Finding a New Collaborative Insurance Model in a Commoditized Market

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By Mark Collier, Anshu Sachdev, and Puneet Singh

There was a time when customers needing insurance relied solely on insurance agents to break down the differences between providers, policy features and prices. Customer loyalty to a provider or agent was rarely considered, and there were true product features and service distinctions to be considered.

Those days are gone. Consumers today view many retail insurance products as much the same. Their focus is on pricing and customer service—information about which is readily available through websites, social media and mobile apps. To compare services, they don't need to interact with providers, let alone an insurance agent. They can tap an insurance aggregator to compare and contrast the features of various insurance company offerings and even buy a policy.

One result of this shift is that customer stickiness has become increasingly difficult to achieve, especially now that switching between insurance policies from different providers has become so easy. Moreover, insurance carriers are using much of the same social media and demographic data to match competitor offerings, making pricing advantage an elusive goal. Add the fact that investment yields are at an all-time low and it's clear that many personal lines are struggling to make a profit.

There is distinct product polarization occurring in the industry. At one end there are profitable specialized business products driven by case-based underwriting and tailored pricing. At the other end, there are commoditized products that are grounded in population-based underwriting driven by demographics.

This commoditization is happening in insurance offerings related to property and casualty, as well as life and pension. Commodity markets often operate with low margins—and to even get such margins requires massively efficient operations and economies of scale. There's limited value play available.

The current state of the insurance business means it's time for insurers to take a page from industries like high-tech, telecommunications and automotive by adopting cost takeout strategies focused on the primary expense drivers e.g. infrastructure, labour, R&D. One of the most successful of those strategies has been "industrywide collaboration."

Industry-Wide Collaboration

For industries that have experienced extreme competition and increased margin pressures—not to mention regulatory encroachments and technology advances requiring huge investments—the options can seem limited. However, by adopting collaboration, businesses can achieve sustainable cost reductions and compete at other levels.

We have seen this in the automotive industry where there has been collaboration between leading car manufacturers.

Similarly, a weakened U.S. newspaper industry is using collaboration to fight declining print advertising, falling circulation and smaller newsrooms. Recently, the Boston Globe announced it would take over all printing for its long-time rival, the Boston Herald. Similar publisher-initiated collaborations include NewsRight, an online rights clearance initiative, and Find & Save, a local deals site, both of which generate new revenue for partners.

In the global telecom industry, economies of scale and rising infrastructure costs have led to infrastructure partnering among otherwise competing service providers. Sharing sites, antennae and base stations can cut costs considerably.

Collaboration is not entirely new to insurers. Indeed, looking back at the original coffee houses of London in the early 17th century, collaboration was what gave birth to the industry. And collaboration continues to be critical to many of the Lloyds syndicates today, where infrastructure and services are shared.

A more specific, focused collaboration began in 2006 with the creation of the Insurance Fraud Bureau in the U.K. This not-for-profit organization seeks to identify and prosecute criminals trafficking in illegal motor accident claims, and is now expanding to cover fraudulent property and life claims. This not only benefits participating insurers, it also benefits policyholders by reducing inflationary premium pressure.

Candidates for Collaboration

Which processes are ideal for industry-wide standardization in Insurance? Non-core processes like policy administration and content management are good starting points. These can be enabled through system aggregators who can offer them as Cloud-based services. With system integration and management of service components like applications, products, infrastructure and business processes, insurers can purchase a virtualized business service.

Other processes like input management also have non-core components that can be good standardization and collaboration candidates. Insurers spend millions annually on paper-based regulatory communications, forms and contractual documents. When branding opportunities are limited to the company logo and don't attract much customer attention, it's possible that this content can be standardized in regulator-approved, industry-wide templates for use by all carriers in porting data from customers to their databases.

Are You Ready for Collaboration?

For many insurers, this kind of collaboration is difficult to imagine and fraught with competitive tensions. But the harsh reality is that many carriers are slowly realizing that traditional lines of business in mature markets are no longer tenable. What insurers must come to terms with is that elements of the business that were once considered critical to success are no longer as important, and are a drag on profitability, if not survivability. In fact, the actual value is contained in a much smaller component of the business.

To move ahead and consider collaboration, insurers must first ask themselves the following questions about their processes:

- Is the process a key source of differentiation and competitive advantage? Does your company derive a material competitive advantage from the activity that you would lose if it were run by a third-party?

- Is the process a source of strategic flexibility? Would transferring the activity to a third-party prevent you from executing a planned or probable strategic move, such as a divestment, even if you structured contracts to allow for restructuring?

- Is the process a material source of tactical flexibility? Would transferring an activity to a third-party reduce your tactical flexibility (e.g. product or pricing changes) and obstruct business agility and performance?

- Is the process a potential source of unacceptable risk? Would transferring an activity to a third-party represent material risk that cannot be mitigated?

Leading the Collaboration Imperative

The insurance industry is experiencing a major paradigm shift. Yes, there already has been momentum in driving down costs through economies of scale and performance consistency in operations and infrastructure. However, that approach can be taken by individual organizations only. It is time for insurers to look beyond their internal operations and identify non-proprietary processes and activities that can be shared with third-party companies for standardization and industry collaboration.

Trends like social media and digitalization are here to stay, and as consumers focus ever more on price and customer experience, insurers must respond by developing distinctions that consumers appreciate while collaborating in areas where differentiation isn't as important.

At its core, insurance is about taking on risk—at a price, of course. It's time for insurers to examine the risk of sticking with the status quo as compared to the potential advantages of daring to lead in industry collaboration—a collaboration that will drive profitability and generate the returns shareholders expect and deserve.

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