B services beyond transportation of people. Key factors that may affect the reach and impact of such ecosystems include the complexity of future network infrastructure, access to new data sources, consumer willingness to continue transitioning to these frameworks, and regulatory openness to new business models. Insurance is a commodity that fits very easily into certain ecosystems such as mobility, health care, employment, and many marketplaces for B2C and B2B.

Insurers may feature as the component of these ecosystems for risk mitigation, or they may constitute their own sub-ecosystems that address specific individuals and institutions. Emerging digital threats often create new protection gaps and business opportunities around cyber security, IoT risk, counterparty risks, disruption of business and system failure. However, insurers will need to redefine their role in structures that include a heterogeneous assortment of companies from different sectors. This environment requires distinguishing skills and relies heavily on data access and modelling risk capability. True leverage in an ecosystem will be generated only in conjunction with other properties, such as partnerships with key suppliers and others. Value creation will also rely on the know-how created by behavioral economics to produce data-driven consumer insights.

For insurers, moving from an industry perspective to an ecosystem requires a significant change in how they define their role in the economy. Insurers currently act primarily as risk aggregators. They have a reactive and restricted relationship with customers, increasing their exposure to disintermediation, disaggregation, commoditization, and invisibility. If insurers were to lose their distribution and consumer partnerships, their business models would be left with few choices. Adopting an ecosystem perspective involves reassessing the traditional business model and exploring alliances with players both inside and outside the industry, which could reinvigorate the digital strategies of insurers.

Insurance players can play two roles within these ecosystems; by acting as a participant in an ecosystem, or alternatively, by orchestrating the ecosystem itself. Both roles provide their own potential and value. B2C ecosystems in general offer new forms of distribution and new customer service. Orchestration means bringing together products from different stakeholders on one platform to really address end-to-end customer needs. Insurers not only benefit from offering more products through an ecosystem, but also from a better selection of risks, higher customer experience and improved loyalty.

Although orchestration offers insurance companies more incentives, it is also the more difficult role to play. Digital technology, genuine customer access and analytical capabilities are required. Simultaneously, established market leaders such as Apple, Google, and Amazon provide fierce competition. A look at today's connected car ecosystem shows the benefits and risks that auto insurers face. Innovation has caused significant disruption, resulting in the emergence of four natural ecosystem stakeholders: original equipment manufacturers (OEMs), high-tech players, insurers and telecommunications providers. When mobility expands, first movers will be able to move from investors to orchestrators in three key areas: customer relationships, network and service management, and analytics.

Through their current customer base, sales capacity and the personal data collected from auto insurance plans, insurers have already established a strong foundation in mobility. Insurers need to further develop capabilities in a number of areas, including mobile sensors, analytical tools, and consumer interfaces, to position themselves as true ecosystem players and fend off moves by other stakeholders. For example, insurers have made significant inroads using telematics, but due to tight competition, benefit pools are still under pressure.

At the same time, managers need to realize that while insurance products and associated security services are always at the heart of the insurance business, services such as telematics have some way to go before establishing effective customer relationships. Insurers can work higher in the value chain with OEMs to develop products that mitigate the added risks facing auto manufacturers as the industry embraces autonomous vehicles. Strengthening relationships with OEMs and high-tech players could allow insurers to assimilate risks to existing offerings: pay-as-you-drive and pay-as-you-drive modelling, loyalty and gamification, emergency and breakdown services, crash assistance and robbery reporting. Insurers are making progress in delivering the benefits of digital solutions to consumers, but customers using digital channels alone still offer their insurers lower loyalty scores than those using online and conventional media.

A radically new approach is being embraced by forward-looking insurers. Taking their cues from businesses in other commoditizing industries, these insurers look beyond their standard insurance products and offer value-added services that address the broader needs of consumers and business partners. By creating a business environment outside their standard parameters, such insurers could redesign customer relationships, increase revenue and reduce costs. By offering ecosystem services, insurers are able to enhance loyalty among existing customers, attract new customers and reduce price sensitivity across their customer base. [1]

[1] Bain & Company, (2017). Ecosystems: How insurers can reinvent customer relationships.

SECTION 1

SMART PAPERS

APU INSIGHTS
Product of APU Commercial Information Services LLC

SMART IDEA & PRACTICE

FOLLOW OUR THINKING :