

The insurer of the future needs a new base construct and sustainable core competences

- *How does the future look for insurers?*
- *Building an insurer ready to cope with the future*
- *The new insurance core competences*
- *No-nonsense leadership and no-regret decisions*

While it is difficult to predict how the future will look like in the wake of the COVID-19 pandemic, it is possible to zoom in on the dynamics that will characterize the future, and based on this, create a set of drivers and characteristics that will define a successful future insurer

This whitepaper discusses the fundamental construct of the insurer of the future based on what we know about the future today

At the point of writing the pandemic is not over but it is certain that the pandemic, once over, will leave a long tail of market disruptions and disturbances behind – however, the breadth and width of the impact is yet to be seen

Amongst the major market disruptions that are almost certain are

- **The 90 % economy** – the term was coined by the Economist and refers to that the post-COVID world will experience at least a 10 % drop in the global economy. Such a major downturn in the economy will make consumers more cautious about spending money and they will gravitate towards cheaper products and services, preferably offered as subscriptions and pay-per-use models to reduce immediate costs further
- A direct implication that has already taking its toll in many markets is the dramatic rise in **unemployment**. The US economy has not experienced unemployment rates like this since the Great Depression in the 1930s. To provide for their families, many will begin working as dayworkers and therefore more or less involuntarily join the gig economy and begin searching for products that can help them in the new and unfamiliar situation
- There is an expectation of increasing **civil unrest** as many will turn to crime to provide for their families, and this will lead to a surge in demand for products that offers home protection to prevent burglary or the aftereffects (home insurance) as well as personal protection from attacks and robbery. Further fueling the civil unrest will be frustrations with the (lack of) governments' actions to cope with the situation - this could spark riots as already seen in France
- As the lockdown and movement restrictions have forced citizens to stay home, the world has gone **virtual** almost overnight. This new-established, virtual parallel world demands that insurers are capable of delivering the end-to-end, quote-to-claim, customer journey digitally. There is no alternative, as there is little chance insurance customers would want to go back to waiting in line at the branches, once they've become accustomed to managing their insurance needs online and from home, including doctor's consultations and virtual inspections for home insurance

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A simple framework for analyzing the development of the environment, and an initial assessment of the immediate key trends, can be found in the whitepaper [Putting the engine in the driver's seat – a look into the future insurance business setup](#) – Table 1 below offers a short recap of the most important trends

Current important trends for the insurer of the future	
Individuality	Consumers expect personal attention and custom-tailored products; they wish to express themselves through their product choices and they expect personal attention from the companies they deal with
Here-and-now, and not more	<p>The virtualization and digitization of the world caused by the pandemic accelerated an already present need; consumers want their products immediately and do not want to wait</p> <p>Adding to this, they only want exactly what they need and for the specific time they need it – think pay-per-use, as-you-use and subscriptions</p>
Artificial intelligence (AI) and Internet of Things (IoT)	Technology advancements that cater to the above two consumer trends, allowing companies to combine products and services exactly based on consumer demands (AI) and behavior (IoT)
Blockchain and parametric insurance	Specific insurance products build on smart contracts that get executed if a certain event is triggered, challenges the business model of most insurers as these products, for now, are sold as add-ons to other products and services with little or no direct contact with the insurer
Hyper-connectivity	The world is becoming increasingly more connected and consumers are used to being always on – and they expect all their devices to be synchronized and easily connected to whatever gadget they may have, including pets, refrigerators and hoovers

Table 1: Current important trends for the insurer of the future

The pandemic has provided a major shift towards virtual and digital interactions so this must be a core design element when constructing a new model for an insurance company, capable of dealing with the uncertainties of the New Normal

Summing it up, the future insurer must be able to provide customers with an immediate solution to their needs, customized exactly to what they need and nothing more, with a pricing model that enables them to use and pay as they need only

Constructing the insurer of the future has to accommodate current and future needs of the customers while at the same time being flexible enough to keep profitable during the aftershocks in the markets, following the pandemic

This also includes flexibility in the ways the insurer is connecting with partners; from new innovative distribution channels and platforms over remote services (e.g. telematics and telehealth) to claim management and reinsurance partners

Constructing NewCo

The “NewCo” must be flexible and agile throughout the value chain – and management should take a holistic 360° view when transforming the insurer. The whitepaper [*The unknown next – building a future-proof operating model for the insurer*](#) discusses the design elements that should act as guiding principles when constructing NewCo:

- Maximize virtuality and digital workflows; when building the new, make sure that all workflows are optimized and digitized, and that communication can be done virtual / remote without limitations if and when required
- Ensure extreme cost flexibility and minimize fixed costs so NewCo’s cost base can fluctuate with the expected, and frequent, changes in market demand and customer requirements

It makes good sense to add another design principle for constructing a future insurer, the Race to Zero principle, referring to an insurer’s ability to quote and issue a policy with zero information required from the customer, reducing friction and making it very easy for the customers to buy their insurances

Another benefit of working with the Race to Zero principle is that the accuracy of data will be higher with less risk of fraudulent data entries. It goes without saying that the insurer must ensure to follow the local laws and regulations for scouting, retrieving, using and storing data for individuals as well as corporations

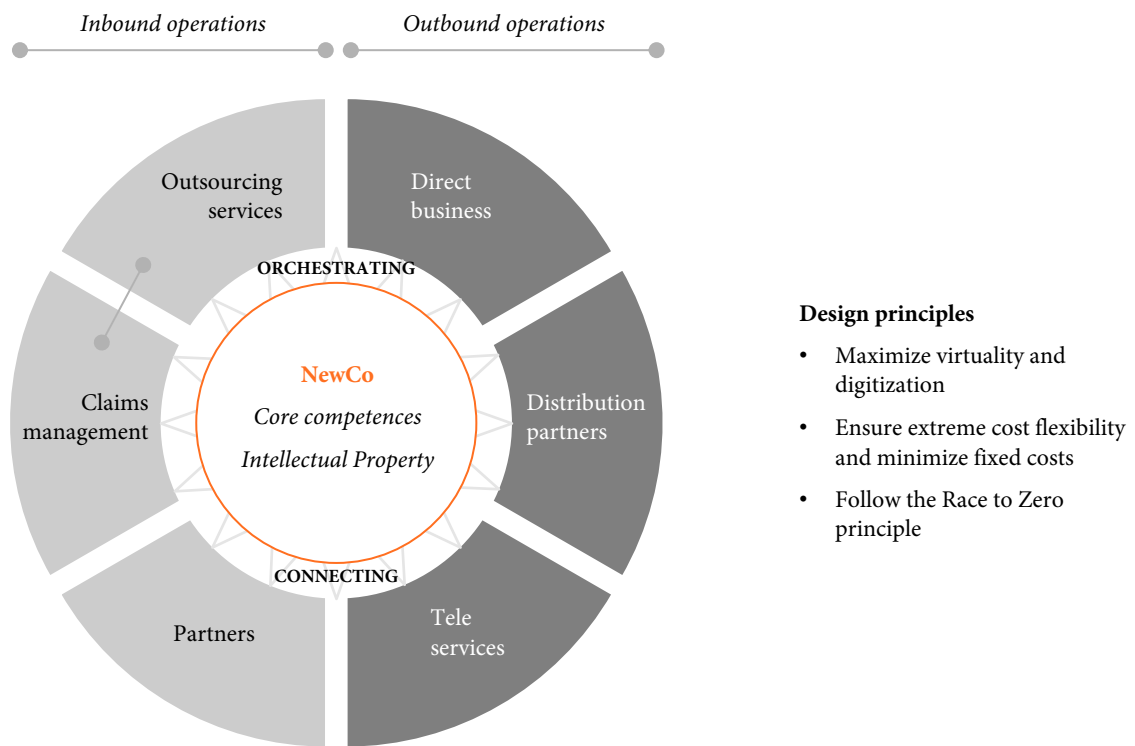


Figure 1: The foundation for the insurer of the future

The basic principles for constructing NewCo are illustrated in Figure 1 where the core operations of NewCo is managing the partners in the ecosystem which is the key design change from the incumbent insurance models today

NewCo is orchestrating the relationships between the partners to provide a seamless and best-in-class customer and partner experience through new product innovation, flexibility, and the ability to meet changing market requirements

The capability to doing so, failure-free and without interruptions will be one of the core competencies NewCo will build to create a sustainable competitive advantage

Outsourcing and claims management

Building on the design principle of securing a flexible cost base with minimal fixed costs, all non-core activities are outsourced to competent third-parties, that charges NewCo on a per-unit basis. This unit-based cost model maximizes cost flexibility as costs rise and fall directly with the demand, so costs will be low – or zero – during periods with drop in demand or usage (if cars are not used due to a lockdown, there will be no motor claims and in this case, NewCo will have zero expenses)

Back-office operations and finance workload also fluctuate with variations in customer demand and claims reported, and are therefore also areas that can be outsourced to third-parties outside the core organization

The key to successful outsourcing is finding the right outsourcing partner and defining proper Service Level Agreements (SLAs) that guarantees the quality of deliveries and services. It is often a good idea to transfer employees from the insurer to the outsourcing agent to maintain continuity and proper knowledge transfer to enable a short running-in period

Partners

NewCo's ability to keep up with market changes relies heavily on the capability to enter into partnerships with insurtechs and other partners that can add to the competitive offerings of NewCo

This could be partners offering innovative underwriting models, new products for broad segments as well as niche markets, smart operations management or groundbreaking ways of dealing with human resources – and much more

Connecting easily with partners and including them in NewCo's ecosystem makes it possible for NewCo to follow trends and general market changes at extreme pace – NewCo does not have to reinvent the new products or services in-house but can collaborate with the specialist companies having the products ready for deployment

Bear in mind that partners also are the many insurtech-like innovations from reinsurers that NewCo would be able to launch rapidly with the connectivity ecosystem

For a discussion on how insurers and insurtechs can form successful partnerships, please refer to [*Insurtechs, a part of insurers' digital transformation?*](#)

Tele services

Tele services covers products and services that are connected remotely between the insurer and the customer / partner, where **telematics** refers to the physical products that are used to collect the data required for the tele services' offerings

Adding tele services to the products and services offered is a vital part in accommodating the customers' request for on-demand usage-based insurance products. Telematics products like health trackers, in-car devices and smart home devices all enable the usage-based product concept, so NewCo must be able to add partners offering these systems to the ecosystem as well

Tele services also covers virtual doctor's appointments and remote inspections on buildings, construction sites, homes and cars for correct data collection before pricing the final insurance – and much more

Used correctly, tele services can create a regular dialogue between the insurer and the customer, where the insurer offers preventive advice based on the readings from the telematics devices

Build your own insurance product

A key differentiator for NewCo will be the ability to offer insurance products atomized to the lowest attribute level – and offer them through microservices and APIs for partners to consume, and through these services build bespoke insurance products for their target customer segments

In other words, the traditional insurance products will be broken down into smallest possible cover or attribute, so the customer or partner theoretically can combine the parts at will to generate the exact insurance product needed

Imagine tailoring a car insurance with the mandatory third-party liability insurance as the only fixed cover. Off-road enthusiasts could opt for off-road cover, but only during weekends, others could choose windshield protection only, or an automated on-off comprehensive solution that is only active when the car is in motion

This will be very effective to attract customers in personal lines, but the advantages will be even bigger for commercial lines, where brokers and agents can design and price the insurance solutions on the (virtual) spot with the customers and when agreed upon, issue the policy immediately

Deconstructing insurance products into a minimal set of attributes require a new set of underwriting competences – that could very well come from partners in NewCo's ecosystem and therefore enable NewCo to launch the do-it-yourself insurance products fast

This kind of modular underwriting would most probably need support from reinsurers with access to vast amounts of data – and to utilize this, NewCo need to have the right tech architecture and database systems in place, too

The technical construct for NewCo is discussed in the whitepaper [*The unknown next – building a future-proof operating model for the insurer*](#)

Forming new alliances to keeping costs down

Outsourcing non-core activities on a pay-per-unit basis effectively transfers the risk from the insurer to the third-party. The third-party may need to increase prices to mitigate the risk of having fixed costs in periods with low utilization of the workforce

It is therefore possible that, initially, there will be only little or no cost savings by outsourcing the non-core activities – however, here it is important to understand the value of the outsourcing provided by the cost flexibility itself

An unorthodox way of securing future reduced costs is to partner up with the outsourcing company and together find more customers for the outsourcing partner – more customers will help the outsourcing company spread the risk of having fixed costs, and in turn reduce the unit-handling cost for the insurer

Traditionally, incumbent insurers would be reluctant to help other insurers getting outsourcing benefits like these, but bear in mind that the new areas of differentiation will be NewCo's ability to orchestrate the ecosystem of partners and not necessarily the individual agreements with partners

The whole NewCo construct is building on leveraging relationships with partners having vast experience in the various business areas. That experience cannot be built by the partners just by working with one insurance company – insurers therefore must rethink the traditional ways of creating competitive advantage

Core competences for the future

In the New Normal, traditional core competences like special underwriting abilities, a strategically placed network of branches, a strong brand, a wide distribution network or special claims agreements are no longer enough – the pandemic has changed the rules to an extent where these core competences are decimated to short-term advantages, fairly easy to duplicate for competitors

To be able to compete in the future, insurers therefore require a set of new differentiating core competences that allows them to set themselves apart from the competition

Ecosystem orchestration

As mentioned earlier in this whitepaper, the ability to create a strong network of partners and to orchestrate this network to deliver superior value to the customers will be one of the future core competences

Even enabling the participating partners to establish networks with each other and through these new partnerships add additional value to the insurer can be seen as a core competence – the core competence of the insurer will be the way the whole ecosystem plays together

Product-atomization

The ability to split all insurance products into lowest possible attribute, having the systems to put them together again almost randomly and the right underwriting methods to price the new-built product is another core competence for the insurer of the future

This will most probably rely heavily on partners to:

- Access sufficient data for underwriting
- Underwrite the built products correctly
- Provide the interfaces to distribution partners and customers to build the products themselves

Operating model

The operating model of NewCo will most likely be a core competence too, as this is where the intellectual property regarding the network, the partner structure and ways of interacting lies, and there's here a real chance (risk?) that even some of the employees in the middle of the "spider's web" become core competences too, because of the knowledge and experience they gain while building and operating NewCo

Organization

It follows of the discussions so far that the incumbents' existing organizational setup with silos, red tape bureaucracy and traditional hierarchy cannot support the journey to the next level and build a successful insurer for the future

The foundation of building a new insurer is to have a very flat, heterarchical organization working in agile groups, all driven by a clearly defined target and mandated to make the decisions necessary to reach that target. That alone will be a new sight in the insurance industry and a well-functioning heterarchy will most likely be a core competence in itself (at least for a while)

The redesign of processes from silo-bound to focused on customer journeys and purpose is also a key differentiating factor for NewCo and is a core competence when combined with the agile heterarchy

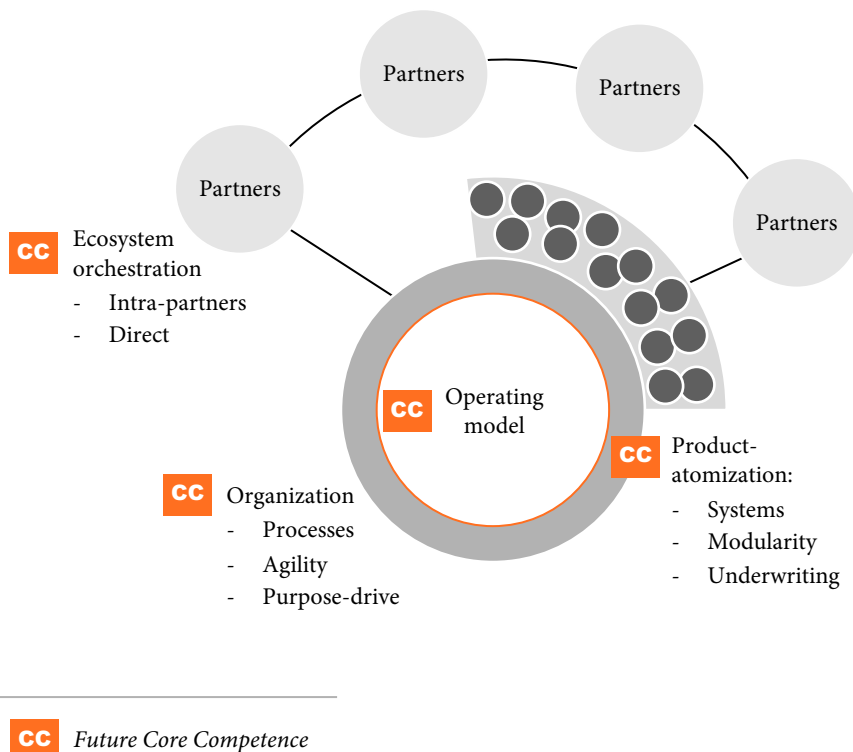


Figure 1: The foundation for the insurer of the future

It's time for no-nonsense leadership and no-regret decisions

Building the insurer of the future is not for the faint of heart – it takes a complete refocus of the organization and a rebuild of most systems and processes. Of course, it should be done in a phased manner to secure daily operations are not torn apart in the process. But it has to be done fast

Starting the journey building the insurer of the future is bound to fail if the CEO chooses to follow the traditional way of business development and transformation. The overarching – and difficult – decisions must be taken with resolve if the journey is to reach the destination successfully. This is not the time for committees, project groups and compromises

The CEO has to make a series of no-regret decisions, risking overruling his immediate managers, but it has to be done. Restructuring and refocusing an entire organization requires sacrifices, as the managers will see the silo-structure broken down and a new and agile organization coming

Some top-executives will feel uneasy about this new situation, and a typical human reaction in this situation is to fight the changes – and this cannot be accepted. The CEO must therefore be prepared to make a series of no-regret decisions, even risking letting some top-executives go, to ensure an unobstructed process with full focus on the changes required

There is no time to establish committees to discuss and reach compromises – the path must be set hard and quick. And then carved in stone so the teams have a clear direction for the transformation project

Don't know where to start? See [*Planning for the unknown unknowns – strategy in hyper-uncertainty*](#)

...and want to know how to do it? See [*The unknown next – building a future-proof operating model for the insurer*](#)

Additional readings in the insurance_next series

- [*Putting the engine in the driver's seat – a look into the future insurance business setup*](#)
- [*The unknown next – building a future-proof operating model for the insurer*](#)
- [*Planning for the unknown unknowns – strategy in hyper-uncertainty*](#)
- [*Insurtechs, a part of insurers' digital transformation?*](#)

About the author



Frederik Bisbjerg (b. 1973) is widely respected as international business strategy and (digital) transformation specialist and a digital insurance thought leader with a focus on being pragmatic to get things done

He has been in the digital insurance industry for a decade and been working with business transformations, strategy development and leadership challenges worldwide since the mid-1990's and is a lecturer in the world's first MBA in Digital Insurance

Read more on <http://www.frederikbisbjerg.com/>