Multi-Modal Insurance: The Balancing Act of Staying Relevant While Preparing for the Future

Disruptive Market Forces have Rocked Traditional Linear Insurance Models

The insurance industry is on the cusp of reinvention. As part of a broader digital transformation, insurers are incorporating tech capabilities to offer consumers personalized experiences and innovative product mixes. Some are experimenting with micro insurance to satisfy new market segments and the boundaries of existing ecosystems have become fuzzy as new entrants have arrived.

Modern package-based solutions are transforming the industry. Information as a Service (IaaS) and commercially hosted Content as a Service (CaaS) are being used to provide quality service. Insurers are using design and user experience labs to make consumer interfaces simple and create better engagement. Sequential and non-iterative design processes such as Waterfall, V-model, and high-ceremony IID cannot suffice.

The stage is set for a transition to value-driven next generation (NextGen) insurance. It also sets the scene for the future generation of insurance business.

Figure 1 shows the growth trajectory of revenue margins against planning horizons as the insurance business evolves.

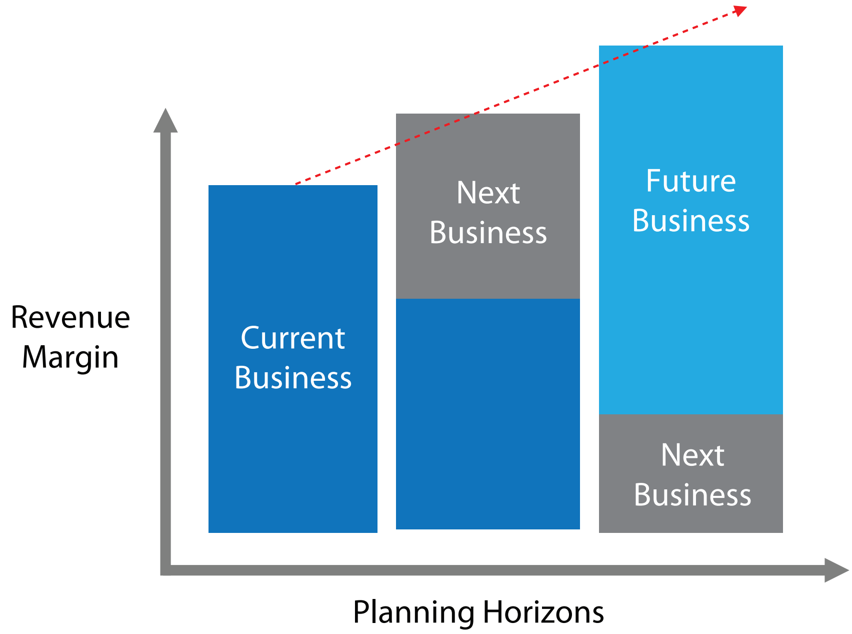

Figure 1: Insurance Business Evolution from Current to NextGen to the Future Generation

Though the precise characteristics of the future generation of insurance are hard to predict at this stage, we can be sure it will be completely algorithmic. It will offer more non-standard products as consumers come to expect ecosystem-based solutions that meet their unique needs.

Multi-modal is a Powerful Means to Find the Optimal Balance

The linear insurance model has become defunct. Forward-looking insurers are adopting a non-linear exploratory model, driven by agility and innovation, and are valuing brand and customer experience over IT. Adaptable to tailor made methods, the non-linear model is iterative and best suited for uncertain projects. Because the competing values of linear and non-linear models are both essential for insurance business, insurers are adopting a combination of the two models. This bi-modal approach utilizes the rationality and structure of the former and agility and efficiency of the latter.

NextGen insurers are moving beyond the bi-modal towards multi-modal. Multi-modal is vital for organizations where every business unit functions like a start-up. This strategy is also helpful when it’s impossible to box everything into linear and non-linear modes.

Whether insurers choose to adopt variants of bi-modal or multi-modal, it seems that emergent non-linear thinking is a way to find hybrid integration solutions and craft a winning strategy. As part of this evolution, NextGen insurers need to operationalize new application architectures, workflows, and strategies.

Use the Pace Layered Application Methodology to Organize your Portfolio

The nature and scale of application portfolios have expanded. Insurers need to offer instant solutions to specific problems while responding to unique market opportunities. To avoid misalignment, NextGen insurers must categorize applications into 'layers' and develop differentiated management processes for them.

Figure 2 depicts the change and governance equations as monolithic systems move towards non-linear systems.

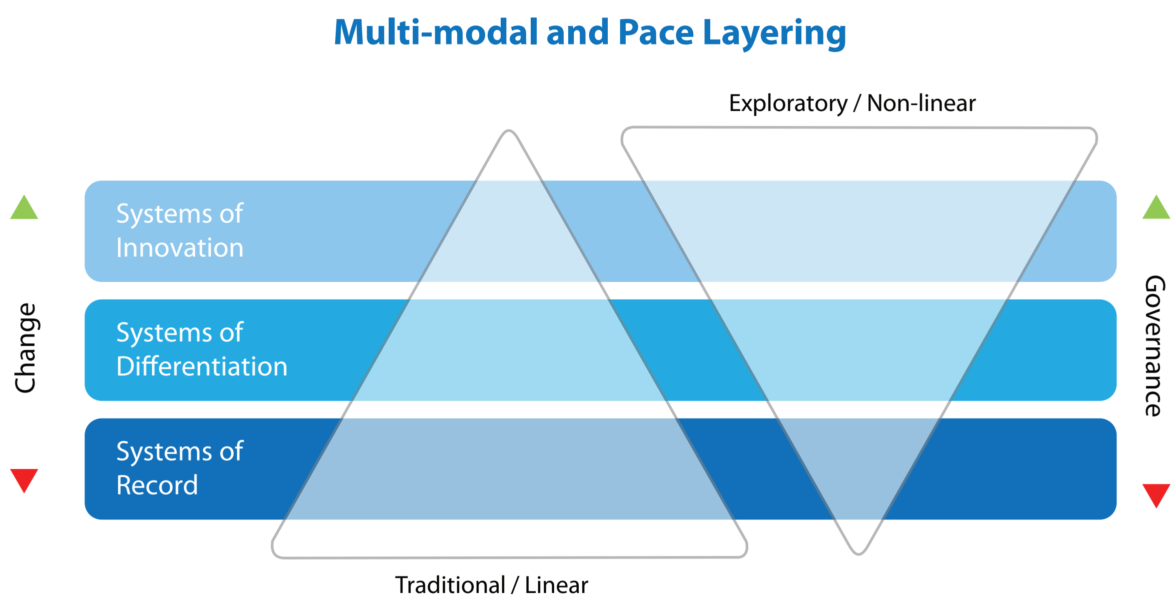

Figure 2: Pace Layering in a Multi-Modal System

The first layer appeals to those maintaining the status quo. It is made of applications that manage the insurer's critical master data and assist in core transaction processing. The second layer is made of applications that allow unique industry-specific capabilities. These require non-standard processes or 'systems of differentiation'. Insurance leaders who are abreast with changing business practices and consumer demands use it. The third category is populated with new applications that are built on an ad hoc basis to address new business opportunities. The layers are not watertight compartments. Applications mature with time and business processes evolve.

To implement pace layering seamlessly, insurers must establish clear processes and data integrity requirements within and between each layer. A strong governance structure that encourages a culture of partnership among stakeholders is needed.

Apply ‘Build Some and Buy Some’ Strategy to Meet Business Objectives

NextGen insurers must also apply the buy/replace and build strategy to generate value and modernize technology platforms. Traditionally, the build approach was popular. Insurers built a customized solution to design and implement a system that met unique process requirements. Today, an increasing number of organizations use the ‘buy’ option. By delegating IT infrastructure responsibilities to an external provider that uses cloud technology, the insurer can focus on core business activities without the distraction of managing complex software development and integration projects. This achieves economies of scale and quality service.

However, both build and buy have their own capabilities. To make the right choice, NextGen insurers must analyze their business requirements – the costs of development, implementation, and support. The solution in most situations is a hybrid strategy. Some technology is built and some bought.

Figure 3 depicts how insurers can ‘buy some and build some’ to deliver new products, enable digital channels, analytics, and bring speed to market.

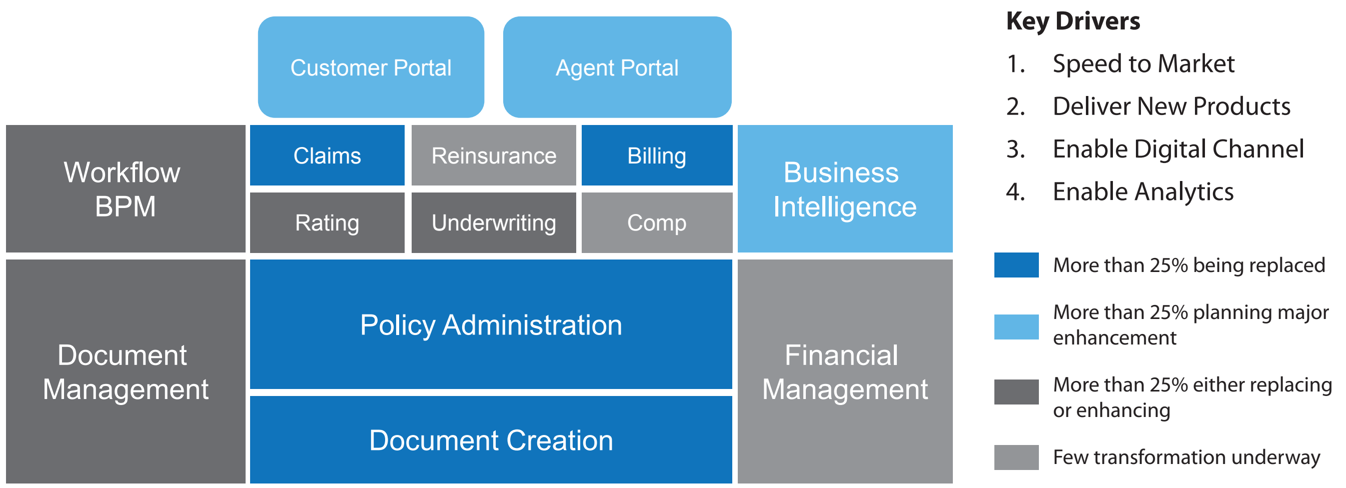

Figure 3: Build and Buy Strategy

For a successful transition to buy and build, insurers must work on their change and risk management capabilities. They must create specific operational metrics, build cohesive teams, and a scalable structure. Analytic inventories and an analytics mindset are pre-requisites.

Insurers Apply Varied Investment Strategies to Acquire New Capabilities

Insurance companies are interweaving technology and behavioral science into their strategies to enable innovation ecosystems. For example, insurers are investing in accelerators and incubators to develop innovative solutions. Venture capitalists are closely watching start-ups that may develop ground-breaking solutions. Oscar Insurance, a New York based online health InsurTech has raised over $700 million from Goldman Sachs, Google, and Fidelity.[1] Sometimes insurers themselves wear the venture capitalist hat by investing in startups to take advantage of their innovation and tech know-how. Insurers also form joint ventures with established InsurTechs. Estimates suggest that large insurers have committed more than $1 billion to investments in startups.[2]

Increase Impact by Changing Business Orientation from Firm to Ecosystem

The success of a business strategy is largely dependent on the overall culture of the organization. Ecosystem maturity is critical and ecosystem thinking is a characteristic of NextGen and future generation insurers. As their businesses evolve, insurers need to identify the relevant ecosystem for viability and growth. Figure 4 describes five stages of progression.

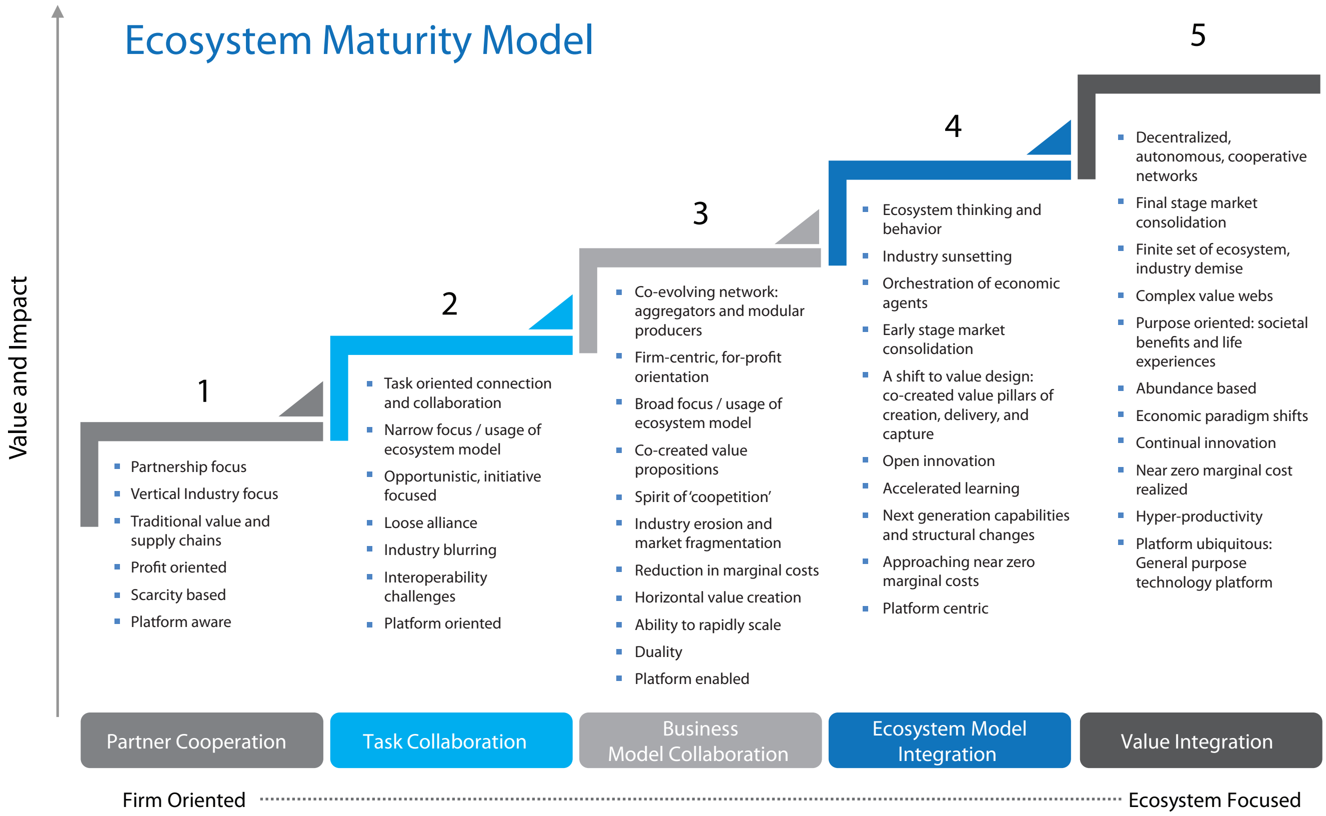

Figure 4: Ecosystem Maturity Model

At the early stage of partner cooperation, business is industry-specific and firm-centric. Traditional value and supply chains, profit orientation, and platform-awareness dominate. Thereafter, businesses mature towards task collaboration.

As the platform and ecosystem focus broadens, business model collaboration takes shape. Network aggregators and modular producers such as Uber and Airbnb are born out of market fragmentation and horizontal value creation. This is followed by the ecosystem model integration and value design orientation. Platform owners move towards creating the end value on their own, through ecosystem thinking, co-creation, open innovation, and platform centricity.

At the highest level of maturity, businesses achieve value integration. Decentralized and cooperative networks exist. To achieve this, ecosystem thinking requires a comprehensive shift. Recognizing the importance of collaborative efforts, insurers are partnering with leading technology companies and startups to create non-linear possibilities. Examples abound. Progressive, an insurer, partnered with Censio to use the latter's sensor technology to measure when and how users are driving while using their smartphones.[3] Allianz has partnered with Panasonic in connected life products to link Panasonic's smart home monitoring with its own home protection services.[4]

The Time for Modernization and Reinvention is Here

Rapid digitization, product innovation, and the arrival of new market entrants demand non-linear possibilities in insurance ecosystems. Forward-looking insurance companies are planning a transition to NextGen and future generation business. The transition will be efficient if insurers embrace the emergent non-linear business thinking and reorient their focus from firm to ecosystem. Those that adopt variants of the Bi-Modal or the Multi-Modal models and modernize their technology platforms with pace layered application methodology as well as buy some and build some strategy, are set for non-linear growth.

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Acknowledgment

The author wishes to thank his colleagues Frank Diana and Anantha P. Sekar for their contribution in this paper.

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