

Beyond insurance:
Embracing innovation
to monetize disruption

High performance. Delivered.



“The king is dead, long live the king!” was the cry that went up from the people as one royal regime passed to the next. In a similar way we might say, “Insurance is dead, long live insurance!” There is little doubt that, although the existing business model for insurance continues to meet an important customer need and remains a tremendous source of revenue, its long-term health is questionable. Farsighted carriers are helping to create a new regime—business models that will take firms well beyond their current activities and revenue streams.

Accenture's Digital Innovation Survey¹ has identified a group of about 25 percent of carriers—we call them the Digital Transformers—who have started this process of reinvention. They're looking beyond insurance, optimizing their current model where possible, but also innovating and diversifying their portfolio of capabilities.

Among those capabilities are two important growth options.

- In the commercial space, insurers should be working closely with technology innovators to make new products and services safe realities—much as Lloyd's of London and other carriers helped to transform the risky shipping business into a global industry centuries ago.
- In personal insurance, a carrier can become a trusted advisor to customers—like a “life coach”—helping them manage their risks but also helping them manage the complexities of their lives.

It's important to remember that a ruling regime did not always pass to the next one in a peaceful manner. Sometimes it was conquered. Competitive threats are at the gates of the current insurance business model. It's time to take swift action.



An industry at risk

In the U.S. alone, the insurance industry wrote net premiums totaling more than \$1 trillion in 2014.² So what could be wrong? Despite this robust performance, a host of challengers, technologies and consumer trends have become real threats. For example:

- Core products are often viewed as undifferentiated commodities. In Accenture's Global Consumer Pulse Survey (2014), one in five respondents (21 percent) agreed that insurers "are the same in terms of offerings and services"— up 7 percent from the previous year. And according to Accenture's Consumer-Driven Innovation Survey, two-thirds of global insurance customers would consider purchasing insurance products from organizations other than insurers.
- New competitors are coming from across industry lines. Google³ has obtained licenses to sell insurance in 48 US states, and in the UK it provides auto and travel insurance quotes. Walmart and IKEA⁴ have taken on insurance distribution, as have a number of mobile phone companies. Accenture's Digital Innovation Survey found that close to two-thirds of insurers believe external players such as online service providers and aggregators will enter insurance distribution leveraging their digital capabilities.

- Technology innovation will make some aspects of current insurance obsolete through shifting risk pools. As autonomous cars begin to appear on the roads, insurance will cover the machines, not the people—and thus shift from personal to commercial coverage. According to one analysis,⁵ auto liability premiums will decline by 20 percent until 2018, then decline by 80 percent from 2018 to 2022 compared to 2012 levels.

Certainly there is work to be done to optimize the traditional insurance business model: adding digital capabilities that improve the customer experience; reducing loss ratios; delivering more straight-through processing—all the things necessary to keep pace with competitors in the existing business model.

But every business model has a beginning and an end. Most insurers have been investing only in their current business model, but firms that understand the changes at hand are repositioning themselves and pursuing growth options to move beyond insurance.



Transforming innovations and disruptions into safe realities

One growth option for the insurance industry is to go “back to the future” with regard to the insurance industry’s role in society. This role is to help make commercial and technological inventions, especially disruptive ones, into safe realities—in effect, helping to translate technological possibilities into human-centric solutions.

Consider how the horseless carriage transformed the way we live. Advancements in big data, robotics, nanotechnology, genetic engineering, artificial intelligence, and many other rapidly developing technologies are likely to do the same. Where are those who are meant to protect us as these technologies advance? Who is putting the moral and ethical bounds around these new inventions? Insurers are only belatedly stepping up to help enable the sharing economy—for example, protecting users of services such as Uber and Airbnb. Insurance has always served as a proxy and enforcement arm for regulation and can do so now, as well.

Consider how such an approach might play out in a country like Japan. Today, more than a quarter of Japan’s population is over age 65, a percentage that will grow to 40 percent by 2055.⁶ Demographic trends are threatening to disrupt both the health care and insurance industries. In this environment, home care robotics is likely to play an important role. For example, the Japanese research institute Riken developed a robot that has enough power to lift frail patients from their beds and support unstable patients on their feet.⁷

Technology innovations offer significant growth potential. In Europe alone, according to Accenture research, an innovation like connected insurance could generate \$19 billion in non-life premium income within three years’ time.



Inventing and delivering trusted advisory services

A second area for growth within a new insurance business model is to become a trusted advisor, meeting the unique needs of customers that will arise as technologies and societies change—becoming embedded as a “life coach” and a positive part of their daily lives, offering frequent, highly personalized advice (Figure 1).

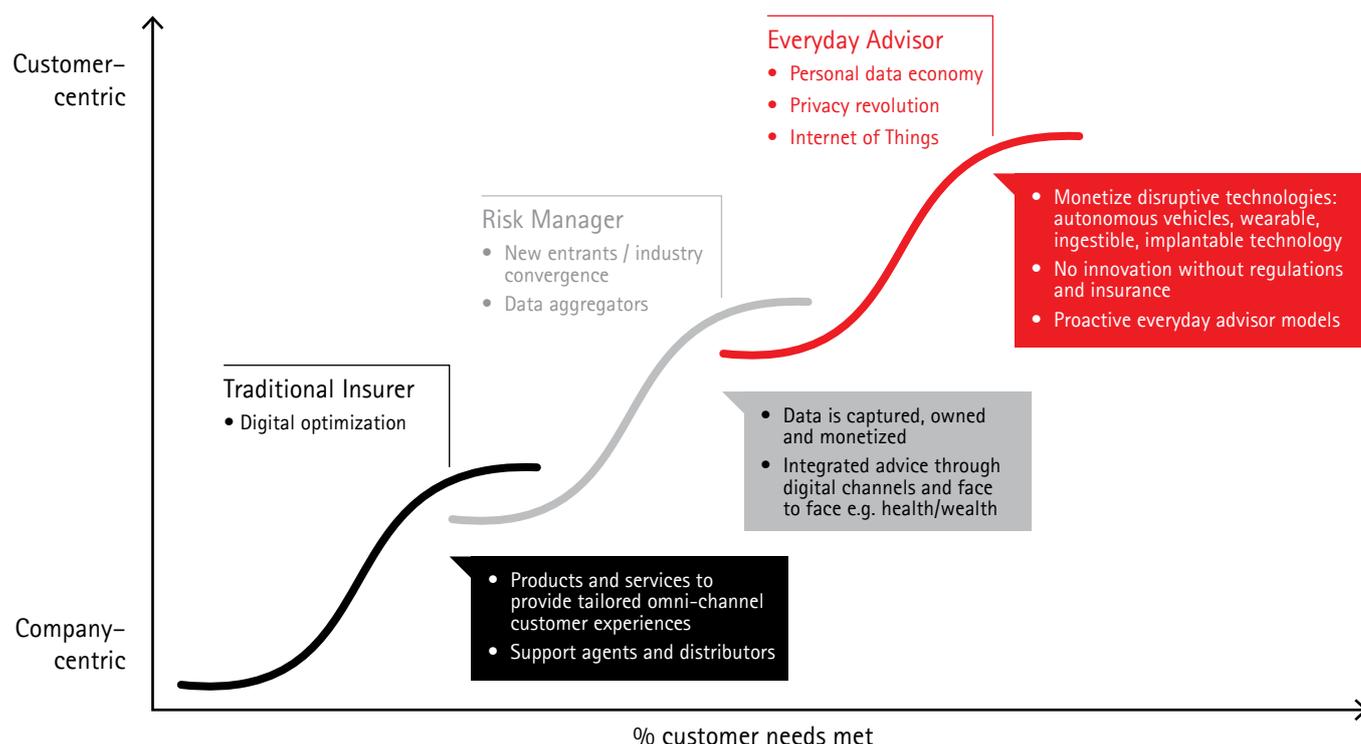
In effect, the insurer becomes a hub or aggregator or concierge that brings together a series of offerings from a variety of related providers, with the goal of addressing an increasingly higher percentage of the needs and intentions of individuals and corporations. This re-positioning allows insurers to maintain relevance with a customer base, to extend into a new business model that is more about advice and guidance and less about policies.

We can return to the case of aging populations as an example of such services. What if the mindset of an insurer shifted from underwriting the risks in life to helping to assure a good quality of life? In Japan and other Asian cultures, there has been a tradition of extended, multi-generational families taking care of the elderly.

This is now not often the case. Indeed, in many other countries, families are often widely dispersed. This situation creates a need for an entirely new set of services focused on the quality of life of an aging population. According to the Accenture Consumer-Driven Innovation Survey,⁸ half of all Japanese consumers would be interested in having their carrier provide not only insurance but also information and advice about how to reduce risk.

Insurers could play such an advisory role for corporations, as well, as they increasingly understand the risks of technology and operational innovations. Three-dimensional printing and distributed manufacturing, for example, will dramatically transform the traditional supply chain and thus the business model of most manufacturers. As a business advisor, the carrier could help its customers get out in front of these technological changes.

Figure 1:
Insurers need to consider how to evolve their business models to move “Beyond Insurance”



Generating a new era of growth: Long live insurance!

What should insurers be doing today to make the leap to new growth curves, even as they work to streamline and digitize their existing business model? Here are some concrete steps:

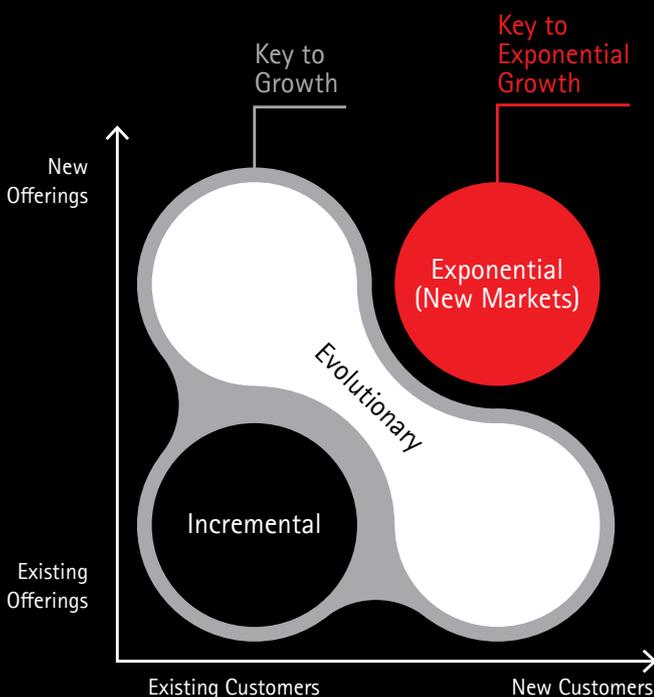
- Create a "red team". Most insurers cannot and should not attempt to go through a business model transformation solely within their four walls. Their risk-averse cultures, large-scale governance and time-consuming processes are likely to undermine attempts to re-invent. Firms need to have the courage to launch a "red team" or a separate entity whose role is to detect customers' new needs and intentions, create new services, and cannibalize the existing business where necessary. This usually cannot be done from within; it needs to be separated out to foster a different approach to innovation, different measurements, and a cross-industry, co-invention mindset.
- Transform to a human-centric culture. A common theme across both growth options discussed here is human- or customer-centricity. This involves moving to the same side of the table as customers, addressing a steadily increasing part of their daily needs through new ecosystems of

services. This mindset will become a primary source of innovation—thinking about the sets of services people will need as the world changes. Thinking outside the box will be essential. For example, many of the most interesting ideas about new services are more likely to come from anthropologists or sociologists than from long-standing insurance industry veterans.

- Partner with technology companies or other innovators to create new services. In critical technology areas, insurers should be carving out roles for themselves in partnership with tech companies. In some areas this kind of partnership is already happening. For example, American Family Insurance and Microsoft⁹ have partnered to launch a business accelerator for startups focused on home automation. The accelerator will help the next generation of startups create advances that can help lead to safer and smarter homes. Covéa, the largest French home insurer, is also working in the field of the connected home in partnership with Paris Région Lab – Incubateurs.¹⁰ Covéa will support and advise the selected enterprises, and will deliver dedicated training sessions.

Figure 2:
Diversifying business models to move "Beyond Insurance"

Launch solutions addressing customer-centric needs and intentions. Be externally recognized as a "go-to" market leader "beyond insurance". Make disruptive innovation a safe reality.



Launch Products and Services

Conceive and test new and enhanced insurance products and adjacent services
Expand geographically with customer-centric insurance products and services

Create New Market Solutions

New strategies, models and solutions for unmet needs as:

- Risk shifts from people to technology and assets
- Human vs digital balance shifts from collaborative consumption

Examples: autonomous drive, robotics, personal data economy, nanomedical, neuroscience, "everyday advisor"

Recognized Innovation Leader

Become a valued source of media comment and research
Become a top-ranking innovation leader in self-disruption to move "beyond insurance"

Make Innovation Safe

Anticipate risks in new markets
Be a proxy for regulation
Define a new risk vocabulary – terms and conditions for disruptive technologies and advancements

New Diverse Revenue

Increase market share from insurance products and adjacent services
Revenue/equity from new offerings and ventures:

- Invest in start-ups (IP and patents)
- Use balance sheet / underwrite new ventures and exponential technologies
- Launch new market ventures and alliances

The question of when disruption will occur in the insurance industry has been answered. It's now. Challengers and innovations are at the gates of traditional insurers and change must happen. We believe a new regime of insurers can be at the center of the new economy by proactively defining a new role for themselves. But that will require an unorthodox mindset. The role of the new insurer is to make new invention a safe reality, monetize disruption and become embedded in the upward march of humanity. It could be an inspiring future.



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Sources

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² Source: Swiss Re Sigma

³ Source: <http://www.wsj.com/articles/google-tests-car-insurance-sales-1420762289>

⁴ Source: <http://www.insurancebusiness.ca/news/first-walmart-now-ikea-insurance-182541.aspx>

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