

Stand on the Sidelines, or Boost Competitiveness?

How to Make Bold Moves on the New Insurance Playing Field

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The insurance playing field will look dramatically different in a digitally connected future. Sweeping changes across consumer behavior, technology innovations and big data are reshaping traditional insurance business models and what it takes to compete. Disruption is happening at unprecedented speed and the winners of tomorrow are the ones that will adapt proactively as the playing field and rules of competition evolve.

The game changers

Key trends are forcing traditional insurers to change the way they compete to win: Changing consumer behaviors and expectations, technology innovation and an unprecedented data explosion.

These changes will have a profound impact on the insurance industry – not only in how carriers interact with consumers, but also on the overall industry structure, economics and the face of competition.

Shrinking profit pools

Revenue sources and margins will be threatened in the medium term (5-10 years). For example, advances in telematics, the emergence of driverless/smart cars and connected homes will reduce claims frequency and severity and, consequently, premiums. Furthermore, as the sharing economy continues to take hold, there will be fewer individually owned cars to insure.

New risks and changing risk curves

A digitally connected future will spur the need for new products, services and approaches to pricing risks (e.g. continuous underwriting as risk profiles change).

New hybrid insurance products & services

These, such as risk monitoring, allow insurers to move closer to their customers in a role of "proactive protection provider" instead of their current position as a "reactive accident compensator." But they need to move quickly as others will try to step into this role.

Shifting competitive landscape

New entrants will continue to brazenly test industry assumptions. In the near future, all roles in the current insurance value chain will be contested by existing players as well as a variety of new players.

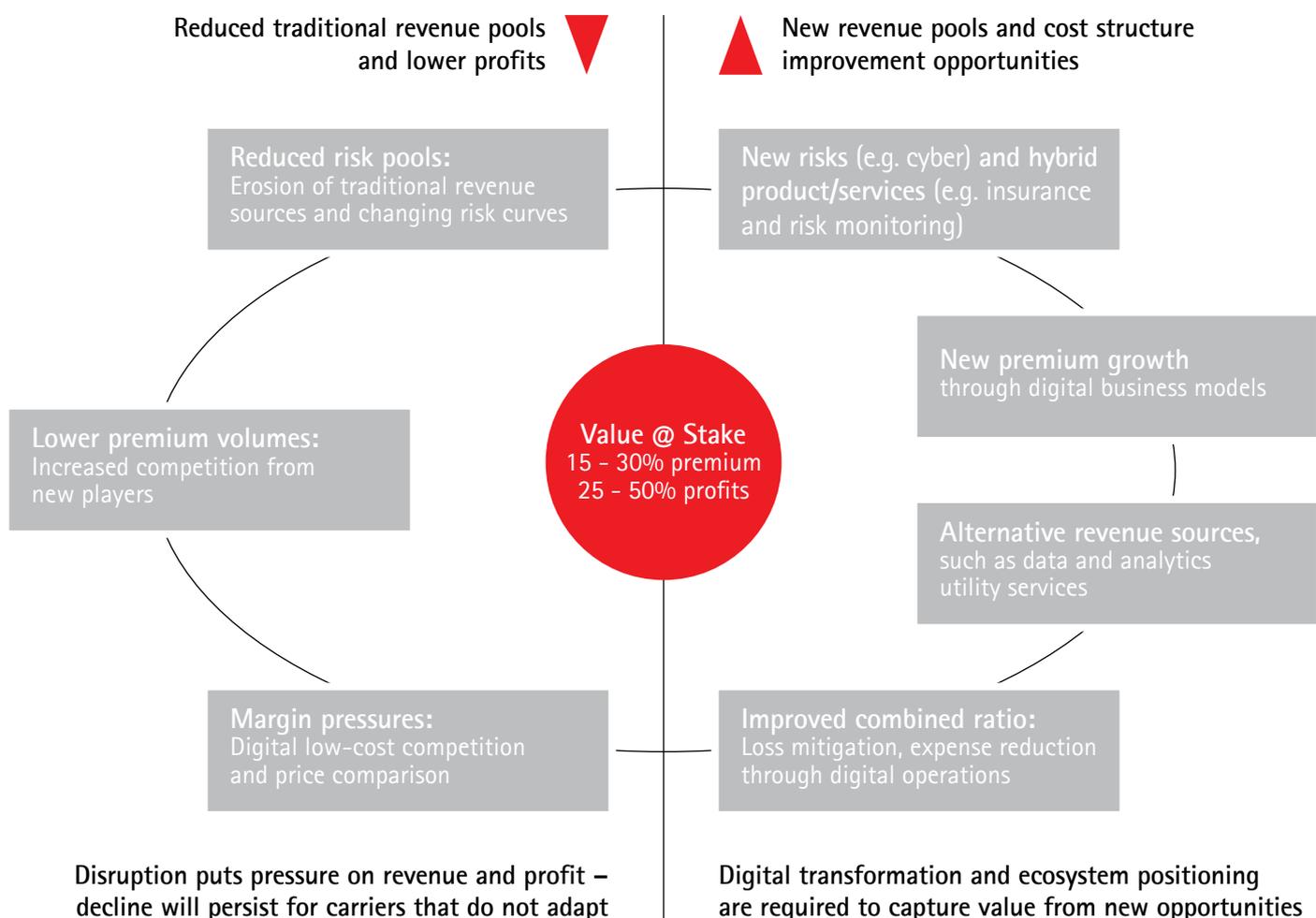
Stakes are high

The value at stake is substantial as erosion of the traditional insurance business will make it challenging for insurers to maintain their existing revenue and margins. However, the true value at stake is not just about capturing a disproportionate share of a declining business, it is also about seizing emerging opportunities as disruption shakes the industry.

In considering their strategy, insurers need to weigh both what they stand to lose from their existing business and the opportunity potential they will miss out on if they fail to respond. The pace of change will continue to quicken, so carriers need to move at speed to protect their current profit pools and capture new opportunities.

According to Accenture research, many carriers anticipate these market shifts. Forty-four percent of insurers believe that new competitors from outside of the industry will take 2-5 percent of market share in the next three years, with 10 percent expecting them to gain between 5-10 percent in market share. Many also expect substantial premium income from digital initiatives and connected insurance products.¹

Figure 1. Value at stake



Three ways to step up your game

Surprisingly, few insurers have a game plan to protect and capture value, even though 75 percent of them expect digital to have a major impact on the entire insurance value chain within five years. Only 47 percent have a digital strategy that covers the entire value chain, while 59 percent describe their digital investments as exploratory.²

No single move will guarantee competitiveness or define the future for insurers, but there are definitive actions that better position insurers for the future.

1. Bolster your defense

As traditional profit pools decline and the business models of today lose their competitive edge, it is a must for insurers to protect the current core. This will require quick responses to consumer and technology trends, as well as the competitive threats from existing and new players. Each situation will be different, but these are some of the actions that can protect the core:

- Move to integrated and flexible transactional systems – begin transitioning to the cloud.
- Digitize front-office and back-office functions to improve the customer experience while creating operational efficiencies.
- Expand direct-to-consumer digital interactions and extend digital to other channels (e.g. agents).
- Set a data structure and operating model that allow you to capture insights from rapidly expanding data sources.



2. Get on the offense

Customer needs are defined by desired outcomes— not by products—so look for ways to expand insurance offerings to deliver those outcomes. In doing so, consider:

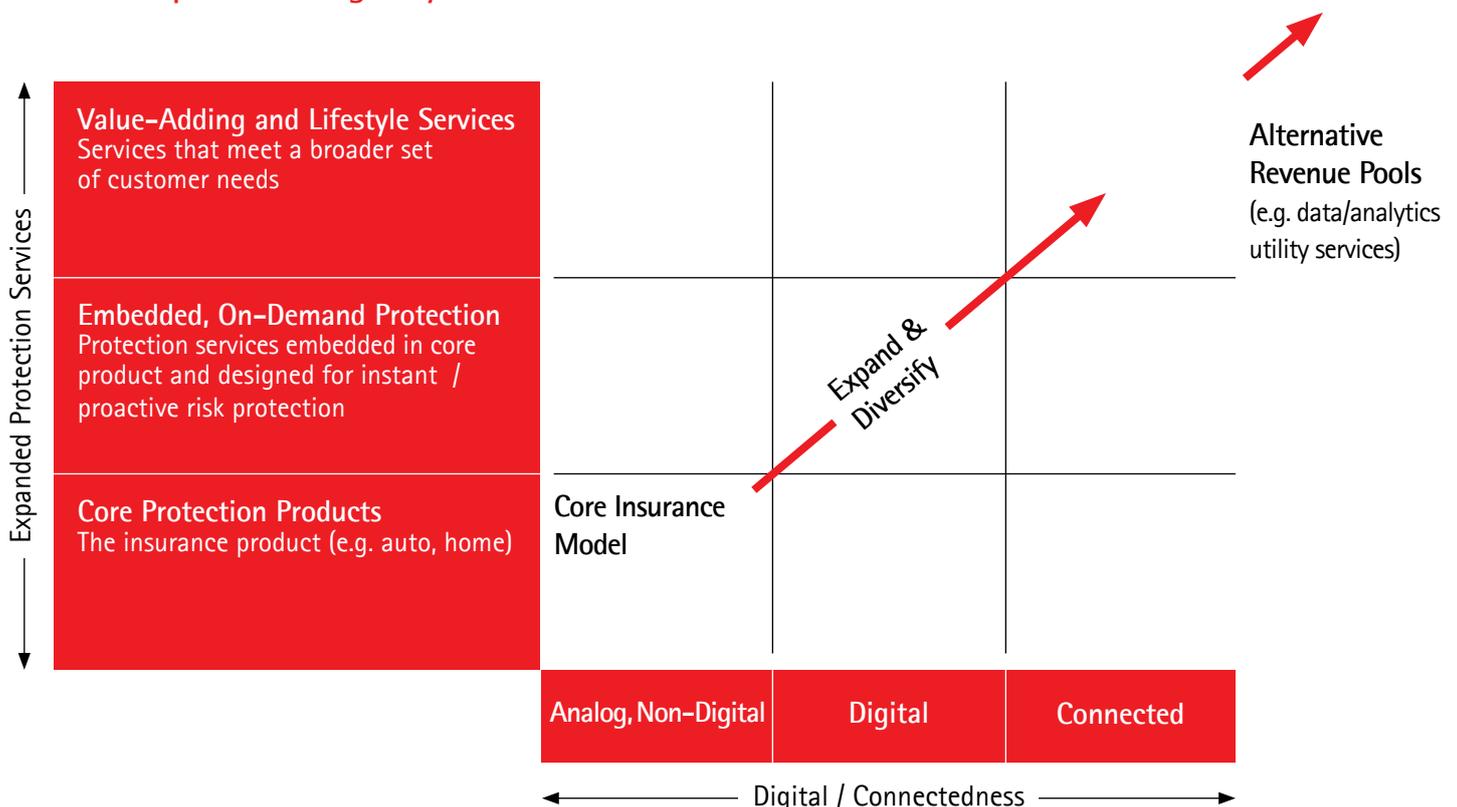
- What is your value proposition, and is it different from others in this space?
- Can your business find new opportunities from emerging risks, such as cyber threats, connected homes and connected cars?
- Do new technology innovations (e.g. telematics, contextual and usage-based offerings) present opportunities to expand offerings, either on their own or as integrated solutions?
- How can you capitalize on customers' willingness to provide personal information in exchange for lower premiums or more personalized products and services?

In other industries where revenue pools were under threat, businesses are successfully expanding the product mix to connect with and appeal to customers in new ways. The media and entertainment industry has multiple examples where existing players have made bold moves to expand their offerings and position in the industry value chain. For instance, Netflix made the move to produce original content and the Disney Movie Anywhere partnership with Apple allowed Disney to expand its offerings with digital movies.

So how could carriers think about expanding their solutions? The "protection game board" framework below illustrates various options for broadening current insurance solutions.

These expansion opportunities offer substantial potential for carriers. However, many will require effective partnerships with other companies to capture value from them, especially as carriers expand their model to provide broader lifestyle services through a digitally connected model.

**Figure 2. Protection game board:
How to expand in a digitally connected future**



3. Expand your team

Insurers must consider becoming a player within an ecosystem of providers that, together, are able to meet more of their customers' higher-level needs. They must proactively define a differentiated position within this ecosystem, or their role will be defined by other players. Competing to win in the future calls for making tough choices about the position you want to play and how best to extract value from it. For example, should you:

- Continue to focus reactively on compensation for losses, or become a proactive protection provider?
- Become a lean, digitally connected industry utility offering a low-cost product manufacturing capability, or a highly customer-focused provider of tailored offerings?
- Become a platform provider for others to leverage and extend, or leverage and integrate the platforms of others?
- Focus on the design and integration of customer solutions?
- White-label your offerings or brand them?

When asking these questions, you should also identify the capabilities that are required to be successful in a competitive as well as a partnership situation and evaluate the economics of each option.

By exploring and answering these questions you will better understand your capabilities and differentiators, you will identify your vulnerabilities, and you will gain clearer insight into your economics. Where there is weakness, look to partners that have the capabilities to complement your strengths, and figure out which of your differentiated capabilities can be offered to partners.

54%

of digital front-runners believe establishing new partnerships is important for differentiation

49%

of all insurers have entered into a distribution partnership

39%

of insurers offer non-insurance products/ services either internally or through ecosystem partners

23%

of insurers plan to offer non-insurance products in the near future

Source: Accenture Digital Innovation Survey 2014

Make the right moves to compete to win

The most successful insurers (expecting growth of 5-7 percent) will be those that pursue a combination of defensive and offensive plays that reflect a balance of near-term execution and longer-term strategic investment. These strategic choices will determine an insurer's breadth of products and services, its positioning within an ecosystem and the capabilities that will differentiate it. These choices have a "multiplier" effect on a company's potential value capture and they will fundamentally change the business models of many insurers.

Bold moves are required to compete and thrive on tomorrow's insurance playing field. Are you ready?



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Sources

¹ Source: Accenture Digital Innovation Survey 2014

² Source: Accenture Digital Innovation Survey 2014

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